AS LHV Group is publicly offering up to 2,000,000 shares

Price EUR 6.95 per share

Subscription period 2 May 2016 – 16 May 2016

PUBLIC OFFERING, LISTING AND ADMISSION TO TRADING PROSPECTUS

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 shares issued by the Company on the Baltic Main List of the Nasdaq Tallinn Stock Exchange (the **Prospectus**).

The Company is publicly offering up to 2,000,000 shares with the nominal value of EUR 1 (the **Offer Shares**) to institutional and retail investors in Estonia (the **Offering**).

The Offer Shares are offered for the price of EUR 6.95 per one Offer Share (the **Offer Price**), of which EUR 1 is the nominal value of one Offer Share and EUR 5.95 is the issue premium. The Offer Shares may be subscribed for during the period commencing on 2 May 2016 and ending on 16 May 2016 (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 all the shares of the Company, including the Offer Shares (together with the Offer Shares, the **Shares**), on the Baltic Main List of the Nasdaq Tallinn Stock Exchange.

The Offering will be carried out only in Estonia and there will not be any public offering of the Offer Shares 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.

It is estimated that trading with the Shares will commence on or about 23 May 2016.

Investing into the Shares 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 Shares, the value of any investment in the Shares may be adversely affected by circumstances that are either not evident at the date hereof or not reflected in this Prospectus.

13 April 2016

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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 I, III and XXII thereof.

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 based on 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 that 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 31 December 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 31 December 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 (13 April 2016).

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, capitalised 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 on Display

In addition to this Prospectus, the following documents are on display:

(i) the Articles of Association available at the website of the Company at https://www.lhv.ee/en/for-investors/management/articles-of-association/?l3=en;

(ii) the audited consolidated annual report of the Company for the financial year ended on 31 December 2014 prepared for statutory purposes available at the website of the Company at https://www.lhv.ee/images/files/docs/LHV_Group_Annual_Report_2014-EN.pdf;

(iii) the audited consolidated annual report of the Company for the financial year ended on 31 December 2013 prepared for statutory purposes available at the website of the Company at https://www.lhv.ee/images/files/docs/LHV_Group_Annual_Report_2013-EN.pdf.

Further, additional documents and information on the Group, certain 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/. In addition to the documents and information made available at the website of the Company as referred to above, company announcements published by the Company via the information system of the Nasdaq Tallinn Stock Exchange available at http://www.nasdaqbaltic.com may be inspected. After the date of this Prospectus, the Company will publish unaudited consolidated interim report for the first quarter 2016, which will be made available via the information system of the Nasdaq Tallinn Stock Exchange available at http://www.nasdaqbaltic.com on or about 19 April 2016.

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", "Reasons for Offering and Use of Proceeds" and "Principal Activities and Markets". 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 macroeconomic environment and other similar factors.

In particular, such forward-looking statements may be identified by the 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 Shares and listing and the admission to trading of the Shares on the Baltic Main List of the Nasdaq Tallinn Stock Exchange. No public offering of the Offer Shares 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 Shares. 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 Shares 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 Shares.
A.2	Use of Prospectus for subsequent resale of Shares	Not applicable; the Prospectus cannot be used for the resale of the Shares.

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.3	Description and key factors of current operations and principal activities, categories of products and/ or services. Principal markets	According to the latest available annual report of the Company, i.e. the annual report for the financial year ended on 31 December 2015, the field of activity of the Company was “activities of holding companies” (EMTAK 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). The Group companies operate in five business segments and three geographical markets. The business segments of the Group are banking, asset management, hire-purchase and consumer finance in Estonia, hire-purchase and consumer finance in Lithuania and treasury activities. The Group companies operate in Estonia, Latvia and Lithuania.
B.4a	Significant recent trends affecting the Company and industry	There has been no material adverse change in the prospects of Group since 31 December 2015. The Management is not aware of any trends having material adverse effect on the operations of the Group.
B.4b	Known trends affecting the Company and industry	The operations of the Group and the industry where the Group companies operate are affected by numerous factors such as the overall macroeconomic environment, changes in regulatory environment, competitive situation in relevant markets and quality of credit portfolio. Although the current economic environment may be described as stable, 2015 was marked by the emergence of geopolitical risks to the fore, the growth slowdown in the world economy, commodity prices continued to fall and low inflation rate. The regulatory environment where the Group companies operate may be described as extensive, whereas the volume of regulation on the European Union as well as national levels is constantly increasing. The competitive situation in the principal markets of the Group is intensifying. Due to the growing business volumes, the impairment charges of the Group are constantly increasing.
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 three fully-owned Subsidiaries – LHV Pank (a licensed credit institution) and LHV Varahaldus (a licensed fund manager) and Cuber Technology OÜ. 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.6	Persons, directly or indirectly	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

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<td>having interest in the Company's capital or voting rights notifiable under Estonian law and the amount of such interest. Voting rights of major shareholder. Direct or indirect control of the Company</td>
<td>all the Shares, whereas approximately 28% of the Shares are held by Mr Rain Lõhmus and 10.6% by Mr Andres Viisemann.

As at the date of this Prospectus, the Shareholders holding over 5% of all Shares in the Company are the following:
<table>
<tr><th>Name of Shareholder</th><th>Shares</th><th>%</th></tr>
<tr><td>AS Lõhmus Holdings (a company under the control of Mr Rain Lõhmus, the Chairman of the Supervisory Board of the Company)</td><td>3,357,920</td><td>14.4%</td></tr>
<tr><td>Mr Rain Lõhmus</td><td>2,938,367</td><td>12.6%</td></tr>
<tr><td>Mr Andres Viisemann</td><td>1,637,897</td><td>7.0%</td></tr>
<tr><td>Ambient Sound Investments OÜ</td><td>1,418,000</td><td>6.1%</td></tr>
<tr><td>OÜ Krenno (a company under the control of Mrs Mai Kaarepere)</td><td>1,210,215</td><td>5.2%</td></tr>
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<td>B.7</td>
<td>Selected historical key financial information. Narrative description of significant change to the Company's financial condition and operating results subsequent to the period covered by selected historical key financial information</td>
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<tr><th>(in MEUR)</th><th>2015</th><th>2014</th><th>2013</th></tr>
<tr><td>Net interest income</td><td>23.2</td><td>16.5</td><td>9.1</td></tr>
<tr><td>Net profit</td><td>14.8</td><td>9.7</td><td>4.3</td></tr>
<tr><td>Net profit attributable to owners of the parent</td><td>13.7</td><td>9.2</td><td>4.2</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>Average assets</td><td>648</td><td>463</td><td>351</td></tr>
<tr><td>Average interest earning assets</td><td>637</td><td>455</td><td>346</td></tr>
<tr><td>Average equity</td><td>63</td><td>44</td><td>27</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>Return on equity (ROE) %</td><td>21.6</td><td>21.0</td><td>15.6</td></tr>
<tr><td>Net interest margin (NIM) %</td><td>3.65</td><td>3.62</td><td>2.63</td></tr>
<tr><td>Spread %</td><td>3.57</td><td>3.55</td><td>2.63</td></tr>
<tr><td>Cost/ income ratio %</td><td>62.8</td><td>67.5</td><td>71.6</td></tr>
</table>
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 to the Group's financial condition and operating results since 31 December 2015.
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<tr>
<td>B.8</td>
<td>Selected key pro forma</td>
<td>Not applicable.</td>
</tr>
</table>

	financial information	
B.9	Profit forecast	Not applicable; no profit forecast has been made.
B.10	Qualifications in audit report on the historical financial information	Not applicable.

Section C – Securities

Element	**Title**	**Disclosure**
C.1	Type and class of securities and security identification number	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 and kept in book-entry form.
C.2	Currency of the Shares	The Shares are denominated in euro.
C.3	Number of Shares issued and fully paid/ issued but not fully paid. Par value per Share	There are altogether 23,356,005 fully paid-in ordinary shares of the Company with the nominal value of EUR 1. There are no Shares outstanding but not fully paid-in.
C.4	Rights attached to the Shares	The main right attached to the Shares are (i) the right to participate in the corporate governance of the Company; (ii) the right to information; (iii) the right to subscribe for new Shares upon the increase of share capital of the Company; and (iv) the right to dividends. The shareholders of the 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. Each Share

		grants a shareholder one vote at the General Meeting of shareholders. 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. As a rule, the resolutions of a General Meeting of shareholders of the Company require the affirmative vote of the majority of the votes represented at the meeting, unless a higher quorum requirement is set forth by the Articles of Association or applicable law. The shareholders of the Company have the right to receive information on the activities of the Company from the Management Board at the General Meetings of shareholders of the Company. Pursuant to the Estonian Commercial Code, the existing shareholders of the 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. All shareholders of the 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 of the Company.
C.5	Restrictions on free transferability of Shares	The Shares are freely transferrable.
C.6	Admission to trading /name of regulated market	The Company intends to apply for the listing and the admission to trading of the Shares on the Baltic Main List of the Nasdaq Tallinn Stock Exchange. The expected date of listing and the admission to trading of the Shares is on or about 23 May 2016.
C.7	Dividend policy	According to the Company's dividend policy as approved by the Supervisory Board on 16 March 2016 and placed into the agenda of the General Meeting to be held on 20 April 2016, it is the intention of the Company to distribute profit and pay dividends to shareholders in the ratio of at least 25% of the profit before taxes. Such dividend policy is planned to be followed, provided that the operating needs of the Group as determined by the Supervisory Board are covered and that after the distribution of profit all Group companies comply with all internal and external capital and liquidity requirements in full. The Company reserves itself a right to reduce the amount of profit distributed and dividends paid or not to distribute profit and pay dividends if there is a credible investment opportunity, which is expected to result in significant increase of the value of the Group in a long-term perspective.

Section D – Risks

Element	Title	Disclosure
D.1	Key risks specific to the Company or its industry	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 pay dividends to shareholders and meet its own obligations, the Company is dependent

		on the receipt of dividends, interest payments or payments from share capital decrease from its Subsidiaries, which in turn may be influenced by the compliance with the capital adequacy ratios applicable in respect of certain Subsidiaries and subject to change from time to time. 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 Shares	<u>Cancellation of Offering</u>. 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 Shares they subscribed for. The Company shall be entitled to cancel the Offering. The Offering may also be cancelled in the part not subscribed for in the course of the Offering. Considering the contemplated use of proceeds from the Offering as described in Section "Reasons for Offering and Use of Proceeds", the cancellation of the Offering in the part not subscribed for in the course of the Offering will have no material negative effect on the operations of the Group. The Group has developed an alternative growth strategy and limited capital plan, which will be used if the proceeds of the Offering are materially different than those expected and described above. The referred alternative growth strategy and limited capital plan includes the elements of engaging additional capital from alternative sources and limiting the growth of the Group's operations. The alternative strategy and plan ensures full compliance with the applicable capital adequacy requirements. <u>Tax Regime Risks</u>. Adverse changes in the tax regime applicable in respect of transacting with the Shares or receiving dividends may result in an increased tax burden of the shareholders and may therefore have adverse effect on the rate of return from the investment into the Shares. <u>Volatility and Limited Liquidity of Securities Listed on Nasdaq Tallinn Stock Exchange</u>. The Company will apply for the listing and admission to trading of the Shares on the Baltic Main List of the Nasdaq Tallinn Stock Exchange. Though every effort will be made to ensure that listing and admission to trading will occur, the Company cannot provide any assurance that the Shares (including the Offer Shares) will be listed and admitted to trading. The Nasdaq Tallinn Stock Exchange is substantially less liquid and more volatile than established markets such as those in other countries with highly developed securities markets. The relatively small market capitalisation and low liquidity of the Nasdaq Tallinn Stock Exchange may impair the ability of shareholders to sell the Shares on the Nasdaq Tallinn Stock Exchange, or could increase the volatility of the price of the Shares. <u>Payment of Dividends</u>. The Company is under no lasting and definite obligation to pay regular dividends to its shareholders and no representation can be made with respect to the payment and amount of future dividends. <u>Dilution</u>. The proportion of shareholding held by the Shareholders in the Company may be diluted if the share capital of the Company is increased and new Shares are issued in the future. The shareholders' preferential right to subscribe for such new shares of the company proportionally to their existing shareholding in a company can as set forth in the

		Commercial Code may 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. Therefore, there can be no assurance that the Shareholders will be entitled to subscribe for the new Shares, which may be issued in the future and therefore the proportion of their shareholding in the Company may decrease in the future. Lack of Adequate Analyst Coverage. There is no guarantee of continued analyst research coverage for the Company.

Section E – Offer

Element	Title	Disclosure
E.1	Total net proceeds. Estimate of total expenses of the offer (including estimated expenses charged to the investor)	Provided that the Offering is successful and that all the Offer Shares (altogether 2,000,000 Shares) are subscribed for and issued by the Company, the expected amount of gross proceeds of the Offering is EUR 13.9 million. Expenses directly related to the Offering are estimated to be approximately EUR 200,000, whereas EUR 100,000 are estimated to be legal and audit expenses and EUR 100,000 communication and marketing expenses. Therefore the net proceeds of the Offering are expected to be EUR 13.7 million. No expenses are charged to investors.
E.2a	Reasons for offer; use of proceeds; estimated net amount of proceeds	The 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 Group has developed an alternative growth strategy and limited capital plan, which will be used if the proceeds of the Offering are materially different than those expected and described above. The referred alternative growth strategy and limited capital plan includes the elements of engaging additional capital from alternative sources and limiting the growth of the Group's operations. The alternative strategy and plan ensures full compliance with the applicable capital adequacy requirements. The estimated net proceeds of the Offering are expected to be EUR 13.7 million, provided that the Offering is successful and all the Offer Shares (altogether 2,000,000 Shares) are subscribed for and issued by the Company.
E.3	Terms and conditions of offer	In the course of the Offering, altogether up to 2,000,000 Offer Shares are being offered to retail and institutional investors in Estonia. The Retail Offering is directed to all retail and institutional investors in Estonia.

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		The Offer Price is EUR 6.95 per one Offer Share, of which EUR 1 is the nominal value of one Offer Share and EUR 5.95 is the issue premium. The Offer Price will be the same in the Institutional Offering and in the Retail Offering. The Offering Period commences on 2 May 2016 at 9.00 local time in Estonia and terminates on 16 May 2016 at 17.00 local time in Estonia. The Company will decide on the allocation of the Offer Shares after the expiry of the Offering Period, and no later than on 18 May 2016. The Offer Shares will be allocated to the investors participating in the Offering in accordance with the following principles: (i) under the same circumstances, all investors shall be treated equally, whereas dependant on the number of investors and interest towards the Offering, the Company may set minimum and maximum number of the Offer Shares allocated to one investor; which will apply equally to both – the investors participating in the Institutional Offering and the investors participating in the Retail Offering; (ii) the allocation shall be aimed to create a solid and reliable investor base for the Company; (iii) the Company shall be entitled to prefer Estonian investors to foreign investors who may participate in the Institutional Offering; (iv) the Company shall be entitled to prefer its existing shareholders and bondholders of the Company to other investors; and (v) the Company shall be entitled to prefer the clients of LHV Pank and LHV Varahaldus to other investors. The Offer Shares allocated to investors will be transferred to their securities accounts on or about 20 May 2016 through the "delivery versus payment" method simultaneously with the transfer of payment for such Offer Shares. 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.5	Name of persons or entity offering to sell the security. Lock-up agreements:	The Offering is carried out by the Company. There are no lock-up arrangements in place.

	parties involved; period of lock-up	
E.6	Immediate dilution	As at the date of this Prospectus, the number of the Shares of the Company is 23,356,005. The amount of the Offer Shares is up to 2,000,000. Therefore, the number of the Shares of the Company after the successful registration of the increase of the share capital of the Company will be up to 25,356,005, provided; however, that the number of the Offer Shares is not changed. Therefore, the shareholdings in the Company prior to the Offering will be diluted by up to 8.5631% as a result of the Offering, unless a Shareholder subscribes for and is allocated the number of Shares corresponding to the proportion of its shareholding in the course of the Offering.
E.7	Estimated expenses charged to investor	Not applicable; no expenses are charged to the investor by the Company.

3. RISK FACTORS

3.1. Introduction

Investing into the Shares issued by the Company entails various risks. Each prospective investor in the Shares 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 Shares. 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 Shares. 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 Shares. Each prospective investor in the Shares 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 Shares 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 the 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. 26% 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 (20% of corporate credit portfolio) and the processing industry (9% 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.

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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 pay dividends to shareholders and meet its own obligations, the Company is dependent on the receipt of dividends, interest payments or payments from share capital decrease from its Subsidiaries, which in turn may be influenced by the compliance with the capital adequacy ratios applicable in respect of certain Subsidiaries and subject to change from time to time. 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[1], 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 licensed 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,

[1] 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.

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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 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. The year 2015 can be globally characterised with the increase of geopolitical risks, declining of the growth of world economy and maintaining low inflation rates, whereas further slowdown of Chinese economy is becoming one of the major concerns. In 2015, the economic growth remained weak also in the Group's target markets and the Europe is continuously struggling with the migrant crisis. The incentive measures to achieve a growth of consumer prices applied by the European Central Bank in the first quarter of 2015 have not provided the desired results and expectations for introducing new mechanisms have grown. 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[2]) 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

[2] 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.

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 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.

<u>Maintaining Capital Adequacy Ratios</u>. 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[3]), 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.

<u>Exposure to Regulatory Actions and Investigations</u>. 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.

<u>Contractual Risks</u>. 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

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[3] 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.

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 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 Shares, Offering and Listing

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 Shares they subscribed for. The Company shall be entitled to cancel the Offering on the terms and conditions described in the Section "Cancellation of Offering". The Offering may also be cancelled in the part not subscribed for in the course of the Offering. Considering the contemplated use of proceeds from the Offering as described in Section "Reasons for Offering and Use of Proceeds", the cancellation of the Offering in the part not subscribed for in the course of the Offering will have no material negative effect on the operations of the Group. The Group has developed an alternative growth strategy and limited capital plan, which will be used if the proceeds of the Offering are materially different than those expected and described above. The referred alternative growth strategy and limited capital plan includes the elements of engaging additional capital from alternative sources and limiting the growth of the Group's operations. The alternative strategy and plan ensures full compliance with the applicable capital adequacy requirements.

Tax Regime Risks. Adverse changes in the tax regime applicable in respect of transacting with the Shares or receiving dividends may result in an increased tax burden of the shareholders and may therefore have adverse effect on the rate of return from the investment into the Shares.

Volatility and Limited Liquidity of Securities Listed on Nasdaq Tallinn Stock Exchange. The Company will apply for the listing and admission to trading of the Shares on the Baltic Main List of the Nasdaq Tallinn Stock Exchange. Though every effort will be made to ensure that listing and admission to trading will occur, the Company cannot provide any assurance that the Shares (including the Offer Shares) will be listed and admitted to trading. The total trading turnover of the Baltic Main list the Nasdaq Baltic Stock Exchanges in 2015 was EUR 257,395,350.91. As at 30 December 2015, total of 32 companies were listed on the Baltic Main List of the Nasdaq Baltic Stock Exchange. The aggregate market capitalisation of the Baltic Main list of the Nasdaq Baltic Stock Exchange was as at 30 December 2015 EUR 4,885,759,065.77. Consequently, the Baltic Main List of the Nasdaq Tallinn Stock Exchange, as well as Nasdaq Tallinn Stock Exchange in general, is substantially less liquid and more volatile than established markets such as those in other countries with highly developed securities markets. The relatively small market capitalisation and low liquidity of the Nasdaq Tallinn Stock Exchange may impair the ability of shareholders to sell the Shares on the Nasdaq Tallinn Stock Exchange, or could increase the volatility of the price of the Shares. The delisting of any of the large companies listed on the Nasdaq Tallinn Stock Exchange would be likely to have a negative effect on the market capitalisation and liquidity of the Nasdaq Tallinn Stock Exchange as a whole. Since the Nasdaq Tallinn Stock Exchange is characterised by relatively low investor activity, the impact of individual transactions on the market price of securities may be significant. Lower investor activity may lead to wider spreads between the bid and ask prices and a correspondingly lower liquidity of traded securities.

Payment of Dividends. The Company is under no lasting and definite obligation to pay regular dividends to its shareholders and no representation can be made with respect to the payment and amount of future dividends. The Management's recommendations for the distribution of profit will be based on financial performance, capital adequacy requirements, reinvestment needs and strategic considerations which may not necessarily coincide with the short-term interests of all shareholders. The payment of dividends and the amount thereof will be subject to the ultimate discretion of the majority of the Company's shareholders.

Dilution. The proportion of shareholding held by the Shareholders in the Company may be diluted if the share capital of the Company is increased and new Shares are issued in the future. In the future there may be a need to increase the share capital of the Company and issue new Shares in order to engage additional capital into the Company. 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; however, 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. Therefore, there can be no assurance that the Shareholders will be entitled to subscribe for the new Shares, which may be issued in the future and therefore the proportion of their shareholding in the Company may decrease in the future.

Lack of Adequate Analyst Coverage. There is no guarantee of continued analyst research coverage for the Company. Over time, the amount of third party research available in respect of the Company may increase or decrease with little or no correlation with the actual results of its operations as Company has no influence on the analysts who prepare such reports. Negative or insufficient third party reports would be likely to have an adverse effect on the market price and the trading volume of Shares.

4. TERMS AND CONDITIONS OF OFFERING

4.1. Offering

In the course of the Offering, altogether up to 2,000,000 Offer Shares are being offered to retail and institutional investors in Estonia (the **Retail Offering**). In addition to the Retail Offering the Offer Shares 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 Offering will involve the issue of new Shares in a volume corresponding to the number of the Offer Shares subscribed for in the course of the Offering and allocated to investors in accordance with the terms described in this Section "Terms and Conditions of Offering". In order to conduct the Offering and issue the respective amount of new Shares, conditional increase of share capital of the Company is placed into the agenda of the General Meeting of shareholders to be held on 20 April 2016. Provided that the respective resolution is adopted by the General Meeting of shareholders, the Management shall be authorised to issue up to 2,000,000 new Shares to conduct the Offering. According to the proposal made by the Supervisory Board, the shareholders of the Company participating at the General Meeting to be held on 20 April 2016 are invited to vote in favour of excluding the preferential right to subscribe for such new shares for the purposes of conducting the Offering (please see Section "Rights of Shareholders" for further details on the preferential right to subscribe for new shares). Such issue of new Shares is expected to be registered in the Estonian Commercial Register on or about 23 May 2016. Once the increase of share capital and the issue of the new Shares has been registered with the Estonian Commercial Register, the new Shares will rank equally with all the outstanding shares of the Company.

The division of the Offer Shares between the Institutional Offering and the Retail Offering has not been predetermined and will be determined by the Company in accordance with the principles described in Section "Distribution and Allocation" below. The total amount of Offer Shares 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 6.95 per one Offer Share, of which EUR 1 is the nominal value of one Offer Share and EUR 5.95 is the issue premium. 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 Shares. The Offering Period commences on 2 May 2016 at 09.00 local time in Estonia and terminates on 16 May 2016 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 Shares 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 Shares, 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 Shares should contact a custodian that operates such investor's ECRS securities account and submit a Subscription Undertaking for the purchase of Offer Shares 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 share
ISIN code:	EE3100073644
Amount of securities:	the number of Offer Shares for which the investor wishes to subscribe
Price (per one offer Share):	EUR 6.95
Transaction amount:	the number of Offer Shares 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:	20 May 2016
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 authorises 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 authorised (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 Shares;

(ii) acknowledges that the Retail Offering does not constitute an offer of the Offer Shares 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 Shares nor result in a contract for the sale of Offer Shares between the Company and the investor;

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

(iv) undertakes to acquire and pay for any number of Offer Shares allocated to it in accordance with these terms and conditions, up to the Maximum Amount;

(v) authorises and instructs its custodian to forward the registered transaction instruction to the registrar of the ECRS;

(vi) authorises 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 Shares to be purchased by the investor and the total amount of the transaction found by multiplying the Offer Price by the number of Offer Shares 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 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 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 ECRS securities account or its 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 Shares after the expiry of the Offering Period, and no later than on 18 May 2016. The Offer Shares will be allocated to the investors participating in the Offering in accordance with the following principles:

(i) under the same circumstances, all investors shall be treated equally, whereas dependant on the number of investors and interest towards the Offering, the Company may set minimum and maximum number of the Offer Shares allocated to one investor; which will apply equally to both – the investors participating in the Institutional Offering and the investors participating in the Retail Offering;

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

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

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

(v) the Company shall be entitled to prefer the clients of LHV Pank and LHV Varahaldus to other investors.

Upon over-subscription of the Offering, the number of the Offer Shares will remain the same (altogether 2,000,000 Shares), which will be allocated to the investors participating in the Offering in accordance with the principles described in this Section "Distribution and Allocation". The funds blocked on the investor's account will be returned in the amount corresponding to the Offer Price multiplied by the number of Shares not allocated to the specific investor as described in Section "Return of Funds". Upon under-subscription of the Offering, the Company shall be entitled to cancel the Offering in the part not subscribed for in the course of the Offering as described in Section "Cancellation of Offering" below. The Offer Shares subscribed for will be allocated to the investors participating in the Offering in accordance with the principles described in this Section "Distribution and Allocation".

The Company expects to announce the results of the allocation process 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 18 May 2016.

4.8. Settlement and Trading

The Offer Shares allocated to investors will be transferred to their securities accounts on or about 20 May 2016 through the "delivery versus payment" method simultaneously with the transfer of payment for such Offer Shares.

If an investor has submitted several Subscription Undertakings through several securities accounts belonging to it, the Offer Shares 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 Shares 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 Shares 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 Shares allocated to such investor.

Trading with the Offer Shares is expected to commence on the Nasdaq Tallinn Stock Exchange on or about 23 May 2016.

4.9. 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 Shares 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 Shares), will be released by the respective custodian on or about 20 May 2016. 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.

4.10. Cancellation of Offering

The Company has the right to cancel the Offering in full if the resolution on conditional increase of share capital is not adopted by the General Meeting as described in Section "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 information system of the Nasdaq Tallinn Stock Exchange and at the Company's website www.lhv.ee/en/for-investors/. 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.

4.11. 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.

4.12. Dilution

As at the date of this Prospectus, the number of the Shares of the Company is 23,356,005. The amount of the Offer Shares is up to 2,000,000. Therefore, the number of the Shares of the Company after the successful registration of the increase of the share capital of the Company will be up to 25,356,005, provided; however, that the number of the Offer Shares is not changed in accordance with the terms and conditions described in the Section "Cancellation of Offering". Therefore, the shareholdings in the Company prior to the Offering will be diluted by up to 8.5631% as a result of the Offering, unless a

Shareholder subscribes for and is allocated the number of Shares corresponding to the proportion of its shareholding in the course of the Offering.

5. REASONS FOR OFFERING AND USE OF PROCEEDS

Provided that the Offering is successful and that all the Offer Shares (altogether 2,000,000 Shares) are subscribed for and issued by the Company, the expected amount of gross proceeds of the Offering is EUR 13.9 million. Expenses directly related to the Offering are estimated to be approximately EUR 200,000, whereas EUR 100,000 is estimated to be legal and audit expenses and EUR 100,000 communication and marketing expenses. Therefore, the net proceeds of the Offering are expected to be EUR 13.7 million.

The 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. During 2016, the Company intends to further increase the own funds of LHV Pank. Based on the existing business plan and the Management's assumptions of the organic growth of the operations of the Group companies, LHV Pank, LHV Varahaldus and Mokilizingas will not need additional increase of own funds from 2017.

As described in Section "Investments" below, on 29 January 2016, AS LHV Varahaldus entered into a share purchase agreement with Danske Bank A/S and Danske Bank A/S Eesti Estonian branch pursuant to which LHV Varahaldus agreed to purchase 100% of the shares of Danske Capital AS. The finalisation of the transaction is subject to the approval of the FSA and the Estonian Competition Authority. The transaction is expected to be closed and the 100% shareholding in Danske Capital AS acquired during the first half-year of 2016. The purchase price payable for the shares will be fixed upon the closing of the transaction. It is the intention of the Group to finalise the transaction referred to above despite the success of the Offering and the proceeds received from the Offering. Nevertheless, the Group has developed an alternative growth strategy and limited capital plan, which will be used if the proceeds of the Offering are materially different than those expected and described above. The referred alternative growth strategy and limited capital plan includes the elements of engaging additional capital from alternative sources and limiting the growth of the Group's operations. The alternative strategy and plan ensures full compliance with the applicable capital adequacy requirements.

6. DIVIDEND POLICY

The Offer Shares will give rights to dividends declared by the Company (if any) for the financial year beginning on 1 January 2016 and for the subsequent financial years. The Company cannot ensure that dividends will be paid in the future, or if dividends will be paid, how much they will amount to. Resolving the payment of dividends is in the competence of the General Meeting. The payment by the Company of any future dividends and the amount thereof will depend on the Company's results of operations, financial condition, capital requirements, future prospects and other aspects.

The Management is expecting the Company to start paying dividends to the shareholders of the Company on an annual basis from 2017. The operations of the Group have been constantly growing over the years and been subject to rapid expansion. Such high growth and rapid expansion has resulted in the Group companies consuming more capital that they have generated internally. Such a capital deficit has been covered by engaging additional capital by increasing the share capital of the Company and issuing new Shares as well as issuing of debt instruments (bonds). Although the Management is expecting to continue the relatively high growth of the operations of the Group also over the upcoming years, the business of the Group is maturing and therefore the Management is expecting the growth rates to decrease gradually, which in turn is expected to result in the growth of internally generated capital. Given the regulated nature of the operations of the Group, the Group must ensure to stay sufficiently capitalised (including to meet the applicable capital adequacy requirements) and liquid, including maintaining adequate liquidity buffers to correspond to general risk level of operations of the Group and business segments where the Group companies operate.

According to the Company's dividend policy as approved by the Supervisory Board on 16 March 2016 and placed into the agenda of the General Meeting to be held on 20 April 2016, it is the intention of the Company to distribute profit and pay dividends to shareholders in the ratio of at least 25% of the profit before taxes. Such dividend policy is planned to be followed, provided that the operating needs of the Group as determined by the Supervisory Board are covered and that after the distribution of profit all Group companies comply with all internal and external capital and liquidity requirements in full. The Company reserves itself a right to reduce the amount of profit distributed and dividends paid or not to distribute profit and pay dividends if there is a credible investment opportunity, which is expected to result in significant increase of the value of the Group in a long-term perspective.

During the period covered by the Financial Statements, no profit has been distributed or dividends paid to the Shareholders.

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 2015, the field of activity of the Company was “activities of holding companies” (EMTAK[4] 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 the share capital of the Company may be increased and decreased within the minimum and maximum amount of the share capital 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 three 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

[4] 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 of 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 and kept in book-entry form.

The Shares are governed by the laws of the Republic of Estonia.

The Shares are not listed or admitted to trading on any regulated market.

The Shares are freely transferrable.

During the period covered by the Financial Statements, the share capital of the Company has been altered as follows:

Date of Registration	New Amount of Share Capital	Number of New Shares Issued
13 March 2013	EUR 18,581,638	1,200,000
5 July 2013	EUR 19,014,976	433,338
16 July 2013	EUR 19,202,669	187,693
3 July 2014	EUR 22,702,669	3,500,000
9 July 2014	EUR 23,329,338	626,669
11 July 2014	EUR 23,356,005	26,667

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	2,938,367	12.6%
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.

The major Shareholders of the Company do not have voting rights different than those described in Section “Rights of Shareholders” below.

8.3. Rights of Shareholders

Introductory 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, 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 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 1/20 of the share capital of a public limited company listed and admitted to trading on a regulated market, 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 listed and admitted to trading on a regulated market 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. 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.

8.5. Management and Key Employees Share Option Program

On 29 April 2015, the ordinary General Meeting of the shareholders of the Company 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 an 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 the 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 the 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, the members of the management bodies are also considered employees);

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

(v) the exercise of the options and the issue of new Shares corresponding to the options is carried out by the increase of the share capital of the Company and by the 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 the share capital increase; (ii) option holder's professional relationship with relevant Group company is terminated upon the initiative of the option holder or due to reasons arising from the option holder; (iii) the results of operations of the Company or a relevant Group company have significantly deteriorated, if compared to previous period; (iv) the option holder fails to comply with objectives set for his/ her position or fails to comply with the 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 the relevant company are not adequately covered with own resources; (vi) the option is granted relying on data, which turns out to be materially inaccurate or false;

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

By the date of this Prospectus, the Company has granted options to altogether 960,257 Shares. The option price for altogether 411,337 options granted in 2014 is EUR 1.5 per one Share (of which EUR 1 is the nominal value of the Share and EUR 0.5 the issue premium); the option price for altogether 278,598 options granted in 2015 is EUR 2.4 (of which EUR 1 is the nominal value of the Share and EUR 1.4 the issue premium) and the option price for altogether 270,322 options granted in 2016 is EUR 3 (of which EUR 1 is the nominal value of the Share and EUR 2 the issue premium).

In relation to the audited consolidated annual report of the Company for the financial year ended on 31 December 2015 it needs to be clarified that in the English translation of Note 22 there exists a discrepancy with the Estonian text. The first sentence of the last paragraph of the left column on page 81 should read as follows: “In addition the Supervisory Board has approved the share options in 2016 in the amount of 826 thousand euro with exercise period 01 May 2019 - 31 July 2019.

8.6. Other Instruments

The Company has issued subordinated bonds (the subordinated bonds 20.06.2024 issued by the Management Board on 20 June 2014 and registered in the ECRS under ISIN code EE3300110550 and subordinated bonds 29.10.2025 issued by the Management Board on 21 September 2015 and registered in the ECRS under ISIN code EE3300110741).

The nominal value of the subordinated bonds 20.06.2024 is EUR 50,000 and they 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 maturity date of the Bonds 20.06.2024 is 20 June 2024. As at the date of this Prospectus, there are altogether 318 subordinated bonds 20.06.2024 issued and outstanding.

The nominal value of the subordinated bonds 29.10.2025 is EUR 1,000 and they 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 maturity date of the Bonds 29.10.2025 is 29 October 2025. As at the date of this Prospectus, there are altogether 15,000 subordinated bonds 29.10.2025 issued and outstanding.

In October 2015, the Company carried out public offering of the subordinated bonds 29.10.2025, which was followed by the listing and admission to trading of both, the subordinated bonds 20.06.2024 and the subordinated bonds 29.10.2025, in the Baltic Bond List of the Nasdaq Tallinn Stock Exchange on 5 October 2015. In connection with public offering of the subordinated bonds 29.10.2025 and the listing and admission to trading of the subordinated bonds 20.06.2024, the Company drew up and published a public offering, listing and admission to trading prospectus, available for inspection at https://www.lhv.ee/en/for-investors/bonds/?l3=en.

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 authorised 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 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 enter into transactions that lie outside the Company's ordinary scope of business only 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 a 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 commenced on 27 September 2013 and 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. Previously he has also held the position of the member of the supervisory board of Swedbank AS and the position of the Chairman of the bupervisory board of AS Estonian Air.

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 and 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 three 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. The Articles of Association stipulate, that 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 at 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; since 21 May 2014), Mr Raivo Hein (since 18 January 2010), Mr Heldur Meerits (since 18 December 2008), Mrs Tiina Mõis (since 8 December 2006), Mr Tauno Tats (since 21 May 2014), Mr Andres Viisemann (since 7 September 2004) and Mr Sten Tamkivi (since 29 April 2015). 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 companies, including Osaühing Zarenor Invest from 2002 until 2012. 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. Additionally, he holds the position of the member of the Management Board of AS Lõhmus Holdings, OÜ Cuber Technology, OÜ Umblu Records, Osaühing Merona Systems and Zerospotnrg OÜ; and is the member of the supervisory board of Kodumajagrupi AS, Arco Vara AS, AS Audentes, Kodumaja AS, AB Archyvų sistemos (previously AS Arhiivikeskus) 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 was the head of the entrepreneurship department of the City of Tallinn between 2000 and 2002. Between 2000 and 2008, he served as the member of the Management Board of AS CV Keskus. Within the Group, he also serves as the member of the supervisory board of LHV Pank. In addition to his participation in the management of the Group, he is the member of the Management Board of Zerospotnrg OÜ, 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 the member of the supervisory board of AS Puumarket and of AS Fix Ideed Estonia. In the past he has acted as the member of the supervisory board of Moonfish Media OÜ and United Dogs and Cats

OÜ; as the Chairman of the supervisory board of OÜ Tarbegaas and as the member of the management board of Sundog Media OÜ.

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 and non-profit organisations SA Avatud Eesti Fond, SA Dharma, SA Tähelaps, SA Teater NO99 and SA Põltsamaa Ühisgümnaasiumi Toetusfond. In the past he has held the position of the member of the supervisory board of Green Clay Manufacturing OÜ, Steri AS, Mainor Ülemiste AS, AS Ecosalvager, AS Estonian Air and the position of the member of the management board of MTÜ Eesti Eraüldhariduskoolide Ühendus.

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. She has also held the position of the member of the supervisory board of Green Clay Manufacturing OÜ, Rocca al Mare Kooli SA, SA Tallinna Tehnikaülikooli Arengufond, AS Martinson Trigon, Rocca al Mare Kooli AS, Rocca al Mare Koolimaja AS, HTB Investeeringute OÜ, Nordecon AS and the position of the member of the management board of Tallinna Tehnikaülikooli Vilistlaskogu and Estonian Chamber of Commerce and Industry from.

Mr Tauno Tats. Mr Tats was born in 1972. 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 the member of the Management Board of InkSpinFour OÜ, Kv1 OÜ, Kv3 OÜ, Ammende Hotell OÜ, InkspinSix OÜ, OÜ Perila-Perjatsi Põllud ja Metsad, OÜ Paistevälja-Paistu Põllud ja Metsad, ASI Venture Holdings OÜ and non-profit organisation MTÜ Plate torn. He is also the member of the supervisory board of AS Ecomet Invest and EfTEN KInnisvarafond AS. Previously he has acted as the member of the supervisory board of AS Redgate Capital and the member of the management board of OÜ TrinTau.

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 the 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 the member of the Management Board of Mercur ThinkTank OÜ. He holds the position of the member of the Management Board of Seikatsu OÜ, Osaluste Hellalt Hoidmise OÜ, Teleport Technologies OÜ and Teleport, Inc. Mr Tamkivi serves as a member of the supervisory board of ASI Private Equity AS, and non-profit organisations

Kristler-Ritso Eesti SA and SA Poliitikauuringute Keskus Praxis. Previously he has acted as the member of the supervisory board of OÜ Tarkvara Tehnoloogia Arenduskeskus and as the member of the Management Board of Eesti Infotehnoloogia ja Telekommunikatsiooni Liit and Skype Technologies OÜ.

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 numerous 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 the member of the supervisory board of the Company, as the member of the Supervisory Board of LHV Pank and LHV Varahaldus. He also holds the position of the member of the management board of OÜ Miura Investeeringud and Viisemann Holdings OÜ and Viisemann Investments AG and the position of the member of the supervisory board of AS Fertilitas, Rocca al Mare Kooli AS and non-profit organisation Rocca al Mare SA. In the past, he has acted as the member of the supervisory board of Rocca al Mare Koolimaja AS, AS Viimsi Haigla, AS LH Capital and as the member of the management board of Pealinna Spordiklubi.

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 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 Kalev Karus. Mr Karus is a member of the Management Board of LHV Finance since November 2015. Mr Karus was born in 1974. He holds a Master's degree of business administration from Tallinn Technical University awarded to him in 2003. Before attaining his current position, Mr Karus served at Elion Ettevõtted AS (with current business name AS Telia Eesti) as the Business Manager of Financing since 2005. In the past he has served as the member of Management Board of MTÜ Nõmme Kabeklubi.

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 Chairman of the Management 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. In the past he has served as the member of the Management Board of Kingu 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 Kukemelk is the member of the supervisory board of Guarantee Fund.

Mrs Relika Mell. Mrs Mell is head of internal audit division of AS LHV Pank since March 2016. Mrs Mell was born in 1975. She was awarded a Master's degree of Edinburgh Business School of Heriot-Watt University in 2011 and a Bachelor's degree in international business administration from the Estonian Business School in 1997. Mrs Mell is an authorised auditor since 1997. In 2002, she acquired a license of the Association of Chartered Certified Accountants and in 2004, the license "Certified Internal Auditor" from the Institute of Internal Auditors. Before joining the team of LHV Pank, between 1996 and 2016, she worked as an authorised auditor in AS PricewaterhouseCoopers.

Mr Indrek Nuume. Mr Nuume is a member of the management board and the Head of Business 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. He is also the member of the supervisory board of the non-profit organisation SA Tilsi LK Fond.

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 specialisation 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. Previously he has served as the member of the Management Board of OÜ Hugo Holdings.

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 University of Tartu 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 as 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. In the past he has acted as the member of the Management Board of MP Advisory OÜ and Estonian Banking Association.

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. Previously he has served as the member of the Management Board of Päikesepaneel OÜ and MS Partners OÜ.

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 Primus, Attorneys at Law (former name Red, Attorneys at Law). Before becoming a partner at Primus, 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 Primus, Attorneys at Law, 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. She has also served as the member of the Management Board of OÜ Mustakivi Kinnisvara and OÜ Venture Holdings.

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, Astlanda Hotelli AS and Magistral Kaubanduskeskuse OÜ. In the past, she has acted as the member of the Supervisory Board of AS Finest Palace and Balotel 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. Risk and Capital Committee

Role and Duties. The Risk and Capital Committee is a corporate governance body formed by the Supervisory Board. The Risk and Capital Committee was formed for the purpose of evaluating the risk taken by Group and following the implementation of the risk policy in the companies within the Group.

Members of Risk and Capital Committee. In accordance with the Rules of Procedure of the Risk and Capital Committee as approved by the Supervisory Board on 16 December 2015, the Risk and Capital Committee comprises of at least three members of the Supervisory Board of LHV Group as appointed by the Supervisory Board. Currently, the members of the Risk and Capital Committee are Mr Rain Lõhmus (Chairman of the Risk and Capital Committee), Mrs Tiina Mõis and Mr Andres Viisemann. Please see Sections “Management Board” and “Supervisory Board” for their *curriculum vitae* information.

9.8. 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 2015 was TEUR 1,233 (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”. Upon termination of their professional relationship, the members of the supervisory and management bodies of the Company are not entitled to any benefits, except for the member of the Management Board of the Company Mr Erkki Raasuke. According to the management board member services agreement executed between the Company and Mr Erkki Raasuke, the latter shall be entitled to a termination compensation in the amount corresponding to the 2 months’ remuneration payable for his services as the member of the Management Board of the Company, provided that he has chosen to resign from the Management Board of the Company in connection with the Supervisory Board of the Company altering the remuneration payable to him. The Company has chosen not to disclose the amounts of remuneration and benefits as well as the termination compensations 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.

9.9. Share Ownership

As at 31 December 2015, 56.2% of all the Shares, i.e. the total number of 13,132,501 Shares were held by the members of the management bodies of the Group companies or the related parties thereof. The Shares and options (please see Section “Management and Key Employees Share Option Program” for further details on options) owned either directly or indirectly by the members of the Management and Supervisory Board and other key executive personnel as at the date of this Prospectus have been indicted in the following table:

Name	Number of Shares	Number of Options
Mr Erkki Raasuke	80,000	87,574
Mr Rain Lõhmus	6,536,287	0
Mr Raivo Hein	526,651	0
Mr Heldur Meerits	931,978	0
Mrs Tiina Mõis	995,000	0
Mr Tauno Tats	1,418,000	0
Mr Sten Tamkivi	1,266	0
Mr Andres Viisemann	2,472,822	73,821
Mr Jüri Heero	40,000	47,516
Mr Kalev Karus	0	0
Mr Erki Kilu	40,000	119,313
Mr Andres Kitter	7,595	26,509
Mr Joel Kukemelk	12,000	14,549
Mrs Relika Mell	0	0
Mr Indrek Nuume	10,000	75,397
Mr Mihkel Oja	10,000	66,512
Mr Meelis Paakspuu	0	3,927
Mr Martti Singi	50,902	45,552

9.10. Conflicts of Interests and Other Declarations

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.

According to the knowledge of the Management, none of the members of the Management and Supervisory Board, nor any of the members of other key executive personnel as described in Section "Other Key Executive Personnel" has ever been convicted in a criminal offence or been a member of a governing body of a legal entity subject to bankruptcy or liquidation proceedings at the time of initiating the relevant proceedings. Furthermore, none of the persons referred to in this Section has ever been disqualified by a competent court from acting as a member of administrative, supervisory or management body or conducting affairs of a legal entity. The Management and Supervisory Board members of LHV Pank are subject to the assessment of suitability (fit and proper testing) conducted by the FSA exercising supervision over the operations of LHV Pank.

9.11. 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 2015.

9.12. 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 auditor of the Group for the three subsequent financial years (2015 – 2017). AS PricewaterhouseCoopers is a member of the Estonian Auditing Board.

The Financial Statements (including the consolidated financial statements of the Group for the financial years ended on 31 December 2013 and 31 December 2014) have also been audited by AS PricewaterhouseCoopers.

10. PRINCIPAL ACTIVITIES AND MARKETS

10.1. History and Development of Group

The Group's history dates back to 1999 and by today, the Group has developed into a group of companies engaged in the provision of financial services based on local (Estonian) capital.

The Company was originally established by altogether 9 individuals and 4 legal entities, including Mr Rain Lõhmus and Mr Andres Viisemann who are continuously contributing to the management and further development of the Group. In 2006, the Company was divided in a manner that the assets and shareholdings of the Company were distributed into three different companies – the Company, AS LHV Holdings and AS LHV Professional Services. As a result of the division, the Company was held by the current key shareholders of the Company - Mr Rain Lõhmus and Mr Andres Viisemann. In the course of the division, the other previous shareholders of the Company ceased to be the shareholders of the Company and acquired shareholdings in AS LHV Holdings and AS LHV Professional Services instead. After the division, the main assets of the Company were the shareholdings in the investment firm LHV, which by today has been developed into LHV Pank, and in the asset management firm LHV Varahaldus.

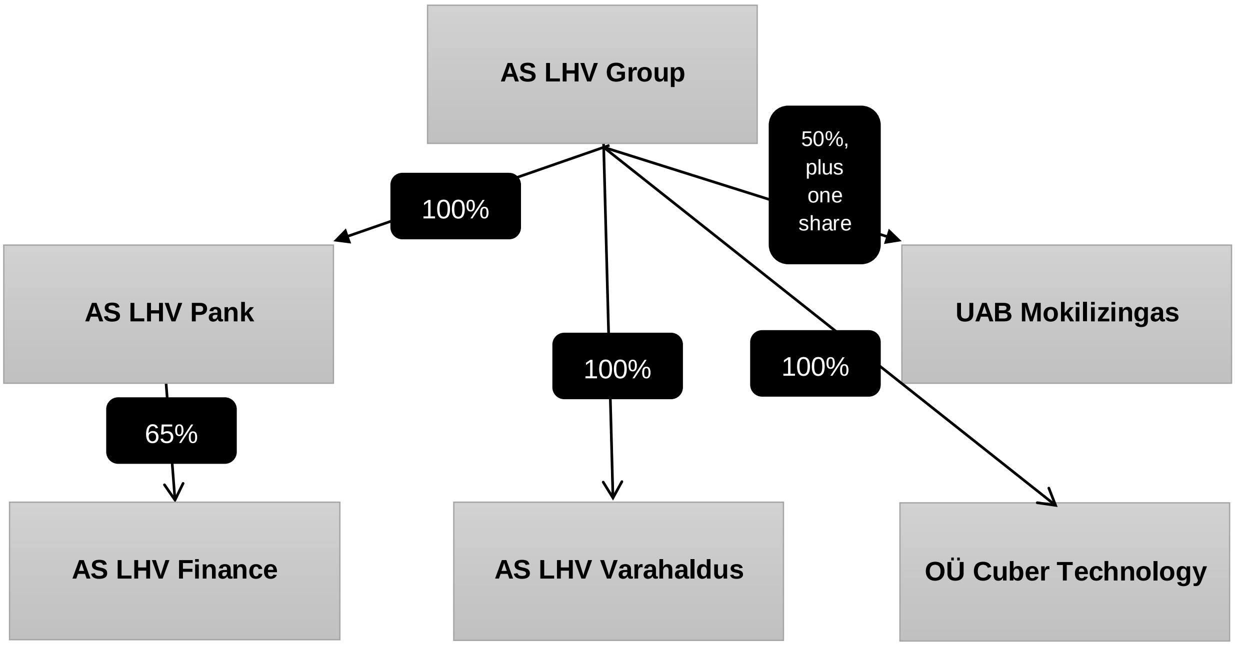
The milestones in the history of the Company and the development of the Group are summarised in the following table:

Year	Development
1999	LHV Pank was established as an investment firm, providing brokerage and portfolio management services; LHV Varahaldus was established
2002	LHV Varahaldus initiated pension funds management operations
2005	The Company was established
2009	LHV Pank obtained credit institution license and initiated depository and lending operations
2010	LHV Pank launched payments services
2011	LHV Pank launched payment cards issuing services
2013	LHV Finance was established and hire-purchase services launched; Mokilizingas was acquired
2014	LHV Pank launched payment cards acquiring services
2015	The Company became public by listing its subordinated bonds on Nasdaq Tallinn Stock Exchange; LHV Pank joined SEPA payments network as direct member and launched ATM network services

10.2. Group Structure and Group Companies

Group Structure

As at the date of this Prospectus, the Group structure is the following[5]:



Group Companies

AS LHV Group. 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.

AS LHV Pank. 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 and Vilnius (Lithuania), Until 31 March 2016, the bank operated also in Latvia in the form of a local registered branch; however, the activities of the bank in Latvia were limited to investment services only and the operations were small-scale (the branch served around 500 retail customers). The branch of the bank in Latvia terminated its operations on 31 March 2016.

The bank employs more than 200 people. The total number of clients of the bank is over 80,000, from which 80% are private individuals and 20% are corporate clients.

By 31 December 2015, the total loan portfolio of the LHV Pank consolidation group (including LHV Finance) stood at EUR 405 million and the total amount of deposits was EUR 629 million. The greatest proportion of loans is in the real estate sector, an industry that is traditionally receiving the greatest

[5] 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

share of financing by commercial banks in Estonia. As at 31 December 2015, 26% of the corporate credit portfolio of LHV Pank comprised of credit granted in the real estate sector. The real estate sector is followed by companies pursuing financial and insurance activities (20% of corporate credit portfolio) and the processing industry (9% corporate credit portfolio). Agriculture, which is under special surveillance due to the geopolitical situation, accounts for just 2% of the portfolio.

AS LHV Varahaldus. AS LHV Varahaldus is an Estonian licensed fund manager. LHV Varahaldus is currently acting as the fund manager for seven 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 UCITS investing into equity instruments (LHV World Equities Fund). LHV Varahaldus also provides investment consulting services to the SEF-LHV Persian Gulf Fund, which incorporated the LHV Persian Gulf Fund (managed by LHV Varahaldus) in April 2015.

On 29 January 2016, AS LHV Varahaldus entered into a share purchase agreement with Danske Bank A/S and Danske Bank A/S Eesti Estonian branch pursuant to which LHV Varahaldus agreed to purchase 100% of the shares of Danske Capital AS. The finalisation of the transaction is subject to the approval of the FSA and the Estonian Competition Authority. The transaction is expected to be closed and the 100% shareholding in Danske Capital AS acquired during the first half-year of 2016. The purchase price payable for the shares will be fixed upon the closing of the transaction. Currently Danske Capital AS acts as the licensed fund manager of three mandatory pension funds and two voluntary pension funds. The assets under the management of Danske Capital AS amount to approximately EUR 235.8 million and there are over 43 thousand active clients in the Danske mandatory pension funds.

LHV Varahaldus employs 26 people. By 31 December 2015, the volume of assets managed by LHV Varahaldus reached EUR 570 million, which makes LHV Varahaldus having maintained the second largest market share (21.0%) in terms of volume and third largest market share (19.8%) in terms of customer numbers. The number of active clients of the compulsory pension funds is over 130,000, 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 31 December 2015, the volume of the hire-purchase service portfolio amounted to EUR 25 million and the company had over 40,000 effective hire-purchase agreements.

UAB Mokilizingas. 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 31 December 2015, the volume of the loan portfolio of Mokilizingas amounted to EUR 40 million and the company had over 96,000 clients.

OÜ Cuber Techologies. Cuber Technologies is a start-up company with the purpose to innovate financial services using Blockchain technology. In 2015, the operations of the company have been very limited and therefore it is not a material Subsidiary of the Group.

10.3. Business Segments

Introductory Remarks. The business segments of the Group and the financial results thereof have been described in detail in Note 5 of the Financial Statements.

Banking. The Group's main business segment is the banking services business segment, which in turn is divided into three business segments – retail banking, private banking and corporate banking. The operations of the banking business segment 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.

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.

Hire-Purchase and Consumer Finance in Lithuania. The Lithuanian hire-purchase and consumer finance operations are carried out by Mokilizingas.

Hire-Purchase and Consumer Finance in Estonia. The Estonian hire-purchase and consumer finance operations are carried out by LHV Finance.

Treasury Activities. Treasury is the asset-liability management unit of the Group, which also acts as the internal trading unit for all standard treasury products, such as foreign exchanges and foreign exchange related derivatives, and capital market products such as bonds. The treasury operations of the Group are carried out by LHV Pank.

Revenues by Principal Markets. The breakdown of revenues by markets (business segments and geographical markets) where the Group companies operate is described in detail in Note 5 of the Financial Statements.

10.4. Geographical Markets

Introductory Remarks. As at the date of this Prospectus, the Group is operating in two geographical markets – Estonia and Lithuania. In Estonia, the Group is engaged in retail banking, private banking and corporate banking, asset management, hire-purchase, consumer finance and treasury activities. In Lithuania, the Group operates through its joint venture Mokilizingas, which is engaged in offering hire-purchase and 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[6]. There are altogether nine licensed 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 an 89% combined market share in loans and 88% combined market share in deposits. By the end of the first half of 2015, the total volume of the loan portfolios of the credit institutions operating in the Estonian market stood at EUR 15,488 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 7,173 million, lending to commercial undertakings EUR 6,630 million, lending to financial institutions EUR 1,225 million and lending to the government and the public sector EUR 460 million. The total volume of the loan portfolios in the Estonian banking market peaked in 2008, reaching

[6] Facts and data from the market statistics by the FSA, available at http://www.fi.ee/public/201506_Estonian_financial_services_marekt_2015_06_inglis.pdf and http://www.fi.ee/index.php?id=593

EUR 16,640 million.[7] Following the global financial crisis and the economic recession of 2008-2009, the lending volumes started to decline, whereas from 2012 and onwards the lending volumes are showing signs of modest growth. By the end of the first half of 2015, the total volume of deposits of the credit institutions operating in the Estonian market stood at EUR 15,635 million, which was divided between the deposits of private persons in the total volume of EUR 6,243 million, the deposits of commercial undertakings in the total volume of EUR 6,833 million, the deposits of financial institutions in the total volume of EUR 1,416 million and the deposits of the government and the public sector in the total volume of EUR 1,143 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[8]. 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. In the first half of 2015, the total volume of the assets of the mandatory pension funds increased by altogether 11%. 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 58 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 the first half of 2015, the total value of investment funds stood at EUR 3,184 million, whereas out of that number, EUR 2,451 million was managed by mandatory pension funds, EUR 319 million by equity funds, EUR 191 million by property funds, EUR 128 million by voluntary pension funds, EUR 65 million by debt funds and EUR 30 million by venture capital funds. The largest players in the Estonian asset management market were Swedbank Investeerimisfondid AS with a 40% market share, AS SEB Varahaldus with 19% market share, LHV Varahaldus with a 16% market share and Danske Capital AS with a 7% market share. Mandatory pension funds in Estonia are managed by altogether five licensed fund managers, whereas by the end of the first half of 2015, their respective market shares were the following – Swedbank Investeerimisfondid AS held a 41% market share, AS SEB Varahaldus held a 21% market share, LHV Varahaldus held a 20% market share, Danske Capital AS held a 9% market share and Nordea Pensions Estonia AS held a 9% market share. The small size and low liquidity of the local securities market mean that the investment funds and pension funds have so far invested predominantly into foreign assets, and, as of February 2015, more than three quarters of the total assets of investment funds consisted of securities registered abroad. The share of external assets in the funds has not changed much over the past three years. The majority of the foreign assets are securities registered in other European countries, which provided 62% of the total at the end of August 2015.

Estonian Securities Market[9]. 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 2015, at EUR 1,914 million, which forms 9% of the Estonian GDP for that year. As of the end of 2015, the total capitalisation of the local equity

[7] Facts and data from the market statistics by the FSA, available at http://www.fi.ee/failid/turg_seisuga_2008_12.pdf
[8] Facts and data from the market statistics by the FSA, available at http://www.fi.ee/public/201506_Estonian_financial_services_marekt_2015_06_inglis.pdf and http://www.fi.ee/index.php?id=593; and from the statistics of the Estonian National Bank, available at http://www.eestipank.ee/sites/eestipank.ee/files/publication/ep_fsy_2015_2_eng_a.pdf and http://www.eestipank.ee/sites/eestipank.ee/files/publication/en/FinancialStabilityReview/2015/ep_fsy_2015_1_eng_pdf.pdf
[9] Facts and data from the statistics of the Nasdaq Tallinn Stock Exchange, available at http://www.nasdaqbaltic.com/market/?pg=bulletins&bb_id=280 ; and from the statistics of the Estonian National Bank, available at http://www.eestipank.ee/sites/eestipank.ee/files/publication/ep_fsy_2015_2_eng_a.pdf

instruments market (shares) was EUR 1,882 million, which is a little more than the year earlier. The number of listed shares was 15 and the number of secondary market transactions in shares - 49,107. The total traded volume was EUR 148 million. The fluctuations of share prices of the shares listed and admitted to trading in Nasdaq Tallinn Stock Exchange may, in 2015, be characterised by a considerable increase (altogether by 19.1%). The local bond market has been rather passive for the past years; however, in 2015, after several years, two new bonds were admitted to trading. As of the end of 2015, the total capitalisation of the local bond market was EUR 33 million, the number of listed bonds 2 and the total traded volume EUR 0.1 million.

Estonian Consumer Financing Market[10]. 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 the 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 significant reforms, which is expected to lead to a better organised market and to better consumer protection. Namely, in February 2015, the Estonian Creditors and Credit Intermediaries Act was adopted by the Estonian Parliament. The referred piece of legislation established extensive restrictions on the operations of the previously unlicensed credit providers and intermediaries; most notably, credit intermediaries became subject to licensing by the FSA, whereas the referred license was required as of 21 March 2016. The same is 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. By 17 March 2016, only 24 credit providers and intermediaries had obtained the required license[11].

Latvian Securities Market[12]. 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 2015, at EUR 3,369 million. During 2015, the OMX Riga index increased remarkably – by 45.7%. The local regulated market is largely dominated by bonds. The total value of the bonds listed and admitted to trading on the Nasdaq Riga Stock Exchange stood, in the end of 2015, at EUR 2,096 million, comprising of a total of 54 listed bonds. Nevertheless, the trading activity with the bonds is relatively low – in 2015, the total trading volume of the bond market was EUR 131 million. The total capitalisation of the local listed equity instruments

[10] 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
[11] Data from the Estonian Financial Supervision Authority website http://www.fi.ee/index.php?id=18372 and http://www.fi.ee/index.php?id=18382
[12] Facts and data from the Nasdaq Riga Stock Exchange, available at http://www.nasdaqbaltic.com/market/?pg=bulletins&bb_id=280

(shares) was, in the end of 2015, EUR 1,272 million. The number of listed shares was 26. and the total trading volume EUR 22 million.

Lithuanian Securities Market[13]. The total capitalisation of bonds and equity instruments listed and admitted to trading on the Lithuanian regulated market stood, in the end of 2015, at EUR 6,182 million. As the end of 2015, the total capitalisation of the local equity instruments market (shares) was EUR 3,379 million. There were altogether 31 listed shares. The annual turnover of trading with equity instruments was EUR 74 million. During 2015, the OMX Vilnius index increased by 7.4%. The combined Baltic equity instruments list (share list) is led by a Lithuanian company, if compared by market capitalisation, whereas four 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 2015, the total market capitalisation of the Lithuanian listed bond market was EUR 2,803 million and there were altogether 23 bonds listed and admitted to trading on the Nasdaq Vilnius Stock Exchange. Nevertheless, the annual trading turnover was modest, being EUR 74 million.

Lithuanian Consumer Financing Market[14]. 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 constituting an increase of 9% compared to 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% compared to 2013. The balance of small consumer credits amounted to approximately EUR 31 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.

10.5. 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

[13] Facts and data from the Nasdaq Vilnius Stock Exchange, available at http://www.nasdaqbaltic.com/market/?pg=bulletins&bb_id=280
[14] Facts and data from the Lithuanian National Bank, available at https://www.lb.lt/annual_report_2014

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 Transferwise payments, payment acceptance services developed in co-operation with EveryPay; 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 the 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 Exchange 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 the building and development of credit knowledge and experience. LHV Pank has had a strong credit team from its 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 areas of credit origination, work-out and credit risk management. In addition to the initial thorough credit risk assessment, a lot of emphasis is put on active management of the credit portfolio and 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. So far, its track record is strong. Over the past years, LHV Pank has been repeatedly nominated by different survey companies as one of the top 10 most attractive employers in Estonia;

(vi) strong shareholder base – the Company became a public company by listing its subordinated bonds on the Baltic Bond List of Nasdaq Tallinn Stock Exchange. With conducting the Offering and applying for the listing and admission to trading of the Shares on the Baltic Main List of Nasdaq Tallinn Stock Exchange, 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, 2013 and 2016, LHV Pank was awarded as member of the year of the Nasdaq Baltic Stock Exchange. In 2014, LHV Pank was awarded the title of “Dream Employer”.

10.6. Investments

Introductory Remarks. The Group companies are continuously seeking for opportunities for the expansion of their business operations by investing into the organic growth but also by considering mergers and acquisitions of other market players. 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

Significant Investments. During the three financial years covered by the Financial Statements, the Group companies have made no significant investments, except for the acquisition of the 50%, plus one share, stake in Mokilizingas in May 2013 for the total equity investment in the amount of EUR 1.1 million (for further details on the relevant acquisition, please see Section “Material Agreements”). On 29 January 2016, AS LHV Varahaldus entered into a share purchase agreement with Danske Bank A/S and Danske Bank A/S Eesti Estonian branch pursuant to which LHV Varahaldus agreed to purchase 100% of the shares of Danske Capital AS. The finalisation of the transaction is subject to the approval of the FSA and the Estonian Competition Authority. The transaction is expected to be closed and the 100% shareholding in Danske Capital AS acquired during the first half-year of 2016. The purchase price payable for the shares will be fixed upon closing of the transaction. Currently Danske Capital AS acts as the licensed fund manager of three mandatory pension funds and two voluntary pension funds. The assets under the management of Danske Capital AS amount to approximately EUR 235.8 million and there are over 43 thousand active clients in the Danske mandatory pension funds.

10.7. Trend Information

There has been no material adverse change in the prospects of the Group since 31 December 2015. The Management is not aware of any trends having material adverse effect on the operations of the Group. The recent trends affecting the industry where the Group companies operate is described in Section “Factors and Public Policies Affecting Operations”.

10.8. Employees and Labour Relations

Introductory Remarks. In 2015, the average number of employees working for the Group was 303. In 2014, the same number was 272 and, in 2013, 212.

Employees by Business Segments. As at 31 December 2015, the Group's employees by business segments are described in the following table:

Business Segment	Number of Employees
Banking	199
Asset Management	26
Hire-Purchase and Consumer Finance in Lithuania	56
Hire-Purchase and Consumer Finance in Estonia	18
Treasury Activities	2

Employees by Geographical Markets. As at 31 December 2015, the Group's employees by target markets are described in the following table:

Geographical Market	Number of Employees
Estonia	243
Latvia	2
Lithuania	56

10.9. Intellectual Property

The Group's operations are generally not dependent on patents, utility models, industrial designs or other such intellectual property. The Group holds number of registered domain names such as lhv.ee, lhv.lv, lhv.lt and lhv.eu, cuber.ee, persiangulffund.com and mokilizingas.lt, etc. The Group is also the owner of two trademarks "LHV". The Group's operations are highly dependent on several types of software and information technology systems. In order to decrease the dependency on third party services providers, 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. All such information technology systems and web-based solutions are owned by the Group companies. In addition to custom-made software and information technology systems, the Group companies use several software licenses, which are; however, easily replaceable and are not of a crucial importance for the Group's operations. Due to the nature of its operations, there are no research and development policies in place by any of the Group companies, neither are any of the Group companies sponsoring any research and development activities of third parties.

10.10. 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 the 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 agreement 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 practice 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.

10.11. Property

Due to the nature of its operations, the Group companies have no material tangible fixed assets. The tangible assets of the Group companies comprise of computer technology, office equipment, furniture and capitalised costs of office renovation. There are no environmental factors affecting the utilisation of tangible fixed assets by the Group companies.

10.12. 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.

10.13. Related Party Transactions

The Group companies have entered into several agreements with related parties. All transactions with related parties executed by the Group companies are by their nature products and services offered by the Group companies to third parties on similar terms and conditions. The terms and conditions of the transactions with related parties do not deviate materially from the terms and conditions of similar transactions executed with third parties. Please see Note 25 of the Financial Statements for the details on the volumes of the related party transactions.

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11. SELECTED FINANCIAL INFORMATION

11.1. 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, on 31 December 2014 and 31 December 2015.

11.2. Selected Historical Financial Information

Consolidated Statement of Comprehensive Income

(in TEUR)	**2015**	**2014**	**2013**
Continuing operations			
Interest income	27,368	19,499	11,507
Interest expense	-4,135	-3,025	-2,401
Net interest income	**23,233**	**16,474**	**9,106**
Fee and commission income	16,801	13,691	10,099
Fee and commission expense	-2,136	-1,143	-865
Net fee and commission income	**14,665**	**12,548**	**9,234**
Net gains from financial assets measured at fair value	366	528	2 416
Foreign exchange rate gains/losses	64	-15	-23
Other financial income	1	0	312
Net gains from financial assets	**431**	**513**	**2,705**
Other income and expense	57	-16	64
Staff costs	-10,977	-8,554	-6,158
Other operating expenses	-13,130	-11,375	-8,952
Profit before impairment losses on loans and advances	**14,279**	**9,590**	**5,999**
Share of the other comprehensive income/loss of associates accounted for using the equity method	-36	-14	10
Impairment losses on loans and advances	-1,367	-1,680	-1,375
Profit before taxes	**12,876**	**7,896**	**4,634**
Income tax expense	-269	-151	-84
Net profit for the year from continuing operations	**12,607**	**7,745**	**4,550**
Profit from discontinued operations	**2,181**	**1,922**	**-205**
Net profit for the year	**14,788**	**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	-17	21	-27
Total comprehensive income for the year	**14,771**	**9,688**	**4,318**
Total comprehensive income/loss attributable to:			
Owners of the parent	13,706	9,203	4,237
Non-controlling interest	1,082	464	108
Total profit for the year	**14,788**	**9,667**	**4,345**
Total comprehensive income/loss attributable to:			
Owners of the parent	13,689	9,224	4,210
Incl. continuing operations	*11,508*	*7,302*	*4,415*
Incl. discontinued operations	*2,181*	*1,922*	*-205*
Non-controlling interest	1,082	464	108
Total comprehensive income/loss for the year	**14,771**	**9,688**	**4,318**

Consolidated Statement of Financial Position

(in TEUR)	**31.12.2015**	**31.12.2014**	**31.12.2013**
Assets			
Balances with central banks	199,844	45,427	133,839
Due from credit institutions	14,735	24,218	17,004
Due from investment companies	15,922	14,484	1,466
Available-for-sale financial assets	3,508	4,273	11,903
Financial assets at fair value through profit or loss	106,608	145,252	36,702
Assets of discontinued operations, classified as held for sale	0	15,473	0
Loans and advances to customers	409,997	301,032	206,768
Receivables from customers	2,026	1,566	1,507
Other financial assets	940	783	650
Other assets	1,128	1,265	3,242
Goodwill	1,044	1,044	1,044
Tangible assets	685	308	491
Intangible assets	689	530	621
Investment in associates	0	36	131
Total assets	**757,126**	**555,691**	**415,368**

Liabilities			
Deposits from customers and loans received	632,760	475,013	356,381
Financial liabilities at fair value through profit or loss	89	302	433
Accounts payable and other liabilities	20,137	5,473	6,972
Liabilities of discontinued operations, classified as held for sale	0	220	0
Subordinated loans	30,900	16,650	19,635
Total liabilities	**683,886**	**497,658**	**383,421**
Equity			
Share capital	23,356	23,356	19,202
Share premium	33,992	33,992	21,871
Statutory reserve capital	895	435	223
Other reserves	551	132	-12
Accumulated deficit	11,205	-2,041	-11,032
Total equity attributable to owners of the parent	**69,999**	**55,874**	**30,252**
Non-controlling interest	3,241	2,159	1,695
Total equity	**73,240**	**58,033**	**31,947**
Total liabilities and equity	**757,126**	**555,691**	**415,368**

Consolidated Statement of Cash Flows

(in TEUR)	**2015**	**2014**	**2013**
Cash flows from operating activities			
Interest received	27,936	19,109	11,163
Interest paid	-4,075	-2,777	-3,619
Fees and commissions received	16,803	13,248	10,211
Fees and commissions paid	-2,138	-1,144	-865
Other income received	71	0	64
Staff costs paid	-10,880	-8,415	-6,026

Administrative and other operating expenses paid	-12,607	-10,746	-8,447
Cash flows from operating activities before change in operating assets and liabilities	**-15,110**	**9,275**	**2,481**
Net increase/decrease in operating assets:			
Net acquisition/disposal of trading portfolio	-16	-6	-634
Loans and advances to customers	-96,787	-110,526	-80,517
Mandatory reserve at central bank	-1,640	-1,101	-846
Security deposits	-157	-133	64
Other assets	386	1,815	-942
Net increase/decrease in operating liabilities:			
Demand deposits of customers	160,153	111,970	85,911
Term deposits of customers	-999	-6,920	-12,128
Loans received	5,645	14,666	107
Repayments of loans received	-7,221	-1,110	-19,927
Financial liabilities held for trading at fair value through profit or loss	-213	-131	-223
Other liabilities	14,883	-1,376	1,862
Net cash generated from / used in operating activities from continuing operations	**89,144**	**16,423**	**-24,792**
Cash generated from / used in operating activities from discontinued operations	2,781	1,865	-1,504
Net cash generated from / used in operating activities	**91,925**	**18,288**	**-26,296**
Cash flows from investing activities			
Purchase of non-current assets	-1,327	-530	-486
Acquisition of subsidiaries	0	0	304
Acquisition and disposal of associates	0	78	-52
Acquisition of investment securities held to maturity	0	0	-2 790
Proceeds from disposal and redemption of investment securities available for sale	784	7,730	61,130

Net changes of investment securities at fair value through profit or loss	38,974	-108,107	13,076
Cash from investment activities of discounted operations	61	0	0
Net cash used in / from investing activities	**38,492**	**-100,829**	**71,182**
Cash flows from financing activities			
Paid in share capital	0	13,825	564
Non-controlling interest contribution to subsidiary´s share capital	0	0	175
Sale of treasury shares	0	0	1
Subordinated loans received	15,000	15,900	15,450
Repayment of subordinated debt	-750	-16,450	0
Net cash from financing activities	**14,250**	**13,275**	**16,190**
Effect of exchange rate changes on cash and cash equivalents	**65**	**-15**	**-23**
Net decrease/increase in cash and cash equivalents	**144,732**	**-69,281**	**61,053**
Cash and cash equivalents at the beginning of the year	79,631	148,912	87,859
Cash and cash equivalents at the end of the year	**244,363**	**79,631**	**148,912**

Consolidated Statement of Changes in Equity

(in TEUR)	Share capital	Share premium	Statutory reserve capital	Other reserves	Accumulated deficit	Treasury shares	**Total equity attribu-table 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**
Balance as at 01.01.2015	**23,356**	**33,992**	**435**	**132**	**-2,041**	**0**	**55,874**	**2,159**	**58,033**
Transfer to statutory reserve capital	0	0	460	0	-460	0	0	0	**0**
Paid in share capital	0	0	0	0	0	0	0	0	**0**
Share options	0	0	0	436	0	0	436	0	**436**
Profit for the year	*0*	*0*	*0*	*0*	*13,706*	*0*	*13,706*	*1,082*	***14,788***
Other comprehensive income/loss	*0*	*0*	*0*	*-17*	*0*	*0*	*-17*	*0*	***-17***
Total profit and other comprehensive income for 2015	*0*	*0*	*0*	*-17*	*13,706*	*0*	*13,689*	*1,082*	***14,771***
Balance as at 31.12.2015	23,356	33,992	895	551	11,205	0	69,999	3,241	**73,240**

Key Ratios and Indicators

In the opinion of the Management, those 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 the business volumes of the Group companies.

(in MEUR)	2015	2014	2013
Net profit	14.8	9.7	4.3
Net profit attributable to owners of the parent	13.7	9.2	4.2
Net profit attributable to owners of the parent from continuing operations	11.5	7.3	4.4
Basic earnings per share (EUR)	0.59	0.43	0.23
Basic earnings per share from continued operations	0.49	0.34	0.24
Basic earnings per share from discontinued operations	0.09	0.09	-0.01
Diluted earnings per share (EUR)	0.57	0.42	0.22
Diluted earnings per share (EUR) from continuing operations	0.48	0.33	0.23
Diluted earnings per share (EUR) from discontinued operations	0.09	0.09	-0.01
Average equity	63	44	27
Return on equity (ROE) % *	21.6	21.0	15.6
Average assets	648	463	351
Return on assets (ROA) %	2.3	1.7	1.3
Net interest income	23.2	16.5	9.1
Average interest earning assets	637	455	346
Net interest margin (NIM) %	3.65	3.62	2.63
Spread %	3.57	3.55	2.57
Cost / income ratio %	62.8	67.5	71.6

Explanations

Ratio	Definition / formula
Average equity (attributable to owners of the parent)	(equity of previous year end + equity of each quarter end of current year) / 5 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 previous year end + assets of each quarter end of current year) / 5 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.*
Average interest earning assets	(interest earning assets of previous year end + interest earning assets of each quarter end of current year) / 5 *Amount presents amount of the interest earning assets available in average during relevant period*.
Average interest bearing liabilities	(interest bearing liabilities of previous year end + interest bearing liabilities of each quarter end of current year) / 5 *Amount presents amount of the interest bearing liabilities available in average during relevant period*.
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.*

12. CAPITALISATION AND INDEBTEDNESS

Capitalisation. The following table sets forth the consolidated total capitalisation of the Group (i) on an actual basis as of 31 December 2015, (ii) on an actual basis as of 29 February 2016 and (iii) on an adjusted basis to reflect the issuance and sale of 2,000,000 Offer Shares at an assumed Offer Price of EUR 6.95 after deduction of the commissions and expenses incurred by the Group in an approximate amount of EUR 200,000 compared to 31 December 2015.

The information dated 31 December 2015 has been derived from the audited Financial Statements of the Group, which have been prepared in accordance with IFRS. The information dated 29 February 2016 is unaudited and has been derived from internal monthly reporting, which has been prepared in accordance with IFRS. The table should be interpreted in conjunction with the Financial Statements presented elsewhere in this Prospectus and incorporated into the Prospectus by reference.

Capital base *(in TEUR)*	**31.12.2015**	**29.02.2016**	**As adjusted for this Offering**
Paid-in share capital	23,356	23,356	25,356
Share premium	33,992	33,992	45,692
Statutory reserves transferred from net profit	895	895	895
Other reserves	551	551	551
Retained earnings / accumulated deficit	11,205	13,481	11,205
Non-controlling interests	3,241	3,542	3,241
Total equity	**73,240**	**75,817**	**86,940**
Subordinated debt	30,900	30,900	30,900
Customer deposits	632,760	659,324	632,760
Other liabilities	20,226	11,593	20,226
Total liabilities	**683,886**	**701,873**	**683,886**
Regulatory own funds and core capital ratios			
Total Tier 1 capital	69,633	69,037	83,333
Net own funds for capital adequacy calculation	100,533	99,937	114,233
Capital adequacy (%)	24.03	23.24	27.30
Tier 1 Capital Ratio (%)	16.65	16.05	19.92

Capitalisation (in TEUR)	**31.12.2015**
Total current debt (maturity up to one year)	**629,997**
Of which: secured	0
Of which: unsecured	629,997
Of which: subordinated debt	0
Total non-current debt (excluding current portion of long-term debt)	**53,889**
Of which secured (TLTRO funding from ECB)	13,000
Of which: unsecured	9,989
Of which. subordinated	30,900
Equity:	
Share capital	23,356
Share premium	33,992
Other reserves (incl. retained earnings/profit for the period)	12,651
Non-controlling interest	3,241

Shareholders' equity	**73,240**
Total capitalization	**757,126**

Indebtedness. The following table indicates the indebtedness of the Group as at 31 December 2015.

Current assets *(in TEUR)*	**31.12.2015**
Liquidity:	
Cash	0
Cash equivalents	230,501
Trading securities	84,892
Total liquidity	**315,393**
Current financial receivables	**130,982**
Total current assets	**446,375**
Current financial debt (maturity up to one year):	
Current debt	609,771
Current portion of non-current debt	0
Other current financial debt	20,226
Total current financial debt	**629,997**
Net current financial indebtedness	**183,622**
Non-current financial indebtedness:	
Non-current bank loans	22,989
Bonds issued	30,900
Other non-current loans	0
Non-current financial indebtedness	**53,889**
Net financial indebtedness	**237,511**
Indirect and contingent indebtedness:	
Performance guarantees	7,853
Financial guarantees	5,369
Unused loan commitments	118,696
Total indirect and contingent indebtedness	**131,918**

Working Capital Statement. As at 31 December 2015, the net current total consolidated working capital of the Group was TEUR -183,622. The working capital of a company represents the difference between the company's current assets and current liabilities. The largest subsidiary of the Group, LHV Pank, is mainly funded from the deposits, from which 432,810 TEUR are on current accounts included 100% into current liabilities, and then net current working has to be negative. Based on the Liquidity Coverage ratio Calculations, LHV Bank should keep in average 22% of liquid assets against the current accounts equalling 95,218 TEUR. Remaining current accounts in amount of 337,592 TEUR can be included into non-current liabilities.

In the opinion of the Management working capital is sufficient to cover the Group's foreseeable obligations for a period of at least 12 months following the date of this Prospectus.

No Material Adverse Change. There has been no material adverse change in the Group's financial position since 31 December 2015.

13. FINANCIAL CONDITION, RESULTS OF OPERATIONS AND OUTLOOK

13.1. Financial Condition and Results of Operations

Detailed information on the financial condition and results of operations of the Group has been provided in the Financial Statements annexed to this Prospectus.

13.2. Factors and Public Policies Affecting Operations

Introductory Remarks. The operations and financial condition of the Group are affected by numerous factors. The factors of particular importance, in the opinion of the Management, are outlined below. However, the impact of these and other factors may vary significantly in the future.

Macroeconomic Environment. The operations of the Group are materially affected by the macroeconomic environment in the main geographical markets where the Group companies operate, i.e. Estonia and Lithuania.[15] Macroeconomic factors such as GDP growth, inflation rates, interest rates and currency exchange rates, as well as unemployment rates, average income levels and the general financial situation of consumers and businesses, together with various other factors, have a material impact on the operations of the Group.

Although the current economic environment may be described as stable, 2015 was marked by the emergence of geopolitical risks to the fore, the growth slowdown in the world economy, commodity prices continued to fall and low inflation rate. According to Statistics Estonia, in 2015, the GDP of Estonia increased 1.1% compared to an increase of 2.5% in 2014 and 2.6% in 2013. The high employment rate and structural labour shortage are fuelling a wage growth beyond the growth in productivity; the fragility of the external environment and labour market restrictions have kept investments in noncurrent assets at a 20-year low. Although the current environment has suited well for the Group, further developments in economic situation may result in fluctuations in the results of operations of the Group. Please see Section "Political, Economic and Legal Risks" for further discussion on the potential impact of the overall macroeconomic environment to the results of operations of the Group.

Under the pressure from slow economic growth and low interest rates, the profitability of the European banks in general remains weak, being also negatively influenced by low quality of the loan portfolios in several jurisdictions and the need to write loans down. According to the European Banking Authority, the average percent of the restructured loans and loans overdue for more than 90 days of the big banking groups in the European Union was 12.3 in the third quarter of 2015.[16] The wide scope of identified misconduct practices and high misconduct costs at several banks also remain concerns. Developments in international financial markets undoubtedly affect Estonian and Lithuanian financial markets and may have adverse effect to the operations of the Group.

Changes in Regulatory Environment. The operations of the Group are subject to extensive legal regulation on both levels – on the level of the European Union and on the level of jurisdictions where the Group companies operate. Material changes in such regulations may have significant impact on the

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[15] The operations of the Group in the Latvian market are very limited. Please see Section "Group Structure and Group Companies" for further details.
[16] EBA, Risk Dashboard Q4 2015, page 9, available at: http://www.eba.europa.eu/documents/10180/1380504/EBA+Dashboard+-+Q3+2015+data.pdf/ed7b658c-c12d-4c27-b2a7-c3fd798ae23f

results of operations of the Group companies. LHV Pank is subject to strict capital adequacy requirements discussed in further detail in Section “Political, Economic and Legal Risks”; however, the operations of the Group companies may be influenced by changes in other fields of law applicable in respect of either the Group companies or the clients and co-operation partners of the Group companies. Changes in tax regime in Estonia as the main geographical market may have significant impact of the results of operations of the Group companies. There are on-going political discussions on potential changes to the Estonian tax regime, which primarily concerns the corporate income tax regime. In Estonia corporate income tax is charged only on the distributed profit with the reinvested profits remaining untaxed until distribution. Traditional point of corporate taxation is the moment of accrual and not distribution of profit. The referred changes have not reached further than political discussions; however, should such changes be implemented, the results of operations of the Group companies may be adversely affected.

Competitive Markets. The level of competition has material impact on the Group’s results of operations. Estonian banking market as the main market of the Group may be characterised by intense competition. There are altogether nine licensed credit institutions in Estonia, and a further seven branches of foreign credit institutions operate in the Estonian banking market. What is more, over 300 other financial institutions from the European Union can provide cross border banking services in Estonia. As at the end of June 2015, the banks had assets of 22.2 billion euro, or 112% of GDP, which is among the smallest shares in the European Union.[17] The banking sector in Estonia is highly concentrated. As at the end of June 2015, four large banks, which are subsidiaries or branches of foreign banks, hold a 89% combined market share in loans and 88% combined market share in deposits. Respective market shares of the Group companies were 2% and 3%. Regardless of the tense competition situation, the volume of the Group’s loan portfolio increased by 36% and the volume of deposits by 35% in the year 2015. However, in the current, record-low, negative interest rates, it is a challenge to maintain or grow its market position for any market participant and the level of competition may have material adverse impact on the Group’s results of operations.

The Estonian asset management market is relatively young and is rapidly growing. The total value of pension and investment funds at the end of June 2015 was 3.3 billion euro (around 17% of GDP). The growth of the sector is driven by the mandatory pension funds, which are also the largest business segment of the Estonian asset management market. As of the end on June 2015, the Group belongs among the three largest players of the sector, holding a 20% share of the market of mandatory pension funds.[18] Mandatory pension funds in Estonia are managed by altogether five licensed fund managers. As of the same date, the Group’s market share of the total Estonian asset management market was 16%.[19] There are altogether 17 local licensed fund managers in Estonia and 58 market participants providing fund management services cross-border. The level of competition of the Estonian asset management market is high and may lead to worsening of the Group’s financial position and results of operations.

Quality of Credit Portfolio and Impairment Charges. The results of operations may be materially affected by the quality of the credit portfolio and impairment charges. The amount of impairment provisions

[17] Statistics of the Estonian National Bank, available at
http://www.eestipank.ee/sites/eestipank.ee/files/publication/ep_fsy_2015_2_eng_a.pdf
[18] Statistics of the Estonian National Bank, available at
http://www.eestipank.ee/sites/eestipank.ee/files/publication/ep_fsy_2015_2_eng_a.pdf
[19] Statistics of the Estonian National Bank, available at
http://www.eestipank.ee/sites/eestipank.ee/files/publication/ep_fsy_2015_2_eng_a.pdf

allocated for impairment losses depends on the expected recovery ratios and the value of available collateral. There are several criteria for a loan to be considered individually impaired. The Group's internal default definition is in line with the generally accepted definition of the default criteria, such as payment delay more than 90 days on any material credit obligation, distressed restructuring of the credit obligation, and specific credit adjustment due to significant perceived decline in the credit quality since inception, significant financial difficulties of the obligor or likely bankruptcy process, etc. As a part of the risk analysis, the Group is regularly performing stress tests and sensitivity analysis regarding the credit risk and its components (such as PD, LGD). The collective impairment credit assessment of the Group is based on the historical loss rate and credit rating. As at 31 December 2015, the Group assesses the specific loan impairment to be TEUR 918 and the collective loan impairment TEUR 3,762. The credit quality of the Group has a more detailed coverage in Note 3 (Section 3.2.2) of the Financial Statements.

13.3. Changes in Revenue

Introductory Remarks. All three financial years covered by the Financial Statements indicate increase of revenues of the Group. Such increase has mainly been the result of the organic growth of the Group in its target markets, except for the acquisition of Mokilizingas in August 2013 for MEUR 1.1, which has not affected the Group's revenues significantly.

Discussion by Business Segments. The banking operations of the Group started in 2009 and, for the first years, the revenues were very low due to small number of products and customers. In 2013, the banking activities reached the first mile-stones by being able to offer the most critical banking services and, in 2015, by bringing ATM's to the market, the bank's product list was large enough to provide home-banking services. The revenues are clearly following the bank's product developments – the growth has always been a 2-digit number, but a significant absolute growth in client activities arrived in 2014 and especially in 2015. The revenue base from the banking operations has grown from MEUR 12.9 in 2013 to MEUR 13.7 in 2015.

The revenues of asset management have grown due to the organic growth, which has been supported by the highest yielding pension funds over a 10-year period. LHV Varahaldus maintained the second largest market share (21%) in terms of volume and third largest market share (19.8%) in terms of customer numbers. The company's operating income grew by 9% during the year 2015. During 2015, the volume of assets under management grew by 13%, totalling EUR 570 million. The management fees of mandatory pension funds were reduced by regulation in August 2015, with the management fees lowered by 10%, compared to July 2015. The revenues have grown from MEUR 6 in 2013 to MEUR 9.5 in 2015.

The hire-purchase and consumer finance operations in Lithuania were initiated in 2013 by the acquisition of Mokilizingas and since then the portfolio has grown significantly. The overall loan portfolio increased by 25% to EUR 40 million as at the end of 2015. Net interest income (before impairments) during the year 2015 was EUR 5.1 million (+29% year on year). Despite the increase in operating expenses due to preparation for new products, net profit almost doubled to EUR 1.1 million.

The Estonian unit of hire-purchase and consumer finance was established in 2013 and the portfolio has grown to 25 million within 2 years. The revenues from the hire-purchase and consumer financing operations reached MEUR 3.2 by the end of 2015. The treasury unit of LHV Pank is engaged in supporting banking operations, managing asset-liability mismatches, acting as centralised funding unit and in-house trading unit for the money-market and capital market instruments. The unit's revenues are directly correlating with the growth of the banking business segment of the Group.

14. CAPITAL RESOURCES

Introductory Remarks. The Group is well-capitalised as at the end of the reporting period, i.e. 31 December 2015, with a capital adequacy level of 24.0% and Tier 1 capital ratio of 16.7%. The Group uses the standard method for the calculation of credit risk and market risk capital requirements and the basic indicator approach for the calculation of operational risk capital requirements. The Group has complied with all capital requirements. 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 December 2015 was 7.5%.

The Group's loan to deposit ratio as at 31 December 2015 was 66% and liquidity buffer accounted for 44% of balance sheet. 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. The stress testing framework includes 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 at 31 December 2015. The aim of the LCR standard is to ensure that the Group has an adequate amount of unencumbered assets of high quality and liquidity that could be monetised without incurring material losses to meet a liquidity requirement in a 30-day stress scenario. The output of the standard is the ratio of liquid assets to stress scenario liquidity requirement, which has a limit of 100%. The Group's liquidity coverage ratio level as at 31 December 2015 was 271%. The objective of the NSFR is to ensure that the Group has adequate stable funding sources to finance longer-term assets. According to the proposals published in the banking regulation and the banking committee of Basel in October 2014, the Group's NSFR level as at 31 December 2015 was 157%. The net stable funding ratio will be imposed as minimum requirement from the year 2018.

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 and currencies is monitored. The Group grants loans only in one currency - euro. All other currencies in balance sheet come from client deposits and are mostly covered directly with liquidity held in that currency. 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 LHV Pank, 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 December 2015, the Group does not have any debts past due. Short-term loans can be obtained from the central bank, secured by the majority of instruments from the debt securities portfolio.

Deposit Funding and Loans Received. The main funding base of the loans issued by the Group entities consists of deposits and loans received. During 2015, MEUR 158 worth of new deposits and loans received were collected with the total volume of deposits and loans received amounting 633 MEUR by the end of the year 2015. 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 attractive, in the end of 2013 LHV Pank introduced a liquidity account concept to the market whereby if certain conditions are met, higher interest is paid on demand deposits. All in all, the proportion of demand deposits has increased, accounting for 71% of all deposits as at the end of December (60% one year ago).

Subordinated Capital. As at 31 December 2015, the Group had outstanding subordinated capital in an aggregated principal amount of TEUR 30,900. The full amount was recognized as Tier 2 capital. The

Group issued EUR 15,000 thousand of new subordinated bonds in October 2015 with the fixed interest rate of 6.5%. The public offering of the subordinated bonds carried out by the Group in October 2015 was over-subscribed, which lead the Management to believe that in case of a need to rise Tier 2 capital there is sufficient demand in the market.

Share Capital. The share capital of the Company has been increased several times in order to cover future growth. The latest increase of the share capital of the Company was in 2014 when 4 million new Shares were issued. As at 31 December 2015, the total amount of the equity of the Company was TEUR 73,240, including share premium and other capital instruments. In order to support the future growth of the Company as described in Section “Reasons for Offering and Use of Proceeds”, the Company is conducting the Offering as described in this Prospectus.

15. LISTING AND ADMISSION TO TRADING

The Company intends to apply for the listing and admission to trading of all the Shares (including Offer Shares subscribed for and issued by the Company and allocated to investors as a result of the Offering) on the Main List of Nasdaq Tallinn Stock Exchange as soon as possible after the registration of the Offer Shares in the in the ECRS and the Estonian Commercial Register. The Company will to take all necessary measures in order to comply with the Nasdaq Tallinn Stock Exchange rules so that its application would be approved. The expected date of listing and admission to trading of the Shares on the Main List of the Nasdaq Tallinn Stock Exchange is on or about 23 May 2016. For the general information on the Nasdaq Tallinn Stock Exchange, please see the Section "Estonian Securities Market".

If the Offering is cancelled in accordance with the terms and conditions described in Section "Cancellation of Offering", the Company may choose to apply for the listing and admission to trading of all the Shares issued and outstanding as at the date of this Prospectus.

16. ESTONIAN SECURITIES MARKET

16.1. 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 organisations 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 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 minimise 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 harmonising 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 organisation, 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.

16.2. ECRS and Registration of Shares

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 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 the 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 the shares registered in the ECRS, no physical share certificates are issued.

In addition to the 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.

16.3. Listing Shares on Nasdaq Tallinn Stock Exchange

The Baltic stock exchanges have a common presentation of all listed Baltic companies on a common list, the companies of 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 IFRS, 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, capitalisation) 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. In 2015, two Estonian corporate bonds were also listed and admitted to trading. 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.

16.4. 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 recognised as the most sophisticated trading platform in the world, INET is the proprietary core technology utilised 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.

16.5. Financial Supervision

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

16.6. 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 or 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.

17. TAXATION

Introductory Remarks. This Section is meant to give an overview of the tax regime applicable to the shareholders 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 Shares, 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 accrual 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 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.

Dividend tax. In Estonia dividends paid by an Estonian resident legal person are exempt from taxation at the level of the recipient, regardless of whether the recipient is a natural or a legal person, an Estonian resident or a non-resident person (no classical dividend tax). Taxation takes place only at the level of the Estonian legal person making the distribution. Upon the repeated distribution of dividends by an Estonian resident legal person on the account of the dividends derived from a resident company of the European Economic Area contracting state (including Estonia) or Switzerland, the repeated distribution of dividends shall be exempt from income tax, provided the distributing company held at least 10% of the shares or votes in the company from which the underlying dividends were derived at the time of deriving the dividends. The latter restriction should be taken into account by an Estonian resident investor when deciding on whether to acquire the Shares as a natural or a legal person. If the recipient is a non-resident person, then the dividends received from the Estonian legal person may be taxed with dividend tax in the person’s respective country of residence. In order to establish particular tax consequences arising in the non-resident person’s country of residence, investors are advised to seek specialist assistance.

Capital Gains from Sale or Exchange of Shares. Gains realised by an Estonian resident individual upon the sale or exchange of securities (including the Shares) are subject to income tax at the rate of 20%. Payments received by an Estonian resident individual in the course of the reduction of share capital or redemption of shares are also taxable as capital gains, if the amount of the received payment exceeds the acquisition cost of the relevant shareholding, except to the extent such payment has been already taxed at the company level. Since all earnings of resident legal persons, including capital gains, are taxed only upon distribution, capital gains accruing to 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 the Estonian real estate). Non-resident shareholders receiving capital gains from the sale or exchange of the Shares 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 Shares) 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 a result of the exchange. The expenses directly related to the sale or exchange of shares may be deducted from the gains.

Investment Account. Estonian resident individuals may postpone the taxation of their investment income by using an investment account for the purposes of making transactions with certain financial assets (including the Shares). An investment account is a monetary account opened with a 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, 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.

18. GLOSSARY

Term	Definition
Articles of Association	shall mean the Articles of Association of the Company effective as at the date of this Prospectus.
BRRD	shall mean the 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.
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.
CRD IV	shall mean an EU legislative package covering prudential rules for banks, building societies and investment firms. CRD IV includes the following legislative acts - the 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, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (CRD) and 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 (CRR).
CRR	shall mean 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.
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 three financial years ended on 31 December 2013, 31 December 2014 and 31 December 2015 (prepared for the purposes of this Prospectus and each year separately covered by the report by independent auditor) as included in this Prospectus as Annex 1.
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 recognised 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 Shares 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 Shares 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 Tallinn AS (register code 10359206).
Offer Price	shall mean the final price per each Offer Share, which shall be a fixed price of EUR 6.95.
Offer Shares	shall mean up to 2,000,000 Shares that are being offered to investors in the course of the Offering.
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 2 May 2016 (included) and ending on 16 May 2016 (included).
Prospectus	shall mean this document, including the registration document of the Company and the securities notes of the Shares.
Retail Offering	shall mean the offering of the Offer Shares 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 Shares 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.
TEUR	shall mean thousands of euro.
Tier 1	shall mean Tier 1 capital, core capital of a bank that includes equity capital and disclosed reserves , as further specified in the CRR.
Tier 2	shall mean Tier 2 capital, supplementary capital of a bank that includes items such as revaluation reserves, undisclosed reserves, general provisions, hybrid instruments and subordinated term debt, as further specified in the CRR.
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).

19. LIST OF ANNEXES

Annex 1 - Financial Statements

COMPANY

AS LHV Group

(Tartu mnt 2, 10145 Tallinn, Estonia)

LEGAL COUNSEL TO COMPANY

Advokaadibüroo Primus OÜ

(Kai 1, 10111 Tallinn, Estonia)

AUDITORS

Aktsiaselts PricewaterhouseCoopers

(Pärnu mnt 15, 10141 Tallinn, Estonia)

AS LHV Group
Consolidated Annual Report 2015

Consolidated Annual Report **01.01.2015 – 31.12.2015**

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
	Heldur Meerits
	Raivo Hein
	Tauno Tats
	Sten Tamkivi
Auditor	AS PricewaterhouseCoopers

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Statement of Managing Director

LHV has had a successful year. The company's efforts have borne fruit and the objectives established for the financial year have been exceeded.

The economic environment has been stable, despite persistent fragility and ever-increasing risks in global economy. In developed markets, the post-crisis economy has failed to gain ground. The gigantic debt burden, along with difficult demographic dynamics, impedes economic recovery and growth. The year 2015 brought record-low, negative interest rates. The reversal in Chinese economic growth and the plummeting raw material prices have added further to the general anxiety.

Unfortunately, the fears of the economic decline and struggle paving the way for extremist and protectionist political consequences are materialising in several European countries. Such dynamics do not favour growth in trade of goods and services.

The economic growth in LHV's principal market - Estonia - has dropped below two per cent. The high employment rate and structural labour shortage are fuelling a wage growth beyond the growth in productivity. The fragility of the external environment and labour market restrictions have kept investments in non-current assets at a 20-year low. Clearly, the Estonian economy is slowing down. At the same time, no major open risks or imbalances are immediately evident in the local economy. The economic life has been slow, yet stable and mostly predictable.

The current environment has suited well for LHV. LHV is a young market participant, offering refreshing alternatives and modern-day vantage points to the conservative world of financial intermediation. As a rule, everyone does well in a quickly developing market. However, in a market, where choices need to be carefully weighed and deliberated, only those who are able to understand the customer's desires and needs, and whose services and products do not entail encumbering additional expenses, can gain ground. LHV's quick growth in an economically challenged environment where quite a few market participants are downsizing or dissolving indicates that there is always room for dedication and good customer offers.

The net profit of LHV amounted to EUR 14,8 million in 2015. This constitutes a EUR 5,1 million increase from last year, with a 22% return on equity. Business volumes and profits were boosted in all core activities.

The net profit of the largest business unit – AS LHV Pank - amounted to EUR 9,9 million, having grown by EUR 3,8 million, year-over-year. Loans to customers increased by EUR 93 million and totalled EUR 405 million. EUR 167 million worth of new deposits were collected during the year, with the total volume of deposits amounting to EUR 628 million by the end of the year.

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

Having expanded its retail banking offers, the Bank also revealed its ambition of becoming the third largest home bank in Estonia. The Bank does not endeavour to serve as a mere copy of existing retail banks. Nonetheless, we can see a huge number of potential customers well suited to the offers of the Bank. By the end of 2015, the number of active customers had reached 80,000.

LHV Varahaldus posted a net profit of EUR 4,7 million in 2015 - EUR 1.0 million more than last year total assets under management grew by EUR 66 million, totalling EUR 570 million. Return on equity was 53%, with LHV Varahaldus returning EUR 4,5 million of capital to LHV Group.

The primary objective of LHV Varahaldus is to maximise the long-term return to its funds' unitholders. With their sights set on the goal, fund managers have kept their positions conservative, trying to avoid steep downswings in a fragile market. The chosen strategy has borne fruit. The 2nd-pillar pension funds managed by LHV Varahaldus ranked first in terms of yield in all categories in 2015. LHV Varahaldus also maintained its leader position in terms of 10-year yield of 2nd-pillar pension funds.

On 29th of January 2016, LHV Varahaldus entered into a contract of purchase and sale of shares with Danske Bank A/S Estonia Branch, under which LHV Varahaldus purchased 100% of the shares of Danske Capital AS. Completion of the transaction requires the approval of the Financial Supervision Authority and the authorisation for concentration by the Competition Board. Danske Capital AS manages three mandatory pension funds and two voluntary pension funds with a volume of EUR 235,8 million and over 43,000 active customers. Upon completion of the transaction, LHV Varahaldus's market share in mandatory pension funds will rise to nearly 30%.

Mokilizingas posted a net profit of EUR 1,1 million in 2015 - a EUR 0,5 million increase, year-over-year. The loan portfolio grew by EUR 8 million, totalling EUR 38 million. Mokilizingas' return on equity was 25%. Mokilizingas is the second largest hire-purchase provider on the Lithuanian market, and is recognised for the good service and transparent pricing. In cooperation with a partner in the telecommunication sector, Mokilizingas also started offering hire-purchase services in Latvia. This is a fully controlled pilot project which allows to significantly enhance business activities, if successful.

In October 2015, LHV finally achieved one of its long-term goals, becoming a publicly traded company. The subordinated bonds to be redeemed by LHV in 2024 were listed on the NASDAQ Tallinn Stock Exchange. The public offer of subordinated bonds allowed us to engage EUR 15 million of subordinated capital from the markets. The transaction itself brought LHV nearly a thousand new investors. We also confirmed our plans of listing LHV's shares on the NASDAQ Tallinn Stock Exchange by the summer of 2016.

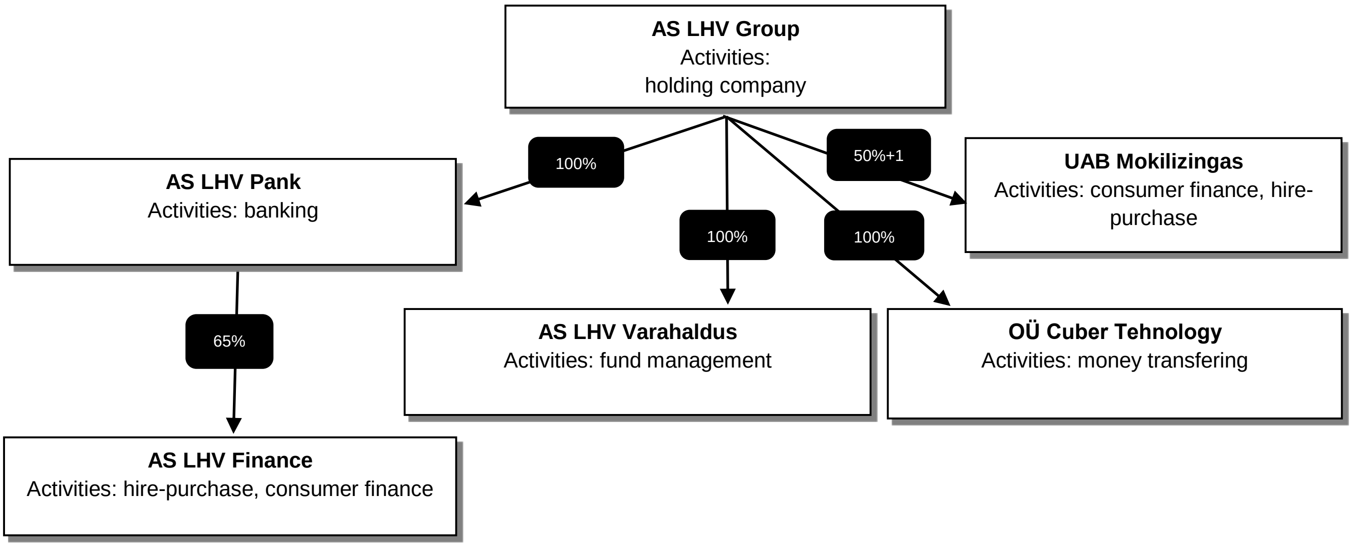
The year 2015 was thus, indeed, a successful year for LHV. We have a dedicated team, we are operating in a suitable environment and can truly feel the kind support of our customers. Even though we have grown significantly during the year, we have further simplified the internal processes, becoming more focused. We stand ready for further growth. LHV's objective for the upcoming years have not changed:

- we endeavour to serve as the best financial service provider to private customers and SMEs who wish to save and invest financial assets;
- we endeavour to serve as an attractive and recognised employer, offering progress, self-fulfilment and growth;
- we endeavour to do business in such a way as to achieve at least a 20% annual return on equity;
- we endeavour to become a publicly traded company with a wide range of owners, and shares listed on the local stock exchange.

Erkki Raasuke

Management report

AS LHV Group (hereinafter: the Group or LHV) is the biggest domestic finance group and capital provider in Estonia. The main subsidiaries of AS LHV Group are AS LHV Pank (hereinafter: the Bank) and AS LHV Varahaldus (hereinafter: LHV Varahaldus). LHV was established in 1999 by people with long experience in investing and entrepreneurship. LHV-s offices for client servicing are located in Tallinn, Tartu, Riga and Vilnius. Over 300 people work in LHV. Over 80 000 customers use banking services offered by LHV and the LHV's pension funds have over 147 000 clients.



Key events in 2015:

- **Group´s structure**

In 2015 the Group sold Finnish operations and closed down its Finnish branch.
The Group founded OÜ Cuber Technology to innovate around the use of Blockchain technology in financial services.

- **LHV Pank**

AS LHV Pank launched ATM (automated teller machine) network and new mobile app.

- **Mokilizingas**

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

- **Issuing subordinated bonds**

In 2015 subordinated bonds in the amount of 0,75 million euros were redeemed. New subordinated bonds were issued in the amount of 15,0 million euros and due date of the bonds is 10 years. Previously issued 15,9 million euros subordinated debt were listed. As a result all the subordinated bonds were listed on the Tallinn Stock Exchange.

- **LHV Varahaldus**

The asset management unit LHV Varahaldus returned to LHV Group worth of 4,5 million euros excess capital.

Operating principles

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

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

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

LHV was created as a partnership and partnership is the central way of growing LHV's business. New initiatives will be implemented faster and more successfully when partners have same interests and long-term support of each other.

All clients and partners of LHV may be owners of LHV in the future. LHV is public company which is striving for 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 31.12.2015 AS LHV Group had 271 shareholders:

- 13 372 004 shares (57,3%) belonged to the members of the supervisory board and management board and to their related parties.
- 9 196 512 shares (39,4%) belonged to Estonian entrepreneurs and investors and to their related parties.
- 787 489 shares (3,4%) belonged to current and previous employees of LHV and to their related parties.

Ten biggest shareholders as at 31.12.2015:

Number of shares	Percentage	Name of the shareholder
3 357 920	14,4%	AS Lõhmus Holdings
2 938 367	12,6%	Rain Lõhmus
1 637 897	7,0%	Andres Viisemann
1 418 000	6,1%	OÜ Ambient Sound Investments
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%	OÜ Bonaares

Business environment

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

However, the world economy is the biggest concern of the sharper-than-expected slowdown in Chinese economic growth. The direct effect is coming through a deflationary pressures causing decline in commodity prices for oil and metals, but the decline in import volumes will negatively affect the entire global demand. In August, the Chinese government devalued the yuan, nearly 3% and a further 0,5% in January 2016. Since China uses exchange as manipulation tool of monetary policy to improve the economy's competitiveness, there are questions raised of possible future of China's monetary policy steps.

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

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

Euro area quarterly economic growth in the third quarter was 0,3%, which is slightly slower than in the first quarter, reflecting a slowdown in German exports in particular. However, the IMF raised the overall growth expectations for the euro zone area in 2016.

Estonia's most important trading partner, the Swedish economy, showed in the third quarter a broad-based growth. On the negative side, Sweden has increasingly seriously entered to housing shortages, and a rapid increase in the price of real estate related topics. The Finnish economy turned back into recession after two quarters, despite the growth in domestic demand.

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

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

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

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

Financial results

EUR million	2011*	2012*	2013*	2014*	2015
Volume of deposits	**208**	**279**	**352**	**457**	**633**
Volume of net loans	**67**	**106**	**207**	**316**	**410**
Volume of funds	**144**	**252**	**374**	**504**	**570**
Net interest income	3,5	6,1	11,8	20,3	23,2
Net fee income	5,3	6,5	9,5	12,8	14,7
Net financial income	-1,1	0,8	2,7	0,5	0,4
Net income	7,7	13,4	24,0	33,6	38,3
Expenses	13,5	14,0	16,7	21,7	24,1
Operating profit	-5,9	-0,7	7,3	11,9	14,3
Loan provisions	2,6	1,1	2,9	2,6	1,4
Income tax expense	0,0	0,0	0,1	-0,4	-0,3
Profit from discontinued operations	0,0	0,0	0,0	0,0	2,2
Profit	**-8,5**	**-1,8**	**4,3**	**9,7**	**14,8**
including attributable to owners of the parent	**-8,5**	**-1,8**	**4,2**	**9,2**	**13,7**

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

The Group's pre-tax profit for 2015 from continued operations amounted to EUR 12,6 million and net profit totalled EUR 14,8 million. Pre-tax profit from continued operations is 64% more than a year earlier (EUR 7,7 million). Net interest income grew 41% and net fee income increased 17%. Financial income were 14% lower than in the previous year.

By the end of December, the total volume of the Group's loan portfolio less impairments amounted to EUR 410 million (December 2014 ongoing operations: EUR 301 million; December 2013: EUR 207 million). The volume of portfolio increased 36% in a year. In the loan portfolio, the majority is corporate loans that increased 34% in a year to EUR 286 million (2014: EUR 214 million; 2013: EUR 133 million). The portfolio of retail loans increased 20% in a year, amounting to EUR 128 million (2014: EUR 107 million; 2013: EUR 79 million).

The volume of Group's deposits increased 35% in a year and totalled EUR 617 million by the year-end (2014: EUR 457 million; 2013: EUR 352 million). The share of demand deposits of all deposits increased and reached 68% (31.12.2014: 60%; 31.12.2013: 46%).

Operating expenses increased 21% in a year.

By business units, in consolidated figures in 2015, AS LHV Pank earned profit of EUR 9,9 million, LHV Varahaldus earned EUR 4,7 million and UAB Mokilizingas earned a profit of EUR 1,1 million. LHV Group itself ended the year with a loss of EUR 0,9 million due to the fact that it does not engage in operating business and the main expense in the Group is the interest expense from issued subordinated debt.

Liquidity and capitalization

The liquidity coverage ratio (LCR) of the Group, calculated according to the definitions of the Basel Committee, was 271,6% at the end of December (31.12.2014: 190%; 31.12.2013: 169%). The Group includes cash and bond portfolios into a liquidity buffer, accounting for 44% of the balance sheet total, among its liquidity buffer (31.12.2014: 41%; 31.12.2013: 47%). The Group's loan-to-deposit ratio at the end of 2015 was 66% (31.12.2014: 70%; 31.12.2013: 60%).

The Group's level of own funds as at 31.12.2015 was EUR 100,5 million (31.12.2014: 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 24,0% (31.12.2014: 22,8%; 31.12.2013: 23,0%) and Tier 1 capital ratio of 16,7% (31.12.2014: 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 31.12.2015 was 7,5% (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	**2015**	**2014**	**change**	**2013**	**change**
net profit	14,8	9,7	53%	4,3	126%
net profit attributable to owners of the parent	13,7	9,2	49%	4,2	119%
average equity	62,9	43,1	44%	25,7	68%
return on equity (ROE) % *	21,0	21,4	-0,4	16,5	4,9
average assets	646	485	33%	366	33%
return on assets (ROA) %	2,3	2,0	0,3	1,2	0,8
net interest income	23,2	16,5	41%	9,1	81%
average interest earning assets	637	471	35%	360	31%
net interest margin (NIM) %	3,65	3,50	0,15	2,53	0,97
spread %	3,57	3,44	0,13	2,48	0,96
cost to income ratio %	62,8	67,5	-4,7	71,6	-4,1

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

Explanations

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

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

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

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

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

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

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

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

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

Risk Management

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

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

Capital base *(in EUR thousands)*	**31.12.2015**	**31.12.2014**	**31.12.2013**
Paid-in share capital	23 356	23 356	19 202
Share premium	33 992	33 992	21 871
Statutory reserves transferred from net profit	895	435	223
Other reserves	-23	0	0
Accumulated deficit	-2 503	-11 244	-15 581
Intangible assets (subtracted)	-1 734	-1 574	-1 665
Net profit for accounting period	13 705	9 203	4 206
Non-controlling interests	1 945	1 727	1 695
Total Tier 1 capital	**69 633**	**55 895**	**29 951**
Subordinated debt	30 900	16 650	19 635
Total Tier 2 capital	**30 900**	**16 650**	**19 635**
Exceeding limitations of subordinated debts and preference shares	0	0	-4 660
Net own funds for capital adequacy calculation	**100 533**	**72 545**	**44 926**
Capital requirements			
Credit institutions and investment companies under standard method	5 949	8 237	3 726
Companies under standard method	232 779	153 250	83 034
Retail claims under standard method	106 445	101 741	73 483
Overdue claims under standard method	7 758	5 438	3 661
Investment funds' shares under standard method	6 369	5 608	4 216
Other assets under standard method	5 712	5 675	5 638
Total capital requirements for covering the credit risk and counterparty credit risk	**365 012**	**279 949**	**173 758**
Capital requirement against foreign currency risk under standard method	6 527	5 735	4 315
Capital requirement against interest position risk under standard method	2 342	2 028	4 139
Capital requirement against equity portfolio risks under standard method	87	96	60
Capital requirement for operational risk under base method	44 367	30 066	13 307
Total capital requirements for adequacy calculation	**418 334**	**317 874**	**195 579**
Capital adequacy (%)	**24,03**	**22,82**	**22,97**
Tier 1 Capital Ratio (%)	**16,65**	**17,58**	**15,31**

Overview of the Group's subsidiaries in 2015

AS LHV Pank consolidation group

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

Business activities

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

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

The loan portfolio volume grew by 36% year-on-year and amounted to EUR 405 million at the end of December (continuing operations 2014: EUR 298 million). The majority of the loan portfolio is made up of loans to businesses, which grew by 34% year-on-year to EUR 286 million (31.12.2014: EUR 214 million; 31.12.2013: EUR 133 million). The retail loan portfolio grew by 16% year-on-year to EUR 88 million (31.12.2014: EUR 75 million; 31.12.2013: EUR 50 million). AS LHV Pank issued a loan to the other subsidiary of AS LHV Group, UAB Mokilizingas, the amount of which at the year-end was EUR 33 million (31.12.2014: EUR 27 million; 31.12.2013: EUR 24 million).

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

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

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

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

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

On November 30, the Bank decided to end its cross-border operations in Latvia. At the beginning of 2016, the decision was taken to close the Latvian branch by 31.03.2016. The Bank's operations in Latvia have been small-scale. In its business pursuits, the Bank has been governed, above all, by the business interests of its customers and endeavours to keep pace with the customers. Estonian enterprises currently need more services and support on the Western European front. These trends should be taken into account, when advancing the Bank's activities and services.

Financial results

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

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

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

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

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

Organisation

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

Statement of profit or loss and other comprehensive income, EUR million	**2015**	**2014**	**change**	**2013**	**change**
net interest income	18,76	13,04	44%	7,76	68%
net fee and commission income	4,85	3,33	46%	2,79	19%
net gains from financial assets	0,12	0,34	-66%	2,34	-85%
total net operating revenues	23,73	16,71	42%	12,89	30%
other income	0,09	0,03	181%	0,06	-48%
operating expenses	-15,38	-11,50	34%	-9,36	23%
loan losses	-0,67	-1,00	-33%	-1,12	-10%
discontinued operations	2,18	1,92	13%	-0,20	-1 061%
net income	9,94	6,16	62%	2,27	145%

Volumes, EUR million	**31.12.2015**	**31.12.2014**	**change**	**31.12.2013**	**change**
loan portfolio	405,4	298,0	36%	204,6	46%
bond portfolio	103,0	142,5	-28%	42,7	234%
deposits	629,0	462,0	36%	356,3	30%
equity	61,4	45,2	36%	26,9	68%
number of customers holding assets in bank	83 081	61 170	35%	48 863	25%

AS LHV Varahaldus

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

LHV Varahaldus is currently managing seven investment funds – five mandatory pension funds (LHV Pension Fund XS, LHV Pension Fund S, LHV Pension Fund M, LHV Pension Fund L, LHV Pension Fund XL), one voluntary pension fund (LHV Supplementary Pension Fund) and one UCITS fund (LHV World Equities Fund). LHV Varahaldus also provides investment consulting services to the SEF-LHV Persian Gulf Fund, which incorporated the LHV Persian Gulf Fund (managed by LHV Varahaldus) in April 2015.

The purpose of LHV Varahaldus is to offer its pension fund customers the best long-term yield. In terms of the yield posted over the last 10 calendar years, LHV's pension funds rank first in all investment strategies. LHV's pension funds also rank first in all categories in terms of the yield posted in 2015. LHV prioritises capital preservation in complicated market conditions. The fund manager also kept the market risk of pension funds relatively low in 2015 - a strategy which eventually paid off. The yield of LHV's mandatory pension funds ranged from +0,99% (LHV Pension Fund S) to +6,59% (LHV Pension Fund XL). The yield of LHV Supplementary Pension Fund was +8,77% (data on yields, as provided by Pensionikeskus).

The yield of LHV World Equities Fund was +11,21%. The yield of SEF-LHV Persian Gulf Fund was -16,50%.

LHV Varahaldus maintained the second largest market share (21,0%) in terms of volume and third largest market share (19,8%) in terms of customer numbers.

The company's operating income grew by 9% during the year. The volume of assets under management grew by 13%, totalling EUR 570 million. The management fees of mandatory pension funds were reduced by regulation in August, with the management fees lowered by 10%, compared to July. As the management fees of mandatory pension funds are lowered against a rise in volumes, LHV's operating income rises slower than the fund volume.

The company's operating expenses dropped by 3%. This can mainly be attributed to lower sales expenses. As a result, the company's net profit increased by EUR 1,03 million to EUR 4,65 million.

LHV Varahaldus switched the host country of the LHV Persian Gulf Fund to Luxembourg. This was done on 13 April 2015 by way of a merger, with the SEF-LHV Persian Gulf Fund serving as the acquiring fund (SICAV, management company: Swedbank Management Company S.A.). The assets of the fund are managed by LHV Varahaldus on the basis of a service provision agreement. The relocation of the host country served the purpose of enhancing the options of marketing to institutional investors on the long-term horizon.

On 29 January 2016 LHV Varahaldus and Danske Bank A/S entered into a contract of purchase and sale of shares, with LHV Varahaldus purchasing from Danske Bank A/S the Estonian-based management company Danske Capital AS.

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	2015	2014	change	2013	change
net fee income	9,2	8,5	8%	5,8	46%
other financial income	0,3	0,2	50%	0,2	-2%
total net operating revenues	9,5	8,6	10%	6,0	44%
operating expenses	-4,8	-5,0	-4%	-4,3	18%
net profit	4,7	3,6	31%	1,7	108%
assets under management	570	504	13%	374	35%
number of clients in pension funds (thousands)	147	132	11%	124	7%

UAB Mokilizingas

Despite the positive effects of Euro introduction in the beginning of 2015, the growth of Lithuanian GDP has kept a decreasing pace and estimated 1,7% in 2015. The main factors of this are the slowdown of construction and agriculture sectors, decreased trade with Russia and turbulent Eurozone environment. Inflation was negative at a rate of -0,1% mainly due to low fuel prices in international markets and low inflation in Eurozone. Private consumption expenditure grew more that 5% in 2015 and is expected to continue growing at a pace above 4%. The regulating institution is increasing the control of the consumer lending market and is primarily aimed to restrain the payday loan providers from multiple violations of credit issuing process. The law amendment was passed in Q4, effective from February 2016, establishing the limit of 75% yearly interest and other fees' daily amount is limited to 0,04%. These developments will most affect payday loan providers and will not have considerable impact for Mokilizingas.

Hire purchase

The objectives set for Mokilizingas were to grow steadily at above market pace as well as stay an innovation leader in Lithuanian consumer finance market. The objective was also to expand its services.

Hire purchase sales volume increased by 24% to EUR 38 million compared with 2014. The residual portfolio grew by 29% in 2015 reaching EUR 28 million. The amount of active partners was above 1200 and continued to grow steadily. Mokilizingas advancements resulted in strengthened market position with a portfolio market share of more than 15%. Deprived of any major entrants the competition in the market stays fierce, keeping the sales expenses high and credit margins thin. The average contract size grew by 12% (EUR 437) and more than twice exceeded the growth of average salary in Lithuania indicating the increased borrowing per household.

The expansion to Latvian market was one of the successful developments and a major step in Mokilizingas operations. Operations started in November and by the end of the year hire purchase portfolio reached EUR 165 thousand. The operations are still being tuned thus yields of this advancement are expected to be shown in 2016.

In partnership with one of the largest retailers, Mokilizingas introduced a novel service to Baltic hire purchase market – MOKI 3. The service is oriented to clients with a higher income allowing to pay for the purchase in 3 monthly payments and without interest. Being a success, the service allowed to strengthen the collaboration with a partners and enlarged the segment of target clients.

From 2016 SEPA payments were introduced in Lithuania, and Mokilizingas successfully migrated from a discontinued direct debit service to a new e-billing service which allows clients to have an easier control of their payments.

The goal for 2016 is to stay ahead in the market by introducing innovative services, developing integrated solutions with partners in both online and offline segments and further develop customer service excellence.

Consumer loan

Consumer loan market remains one of the most competitive markets. The payday loans became the product with a highest marketing expenditure in Lithuania. In 2015 multiple peer-to-peer lending platforms were introduced and started to gain momentum. The market of small loans (up to EUR 290) has reached the turning point in Q2 2015 and started to decline since. This can be explained by increasing financial awareness and extensive actions of the regulating institution. On the other hand, larger loan segment (above EUR 290) has grown rapidly at a rate of more than 40% and is expected to grow at similar pace over coming few years.

Mokilizingas stayed aside of fierce competition in traditional marketing channels. With a relatively modest marketing budget new approaches were tested. The emphasis was put on online marketing which was constantly tuned and refined in order to reach and pin-point the target clientele and optimize the marketing expenses per deal. The customer selection for telemarketing campaign was refined and integration with courier enterprise resource planning system (ERP) allowed increased sales in Q4.

The year was closed with a total consumer loan sales growth of 20% and reached a total of EUR 9,5 million. The portfolio grew at a rate of 24% and totalled at EUR 11 million.

Mokilizingas will continue to keep its image as a solid and transparent credit provider. A steady further growth in a highly competitive market is expected in 2016 due to consumer oriented renewal of self-service website, updates of ERP integration with partners and more extensive outgoing telemarketing operations.

Financial results

The overall loan portfolio increased by 25% to EUR 40 million as at the end of 2015. Net interest income (before impairments) during the year was EUR 5,1 million (+29% year on year). Despite an increase in operating expenses due to preparation for new products and entry into Latvian market, net profit almost doubled to EUR 1,1 million (+84% year on year).

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.

Sten Tamkivi is the CEO of Teleport. Prior to co-founding Teleport as an Entrepreneur in Residence at Andreessen Horowitz, Sten served as an early executive at Skype. He holds a number of management and advisory board seats. Sten Tamkivi does not own shares of AS LHV Group. Seikatsu OÜ owns 1,266 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.

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

Management board

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 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 Baltic Institute of Corporate Governance. Erkki Raasuke owns 80,000 shares of AS LHV Group.

Supervisory and management boards of the subsidiaries

AS LHV Pank
Supervisory board: Erkki Raasuke (chairman), Raivo Hein, Heldur Meerits, Tiina Mõis, Rain Lõhmus, Sten Tamkivi, Andres Viisemann
Management board: Erki Kilu (chairman), Jüri Heero, Andres Kitter, Meelis Paakspuu, Indrek Nuume, Martti Singi

AS LHV Finance
Supervisory board: Erki Kilu (chairman), Rain Lõhmus, Veiko Poolgas, Jaan Koppel
Management board: Kalev Karus

AS LHV Varahaldus
Supervisory board: Erkki Raasuke (chairman), Erki Kilu, Andres Viisemann
Management board: Mihkel Oja (chairman), Joel Kukemelk

Cuber Tehnology OÜ
Management board: Rain Lõhmus

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

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

CEO: Jurgis Rubaževičius (till 29.01.2016), Benas Pavlauskas (from 29.01.2016)

Share options

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

The granting and size of share options was dependent upon the successful achievement of operational targets of the overall company and the targets of individual management board members and employees. In the beginning of 2016 the share options were granted to 49 people in the amount of 826 thousand euros (2015: 48 people in the amount of 681 thousand euros; 2014: 35 people in the amount of 645 thousand euros). The company entered into share option agreements with the members of the management board and employees for a three-year term for the granting of share options. Share options issued in 2014 can be exercised between the period of 01.07.2017-30.09.2017 and shares with nominal value of 1 euro can be acquired for 2 euros per share. Share options issued in 2015 can be exercised between the period of 01.05.2018-31.07.2018 and shares with nominal value of 1 euro can be acquired for 2,4 euros per share. Share options issued in 2016 can be exercised between the period of 01.05.2019-31.07.2019 and shares with nominal value of 1 euro can be acquired for 3 euros per share.

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

Corporate Governance report

This report is presented in accordance with the requirements of the Estonian Accounting Act and provides an overview of the governance of AS LHV Group 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. Materials are made available on the website of LHV. From 2014, shareholders are 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.

During 2015, the company called one annual general meeting and no extraordinary general meetings. The annual general meeting of shareholders held on April 29, 2015 approved the annual report of the 2014 financial year, called back Hannes Tammjärv from the supervisory board and elected new member Sten Tamkivi, approved the share options program and appointed auditor AS PricewaterhouseCoopers as auditor for period 2015-2017. The general meeting was held in Estonian.

In 2015, 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 2015, member of the Management Board Erkki Raasuke, chairman of the supervisory board Rain Lõhmus, members of the supervisory board Andres Viisemann, Tiina Mõis, Heldur Meerits, Raivo Hein 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 2015, an additional member of the supervisory board, Sten Tamkivi, 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 influence are Rain Lõhmus and persons related to him with 28,0% of voting rights and Andres Viisemann and persons related to him with 10,6% voting rights.

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 2015, no business transactions on terms outside the ordinary course of business 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 companies. Erkki Raasuke is the chairman 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, Sten Tamkivi, 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 2015, no business transactions on terms outside the ordinary course of business took place between LHV and its supervisory board members, their close relatives or persons related to them.

In 2015, there were 11 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 has formed three committees tasked to advise the supervisory board in issues related to audit, compensation and risk as described below. The supervisory board has approved the rules of procedure for the supervisory board, audit committee, compensation committee and internal audit, policy of capital management and capital goals as well as risk management policy, the 2014 annual report, share options program before these were presented to the annual general meeting of shareholders for approval, issuances and listing of new subordinated bonds on Tallinn Stock Exchange and the financial plan of LHV and internal audit workplan for 2016.

3.1. Audit committee

The audit committee is an advisory body to the supervisory board in the fields of accounting, audit, risk and capital committee, 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 compensation 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 members.

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.

3.3. Risk and capital committee

The duties of the risk and capital committee are to evaluate the risk taken by the LHV and follow the implementation of risk policy in the companies within the LHV group. The risk and capital committee consists of at least three supervisory board members of LHV.

The members of the risk and capital committee are Rain Lõhmus (chair), Andres Viisemann and Tiina Mõis. No compensation is paid for the members of the risk 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 Group's goals and strategy. The management board in the management of the Group 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. Starting from October 2015, LHV is public company as its subordinated bonds are listed in NASDAQ Tallinn Stock Exchange. All information sharing is following the rules valid to public companies.

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 2015, meetings and webinars 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 spring 2015, 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 Pricewaterhouse-Coopers was chosen and appointed the company's auditor on the annual general meeting of shareholders held on April 29, 2015 and a three-year contract was concluded with the company for auditing the financial years 2015-2017.

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 operational 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 statements of profit or loss and other comprehensive income

(in thousands of euros)	Note	2015	2014	2013
Continuing operations				
Interest income		27 368	19 499	11 507
Interest expense		-4 135	-3 025	-2 401
Net interest income	5,7	**23 233**	**16 474**	**9 106**
Fee and commission income		16 801	13 691	10 099
Fee and commission expense		-2 136	-1 143	-865
Net fee and commission income	5,8	**14 665**	**12 548**	**9 234**
Net gains from financial assets measured at fair value	11,12	366	528	2 416
Foreign exchange rate gains/losses		64	-15	-23
Other financial income		1	0	312
Net gains from financial assets	5	**431**	**513**	**2 705**
Other income		96	26	81
Other expense		-39	-42	-17
Staff costs	9	-10 977	-8 554	-6 158
Administrative and other operating expenses	9	-13 130	-11 375	-8 952
Profit before impairment losses on loans and advances	5	**14 279**	**9 590**	**5 999**
Share of result of associates	5	-36	-14	10
Impairment losses on loans and advances	5,14	-1 367	-1 680	-1 375
Profit before taxes		**12 876**	**7 896**	**4 634**
Income tax expense	5,6	-269	-151	-84
Net profit for the year from continuing operations		**12 607**	**7 745**	**4 550**
Profit from discontinued operations	13	**2 181**	**1 922**	**-205**
Net profit for the year	5	**14 788**	**9 667**	**4 345**
Other comprehensive income/loss:				
Items that may be reclassified subsequently to profit or loss:				
Available-for-sale investments:				
Revaluation of available-for-sale financial assets	11	-17	21	-27
Total profit and other comprehensive income for the year		**14 771**	**9 688**	**4 318**
Total profit attributable to:				
Owners of the parent		13 706	9 203	4 237
Non-controlling interest		1 082	464	108
Total profit for the year	5	**14 788**	**9 667**	**4 345**
Total profit and other comprehensive income attributable to:				
Owners of the parent		13 689	9 224	4 210
Incl. continuing operations		*11 508*	*7 302*	*4 415*
Incl. discontinued operations		*2 181*	*1 922*	*-205*
Non-controlling interest		1 082	464	108
Total profit and other comprehensive income for the year		**14 771**	**9 688**	**4 318**
Basic earnings per share (in euros)	26	0,59	0,43	0,23
Diluted earnings per share (in euros)	26	0,57	0,42	0,22
Basic earnings per share (in euros) from continuing operations	26	0,49	0,34	0,24
Diluted earnings per share (in euros) from continuing operations	26	0,48	0,33	0,23

Notes on pages 26 to 89 are an integral part of the consolidated financial statements.

Consolidated statements of financial position

(in thousands of euros)	Note	31.12.2015	31.12.2014	31.12.2013
Assets				
Due from central bank	10	199 844	45 427	133 839
Due from credit institutions	10	14 735	24 218	17 004
Due from investment companies	10	15 922	14 484	1 466
Available-for-sale financial assets	11	3 508	4 273	11 903
Financial assets at fair value through profit or loss	12	106 608	145 252	36 702
Assets of discontinued operations, classified as held for sale	13	0	15 473	0
Loans and advances to customers	14	409 997	301 032	206 768
Receivables from customers	15	2 026	1 566	1 507
Other financial assets	16	940	783	650
Other assets	16	1 128	1 265	3 242
Tangible assets	17	685	308	491
Intangible assets	17	689	530	621
Investment in associates	6	0	36	131
Goodwill	6	1 044	1 044	1 044
Total assets	5	**757 126**	**555 691**	**415 368**
Liabilities				
Deposits from customers and loans received	18	632 760	475 013	356 381
Financial liabilities at fair value through profit or loss	12	89	302	433
Accounts payable and other liabilities	19	20 137	5 473	6 972
Liabilities of discontinued operations, classified as held for sale	13	0	220	0
Subordinated debt	21	30 900	16 650	19 635
Total liabilities	5	**683 886**	**497 658**	**383 421**
Equity				
Share capital	22	23 356	23 356	19 202
Share premium	22	33 992	33 992	21 871
Statutory reserve capital	22	895	435	223
Other reserves	11,22	551	132	-12
Retained earnings/accumulated deficit		11 205	-2 041	-11 032
Total equity attributable to owners of the parent		**69 999**	**55 874**	**30 252**
Non-controlling interest	6	3 241	2 159	1 695
Total equity		**73 240**	**58 033**	**31 947**
Total liabilities and equity		**757 126**	**555 691**	**415 368**

Notes on pages 26 to 89 are an integral part of the consolidated financial statements.

Consolidated statements of cash flows

(in thousands of euros)	Note	2015	2014	2013
Cash flows from operating activities				
Interest received		27 936	19 109	11 163
Interest paid		-4 075	-2 777	-3 619
Fees and commissions received		16 803	13 248	10 211
Fees and commissions paid		-2 138	-1 144	-865
Other income received		71	0	64
Staff costs paid		-10 880	-8 415	-6 026
Administrative and other operating expenses paid		-12 607	-10 746	-8 447
Cash flows from operating activities before change in operating assets and liabilities		**15 110**	**9 275**	**2 481**
Net increase/(decrease) in operating assets:				
Net acquisition/disposal of trading portfolio		-16	-6	-634
Loans and advances to customers		-96 787	-110 526	-80 517
Mandatory reserve at central bank		-1 640	-1 101	-846
Security deposits		-157	-133	64
Other assets		386	1 815	-942
Net increase/(decrease) in operating liabilities:				
Demand deposits of customers		160 153	111 970	85 911
Term deposits of customers		-999	-6 920	-12 128
Loans received		5 645	14 666	107
Repayments of loans received		-7 221	-1 110	-19 927
Financial liabilities held for trading at fair value through profit or loss		-213	-131	-223
Other liabilities		14 883	-1 376	1 862
Net cash from/(used in) operating activities from continuing operations		**89 144**	**16 423**	**-24 792**
Cash generated from/(used in) operating activities from discontinued operations		2 781	1 865	-1 504
Net cash from/(used in) operating activities		**91 925**	**18 288**	**-26 296**
Cash flows from investing activities				
Purchase of tangible and intangible assets	17	-1 327	-530	-486
Acquisition of subsidiaries, net of cash acquired	6	0	0	304
Acquisition of associates		0	0	-52
Disposal of associates		0	78	0
Acquisition of investment securities held to maturity		0	0	-2 790
Proceeds from disposal and redemption of investment securities available for sale	11	784	7 730	61 130
Net changes of investment securities at fair value through profit or loss	12	38 974	-108 107	13 076
Cash from investment activities of discontinued operations	13	61	0	0
Net cash from/(used in) investing activities		**38 492**	**-100 829**	**71 182**
Cash flows from financing activities				
Paid in share capital (incl. share premium)	22	0	13 825	564
Non-controlling interest contribution to subsidiary´s share capital	6	0	0	175
Disposal of treasury shares		0	0	1
Proceeds from subordinated debt	21	15 000	15 900	15 450
Repayment of subordinated debt	21	-750	-16 450	0
Net cash from financing activities		**14 250**	**13 275**	**16 190**
Effect of exchange rate changes on cash and cash equivalents		**65**	**-15**	**-23**
Net increase/(decrease) in cash and cash equivalents		**144 732**	**-69 281**	**61 053**
Cash and cash equivalents at the beginning of the year	10	79 631	148 912	87 859
Cash and cash equivalents at the end of the year	**10**	**224 363**	**79 631**	**148 912**

Notes on pages 26 to 89 are an integral part of the consolidated financial statements.

Consolidated statements of changes in equity

(in thousands of euros)	Share capital	Share premium	Statutory reserve capital	Other reserves	Accumulated deficit/ retained earnings	Treasury shares	Total	Non-controlling interest	Total equity
	Attributable to owners of LHV Group								
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 (Note 21, 22)	1 200	1 800	0	-210	0	0	2 790	0	**2 790**
Conversion of subordinated bonds issued in 2012 to share capital (Note 21, 22)	433	867	0	-7	0	0	1 293	0	**1 293**
Paid in share capital (Note 22)	187	377	0	0	0	0	564	0	**564**
Disposal of treasury shares	0	0	0	0	0	1	1	0	**1**
Non-controlling interest contribution to subsidiary´s share capital (Note 6)	0	0	0	0	0	0	0	175	**175**
Non-controlling interest arising on business combination (Note 6)	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 loss	*0*	*0*	*0*	*-27*	*0*	*0*	*-27*	*0*	*-27*
Total profit and other 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 (Note 21, 22)	654	1 796	0	-15	0	0	2 435	0	**2 435**
Paid in share capital (Note 22)	3 500	10 325	0	0	0	0	13 825	0	**13 825**
Share options (Note 22)	0	0	0	138	0	0	138	0	**138**
Transfer to statutory reserve capital (Note 22)	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 profit and other 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**
Balance as at 01.01.2015	**23 356**	**33 992**	**435**	**132**	**-2 041**	**0**	**55 874**	**2 159**	**58 033**
Transfer to statutory reserve capital (Note 22)	0	0	460	0	-460	0	0	0	**0**
Share options (Note 22)	0	0	0	436	0	0	436	0	**436**
Profit for the year	*0*	*0*	*0*	*0*	*13 706*	*0*	*13 706*	*1 082*	***14 788***
Other comprehensive loss	*0*	*0*	*0*	*-17*	*0*	*0*	*-17*	*0*	***-17***
Total profit and other comprehensive income for 2015	0	0	0	-17	13 706	0	13 689	1 082	**14 771**
Balance as at 31.12.2015	**23 356**	**33 992**	**895**	**551**	**11 205**	**0**	**69 999**	**3 241**	**73 240**

Notes on pages 26 to 89 are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

NOTE 1 General information

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by European Union for the years ended 31 December 2015, 31 December 2014 and 31 December 2013, for AS LHV Group and its subsidiaries AS LHV Pank, AS LHV Finance (subsidiary of AS LHV Pank), AS LHV Varahaldus, OÜ Cuber Technology and UAB Mokilizingas (hereinafter referred together as “the Group”). AS LHV Group holds 50% + 1 share interest in UAB Mokilizingas and 65% interest in LHV Finance through AS LHV Pank. AS LHV Finance was incorporated 23 January 2013. These consolidated financial statements of AS LHV Group will be included in prospectus of AS LHV Group in connection with the planned Initial Public Offering of shares on the NASDAQ Tallinn Stock Exchange.

AS LHV Group is a limited liability company incorporated in and domiciled in Estonia. The address of its registered office is Tartu mnt 2, Tallinn. AS LHV Group is a holding company whose subsidiary AS LHV Pank (hereinafter: the Bank) provides banking, financial advisory and securities brokerage services to customers in Estonia, Latvia, Lithuania and until 9th of January 2015 in Finland (discontinued operation). There are offices for client servicing in Tallinn, Tartu, Riga (till the end of March 2016) and Vilnius. The business activity of the AS LHV Pank branch office in Helsinki was sold in January 2015. AS LHV Finance (the subsidiary of AS LHV Pank) offers hire-purchase services to merchants and consumer finance. AS LHV Varahaldus offers fund management services for pension funds and other funds to clients in Estonia. UAB Mokilizingas offers consumer finance, hire-purchase and finance lease services in Lithuania. As at 31.12.2015 the Group employed 318 full-time employees, incl 20 non-active (31.12.2014: 281, incl 17 non-active; 31.12.2013: 252 employees, incl 19 non-active).

The consolidated annual report (incl. financial statements) was approved by the management board on 7th of March 2016. Rain Lõhmus, who owns 28,0% of the voting rights and Andres Viisemann, who owns 10,6% of the voting rights (see also Note 22), have significant influence over AS LHV Group.

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

NOTE 2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

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

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

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

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

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

Annual improvements to IFRSs 2013 (effective in the EU for annual periods beginning on or after 1 January 2015). The improvements consist of changes to the following standards:

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (incl contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. The application of the amendments do not have significant impact on the Group`s financial statements.

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

(b) **New accounting pronouncements**

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

IFRS 9, Financial instruments (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). Key features of the new standard are as follows:

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

assets to be measured subsequently at amortised cost

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

Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

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

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging. The Group is currently assessing the impact of the new standard on its financial statements.

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

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

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The application of the amendments do not have significant impact to the Group`s financial statements.

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

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

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

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

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

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

2.2 Consolidation

The 2015 consolidated financial statements include the financial statements of AS LHV Group (parent company) and its subsidiaries AS LHV Pank, AS LHV Finance (subsidiary of AS LHV Pank), AS LHV Varahaldus, UAB Mokilizingas and OÜ Cuber Technology. AS LHV Group holds 50% + 1 share interest in UAB Mokilizingas and 65% interest in LHV Finance through AS LHV Pank.

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

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

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

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

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

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

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

2.3 Associates

An associate is an entity over which the Group has significant influence but which it does not control. Generally, significant influence is assumed to exist when the Group holds between 20% and 50% of the voting rights. The Group has one associate Svipe OÜ, in which the Group holds 33% of voting rights.

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

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

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

At each balance sheet date, it is assessed whether there is any indication that the recoverable amount of the investment has fallen below its carrying amount. If any such indications exist, an impairment test is performed. To determine the recoverable amount of the investment, the principles described in section 2.10 are used.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Foreign currency transactions and balances

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

2.5 Cash and cash equivalents

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

2.6 Financial assets

The Group classifies its financial assets into the following categories:

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

The classification depends on the purpose for which the financial assets were acquired. Management of the Group determines the classification of its financial assets at initial recognition. Refer to Note 4 for information about reclassification of held-to-maturity financial investments to available-for-sale financial assets. Since March 2013 the Group has no held-to-maturity financial investments, refer to Note 11.

	IAS 39 category	Class (applied by the Group)		31.12.2015	31.12.2014	31.12.2013
Financial assets	Loans and receivables	Loans and advances to banks and investment companies		230 501	84 129	152 309
		Loans and advances to customers	Loans to legal entities	320 890	241 336	150 753
			Loans to individuals	89 107	59 696	56 015
		Other receivables		2 026	1 566	1 507
		Other financial assets		940	783	650
	Financial assets at fair value through profit or loss	Securities held for trading	Equity securities	352	519	460
			Listed debt securities	99 907	139 145	32 026
			Derivatives	0	0	0
		Designated as at fair value through profit or loss upon initial recognition	Equity securities	6 349	5 588	4 216
	Available-for-sale financial assets	Investment securities	Listed debt securities	3 508	4 273	11 903
	Held-to-maturity financial investments	Investment securities	Listed debt securities	0	0	0

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

Financial assets at fair value through profit or loss include

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

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

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

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

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

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

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

Refer to Note 3.6 for fair value of financial assets.

(b) Held-to-maturity financial investments

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

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

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

(c) Available-for-sale financial assets

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

(d) Loans and receivables

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

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

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

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

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

2.7 Impairment of financial assets carried at amortised cost

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

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

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

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

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

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

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

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

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

2.8 Discontinued operations

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

2.9 Tangible fixed assets

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

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

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

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

2.10 Intangible assets

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

2.11 Financial guarantees and performance guarantees

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

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

2.12 Financial liabilities

The Group classifies financial liabilities to 2 categories:

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

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

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

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

2.13 Payables to employees

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

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

2.14 Share-based payments

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

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

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

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

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

2.15 Provisions and contingent liabilities

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

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

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

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

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

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

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

2.17 Revenues and expenses

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

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

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

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

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

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

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

2.18 Asset management services

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

2.19 Leases - Group as the lessee

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

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

2.20 Taxation and deferred income tax

Corporate income tax in Estonia

According to the Income Tax Act, the annual profit earned by entities is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying amounts of assets and liabilities and no deferred tax assets or liabilities arise. Instead of the income tax payable on profits, the Estonian entities pay corporate income tax on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. The tax rate from 01.01.2015 is 20/80 (21/79 until 31.12.2014) on net dividends paid. The corporate income tax arising from the payment of dividends is recognised as a liability and an income tax expense in the period in which dividends are declared, regardless of the period for which the dividends are paid or the actual payment date. An income tax liability is due on the 10th day of the month following the payment of dividends.

Corporate income tax in other countries

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

Corporate income tax rates	2015	2014	2013
Latvia	15%	15%	15%
Lithuania	15%	15%	15%
Finland	20%	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 statement of financial position. The main temporary differences arise from depreciation and tax loss carry-forwards. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry-forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry-forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

2.21 Offsetting

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

2.22 Statutory reserve capital

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

NOTE 3 Risk management

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

3.1 Capital management

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

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

The amount of capital that the Group managed as of 31.12.2015 was EUR 100 533 thousand (31.12.2014: EUR 72 545 thousand; 31.12.2013: EUR 44 926 thousand). The goals of the Group's capital management are set based on both the regulative requirements and additional internal buffer.

The Group follows the general principles in its capital management:

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

Own funds

(in thousands of euros)	**31.12.2015**	**31.12.2014**	**31.12.2013**
Paid-in share capital	23 356	23 356	19 202
Share premium	33 992	33 992	21 871
Statutory reserves transferred from net profit	895	435	223
Other reserves	-23	0	0
Accumulated deficit	-2 503	-11 244	-15 581
Intangible assets (subtracted)	-1 734	-1 574	-1 665
Net profit for accounting period	13 705	9 203	4 206
Non-controlling interests	1 945	1 727	1 695
Total Tier 1 own funds	**69 633**	**55 895**	**29 951**
Subordinated debt	30 900	16 650	19 635
Total Tier 2 own funds	**30 900**	**16 650**	**19 635**
Exceeding limitations of subordinated debt and preference shares	0	0	-4 660
Total net own funds	**100 533**	**72 545**	**44 926**

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

The regulation, which is directly applicable in the member states, obligates all credit institutions operating in the European Union (including their consolidating holding companies) and investment firms to maintain 4,5% of common equity Tier 1 (CET 1) and 6,0% of Tier 1 Capital against risk assets. The overall capital adequacy requirement (CAD), including both Tier 1 and Tier 2 capital, remains at the existing 8,0% level.

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

In Estonia, in addition to the baseline capital requirements, credit institutions have been subjected to capital maintenance and systemic risk buffers, which are 2,5% (imposed by the Financial Supervisory Authority) and 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 (EUR 3 million). 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 years.

3.2 Credit risk

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

3.2.1 Distribution of credit risks

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

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

Maximum exposure to credit risk

(in thousands of euros)	31.12.2015	31.12.2014	31.12.2013
Loans and advances to banks and investment companies (Note 10)	230 501	84 129	152 309
Available for sale financial assets (Note 11)	3 508	4 273	11 903
Financial assets at fair value (debt securities) (Note 12)	99 907	139 145	32 026
Loans and advances to customers (Note 14)	409 997	301 032	206 768
Receivables from customers (Note 15)	2 026	1 566	1 507
Other financial assets (Note 16)	940	783	650
Total assets	**746 879**	**530 928**	**405 163**
Loans and advances of discontinued operations, classified as held for sale (Note 13)	0	14 813	0
Exposures related to off-balance sheet items (Note 24), excluding performance guarantees	124 065	76 985	46 238
Total maximum exposure to credit risk	**870 944**	**622 726**	**451 401**

a) Debt securities

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

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

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

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

Ratings distribution 31.12.2014	**FVTPL**			**AFS**	**Total**
	Investment portfolio	**Liquidity portfolio**	**Trading portfolio**		
AAA	18 414	92 231	0	3 261	113 906
AA- to AA+	1 001	12 152	514	0	13 667
A- to A+	3 551	0	2 543	609	6 703
BBB- to BBB+	4 823	0	3 916	403	9 142
B- to BB+	0	0	0	0	0
Total (Note 11,12)	**27 789**	**104 383**	**6 973**	**4 273**	**143 418**

Ratings distribution 31.12.2013	FVTPL			AFS	Total
	Investment portfolio	Liquidity portfolio	Trading portfolio		
AAA	9 442	6 020	0	9 198	24 660
AA- to AA+	0	1 555	1 287	189	3 031
A- to A+	0	0	6 602	599	7 201
BBB- to BBB+	0	0	6 807	1917	8 724
B- to BB+	0	0	313	0	313
Total (Note 11,12)	**9 442**	**7 575**	**15 009**	**11 903**	**43 929**

b) Loans and advances to banks and investment companies

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

Rating *(in thousands of euros)*	**Credit institu-tions**	**Investment companies**	**Total 31.12.2015**	**Credit institu-tions**	**Investment companies**	**Total 31.12.2014**	**Credit institu-tions**	**Investment companies**	**Total 31.12.2013**
Central bank (The Bank of Estonia)	199 844	0	**199 844**	45 427	0	**45 427**	133 839	0	**133 839**
AA- to AA+	0	0	**0**	1 899	0	**1 899**	1 140	0	**1 140**
A- to A+	7 678	15 785	**23 463**	19 881	14 268	**34 149**	13 480	1 359	**14 839**
BBB to BBB+	233	0	**233**	164	0	**164**	569	0	**569**
Non-rated	6 824	137	**6 961**	2 274	216	**2 490**	1 815	107	**1 922**
Total (Note 10)	**214 579**	**15 922**	**230 501**	**69 645**	**14 484**	**84 129**	**150 843**	**1 466**	**152 309**

c) Leveraged loans

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

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

The Bank had no impaired leveraged loans as at 31.12.2015 (31.12.2014: EUR 18 thousand; 31.12.2013: EUR 18 thousand).

d) Corporate loans and overdraft

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

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

After issuing the loan, follow-up monitoring of each customer's financial position is performed at least once a quarter. All client ratings are reviewed at least once a year. See Note 3.2.2. for more detailed information on the credit quality of loans. As at 31.12.2015, the group-based impairment reserve makes up 0,6% of corporate loans and overdraft and the related interest receivables (31.12.2014: 0,7%; 31.12.2013: 0,7%).

e) Consumer loans without collateral

As consumer loans are homogeneous loans, provisions for potential credit loss level is calculated based on historical performance of these homogeneous loans and applied to current portfolio at the balance sheet date. For the purpose of recognition of group-based impairment losses, the receivables are grouped into subclasses on the basis of homogeneous credit risk features, considering customers' payment practice, past due time and the time passed from initiation of proceedings by the bailiff. In Estonia, the Group has entered into agreements where overdue consumer loans are sold – usually when loans reaching overdue of 70 days. Similar contract is under preparation in Lithuania. For the receivables that have been grouped, the amount of the impairment loss is the multiple of the carrying amount of the receivables in the group and the group's percentage rate of impairment loss. The framework is based on the method of calculating the probability of default (PD), loss given default (LGD) and exposure at default (EAD). EAD consists of two components: the amount of the existing receivable and the amount of use of an estimated additional limit. For calculating the latter, the model includes the credit conversion factor (CCF).

Consumer loans are classified as performing (less than 90 days overdue and are not terminated), non-performing (more than 90 days overdue and/or terminated) and doubtful (original loan schedule has expired and there has been no cash flows received for continuous period of 6 months, fraud case, etc.). Loss rates are calculated from the past historical data for defaults and full history of recoveries. Due to default rate volatility and small amount of defaults in Lithuania a conservative buffer of 20% shall be imposed for PD and LGD multiplier. PD and LGD values are updated at least once a year with new historical data in order to maintain adequate provision levels on portfolio. If necessary, additional impairments will be made in the statement of financial position. If non-performing or doubtful loan recovery is neither economical nor practical to continue, the loan is written off as irrecoverable.

As at 31.12.2015, the group-based impairment reserve makes up 6,3% of consumer loans and the related interest receivables (31.12.2014: 11,2%; 31.12.2013: 9,4%).

f) Credit cards

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

Provisions for potential credit losses are made based on the same framework as the consumer loans. The framework is based on PD, LGD and EAD indicators. EAD consists of two components: the amount of the existing receivable and the amount of use of an estimated additional limit. For calculating the latter, the model includes the credit conversion factor (CCF). As of 31 December 2015, the group-based impairment reserve amounted to 3,1% of credit card loans and related receivables (31.12.2014: 3,1%; 31.12.2013: 3,6%).

g) Leasing

In autumn 2012, the Bank started to offer leasing products for individuals and legal entities. The creditworthiness of customers is assessed by using scoring models, which mainly consists of characteristics described for consumer loans. Similarly to other homogenous portfolios provisions are made based on the same framework as consumer loans. As of 31 December 2015, the group-based impairment reserve amounted to 0,9% of leasing portfolio (31.12.2014: 0,9%; 31.12.2013: 1,0%).

Also in Lithuania leasing products are offered to individuals as well as legal entities. The creditworthiness of customers is assessed by using scoring models, which mainly consists of characteristics described for consumer loans.

Provision for finance lease is calculated using following methodology: net book value of portfolio minus net present value of portfolio. Net present value is calculated from future cash flows discounted by effective interest rate and adjusted for coefficient of possible losses. In addition to homogenous impairment, some problematic loans are assessed individually based on the market/distressed sale value of the underlying assets.

As of 31 December 2015, the group-based impairment reserve amounted to 3,0% of leasing portfolio (31.12.2014: 4,1%; 31.12.2013: 7,0%).

h) Hire-purchase

Group offers hire-purchase service for merchants through its subsidiary LHV Finance in Estonia. The creditworthiness of customers is assessed by using scoring models, which mainly consist of characteristics described for consumer loans. Similarly to other homogenous portfolios provisions are made based on the same framework as consumer loans. As of 31 December 2015, the group-based impairment reserve amounted to 1,4% of hire-purchase portfolio (31.12.2014: 1,6%; 31.12.2013: 1,4%).

The Group offers hire-purchase to private individuals in Lithuania. The creditworthiness of customers is assessed and provisions are made based on the same framework as for Lithuanian consumer loans. As of 31 December 2015, the group-based impairment reserve amounted to 5,3% of hire-purchase portfolio (31.12.2014: 4,1%; 31.12.2013: 7,4%).

i) Mortgage loans

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

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

As of 31 December 2015, the group-based impairment reserve amounted to 0,5% of mortgage portfolio (31.12.2014: 0,0%; 31.12.2013: 0,0%

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

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

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	Individual impairment	Net
Loans to legal entities							
Corporate loans	201 921	2 475	3 110	**207 506**	-1 185	-329	**205 992**
Overdraft	6 871	0	0	**6 871**	-27	0	**6 844**
Hire-purchase	64	0	0	**64**	-1	0	**63**
Leveraged loans	4 164	0	0	**4 164**	0	0	**4 164**
Leasing	22 986	1 221	54	**24 261**	-28	-19	**24 214**
Credit card loans	61	0	0	**61**	-2	0	**59**
Loans to individuals							
Consumer loans	6 666	0	2 804	**9 470**	-623	-433	**8 414**
Hire-purchase	29 407	3 258	1 023	**33 688**	-387	-282	**33 019**
Leveraged 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	0	145	**2 898**	-65	-24	**2 809**
Overdraft	92	0	0	**92**	0	0	**92**
Other loans	0	13	0	**13**	0	0	**13**
Total loans and advances to customers (Note 14)	**290 234**	**7 105**	**7 154**	**304 493**	**-2 355**	**-1 106**	**301 032**
Consumer loans (discontinued operations) (Note 13)	7 866	0	8 450	**16 316**	-569	-934	**14 813**
Total	**298 100**	**7 105**	**15 604**	**320 809**	**-2 924**	**-2 040**	**315 845**

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	Individual impairment	Net
Loans to legal entities							
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**
Leveraged loans	4 218	0	0	**4 218**	0	0	**4 218**
Leasing	12 394	2 265	32	**14 691**	-102	-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	0	10 419	**23 645**	-1 582	-1 048	**21 015**
Hire-purchase	18 091	3 254	509	**21 854**	-45	-123	**21 686**
Leveraged loans	5 721	0	18	**5 739**	0	-18	**5 721**
Leasing	3 083	196	157	**3 436**	-3	-2	**3 431**
Mortgage loans	1 948	0	0	**1 948**	0	0	**1 948**
Credit card loans	2 083	0	168	**2 251**	-54	-27	**2 170**
Overdraft	29	0	0	**29**	0	0	**29**
Other loans	0	15	0	**15**	0	0	**15**
Total (Note 14)	**189 868**	**7 138**	**13 647**	**210 653**	**-2 427**	**-1 458**	**206 768**

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

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

Impact to impairment as at 31.12.2015 (in case PD and LGD levels will increase by 10%)	**Balance as at 31.12.2015**	**Impairment with increased PDs and LGDs**	**Impact to impairment booked**
Loans to legal entities			
Corporate loans (incl. overdraft)	286 688	-1 936	-379
Leasing	31 124	-356	-59
Loans to individuals			
Consumer loans	17 991	-1 308	-215
Hire-purchase	46 580	-1 534	-175
Mortgage loan	15 395	-93	-16
Leasing	5 544	-64	-11
Credit card loans	3 503	-128	-23
Total	**406 825**	**-5 419**	**-878**

Impact to impairment as at 31.12.2014 (in case PD and LGD levels will increase by 10%)	**Balance as at 31.12.2014**	**Impairment with increased PDs and LGDs**	**Impact to impairment booked**
Loans to legal entities			
Corporate loans (incl. overdraft)	214 377	-1 865	-351
Leasing	24 261	-57	-10
Loans to individuals			
Consumer loans	9 470	-1 278	-222
Hire-purchase	33 688	-809	-140
Leasing	4 393	-46	-8
Credit card loans	2 898	-108	-19
Total	**289 087**	**-4 163**	**-750**

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 entities			
Corporate loans	128 819	-993	-123
Leasing	14 691	-326	-215
Loans to individuals			
Consumer loans	23 645	-2 996	-366
Hire-purchase	21 854	-1 347	-1 179
Leasing	3 436	-41	-36
Credit card loans	2 251	-97	-16
Total	**194 696**	**-5 800**	**-1 935**

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

Distribution of internal ratings of corporate loans:

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

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

Distribution of corporate loans and overdraft by internal ratings 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 and overdraft by internal ratings 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	8 679	0	0	8 679
7 medium credit risk	35 910	215	0	36 125
8 medium credit risk	41 953	0	0	41 953
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	**128 985**	**1 408**	**2 344**	**132 737**

The Group considers the loan as non-performing and assesses impairment when the loan payments have not been collected by the due date and/or the expected cash flows from the realization of collateral are not sufficient for covering the carrying amount of the loan principal and interest payments. The Group evaluates these loans individually. In case of individual evaluation, the amount of the impairment loss is the difference between the carrying value of the receivable and expected cash flows discounted at the effective interest rate. In 2015, the Group provisioned corporate loans in the total amount of EUR 424 thousand (2014: EUR 671 thousand; 2013: EUR 858 thousand).

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

In addition to loans issued, loan agreements have been concluded and signed for the unused loan commitment amount of 118 696 thousand euros at 31.12.2015 (31.12.2014: 74 086 thousand euros; 31.12.2013: 44 707 thousand euros), see Note 24.

In the following table there are presented unused portions of corporate loans and financial guarantee limits. No provisions have been made for off-balance sheet liabilities because the value of collateral exceeds the value of potential liabilities. In addition to that as at 31.12.2015 the Group has also committed to grant mortgage loans, hire-purchase loans, consumer loans, overdraft loans and credit card loans to individuals in total amount of EUR 27 564 thousand (31.12.2014: EUR 12 994 thousand; 31.12.2013: EUR 12 078 thousand). All uncommissioned loans available to individuals have at least “Good” internal rating as at the end of each reporting period.

Credit quality of off-balance sheet liabilities (unused loan commitments for corporate loans and financial guarantees)	31.12.2015	31.12.2014	31.12.2013
4 low credit risk	0	0	2 129
5 low credit risk	722	5 055	2 950
6 low credit risk	10 896	5 344	9 581
7 medium credit risk	31 133	18 384	9 537
8 medium credit risk	47 669	27 763	5 486
9 heightened credit risk	5 959	6 366	3 887
10 high credit risk	122	1 003	10
12 non-satisfactory rating	0	76	580
Total	**96 501**	**63 991**	**34 160**

Distribution of internal ratings for other loan products:

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

The following table does not include other loans to individuals in amount of EUR 13 thousand euros that were past due but not impaired as of 31.12.2014 (31.12.2013: EUR 15 thousand).

As of 31.12.2015	Leveraged loans	Credit cards	Leasing	Consumer loans	Hire-purchase	Over-draft	Mortgage loans	Total
Neither past due nor impaired								
Excellent	7 445	0	0	0	0	0	0	**7 445**
Good and very good	0	3 569	34 631	14 440	40 234	69	15 395	**108 338**
Past due but not impaired								
Good	0	0	1 798	0	4 181	0	0	**5 979**
Satisfactory	0	0	188	0	1 018	0	0	**1 206**
Weak or doubtful	0	0	29	0	169	0	0	**198**
Individually impaired								
Weak or doubtful	0	52	22	3 551	1 198	0	0	**4 823**
Total	**7 445**	**3 621**	**36 668**	**17 991**	**46 800**	**69**	**15 395**	**127 989**

As of 31.12.2014	Leveraged loans	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**	7 866
Past due but not impaired									
Good	0	0	978	0	2 277	0	0	**3 255**	0
Satisfactory	0	0	218	0	657	0	0	**875**	0
Weak or doubtful	0	0	163	0	324	0	0	**487**	0
Individually impaired									
Weak or doubtful	18	145	54	2 804	1 023	0	0	**4 044**	8 450
Total	**9 196**	**2 959**	**28 654**	**9 470**	**33 752**	**92**	**5 980**	**90 103**	**16 316**

As of 31.12.2013	Leveraged loans	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	15 477	18 091	29	1 991	13 226	**50 944**
Past due but not impaired								
Good	0	0	2 184	2 521	0	0	0	**4 705**
Satisfactory	0	0	236	593	0	0	0	**829**
Weak or doubtful	0	0	41	140	0	0	0	**181**
Individually impaired								
Weak or doubtful	18	168	189	509	0	0	10 419	**11 303**
Total	**9 957**	**2 298**	**18 127**	**21 854**	**29**	**1 991**	**23 645**	**77 901**

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

Loans against collateral as at 31.12.2015	Corporate loans (including overdraft)	Leveraged loans	Credit cards, consumer loans	Leasing	Hire-purchase	Mortgage loans and overdraft to private individuals	Total
Listed securities	0	7 445	0	0	0	0	7 445
Unlisted equity securities	55 984	0	0	0	0	0	55 984
Mortgages, real estate	165 548	0	0	0	0	15 464	181 012
Guarantee of KredEx and Rural Development Foundation	12 271	0	0	0	0	0	12 271
Pledges of rights of claim	5 746	0	0	0	0	0	5 746
Deposits	4 534	0	0	0	0	0	4 534
Leased assets	0	0	0	36 668	46 800	0	83 468
Others	8 362	0	0	0	0	0	8 362
Unsecured loans	34 243	0	21 612	0	0	0	55 855
Total	**286 688**	**7 445**	**21 612**	**36 668**	**46 800**	**15 464**	**414 677**

Loans against collateral as at 31.12.2014	Corporate loans (including overdraft)	Leveraged 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	115 412	0	0	0	0	6 085	121 497
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	28 654	33 752	0	62 406
Others	8 825	0	0	0	0	0	8 825
Unsecured loans	17 072	0	12 429	0	0	0	29 501
Total	**214 377**	**9 196**	**12 429**	**28 654**	**33 752**	**6 085**	**304 493**

Loans against collateral as at 31.12.2013	Corporate loans (including overdraft)	Leveraged 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	8 997	0	0	0	0	0	8 997
Mortgages, real estate	79 533	0	0	0	0	2 035	81 568
Guarantee of KredEx and Rural Development Foundation	8 882	0	0	0	0	0	8 882
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	18 127	21 854	0	39 981
Others	6 406	0	0	0	0	0	6 406
Unsecured loans	17 532	18	25 943	0	0	0	43 493
Total	**132 737**	**9 957**	**25 943**	**18 127**	**21 854**	**2 035**	**210 653**

Unsecured loans in the years of 2015 and 2014 include credit card loans and Lithuanian consumer loans and in 2013 also 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 leveraged loans are monitored on daily basis and, if collateral value is falling, immediate measures are taken to avoid credit losses. As of 31 December 2015, all leveraged loans and repurchase loans are over-collateralized (2014: under-collateralized leveraged loan EUR 18 thousand; 2013: under-collateralized leveraged loan EUR 18 thousand). Consumer loans and credit card loans are issued without collateral and risk mitigation is done by regular monitoring of clients payment behaviour. Leasing, hire-purchase, mortgage loans and overdraft to private individuals are all over-collateralized. The Group monitors customers in arrears of leasing, hire-purchase, mortgage loans and overdraft to private individuals on regular basis.

In relation to under-collateralized corporate loans, it should be taken into consideration, that the Group has assessed the market value of certain collaterals conservatively (personal sureties, commercial pledges). Under-collateralized loans are mainly considered to bear higher risk, for which the Group carries out monthly monitoring in credit committee, in order to mitigate potential credit losses. Under-collateralized loans include contracts more than 90 days overdue totalling EUR 2 211 thousand (2014: EUR 602 thousand) euros with a collateral value of 1 926 thousand (2014: EUR 543 thousand) euros.

	Over-collateralized loans		Under-collateralized loans	
Corporate loans and corporate credit lines	**Carrying value**	**Fair value of collateral**	**Carrying value**	**Fair value of collateral**
As at 31.12.2015	223 903	766 558	62 785	28 542
As at 31.12.2014	164 587	311 982	49 790	31 543
As at 31.12.2013	99 887	212 692	34 169	16 636

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

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

As at 31.12.2014	Corporate loans (incl. overdraft)	Leveraged loans	Credit cards	Leasing	Hire-purchase	Consumer loans	Total
Past due receivables							
1-30 days	412	0	0	978	2 277	0	**3 667**
31-60 days	55	0	0	218	657	0	**930**
61-90 days	2 008	0	0	163	324	0	**2 495**
91-180 days	0	0	0	0	0	0	**0**
181-360 days	0	0	0	0	0	0	**0**
more than 360 days	0	0	0	0	0	0	**0**
Total	**2 475**	**0**	**0**	**1 359**	**3 258**	**0**	**7 092**

As at 31.12.2013	Corporate loans (incl. overdraft)	Leveraged loans	Credit cards	Leasing	Hire-purchase	Consumer loans	Total
Past due receivables							
1-30 days	639	0	0	2 184	2 520	0	**5 343**
31-60 days	0	0	0	236	593	0	**829**
61-90 days	769	0	0	41	141	0	**951**
91-180 days	0	0	0	0	0	0	**0**
181-360 days	0	0	0	0	0	0	**0**
more than 360 days	0	0	0	0	0	0	**0**
Total	**1 408**	**0**	**0**	**2 461**	**3 254**	**0**	**7 123**

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

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

As at 31.12.2014	Corporate loans (incl. overdraft)	Leveraged 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	0	0	75	0	0	1 021	**1 096**	3 810
31-60 days	0	0	15	0	0	322	**337**	1 518
61-90 days	0	0	6	0	41	213	**260**	594
91-180 days	570	0	13	19	175	362	**1 139**	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	**3 110**	**18**	**145**	**54**	**1 023**	**2 804**	**7 154**	**8 450**

As at 31.12.2013	Corporate loans	Leveraged 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	0	0	81	0	0	4 683	**4 764**
31-60 days	0	0	18	0	0	1 941	**1 959**
61-90 days	0	0	8	0	0	646	**654**
91-180 days	0	0	61	44	162	1 381	**1 648**
181-360 days	0	0	0	96	184	1 396	**1 676**
more than 360 days	0	18	0	49	163	372	**602**
Total	**2 344**	**18**	**168**	**189**	**509**	**10 419**	**13 647**

Credit quality of other receivables	31.12.2015	31.12.2014	31.12.2013
Receivables neither past due nor impaired	1 735	1 365	1 405
Receivables past due but not impaired	291	201	102
incl. receivables from individuals	252	*34*	*17*
incl. receivables from legal entities	39	*167*	*85*
Total (Note 15)	**2 026**	**1 566**	**1 507**

As of 29 February 2016, other receivables of EUR 15 thousand euros are uncollected and in previous years, the Group has not written off any receivables. Other financial assets (see Note 16) in amount EUR 940 thousand (31.12.2014: EUR 783 and 31.12.2013: EUR 650 thousand) are guarantee deposits on the Baltic stock exchanges held to guarantee securities trading activity on the stock exchanges of Tallinn, Riga and Vilnius and the deposits of VISA and MasterCard to guarantee credit card transactions. The Group considers the counterparties credit risk as very low.

3.3 Market risk

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

LHV Varahaldus invests most of its available resources into his own managed pension funds. The management of LHV Varahaldus is responsible for monitoring of the market risk.

3.3.1 Foreign currency risk

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

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

Impact on statement of profit or loss *(in thousands of euros)*	2015	2014	2013
USD exchange rate +/- 10%	+/-4	+/-0	+/-4
SEK exchange rate +/- 10%	+/-1	+/-0	+/-1
GBP exchange rate +/- 10%	+/-1	+/-0	+/-0
CHF exchange rate +/- 10%	+/-1	+/-0	+/-0

Open currency exposures

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

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

31.12.2014	EUR	LTL	GBP	SEK	USD	Other	Total
Assets bearing currency risk							
Due from banks and investment companies (Note 10)	79 917	826	576	538	1 507	765	**84 129**
Financial assets at fair value (Note 11, 12)	102 888	2 970	0	2	43 664	1	**149 525**
Loans and advances to customers (Note 14)	271 057	29 019	6	19	915	16	**301 032**
Receivables from customers (Note 15)	1 390	174	0	0	2	0	**1 566**
Other financial assets (Note 16)	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 (Note 18)	416 865	808	275	521	55 866	678	**475 013**
Financial liabilities at fair value (Note 12)	302	0	0	0	0	0	**302**
Accounts payable and other financial liabilities (Note 19)	785	2 025	305	35	133	314	**3 597**
Subordinated debt (Note 21)	16 650	0	0	0	0	0	**16 650**
Total liabilities bearing currency risk	**434 602**	**2 833**	**580**	**556**	**55 999**	**992**	**495 562**
Open gross position derivative assets at contractual value	33 608	0	0	0	9 275	0	**42 883**
Open gross position derivative liabilities at contractual value	9 275	33 608	0	0	0	0	**42 883**
Open foreign currency position	**45 132**	**-3 452**	**2**	**3**	**-2**	**-210**	**41 473**

31.12.2013	EUR	LTL	LVL	SEK	USD	Other	Total
Assets bearing currency risk							
Due from banks and investment companies (Note 10)	140 416	1 703	410	313	7 784	1 683	**152 309**
Financial assets at fair value (Note 11, 12)	48 280	4	0	1	319	1	**48 605**
Loans and advances to customers (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 financial assets (Note 16)	92	0	0	0	558	0	**650**
Total assets bearing currency risk	**369 574**	**28 144**	**705**	**329**	**9 370**	**1 717**	**409 839**
Liabilities bearing currency risk							
Deposits from customers and loans received (Note 18)	343 573	685	841	332	9 333	1 617	**356 381**
Financial liabilities at fair value (Note 12)	433	0	0	0	0	0	**433**
Accounts payable and other financial liabilities (Note 19)	1 934	3 302	9	10	73	34	**5 362**
Subordinated debt (Note 21)	19 635	0	0	0	0	0	**19 635**
Total liabilities bearing currency risk	**365 575**	**3 987**	**850**	**342**	**9 406**	**1 651**	**381 811**
Open gross position derivative assets at contractual value	25 003	0	0	0	0	0	**25 003**
Open gross position derivative liabilities at contractual value	0	25 003	0	0	0	0	**25 003**
Open foreign currency position	**29 002**	**-846**	**-145**	**-13**	**-36**	**66**	**28 028**

3.3.2 Price risk

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

Pursuant to the Investment Funds Act, the mandatory shares of Varahaldus as the management company is 1% of the number of units in each of the mandatory pension fund managed by it. Based on historical performance and volatility of the pension fund unit NAV changes, the price changes should remain +/- 10% in the next 12 month period with the most likely change +/-5% and the impact to statement of profit or loss is presented in the next table.

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

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

Bank's debt securities portfolio recognised at the market price is short-term and of high quality, therefore, the effect of the changes in market risk premiums on the market value of the debt security portfolio should remain at around 1,0% (2014: 0,9%; 2013: 0,7%).

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

Impact on statement of profit or loss	**2015**	**2014**	**2013**
Equity securities +/-10%	+/-2	+/-2	+/-2
Mandatory pension fund units +/-5%	+/-317	+/-279	+/-211
Debt securities (FVTPL) +/-1,0% (+/-0,9%; +/-0,7%)	+/-995	+/-1 235	+/-204
Impact on other comprehensive income	**2015**	**2014**	**2013**
Debt securities (AFS) +/-1,0% (+/-0,9%; +/-0,7%)	+/-35	+/-38	+/-83

3.3.3 Interest rate risk

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

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

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

The balance sheet and margins on assets and deposits are assumed to be constant over time. The deposits interest rates did not change in 2015 remaining at the level of up to 1,0% (up to 1,0% in 2014 and in 2013).

The interest rates for leveraged loans granted are changed at most once a month according to fluctuations in market interest rates. In 2015, the interest rate on loans received for specific purposes was 1,4% (2014: 1,4% 2013: 1,5%). The effective interest rate of subordinated debts entered into in 2012 was 7,25% in 2014 (2013: 7,27%) and the effective interest rate of subordinated debts entered into in 2014 was 7,44% and the effective interest rate of subordinated debts entered into in 2015 was 6,5%, The information about subordinated debt contractual interest rates is provided in Note 21.

As at 31.12.2015, 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 +4 003 thousand (2014: 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 -2 361 thousand (2014: EUR -1 766 thousand; 2013: EUR -860 thousand). A 1 percentage point increase in market interest rates would raise the Bank's economic value, i.e. equity, by EUR +463 thousand (2014: 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 -655 thousand (2014: 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 majorly invested in current assets and because of the prolonged nature of demand deposits, hence the average duration of interest-earning assets is shorter than the average duration of interest-bearing liabilities.

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

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

31.12.2015	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Subtotal**	**Accrued interest**	**Impair-ments**	**Total**
Interest-earning assets								
Due from banks and investment companies (Note 10)	230 501	0	0	0	**230 501**	0	0	**230 501**
Financial assets at fair value (debt securities) (Note 11, 12)	27 023	60 281	11 246	2 792	**101 342**	2 073	0	**103 415**
Loans and advances to customers (Note 14)	191 923	171 828	45 810	3 412	**412 973**	1 704	-4 680	**409 997**
Total	**449 447**	**232 109**	**57 056**	**6 204**	**744 816**	**3 777**	**-4 680**	**743 913**
Interest-bearing liabilities								
Deposits from customers and loans received (Note 18)	54 032	208 943	367 190	1 824	**631 989**	780	0	**632 769**
Subordinated debt * (Note 21)	0	0	0	30 900	**30 900**	205	0	**31 105**
Total	**54 032**	**208 943**	**367 190**	**32 724**	**662 889**	**985**	**0**	**663 874**
Net interest sensitivity gap	**395 414**	**23 167**	**-310 134**	**-26 520**	**81 927**			

31.12.2014	Up to 3 months	3-12 months	1-5 years	Over 5 years	Subtotal	Accrued interest	Impair-ments	Total
Interest-earning assets								
Due from banks and investment companies (Note 10)	84 129	0	0	0	**84 129**	0	0	**84 129**
Financial assets at fair value (debt securities) (Note 11, 12)	72 562	55 921	8 729	2 792	**140 004**	3 414	0	**143 418**
Loans and advances to customers (Note 14)	93 314	146 805	59 081	3 827	**303 027**	1 466	-3 461	**301 032**
Total	**250 005**	**202 726**	**67 810**	**6 619**	**527 160**	**4 880**	**-3 461**	**528 579**
Interest-bearing liabilities								
Deposits from customers and loans received (Note 18)	72 044	180 589	219 525	2 269	**474 427**	586	0	**475 013**
Subordinated debt * (Note 21)	0	750	0	15 900	**16 650**	38	0	**16 688**
Total	**72 044**	**181 339**	**219 525**	**18 169**	**491 077**	**624**	**0**	**491 701**
Net interest sensitivity gap	**177 961**	**21 387**	**-151 715**	**-11 550**	**36 083**			

31.12.2013	Up to 3 months	3-12 months	1-5 years	Over 5 years	Subtotal	Accrued interest	Impair-ments	Total
Interest-earning assets								
Due from banks and investment companies (Note 10)	152 309	0	0	0	**152 309**	0	0	**152 309**
Financial assets at fair value (debt securities) (Note 11, 12)	30 169	7 084	4 653	354	**42 260**	1 669	0	**43 929**
Loans and advances to customers (Note 14)	50 846	86 360	62 204	8 148	**207 558**	3 095	-3 885	**206 768**
Total	**233 324**	**93 444**	**66 857**	**8 502**	**402 127**	**4 764**	**-3 885**	**403 006**
Interest-bearing liabilities								
Deposits from customers and loans received (Note 18)	93 080	144 946	116 574	1 214	**355 814**	567	0	**356 381**
Subordinated debt * (Note 21)	0	0	19 635	0	**19 635**	**81**	0	**19 716**
Total	**93 080**	**144 946**	**136 209**	**1 214**	**375 449**	**648**	**0**	**376 097**
Net interest sensitivity gap	**140 244**	**-51 502**	**-69 352**	**7 288**	**26 678**			

* The contractual term of subordinated debts received in 2015 is 10 years and the interest rate is fixed at 6,5%. The contractual term of subordinated debts received in 2014 is 10 years and the interest rate is fixed at 7,25%. The contractual term of subordinated debts received in 2012 is 8 years. The interest rate will be changed annually after 3 years. See also Note 21.

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 31.12.2015 and 31.12.2014. The aim of the LCR standard is to ensure that the Group has an adequate amount of unencumbered assets of high quality and liquidity that could be monetised without incurring material losses to meet a liquidity requirement in a 30-day stress scenario. The output of the standard is the ratio of liquid assets to stress scenario liquidity requirement, which has a limit of 100%. The Group's liquidity coverage ratio level as at 31.12.2015 was 271% (2014: 190%).

The objective of the NSFR is to ensure that the Group has adequate stable funding sources to finance longer-term assets.

According to the proposals published in the banking regulation and the banking committee of Basel in October 2014, the Group's NSFR level as at 31.12.2015 was 157% (2014: 138%). The net stable funding ratio will be imposed as minimum requirement from the year 2018.

The Treasury of the Bank is responsible for the management of liquidity risk. In order to hedge liquidity risk, the probable net position of receivables and liabilities by maturities is regularly monitored and adequate amounts of liquid assets are kept in each time period, also the concentration of the Group's liabilities by maturities is monitored. To enable covering unexpected monetary outflows, the Group holds a liquidity buffer. The liquidity buffer consists of cash and deposits with the central bank and liquid securities held by the Treasury, which can be readily sold or used as a collateral in funding operations with the central bank. The Group has a sufficient supply of liquid resources to enable issuing standby loans. As at 31.12.2015, 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 debt securities portfolio. In 2013 it was decided to reclassify the held to maturity debt securities 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 in a separate column the statement of financial position balance is disclosed. In the maturity analysis, the cash flows are split into the maturity buckets in which the cash flows occur (including interest cash flows). Explanation of the fair value of these financial assets and liabilities is presented in Note 3.6.

31.12.2015	**On demand**	**Up to 3 months**	**3-12 Months**	**1-5 years**	**Over 5 years**	**Total**	**Carrying amount**
Liabilities by contractual maturity dates							
Deposits from customers and loans received (Note 18)	433 027	66 578	110 230	23 284	716	**633 835**	**632 760**
Subordinated debt (Note 21)	0	532	1 596	8 511	39 810	**50 449**	**30 900**
Accounts payable and other financial liabilities (Note 19)	0	17 288	0	0	0	**17 288**	**17 288**
Unused loan commitments (Note 24)	0	118 696	0	0	0	**118 696**	**0**
Financial guarantees by contractual amounts (Note 24)	0	5 369	0	0	0	**5 369**	**0**
Foreign exchange derivatives (gross settled)	0	14 487	0	0	0	**14 487**	**0**
Financial liabilities at fair value (Note 12)	0	26	63	0	0	**89**	**89**
Total liabilities	**433 027**	**222 976**	**111 889**	**31 795**	**40 526**	**840 213**	**681 037**
Assets held for managing liquidity risk by contractual maturity dates							
Due from banks and investment companies (Note 10)	230 501	0	0	0	0	**230 501**	**230 501**
Financial assets at fair value (debt securities) (Note 11, 12)	0	19 250	69 590	12 136	2 977	**103 953**	**103 415**
Loans and advances to customers (Note 14)	0	43 364	114 515	280 732	19 297	**457 908**	**409 997**
Receivables from customers (Note 15)	0	2 026	0	0	0	**2 026**	**2 026**
Other financial assets (Note 16)	940	0	0	0	0	**940**	**940**
Foreign exchange derivatives (gross settled)	0	14 487	0	0	0	**14 487**	**0**
Total assets held for managing liquidity risk	**231 441**	**79 127**	**184 105**	**292 868**	**22 274**	**809 815**	**746 879**
Maturity gap from assets and liabilities	**-201 586**	**-143 849**	**72 216**	**261 073**	**-18 252**	**-30 398**	

31.12.2014	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Liabilities by contractual maturity dates							
Deposits from customers and loans received (Note 18)	272 830	76 666	110 303	15 292	982	**476 073**	**475 013**
Subordinated debt (Note 21)	0	263	904	4 823	21 890	**27 880**	**16 650**
Accounts payable and other financial liabilities (Note 19)	0	3 597	0	0	0	**3 597**	**3 597**
Unused loan commitments (Note 24)	0	74 086	0	0	0	**74 086**	**0**
Financial guarantees by contractual amounts (Note 24)	0	2 899	0	0	0	**2 899**	**0**
Financial liabilities at fair value (Note 12)	0	23	161	118	0	**302**	**302**
Foreign exchange derivatives (gross settled)	0	42 883	0	0	0	**42 883**	**0**
Total liabilities	**272 830**	**200 417**	**111 368**	**20 233**	**22 872**	**627 720**	**495 562**
Assets held for managing liquidity risk by contractual maturity dates							
Due from banks and investment companies (Note 10)	83 149	980	0	0	0	**84 129**	**84 129**
Financial assets at fair value (debt securities) (Note 11, 12)	0	55 516	51 555	33 279	5 353	**145 703**	**143 418**
Loans and advances to customers (Note 14)	0	26 635	78 501	211 142	27 174	**343 452**	**301 032**
Receivables from customers (Note 15)	0	1 566	0	0	0	**1 566**	**1 566**
Other financial assets (Note 16)	783	0	0	0	0	**783**	**783**
Foreign exchange derivatives (gross settled)	0	42 883	0	0	0	**42 883**	**0**
Total assets held for managing liquidity risk	**83 932**	**127 580**	**130 056**	**244 421**	**32 527**	**618 516**	**529 362**
Maturity gap from assets and liabilities	**-188 898**	**-72 837**	**18 688**	**224 188**	**9 655**	**-9 204**	

31.12.2013	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Liabilities by contractual maturity dates							
Deposits from customers and loans received (Note 18)	160 697	96 888	92 717	5 687	1 268	**357 257**	**356 381**
Subordinated debt (Note 21)	0	1 366	1 047	5 721	23 787	**31 921**	**19 635**
Accounts payable and other financial liabilities (Note 19)	0	5 362	0	0	0	**5 362**	**5 362**
Unused loan commitments (Note 24)	0	44 707	0	0	0	**44 707**	**0**
Financial guarantees by contractual amounts (Note 24)	0	1 531	0	0	0	**1 531**	**0**
Financial liabilities at fair value (Note 12)	0	20	177	236	0	**433**	**433**
Foreign exchange derivatives (gross settled)	0	25 003	0	0	0	**25 003**	**0**
Total liabilities	**160 697**	**174 877**	**93 941**	**11 644**	**25 055**	**466 214**	**381 811**
Assets held for managing liquidity risk by contractual maturity dates							
Due from banks and investment companies (Note 10)	152 183	126	0	0	0	**152 309**	**152 309**
Financial assets at fair value (debt securities) (Note 11, 12)	0	12 626	9 335	22 423	408	**44 792**	**43 929**
Loans and advances to customers (Note 14)	0	32 168	54 288	137 794	19 356	**243 606**	**206 768**
Receivables from customers (Note 15)	0	1 507	0	0	0	**1 507**	**1 507**
Other financial assets (Note 16)	650	0	0	0	0	**650**	**650**
Foreign exchange derivatives (gross settled)	0	25 003	0	0	0	**25 003**	**0**
Total assets held for managing liquidity risk	**152 833**	**71 430**	**63 623**	**160 217**	**19 764**	**467 867**	**405 163**
Maturity gap from assets and liabilities	**-7 864**	**-103 447**	**-30 318**	**148 573**	**-5 291**	**1 653**	

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

(in thousands of euros)	31.12.2015	31.12.2014	31.12.2013
Current assets			
Due from central bank (Note 10)	199 844	45 427	133 839
Due from credit institutions (Note 10)	14 735	24 218	17 004
Due from investment companies (Note 10)	15 922	14 484	1 466
Available-for-sale financial assets (Note 11)	3 508	762	7 456
Financial assets at fair value through profit or loss (Note 12)	84 892	106 046	14 368
Assets of discontinued operations, classified as held for sale (Note 13)	0	15 473	0
Loans and advances to customers (Note 14)	123 380	84 918	85 217
Receivables from customers (Note 15)	2 026	1 566	1 507
Other financial assets (Note 16)	940	783	650
Other assets (Note 16)	1 128	1 265	3 242
Total current assets	**446 375**	**294 942**	**264 749**
Non-current assets			
Available-for-sale financial assets (Note 11)	0	3 511	4 447
Financial assets at fair value through profit or loss (Note 12)	21 716	39 206	22 334
Loans and advances to customers (Note 14)	286 617	216 114	121 551
Tangible assets (Note 17)	685	308	491
Intangible assets (Note 17)	689	530	621
Investment in associates (Note 6)	0	36	131
Goodwill (Note 6)	1 044	1 044	1 044
Total non-current assets	**310 751**	**260 749**	**150 619**
Total assets (Note 5)	**757 126**	**555 691**	**415 368**
Liabilities			
Current liabilities			
Deposits from customers and loans received (Note 18)	609 771	459 716	350 336
Financial liabilities at fair value through profit or loss (Note 12)	89	302	433
Accounts payable and other liabilities (Note 19)	20 137	5 473	6 972
Liabilities of discontinued operations, classified as held for sale (Note 13)	0	220	0
Total current liabilities	**629 997**	**465 711**	**357 741**
Non-current liabilities			
Deposits from customers and loans received (Note 18)	22 989	15 297	6 045
Subordinated debt (Note 21)	30 900	16 650	19 635
Total non-current liabilities	**53 889**	**31 947**	**25 680**
Total liabilities (Note 5)	**683 886**	**497 658**	**383 421**

3.5 Risk concentration

Distribution of assets and liabilities by geographic region is presented below. As at 31.12.2015, the loans issued to 8 customers and 1 correspondent banks (2014: total 5; 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 84% of NOF (2014: 75%; 2013: 70%). The Group has invested in the debt securities of 3 issuers (2014: 5; 2013: 2) with a large risk exposure, totalling 80% of NOF (2014: 170%; 2013: 43%). Unused loan commitments in amount of EUR 118 696 thousand are for Estonian residents (2014: EUR 74 086 thousand; 2013: EUR 44 356 thousand).

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

31.12.2014	Estonia	Latvia	Lithuania	Finland	Nether-lands	Ger-many	Other EU	USA	Other	Total
Due from banks and investment companies (Note 10)	61 800	295	2 504	1 902	550	1	2 691	14 268	118	**84 129**
Financial assets at fair value (Note 11, 12)	6 919	4 237	3 828	0	285	14 313	76 287	43 656	0	**149 525**
Loans and advances to customers (Note 14)	264 008	521	30 919	2 444	15	0	3 108	0	17	**301 032**
Receivables from customers (Note 15)	1 383	2	180	0	0	0	0	0	1	**1 566**
Other financial assets (Note 16)	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 (Note 18)	402 500	1 556	1 680	361	2	125	53 992	598	14 199	**475 013**
Subordinated debt (Note 21)	16 650	0	0	0	0	0	0	0	0	**16 650**
Accounts payables and other financial liabilities (Note 19)	2 873	0	708	0	0	0	13	3	0	**3 597**
Financial liabilities at fair value (Note 12)	302	0	0	0	0	0	0	0	0	**302**
Total financial liabilities	**422 325**	**1 556**	**2 388**	**361**	**2**	**125**	**54 005**	**601**	**14 199**	**495 562**

31.12.2013	Estonia	Latvia	Lithuania	Finland	Nether-lands	Ger-many	Other EU	USA	Other	Total
Due from banks and investment companies (Note 10)	143 768	518	2 427	1 150	452	1	2 526	1 359	108	**152 309**
Financial assets at fair value (Note 11, 12)	5 437	0	790	201	282	6 020	29 501	815	5 559	**48 605**
Loans and advances to customers (Note 14)	159 116	580	26 897	16 996	15	0	3 163	0	1	**206 768**
Receivables from customers (Note 15)	1 342	2	163	0	0	0	0	0	0	**1 507**
Other financial assets (Note 16)	8	0	0	0	0	0	0	642	0	**650**
Total financial assets	**309 671**	**1 100**	**30 277**	**18 347**	**749**	**6 021**	**35 190**	**2 816**	**5 668**	**409 839**
Deposits from customers and loans received (Note 18)	349 985	860	1 850	569	2	42	2 359	129	585	**356 381**
Subordinated debt (Note 21)	19 635	0	0	0	0	0	0	0	0	**19 635**

Accounts payable and other financial liabilities (Note 19)	2 274	0	3 075	0	0	0	11	2	0	**5 362**
Financial liabilities at fair value (Note 12)	433	0	0	0	0	0	0	0	0	**433**
Total financial liabilities	**372 327**	**860**	**4 925**	**569**	**2**	**42**	**2 370**	**131**	**585**	**381 811**

Distribution of loans granted by industry (gross):	**31.12.2015**	**%**	**31.12.2014**	**%**	**31.12.2013**	**%**
Individuals	91 793	22,1%	61 567	20,2%	58 917	28,0%
Real estate	106 836	25,8%	87 516	28,7%	26 039	12,4%
Manufacturing	36 919	8,9%	26 804	8,8%	21 004	10,0%
Art and entertainment	25 724	6,2%	24 812	8,1%	6 048	2,9%
Financial services	46 887	11,3%	22 097	7,3%	43 958	20,8%
Wholesale and retail	16 563	4,0%	14 838	4,9%	9 125	4,3%
Administrative activities	11 355	2,7%	11 321	3,7%	4 200	2,0%
Transport and logistics	14 706	3,6%	10 928	3,6%	7 152	3,4%
Agriculture	8 836	2,1%	8 065	2,6%	5 598	2,7%
Other servicing activities	23 184	5,6%	7 646	2,5%	6 076	2,8%
Construction	6 637	1,6%	4 853	1,6%	3 298	1,5%
Information and communication	4 791	1,2%	4 049	1,3%	2 218	1,1%
Professional, scientific and technical activities	2 482	0,6%	2 443	0,8%	10 204	4,8%
Education	1 618	0,4%	1 717	0,6%	2 249	1,1%
Other areas at activities	16 346	3,9%	15 837	5,2%	4 567	2,2%
Total (Note 14)	**414 677**	**100%**	**304 493**	**100%**	**210 653**	**100%**

Loans classified as discontinued operations are granted to private individuals.

3.6 Fair value of financial assets and financial liabilities

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

	Level 1	**Level 2**	**Level 3**	**31.12.2014**
Financial assets at fair value through profit or loss				
Shares and fund units* (Note 12)	519	5 588**	0	**6 107**
Available-for-sale debt securities (Note 11)	4 273	0	0	**4 273**
Debt securities at fair value through profit or loss (Note 12)	139 145	0	0	**139 145**
Total financial assets	**143 937**	**5 588**	**0**	**149 525**
Financial liabilities at fair value through profit or loss				
Interest rate swaps and foreign exchange forwards (Note 12)	0	302	0	**302**
Total financial liabilities	**0**	**302**	0	**302**

	Level 1	Level 2	Level 3	31.12.2013
Financial assets at fair value through profit or loss				
Shares and fund units* (Note 12)	670	4 006**	0	**4 676**
Available-for-sale debt securities (Note 11)	11 903	0	0	**11 903**
Debt securities at fair value through profit or loss (Note 12)	32 026	0	0	**32 026**
Total financial assets	**44 599**	**4 006**	**0**	**48 605**
Financial liabilities at fair value through profit or loss				
Interest rate swaps and foreign exchange forwards (Note 12)	0	433	0	**433**
Total financial liabilities	**0**	**433**	**0**	**433**

*Shares and fund units include the Group's subsidiary AS LHV Varahaldus investment into pension fund units in the amount of EUR 6 349 thousand (31.12.2014: EUR 5 588 thousand, 31.12.2013: EUR 4 006 thousand) euros. Pursuant to the Investment Funds Act, the mandatory shares of LHV Varahaldus as the management company is 1% of the number of units in each of the mandatory pension fund managed by it.
** The mandatory pension fund shares were disclosed as level 1 in 2014 and in 2013 financial statements, however due to the consideration that for pension fund units there is no active market, the comparative information has been restated in this 2015 financial statements.

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

Levels used in hierarchy:

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

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

AS LHV Varahaldus' investments into pension fund units have quoted prices from the market, however the market is inactive and therefore disclosed as level 2.

As at 31.12.2015 the fair value of corporate loans is EUR 297 thousand (0,2%) higher than their carrying amount (31.12.2014: EUR 207 thousand, 0,1% lower; 31.12.2013: EUR 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 31.12.2015, 31.12.2014 and 31.12.2013. The fair value level of corporate loans and overdraft is 3 as significant judgmental assumptions are used for the valuation process (discounted cash flow method with current market interest). Interest rate used is the average interest rate of corporate loans issued in last 6 months of the reporting period (2015: 4,52%, 2014: 5,21% and 2013: 5,09%).

EUR thousand	Carrying value	Fair value	Difference	Level
31.12.2015	256 354	256 651	+0,2%	3
31.12.2014	206 666	206 459	-0,1%	3
31.12.2013	128 819	129 341	+0,4%	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, hire-purchase, credit cards and consumer loans is 3 as significant judgmental assumptions are used for the valuation process.

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

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

The majority of subordinated debts were received in 2015 and in 2014 and the remainder in 2012 which was redeemed in 2015. These loans carry approximately equal interest rates (6,5% and 7,25%) and considering the short term between the loan received in October 2015 and the balance sheet date, it can be concluded that no material changes have occurred in interest rates as of the balance sheet date. Therefore, the fair value of loans does not differ significantly from their carrying amount. As significant management judgment is required to determine fair value, loans are classified as level 3 in the fair value hierarchy.

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

3.7 Operating risk

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

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

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

3.8 Offsetting assets and liabilities

The group has offset the following assets and liabilities.

				Related arrangements not set off in the statement of financial position		
31.12.2015	**Gross amounts before offsetting in the statement of financial position**	**Offsetting**	**Net amount of exposure presented in the statement of financial position**	**Financial instru-ments**	**Cash collateral received**	**Net amounts**
ASSETS						
Prepayments to merchants for registered customer contacts	3 126	-2 987	139	0	0	139
Client receivables (leveraged loans, incl. repo loans) (Note 14)	7 445	0	7 445	-7 445	0	0
LIABILITIES						
Payables to merchants	3 416	-2 987	429	0	0	429

31.12.2014						
ASSETS						
Client receivables (leveraged loans, incl. repo loans) (Note 14)	9 196	0	9 196	-9 196	0	0
31.12.2013						
ASSETS						
Client receivables (leveraged loans, incl. repo loans) (Note 14)	9 957	0	9 957	-9 957	0	0

NOTE 4 Significant management estimates and assumptions

In accordance with IFRS, several financial figures presented in the financial statements are strictly based on critical accounting estimates and assumptions made by management, which affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities presented in the financial statements at the balance sheet date, and the reported amounts of income and expenses of subsequent reporting periods. Although these estimates have been made to the best of management's knowledge and their judgement of current events, the actual outcome may ultimately not coincide with them and may significantly differ from these estimates. Management's estimates have been applied to valuation of loans, receivables and investments (Notes 10, 11, 12, 14 and 15).

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 statement of financial position. The difference between carrying amount and fair value of the portfolio was at first recognized in other comprehensive income and after selling most of the portfolio reclassified to statement of profit or loss. According to IAS 39 the Group cannot classify debt securities to held-to-maturity for the next two years because of the breach of held-to-maturity criteria set in IAS 39.

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

NOTE 5 Business segments

In 2013 and 2014 the Group divided its business activities into segments according to its legal structure. In 2015 the Bank started to divide its business activities by 3 main business segments: retail banking, private banking and corporate banking. The business segments form a part of the Group, with a separate access to financial data and which are subject to regular monitoring of operating result by the Group's decision-maker. The management board of AS LHV Group has been designated as the decision-maker responsible for allocation of funds and assessment of the profitability of the business activities. The result posted by a segment includes revenue and expenditure directly related to the segment.

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

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

For the comparability purposes, the 2015 segment report is also disclosed according to the previous segments monitored by the Group's decision-maker.

31.12.2015	AS LHV Pank	AS LHV Finance	AS LHV Varahaldus	UAB Mokilizingas	AS LHV Group	OÜ Cuber Tehnology	Intra-segment eliminations	Total
Interest income	19 182	3 926	44	6 055	1 019	0	-2 858	27 368
Interest expense	-3 678	-672	-100	-1 171	-1 372	0	2 858	-4 135
Net interest income	**15 504**	**3 254**	**-56**	**4 884**	**-353**	**0**	**0**	**23 233**
Fee and commission income	6 907	35	9 195	666	0	0	-2	16 801
Fee and commission expense	-2 084	-6	0	-48	0	0	2	-2 136
Net fee and commission income	**4 823**	**29**	**9 195**	**618**	**0**	**0**	**0**	**14 665**
Net income	**20 327**	**3 283**	**9 139**	**5 502**	**-353**	**0**	**0**	**37 898**
Net gains from financial assets	115	0	316	0	0	0	0	431
Administrative and other operating expenses, staff costs	-13 820	-1 475	-4 803	-3 441	-492	-19	0	-24 050
Operating profit	**6 622**	**1 808**	**4 652**	**2 061**	**-845**	**-19**	**0**	**14 279**
Income/loss from associates	0	0	0	0	-36	0	0	-36
Impairment losses on loans and advances	-390	-280	0	-697	0	0	0	-1 367
Income tax	0	0	0	-269	0	0	0	-269
Discontinued operations	2 181	0	0	0	0	0	0	2 181
Net profit	**8 413**	**1 528**	**4 652**	**1 095**	**-881**	**-19**	**0**	**14 788**
Total assets	**735 491**	**25 366**	**11 038**	**39 558**	**84 237**	**9**	**-138 573**	**757 126**
Total liabilities	**676 000**	**23 164**	**1 891**	**34 611**	**31 232**	**0**	**-83 012**	**683 886**

31.12.2014	AS LHV Pank	AS LHV Finance	AS LHV Varahaldus	UAB Mokilizingas	AS LHV Group	Intra-segment eliminations	Total
Interest income	13 984	1 924	45	4 995	836	-2 285	19 499
Interest expense	-2 560	-314	-53	-1 138	-1 245	2 285	-3 025
Net interest income	**11 424**	**1 610**	**-8**	**3 857**	**-409**	**0**	**16 474**
Fee and commission income	4 480	19	8 456	738	0	-2	13 691
Fee and commission expense	-1 161	-5	0	22	0	1	-1 143
Net fee and commission income	**3 319**	**14**	**8 456**	**760**	**0**	**-1**	**12 548**
Net income	**14 743**	**1 624**	**8 448**	**4 617**	**-409**	**-1**	**29 022**
Net gains from financial assets	341	0	188	-2	55	-69	513
Administrative and other operating expenses, staff costs	-10 453	-1 017	-5 013	-3 173	-289	0	-19 945
Operating profit	**4 631**	**607**	**3 623**	**1 442**	**-643**	**-70**	9 590
Income/loss from associates	0	0	0	0	-14	0	-14
Impairment losses on loans and advances	-844	-161	0	-675	0	0	-1 680
Income tax	0	0	0	-151	0	0	-151
Discontinued operations	1 922	0	0	0	0	0	1 922
Net profit	**5 709**	**446**	**3 623**	**616**	**-657**	**-70**	**9 667**
Total assets	**539 092**	**12 771**	**9 794**	**31 956**	**70 291**	**-108 213**	**555 691**
Total liabilities	**494 293**	**12 104**	**941**	**28 104**	**16 729**	**-54 513**	**497 658**

31.12.2013	AS LHV Pank	AS LHV Finance	AS LHV Varahaldus	UAB Mokilizingas	AS LHV Group	Intra-segment income	Total
Interest income	9 605	334	40	1 978	462	-912	11 507
Interest expense	-2 131	-45	-119	-493	-525	912	-2 401
Net interest income	**7 474**	**289**	**-79**	**1 485**	**-63**	**0**	**9 106**
Fee and commission income	3 666	2	5 811	626	0	-6	10 099
Fee and commission expense	-878	-1	0	14	0	0	-865
Net fee and commission income	**2 788**	**1**	**5 811**	**640**	**0**	**-6**	**9 234**
Net income	**10 262**	**290**	**5 732**	**2 125**	**-63**	**-6**	**18 340**
Net gains from financial assets	2 342	0	261	-6	108	0	2 705
Administrative and other operating expenses, staff costs	-8 797	-501	-4 252	-1 371	-131	6	-15 046
Operating profit	**3 807**	**-211**	**1 741**	**748**	**-86**	**0**	5 999
Income/loss from associates	0	0	0	0	10	0	10
Impairment losses on loans and advances	-1 054	-69	0	-252	0	0	-1 375
Income tax	0	0	0	-84	0	0	-84
Discontinued operations	-205	0	0	0	0	0	-205
Net profit	**2 548**	**-280**	**1 741**	**412**	**-76**	**0**	**4 345**
Total assets	**399 577**	**4 954**	**7 079**	**30 581**	**56 527**	**-83 350**	**415 368**
Total liabilities	**372 600**	**4 734**	**1 885**	**27 345**	**18 706**	**-41 849**	**383 421**

NOTE 6 Subsidiaries and associated companies, goodwill

As at 31.12.2015, the Group's subsidiaries which have been consolidated in these financial statements include:

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

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

As at 31.12.2015, the Group's associates include:

- OÜ Svipe (Estonia, ownership interest 33%, acquired in 2013)

Total book value of associates as of 31.12.2015 is EUR 0 thousand euros (as of 31.12.2014: EUR 36 thousand; as of 31.12.2013: EUR 131 thousand) as in 2015 investment of OÜ Svipe was impaired by EUR 36 thousand. In 2014 the interest of associates AS LHV Capital for the amount of EUR 79 thousand and SIA Euveca Livonia Partner for the amount of EUR 2 thousand were sold and investment of OÜ Svipe was impaired by 14 thousand euros.

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

Dormant subsidiary LHV Finance Oy was liquidated in 2015.

As at 31.12.2015, 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 of AS LHV Varahaldus entered into in 2009 in the amount of EUR 562 thousand.

Impairment tests were performed as at 31.12.2015, 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 17% per annum (2014: 22%; 2013: 29%)
- increase of income of fund manager is expected to be average of 6% per annum (2014: 13%; 2013: 21%);
- due to the economic environment, growth of 4% in indirect costs is expected per annum (2014: 4%; 2013: 14%);
- the discount rate used is 15% (2014: 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 legislation. Based on the results of the impairment test performed as at 31.12.2015, 31.12.2014 and as at 31.12.2013, the recoverable amount of cash generating unit is higher than its carrying amount, as a result of which no impairment losses have been recognized.

On 7th of August 2013 AS LHV Group acquired 50% + 1 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 were no significant and one-off 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 Snoras Bank.

Acquisition-related costs (due diligence and other) of EUR 30 thousand have been charged to administrative expenses in the consolidated statement of profit or loss 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.

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(EUR thousand)	**Fair values recorded on acquisition**
Cash and cash equivalents	1 404
Loans and advances to customers	21 286
Other financial assets	457
Other current and non-current assets	1 437
Other financial and non-financial liabilities	-2 552
Loans received	-19 208
Total net assets identified	**2 824**
Amount paid by the Group	**1 100**
Negative goodwill acquired by the Group	**312**
Non-controlling interest	**1 412**
Inflow of cash and cash equivalents on acquisition	**304**

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

	UAB Mokilizingas			**AS LHV Finance**		
Summarised statement of Financial Position	**31.12.2015**	**31.12.2014**	**31.12.2013**	**31.12.2015**	**31.12.2014**	**31.12.2013**
Loans and advances to customers and other current assets	39 429	31 877	30 494	25 233	12 628	4 861
Non-current assets	129	79	87	132	143	93
Current liabilities	1 611	1 104	3 345	2 041	1 633	1 038
Non-current liabilities	33 000	27 000	24 000	21 123	10 471	3 696
Total net assets	**4 947**	**3 852**	**3 236**	**2 201**	**667**	**220**

	UAB Mokilizingas			**AS LHV Finance**		
Summarised statement of Profit or Loss and Other Comprehensive Income	**2015**	**2014**	**II half-year 2013**	**2015**	**2014**	**2013**
Total net revenue	5 502	4 615	2 119	3 283	1 624	290
Profit before income tax	1 364	767	496	1 528	446	-280
Income tax expense	-269	-151	-84	0	0	0
Net profit	**1 095**	**616**	**412**	**1 528**	**446**	**-280**
Total profit and other comprehensive income	1 095	616	412	1 528	446	-280
Profit and other comprehensive income allocated to non-controlling interests	547	308	206	535	156	-98

Summarised statement of Cash Flows	UAB Mokilizingas 2015	2014	II half-year 2013	AS LHV Finance 2015	2014	2013
Cash generated from operations	-4 607	-1 686	-3 394	-9 957	-6 393	-4 056
Interest paid	-1 171	-1 138	-493	-633	-286	-32
Income tax paid	-269	-151	-84	0	0	0
Net cash generated from/(used in) operating activities	-6 047	-2 975	-3 971	-10 590	-6 679	-4 088
Net cash generated from/(used in) investing activities	-41	-41	-10	-62	-96	-108
Net cash generated from/(used in) financing activities	6 017	3 000	4 867	10 652	6 775	4 196
Net increase/(decrease) in cash and cash equivalents	**-71**	**-16**	**886**	**0**	**0**	**0**
Cash and cash equivalents at beginning of year	1 174	1 190	304	0	0	0
Cash and cash equivalents at end of year	1 103	1 174	1 190	0	0	0

NOTE 7 Net interest income

Interest income	**2015**	**2014**	**2013**
Corporate loans	14 251	9 768	6 623
incl. loans to related parties (Note 25)	*47*	*155*	*197*
Hire purchase	6 835	4 442	334
Consumer loans	2 707	1 993	773
Leasing	1 388	1 024	441
incl. loans to related parties (Note 25)	*7*	*4*	*1*
Leveraged loans and lending of securities	715	833	833
From debt securities	395	501	1 105
incl. debt securities available-for-sale	*36*	*79*	*601*
incl. debt securities at fair value through profit or loss	*359*	*422*	*504*
Credit card loans	408	326	232
Mortgage loans	327	148	26
From balances with credit institutions and investment companies	94	43	24
From balances with central bank	-176	19	45
Other loans	424	402	1 071
Total	**27 368**	**19 499**	**11 507**
Interest expense			
Deposits from customers and loans received	-2 763	-1 780	-2 401
incl. loans from related parties (Note 25)	*87*	*63*	*1*
Subordinated debt (Note 21)	-1 372	-1 245	-526
incl.loans from related parties (Note 25)	*-411*	*-327*	*-205*
Total	**-4 135**	**-3 025**	**-2 927**
Net interest income	**23 233**	**16 474**	**9 106**

Interest income of loans by customer location (interests from bank balances and debt securities not included):	**2015**	**2014**	**2013**
Estonia	20 868	13 837	8 229
Latvia	31	37	42
Lithuania	6 156	5 062	2 062
Total	**27 055**	**18 936**	**10 333**

Interests calculated on impaired loans in 2015 is EUR 88 (2014: EUR 54; 2013: EUR 9) thousand.

NOTE 8 Net fee and commission income

Fee and commission income	**2015**	**2014**	**2013**
Security brokerage and commission fees	2 572	2 175	2 066
incl. related parties (Note 25)	*0*	*0*	*3*
Asset management and related fees	10 227	9 212	6 429
*Incl. funds managed by the Group**	*8 719*	*8 093*	*5 675*
Currency exchange fees	731	393	350
Fees from cards and settlements	2 128	770	399
Fees related to collection of debts	6	7	0
Fee for Snoras portfolio administration**	276	526	515
Other fee and commission income	861	608	340
Total	**16 801**	**13 691**	**10 099**
Fee and commission expense			
Security brokerage and commission fees paid	-707	-517	-504
Expenses related to cards	-619	-458	-292
Expenses related to acquiring	-441	-66	0
Other fee expense	-369	-102	-69
Total	**-2 136**	**-1 143**	**-865**
Net fee and commission income	**14 665**	**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% p.a.

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

Fee and commission income by customer location:	**2015**	**2014**	**2013**
Estonia	15 441	11 921	8 883
Latvia	84	113	120
Lithuania	1 008	972	888
Finland	8	20	0
Sweden	96	665	208
Luxembourg	164	0	0
Total	**16 801**	**13 691**	**10 099**

NOTE 9 Operating expenses

	2015	**2014**	**2013**
Wages, salaries and bonuses	8 297	6 489	4 633
Social security and other taxes*	2 680	2 065	1 525
Total staff costs	**10 977**	**8 554**	**6 158**
IT expenses	1 371	1 209	855
Information services and banking services	702	584	453
Marketing expenses	3 896	4 198	2 966
Office expenses	447	418	355
Transportation and communication costs	246	178	122
Training and travelling expenses of employees	312	260	166
Other outsourced services	2 909	1 899	1 695
Other administrative expenses	1 331	1 003	868

Depreciation	791	682	515
Operating lease payments	911	850	760
Other operating expenses	214	94	197
Total other operating expenses	**13 130**	**11 375**	**8 952**
Total operating expenses	**24 107**	**19 929**	**15 110**

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

The average number of employees working for LHV Group in 2015 was 303 (2014: 272; 2013: 212).

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

	31.12.2015	**31.12.2014**	**31.12.2013**
Demand and term deposits with maturity less than 3 months *	30 657	38 702	18 470
Statutory reserve capital at central bank	6 138	4 498	3 397
Demand deposit from central bank *	193 706	40 929	130 442
Total	**230 501**	**84 129**	**152 309**
* cash and cash equivalents in the statement of cash flows	224 363	79 631	148 912

Distribution of receivables by countries is presented in Note 3.5. Mandatory banking reserve as at 31.12.2015 was 1% (2014 and 2013: 1%) of all financial resources collected (deposits from customers and loans received). The reserve requirement is to be fulfilled as a monthly average in euros or in the foreign securities preapproved by the central bank.

NOTE 11 Available-for-sale financial assets

The Group has available-for-sale debt securities portfolio which resulted from reclassification of held-to-maturity portfolio in 2013. The balance of other reserve in equity as of 31.12.2015 is EUR -23 thousand (31.12.2014: EUR -6 thousand; 31.12.2013: EUR -27 thousand), see also Note 22.

In 2015, no gains or losses arose (2014: a gain of EUR 4 thousand was recognized in statement of profit or loss) from the sales of debt securities. In 2013, as a result of reclassification and sales of the portfolio a gain of EUR 2 228 thousand was recognized in statement of profit or loss.

Available-for-sale financial assets 31.12.2012	**0**
Reclassification of the portfolio	72 459
Proceeds from disposal of assets available-for-sale	-61 130
Interest income (Note 7)	601
Revaluation of available-for-sale assets	-27
Available-for-sale financial assets 31.12.2013	**11 903**
Proceeds from disposal and maturities of assets available-for-sale	-7 730
Interest income (Note 7)	79
Revaluation of available-for-sale assets	21
Available-for-sale financial assets 31.12.2014	**4 273**
Proceeds from disposal and maturities of assets available-for-sale	-784
Interest income (Note 7)	36
Revaluation of available-for-sale assets	-17
Available-for-sale financial assets 31.12.2015	**3 508**

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

Securities held for trading:	**31.12.2015**	**31.12.2014**	**31.12.2013**
Shares and fund units	352	519	460
Debt securities	99 907	139 145	32 026
Designated as at fair value through profit or loss upon initial recognition:			
Fund units	6 349	5 588	4 216
incl. investments in managed pension funds	*6 349*	*5 588*	*4 006*
incl. investments in managed investment funds	*0*	*0*	*210*
Total financial assets	**106 608**	**145 252**	**36 702**
Interest rate swaps and foreign exchange forwards	89	302	433
Total financial liabilities	**89**	**302**	**433**

Financial assets at fair value through profit or loss 31.12.2012	**48 899**
Net changes of investment securities at fair value through profit or loss	-13 706
Interest income (Note 7)	504
Revaluation	375
Financial assets at fair value through profit or loss 31.12.2013	**36 702**
Net changes of investment securities at fair value through profit or loss	108 107
Interest income (Note 7)	422
Revaluation	21
Financial assets at fair value through profit or loss 31.12.2014	**145 252**
Net changes of investment securities at fair value through profit or loss	-38 974
Interest income (Note 7)	359
Revaluation	-29
Financial assets at fair value through profit or loss 31.12.2015	**106 608**

Bid price is the fair value of investments in the case of publicly listed securities (Note 3.6). In 2015, a gain of EUR 124 thousand was recognised on the revaluation of debt securities (2014: EUR 280 thousand; 2013: EUR -43 thousand) and a loss arose on the revaluation of interest rate swaps in the amount of EUR 12 thousand (2014: EUR -70 thousand; 2013: EUR -7 thousand).

The volume of pension and investment fund assets managed by the Group as at 31.12.2015 was EUR 570 million (31.12.2014: EUR 504 million; 31.12.2013: EUR 374 million).

NOTE 13 Discontinued operations

At 9th of January 2015, the Group disposed of the business of the branch in Finland, therefore in these financial statements assets and liabilities related to the branch are presented separately as assets and liabilities held for sale. The fair value of these assets and liabilities did not differ from their carrying amount at the time of sale. The effective interest rate of Finnish branch consumer loans issued is at the same level as the interest rate of the loan product offered in the market and it can be stated that the carrying amount of loans does not significantly differ from their fair value.

The fair value level of consumer loans is 3 as significant judgmental assumptions are used for the valuation process.

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

Net income from discontinued operations:	**2015**	**2014**	**2013**
Interest income	0	4 649	3 403
Fee and commissions income	0	384	341
Other financial income	2 936	0	0
Total expenses	-755	-3 111	-3 949
Net profit for the year from discontinued operations	**2 181**	**1 922**	**-205**

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

The changes in allowance account for credit losses is provided in Note 14. In 2014 and 2013, the credit loss changes are presented in “Consumer loan” column, aggregated with other consumer loan losses. In 2014, the reclassification is presented in separate line “Re-classified impairment provisions from discontinued operations”.

NOTE 14 Loans and advances to customers

	31.12.2015	**31.12.2014**	**31.12.2013**
Loans to legal entities	**322 883**	**242 927**	**151 736**
incl. corporate loans	257 140	207 506	128 819
incl. leasing	31 124	24 261	14 691
incl. overdraft	29 548	6 871	3 918
incl. leveraged loans	4 733	4 164	4 218
incl. hire-purchase	220	64	0
incl. credit card loans	118	61	47
incl. mortgage loans	0	0	43
Loans to individuals	**91 794**	**61 566**	**58 917**
incl. hire-purchase	46 580	33 688	21 854
incl. mortgage loans	15 395	5 980	1 948
incl. consumer loans	17 991	9 470	23 645
incl. leasing	5 544	4 393	3 436
incl. leveraged loans	2 712	5 032	5 739
incl. credit card loans	3 503	2 898	2 251
incl. overdraft	69	92	29
incl. other loans	0	13	15
Total	**414 677**	**304 493**	**210 653**
incl. related parties (note 25)	*2 458*	*2 023*	*894*
Impairment provisions	-4 680	-3 461	-3 885
Total	**409 997**	**301 032**	**206 768**

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

Changes in impairments in 2014	Corporate loans incl overdraft	Consumer loans	Credit cards	Hire-purchase	Leasing	Leveraged loans	Total
Balance as at 1 January	-870	-2 629	-83	-169	-116	-18	**-3 885**
Impairment provisions set up during the year	-671	-1 158	-43	-913	31	0	**-2 754**
Written off during the year	0	1 228	35	412	0	0	**1 675**
Re-classified impairment provisions from discontinued operations	0	1 503	0	0	0	0	**1 503**
Balance as at December 31	**-1 541**	**-1 056**	**-91**	**-670**	**-85**	**-18**	**-3 461**

Changes in impairments in 2013	Corporate loans	Consumer loans	Credit cards	Hire-purchase	Leasing	Leveraged loans	Total
Balance as at 1 January	-26	-1 029	-34	0	0	-18	**-1 107**
Impairment provisions set up during the year	-858	-1 679	-49	-169	-116	0	**-2 871**
Written off during the year	14	79	0	0	0	0	**93**
Balance as at December 31	**-870**	**-2 629**	**-83**	**-169**	**-116**	**-18**	**-3 885**

The "Impairment losses on loans and advances" disclosed in statement of profit or loss differ from the "Impairment provisions set up during the year" due to recoveries of written off loans and advances from customers in 2015 in amount EUR 1 254 (2014: EUR 1 074; 2013: 1 496 EUR) thousand, which have been credited to "Impairment losses on loans and advances" line.

Net and gross investments on finance leases according to remaining maturity	Gross investment	Unearned future interest income	Impairment loss provision	Present value of lease payments receivable
up to 1 year	11 446	-1 078	-102	10 266
1-5 years	27 960	-1 487	-245	26 228
over 5 years	180	-4	-2	174
Total as at 31.12.2015	**39 586**	**-2 569**	**-349**	**36 668**
up to 1 year	9 222	-842	-322	8 058
1-5 years	21 908	-1 211	-179	20 518
over 5 years	275	-197	0	78
Total as at 31.12.2014	**31 405**	**-2 250**	**-501**	**28 654**
up to 1 year	6 650	-422	-318	5 910
1-5 years	13 166	-836	-185	12 145
over 5 years	193	-120	-1	72
Total as at 31.12.2013	**20 009**	**-1 378**	**-504**	**18 127**

For credit risk exposures and loan collateral, see Note 3.2.

Distribution of loans granted by currencies is disclosed in Note 3.3.

Distribution of loans granted by maturity is disclosed in Note 3.4.

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

For interest income on loans granted, see Note 7.

NOTE 15 Receivables from customers

	31.12.2015	31.12.2014	31.12.2013
Asset management fees from customers	708	783	594
incl. related parties (Note 25)	*703*	*735*	*549*
Other fees for providing services to customers	1 076	548	687
Payments in transit	8	60	1
Other receivables related to collection of receivables	0	1	12
Other receivables	234	174	213
Total	**2 026**	**1 566**	**1 507**

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

NOTE 16 Other assets

	31.12.2015	31.12.2014	31.12.2013
Financial assets			
Guarantee deposits of Baltic stock exchanges	8	8	8
Guarantee deposits of VISA and MasterCard	932	775	642
Subtotal	**940**	**783**	**650**
Non-financial assets			
Prepayments to Financial Supervision Authority	216	162	144
Tax prepayments	125	141	114
Repossessed assets	19	19	15
Prepayments to merchants for registered customer contracts	62	66	2 629
Other prepayments *	706	877	339
Subtotal	**1 128**	**1 265**	**3 242**
Total	**2 068**	**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 17 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 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 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 operations (Note 13)	-60	0	-60
Carrying amount	**308**	**530**	**838**
Changes in 2015:			
Purchase of non-current assets	584	743	1 327
Depreciation/amortisation charge	-207	-584	-791
Write-off of non-current assets	-60	0	-60
Balance as at 31.12.2015			
Cost	2 592	2 291	4 883
Accumulated depreciation and amortisation	-1 907	-1 602	-3 509
Carrying amount	**685**	**689**	**1 374**

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

In 2015, as well as in 2014 and 2013, there was no indication of impairment of tangible and intangible assets.

NOTE 18 Deposits from customers and loans received

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

	Individuals	**Legal entities**	**Public sector**	**31.12.2014 total**
Demand deposits	77 492	194 976	1 199	**273 667**
Term deposits	78 637	98 915	6 117	**183 669**
Loans received	0	13 534	3 557	**17 091**
Accrued interest liability	315	246	25	**586**
Total	**156 444**	**307 671**	**10 898**	**475 013**
incl. related parties (Note 25)	*2 770*	*8 862*	*0*	*11 632*

	Individuals	**Legal entities**	**Public sector**	**31.12.2013 total**
Demand deposits	49 187	105 720	5 790	**160 697**
Term deposits	80 857	86 505	24 226	**191 588**
Loans received	0	107	3 422	**3 529**
Accrued interest liability	322	202	43	**567**
Total	**130 366**	**192 534**	**33 481**	**356 381**
incl. related parties (Note 25)	*673*	*1 726*	*0*	*2 399*

Loans received from public sector includes loans from Maaelu Edendamise Sihtasutus (Rural Development Foundation) in the amount of EUR 2 510 thousand (31.12.2014: EUR 3 557 thousand; 31.12.2013: EUR 3 422 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 debt securities portfolio, in the amount of EUR 13 028 thousand (31.12.2014: EUR 13 005 thousand; 31.12.2013: EUR 0) and interest rate 0,15%. The nominal interest rates of most deposits from customers and loans received equal their effective interest rates as no other significant fees have been paid.

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

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

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

NOTE 19 Accounts payable and other liabilities

Financial liabilities	**31.12.2015**	**31.12.2014**	**31.12.2013**
Trade payables	2 812	1 845	1 503
Payables to merchants	210	490	2 873
Other short-term financial liabilities	473	515	597
Accrued interest on subordinated loans (Note 21)	205	38	81
Payments in transit	13 455	611	239
Financial guarantee contracts issued	133	98	69
Subtotal	**17 288**	**3 597**	**5 362**
Non-financial liabilities			
Performance guarantee contracts issued	158	182	122
Tax liabilities	933	491	371
Payables to employees	1 083	902	734
incl. related parties (Note 25)	*100*	*140*	*75*
Other short-term liabilities	675	301	383
Subtotal	**2 849**	**1 876**	**1 610**
Total	**20 137**	**5 473**	**6 972**

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

NOTE 20 Operating lease

The Group leases office premises under the operating lease terms. All lease agreements are cancellable upon the consent of both parties. The minimum unilaterally non-cancellable lease payable in the next period are disclosed in the table below. In 2015, the operating lease payments for office premises in the amount of EUR 736 thousand (2014: EUR 663 thousand; 2013: EUR 629 thousand).

	Up to 1 year	**1 to 5 year**	**Total**
Non-cancellable lease payables as of **31.12.2013**	558	633	**1 191**
Non-cancellable lease payables as of **31.12.2014**	700	2 550	**3 250**
Non-cancellable lease payables as of **31.12.2015**	842	3 241	**4 083**

NOTE 21 Subordinated debts

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

In October 2015, subordinated bonds were issued totalling EUR 15 000 thousand carrying a rate of interest at 6,5%. The due date of the bonds is 29 October 2025. After five years, the issuer has the right to prematurely redeem the bonds.

In June 2014, subordinated bonds were issued totalling EUR 15 900 thousand carrying a rate of interest at 7,25%. The due date of the bonds is 20 June 2024.

In June 2013, subordinated bonds were issued totalling EUR 15 450 thousand, which were redeemed in the same amount in June 2014. In addition, subordinated bonds issued in June 2011 were redeemed totalling EUR 1 000 thousand.

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

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

(in thousands of euros)

Subordinated debt as at 31.12.2012	**8 268**
Conversion to share capital	-4 300
Subordinated bonds issued	15 450
Conversion from share options	217
Subordinated debt as at 31.12.2013	**19 635**
Conversion to share capital	-2 450
Subordinated bonds issued	15 900
Subordinated bonds redeemed	-16 450
Conversion from share options	15
Subordinated debt as at 31.12.2014	**16 650**
Subordinated bonds redeemed	-750
Subordinated bonds issued	15 000
Subordinated debt as at 31.12.2015	**30 900**

(in thousands of euros)

Accrued interest on subordinated debts as at 31.12.2012	**366**
Interest calculated for 2013 (Note 7)	526
Paid out during 2013	-811
Accrued interest on subordinated debts as at 31.12.2013 (Note 19)	**81**
Interest calculated for 2014 (Note 7)	1 245
Paid out during 2014	-1 288
Accrued interest on subordinated debts as at 31.12.2014 (Note 19)	**38**
Interest calculated for 2015 (Note 7)	1 372
Paid out during 2015	-1 205
Accrued interest on subordinated debts as at 31.12.2015 (Note 19)	**205**

NOTE 22 Shareholders' equity in the public limited company

Transactions with share capital and share premium	**Date**	**Share price**	**Share capital**	**Share premium**	**Total**
Share capital as at 31.12.2012			**17 382**	**18 827**	
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			**1 820**	**3 044**	**4 864**
Share capital as at 31.12.2013			**19 202**	**21 871**	
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	**4 154**	**12 121**	**16 275**
Share capital as at 31.12.2014	**23 356**	**33 992**	
Share capital as at 31.12.2015	**23 356**	**33 992**	

Share capital is paid in in full through cash contributions. The nominal value of the shares is 1 euro and as at 31.12.2015 the number of shares amounted to 23 356 005 (31.12.2014: 23 356 005; 31.12.2013: 19 202 669).

According to AS LHV Group's articles of association, the minimum share capital is EUR 15 million and the maximum share capital is EUR 60 million (31.12.2014: EUR 15 and 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 10,6% of the voting rights in AS LHV Group have significant influence over the company (31.12.2014: 28,0% and 8,9%; 31.12.2013: 34,5% and 10,3%, respectively).

As at 31.12.2015, the retained earnings of the Group totalled EUR 11 205 thousand (31.12.2014: accumulated deficit EUR 2 041 thousand; 31.12.2013: accumulated deficit EUR 11 032 thousand). Thus, as of 31.12.2015 it is possible to pay out dividends in amount 8 964 thousand euros and the related income tax charge would be 2 241 thousand euros. As in previous years the Group had accumulated deficit, it was not possible to pay dividends to the shareholders.

Statutory reserve capital in equity is as follows:

(in thousands of euros)	
Statutory reserve as at 31.12.2012	**223**
Statutory reserve as at 31.12.2013	**223**
Transferred from 2013 net profit	212
Statutory reserve as at 31.12.2014	**435**
Transferred from 2014 net profit	460
Statutory reserve as at 31.12.2015	**895**

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

(in thousands of euros)	**31.12.2015**	**31.12.2014**	**31.12.2013**
Revaluation reserve of available-for-sale securities	-23	-6	-27
Conversion option of subordinated bonds	0	0	15
Reserve of share options granted to staff	574	138	0
Total	**551**	**132**	**-12**

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

	Number of shares	**Strike price per share (EUR)**	**Exercise period**	**Number of people to whom the share options were granted**
Outstanding amount of share options at 31.12.2013	**0**			
Granted amount during the period	411 366	2,0	01.07.2017-30.09.2017	35
Outstanding amount of share options at 31.12.2014	**411 336**			
Granted amount during the period	278 594	2,4	01.05.2018-31.07.2018	48
Outstanding amount of share options at 31.12.2015	**689 930**			

In addition the supervisory board has approved the share options in 2016 in amount of 270 330 shares with exercise period 01.05.2019-31.07.2019.

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

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

Total expenses arising from share-based payment transactions recognised during the period as part of staff costs was EUR 436 (2014: 138) thousand.

NOTE 23 Assets under management

AS LHV Pank, operating as an account manager for its customers, has custody of or intermediates the following customer assets:	**31.12.2015**	**31.12.2014**	**31.12.2013**
Cash balance of customers	8 416	6 047	5 620
Securities of customers	1 204 561	540 751	317 989
incl. shareholders of the parent company and related entities (Note 25)	*38 085*	*22 029*	*17 708*
Total	**1 212 977**	**546 798**	**323 609**

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

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

NOTE 24 Contingent assets and liabilities

Irrevocable transactions	**Performance guarantees**	**Financial guarantees**	**Unused loan commitments**	**Total**
Liability in contractual amount 31.12.2015	7 853	5 369	118 696	**131 918**
Liability in contractual amount 31.12.2014	6 892	2 899	74 086	**83 877**
Liability in contractual amount 31.12.2013	5 025	1 531	44 707	**51 263**

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 2013-2015. The Group's management estimates that in 2016 there are no such circumstances which may lead the tax authorities to impose significant additional taxes on the Group.

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

According to sectors	**31.12.2015**	**31.12.2014**	**31.12.2013**
Construction	5 525	4 912	4 482
Water supplies	1 789	1 472	129
Manufacturing	110	149	41
Professional, scientific and technical activities	77	3	0
Other areas at activities	352	356	372
Total	**7 853**	**6 892**	**5 025**

According to internal ratings	**31.12.2015**	**31.12.2014**	**31.12.2013**
5 low credit risk	267	435	129
6 low credit risk	2 913	2 150	2 112
7 medium credit risk	3 284	2 608	276
8 medium credit risk	441	358	976
9 heightened credit risk	912	1 236	27
10 high credit risk	20	29	926
12 non-satisfactory rating	16	76	578
Total	**7 853**	**6 892**	**5 025**

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

NOTE 25 Transactions with related parties

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

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

Transactions	**Note**	**2015**	**2014**	**2013**
Interest income	7	**54**	**159**	**198**
incl. management		*7*	*4*	*1*
incl. shareholders, their related entities and close relatives that have significant influence		*47*	*155*	*197*
Fee and commission income	8	**0**	**0**	**3**
incl. management		*0*	*0*	*3*
	7	**87**	**63**	**1**

Interest expenses from deposits				
incl. management		*1*	*1*	*1*
incl. shareholders, their related entities and close relatives that have significant influence		*86*	*62*	*0*
Interest expenses from subordinated debt	7	**411**	**327**	**205**
incl. management		*23*	*21*	*10*
incl. shareholders, their related entities and close relatives that have significant influence		*388*	*306*	*195*

Balances	Note	31.12.2015	31.12.2014	31.12.2013
Loans and receivables as at the year-end		**2 458**	**2 023**	**894**
incl. management	*14*	*641*	*347*	*345*
incl. shareholders, their related entities and close relatives that have significant influence	*14*	*1 817*	*1 676*	*549*
Deposits as at the year-end		**13 409**	**11 632**	**2 399**
incl. management	*18*	*764*	*1 010*	*474*
incl. shareholders, their related entities and close relatives that have significant influence	*18*	*12 645*	*10 622*	*1 925*
Subordinated debt as at the year-end		**6 113**	**5 700**	**3 450**
incl. management	*21*	*397*	*300*	*300*
incl. shareholders, their related entities and close relatives that have significant influence	*21*	*5 716*	*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 in the course and on the terms of ordinary business.

Loans granted to related parties are issued at market conditions.

As at 31.12.2015, 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 terms applicable to customers.

The subordinated debts received in October 2015 have the interest rate of 6,5%. The subordinated debts received in June 2014 have the interest rate of 7,25%, refer to Note 21. The subordinated debts received in December 2012 had the interest rate of 7% during the first three years, these loans were redeemed in October 2015.

In 2015, salaries and other compensations paid to the management of the parent AS LHV Group and its subsidiaries totalled EUR 1 196 thousand (2014: EUR 778 thousand; 2013: EUR 743 thousand), including all taxes. As at 31.12.2015, remuneration for December and accrued holiday pay in the amount of EUR 100 thousand (31.12.2014: EUR 140 thousand; 31.12.2013: EUR 75 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 31.12.2015, 31.12.2014 and 31.12.2013 (pension liabilities, termination benefits, etc.). In 2015, the remuneration paid to the members of the Group's supervisory board totalled EUR 37 thousand (2014: 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.

Management is involved with share option program. In 2015 the share options were granted to the members of the management board in the amount of EUR 191 thousand (2014: EUR 191 thousand).

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

NOTE 26 Basic earnings and diluted earnings per share

In order to calculate basic earnings per share, net profit has been divided by the weighted average number of shares issued. In order to calculate diluted earnings per share in 2014 and 2013, contingent shares have been added to ordinary shares in accordance with the right of the owner's of subordinated bonds issued in December 2012 to convert the bonds to shares, taken into consideration of the expected conversion price at the inception of subordinated bonds. For calculation of diluted earnings per share for 2015 the annual average potential shares from subordinated bonds is used, although the last convertible bonds were redeemed in October 2015 (see Note 21) and as at 31 December 2015 no convertible bonds were outstanding.

	2015	**2014**	**2013**
Total profit (incl. discontinued operations) attributable to owners of the parent (EUR thousand)	13 706	9 203	4 237
Profit attributable to owners of the parent from continuing operations(EUR thousand)	11 508	7 281	4 442
Weighted average number of shares (in thousands of units)	23 356	21 623	18 744
Basic earnings per share (EUR)	0,59	0,43	0,23
Basic earnings per share from continuing operations (EUR)	0,49	0,34	0,24
Basic earnings per share from discontinued operations (EUR)	0,09	0,09	-0,01
Weighted average number of shares used for calculating the diluted earnings per shares (in thousands of units)	24 010	22 413	20 175
Diluted earnings per share (EUR)	0,57	0,42	0,22
Diluted earnings per share (EUR) from continuing operations	0,48	0,33	0,23
Diluted earnings per share (EUR) from discontinued operations	0,09	0,09	-0,01

Weighted average number of shares used as the denominator *(in thousands of shares)*	**2015**	**2014**	**2013**
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	23 356	21 623	18 744
Adjustments for calculation of diluted earnings per share:			
Convertible subordinated bonds	310	687	1 431
Share options	344	103	0
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	24 010	22 413	20 175

NOTE 27 Subsequent events

On 29th of January 2016, LHV Varahaldus entered into a sale and purchase contract of shares with Danske Bank A/S Estonia Branch, under which LHV Varahaldus is about to purchase 100% of the shares of asset management company Danske Capital AS. Completion of the transaction requires the pre-approval of the Financial Supervision Authority and the authorisation for concentration by the Competition Board. The transaction will be presumably completed during the first half of the year 2016 and the purchase price will be confirmed at the end of the transaction. For the acquisition AS LHV Group will increase the share capital of AS LHV Varahaldus by EUR 8 243 thousand and will buy subordinated bonds issued by LHV Varahaldus in the amount of EUR 600 thousand. The financial impact of the acquisition on the Group cannot be reliably assessed before the approval of the transaction by Estonian Financial Supervision Authority and Competition Board.

NOTE 28 Separate financial statements of parent company

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

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

(in thousands of euros)	**2015**	**2014**	**2013**
Interest income	1 019	836	462
Interest expense	-1 372	-1 245	-525
Net interest expense	**-353**	**-409**	**-63**
Net gains/losses from investments to associates	-36	53	0
Foreign exchange rate losses	0	-12	-4
Other financial income	0	0	112
Net gains/losses from financial assets	**-36**	**41**	**108**
Operating expenses	-492	-289	-131
Net loss for the year	**-881**	**-657**	**-86**
Total loss and other comprehensive loss for the year	**-881**	**-657**	**-86**

Statement of financial position of the parent

(in thousands of euros)	31.12.2015	31.12.2014	31.12.2013
Assets			
Due from banks and investment companies	11 270	3 025	3 596
Loans granted	16 622	12 803	10 579
Other receivables and assets	89	7	0
Investments in subsidiaries	56 368	54 420	42 290
Investments in associates	0	36	62
Total assets	**84 349**	**70 291**	**56 527**
Liabilities			
Accrued expenses and other liabilities	126	41	23
Subordinated debt	31 105	16 688	18 683
Total liabilities	**31 231**	**16 729**	**18 706**
Equity			
Share capital	23 356	23 356	19 202
Share premium	33 992	33 992	21 871
Statutory reserve capital	895	435	223
Other reserves	575	138	15
Accumulated deficit	-5 700	-4 359	-3 490
Total shareholders' equity	**53 118**	**53 562**	**37 821**
Total liabilities and equity	**84 349**	**70 291**	**56 527**

Statement of cash flows of the parent

(in thousands of euros)	**2015**	**2014**	**2013**
Cash flows from operating activities			
Interest received	1 019	836	462
Interest paid	-1 372	-1 245	-525
Other financial income received/expenses paid	0	0	112
Administrative and other operating expenses paid	-492	-301	-135
Cash flows from operating activities before change in operating assets and liabilities	**-845**	**-710**	**-86**
Adjustments			
Investments in subsidiaries from share options	-398	0	0
Net increase/(decrease) in operating assets and liabilities:			
Net increase/(decrease) of other receivables	-14 176	-231	336
Net increase/(decrease) of other liabilities	14 939	146	-194
Net cash from/(used in) operating activities	**-480**	**-795**	**56**
Cash flows from investing activities			
Loans granted	-3 975	-8 000	-3 550
Repayments of loans granted	0	6 000	0
Disposals of subsidiaries and associates	4 450	10	0
Acquisitions of subsidiaries and associates	-6 000	-12 041	-10 952
Net cash from/(used in) investing activities	**-5 525**	**-14 051**	**-14 502**
Cash flows from financing activities			
Paid in to share capital (incl. share premium)	0	13 825	564
Disposal of treasury shares	0	0	1
Repayment of subordinated debt	-750	-15 450	0
Proceeds from subordinated debt	15 000	15 900	15 450
Net cash from financing activities	**14 250**	**14 275**	**16 015**
Increase/(decrease) in cash and cash equivalents	**8 245**	**-571**	**1 569**
Cash and cash equivalents at the beginning of the financial year	3 025	3 596	2 027
Cash and cash equivalents at the end of the financial year	**11 270**	**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/retained earnings	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 loss and other comprehensive loss 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	**33 890**
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**
Transfer to statutory reserve capital	0	0	212	0	-212	0	**0**
Share options	0	0	0	138	0	0	**138**
Total loss and other comprehensive loss 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**
Balance as at 01.01.2015	**23 356**	**33 992**	**435**	**138**	**-4 359**	**0**	**53 562**
Transfer to statutory reserve capital	0	0	460	0	-460	0	**0**
Share options	0	0	0	437	0	0	**437**
Total loss and other comprehensive loss for 2015	0	0	0	0	-881	0	**-881**
Balance as at 31.12.2015	**23 356**	**33 992**	**895**	**575**	**-5 700**	**0**	**53 118**
Carrying amount of holdings under control and significant influence	0	0	0	0	-55 535	0	**-55 535**
Value of holdings under control and significant influence under equity method	0	0	0	-24	72 440	0	**72 416**
Adjusted unconsolidated equity as at 31.12.2015	**23 356**	**33 992**	**895**	**551**	**11 205**	**0**	**69 999**

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

Signatures of the management board to the consolidated annual report

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

08.03.2016

Erkki Raasuke

INDEPENDENT AUDITOR'S REPORT

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 statements of financial position as of 31 December 2015, 31 December 2014 and 31 December 2013, and the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the years 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.

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pwc

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 2015, 31 December 2014 and 31 December 2013, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

Ago Vilu
Auditor's Certificate No. 325

Verner Uibo
Auditor's Certificate No. 568

8 March 2016

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 2015 as follows:

- transfer EUR 685 thousand to statutory reserve capital;
- transfer the profit for reporting period attributable to shareholders of the parent in the amount of EUR 13 021 thousand to retained earnings.

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 distribution proposal, and approved it for presentation at the general meeting of shareholders.

16.03.2016

Chairman of the supervisory board:

Rain Lõhmus

Members of the supervisory board:

Raivo Hein

Heldur Meerits

Tiina Mõis

Sten Tamkivi

Tauno Tats

Andres Viisemann

Allocation of income according to EMTA classificators

Consolidated:

EMTAK	Activity	2015	2014	2013
66121	Security and commodity contracts brokerage	3 709	3 324	3 435
64191	Credit institutions (banks) (granting loans)	29 876	25 419	15 664
64911	Finance lease	1 388	1 024	441
66301	Fund management	9 196	8 456	5 810
	Total income	**44 169**	**38 223**	**25 350**

Separate:

EMTAK	Activity	2015	2014	2013
64201	Activities of holding companies	1 016	889	570
	Total income	**1 016**	**889**	**570**