AS LHV Pank
Consolidated Annual Report 2014

(translation of the Estonian original)

Consolidated Annual Report	**01.01.2014 – 31.12.2014**
Legal name	AS LHV Pank
Commercial Registry no.	10539549
Legal address	Tartu mnt. 2, 10145 Tallinn
Phone	(372) 6800400
Fax	(372) 6800410
E-mail	lhv@lhv.ee
Main activities	Banking Security brokerage Financial advisory Finance lease and other lending
Management Board	Erki Kilu (chairman) Andres Kitter Indrek Nuume Jüri Heero Kerli Lõhmus (member of the board until 02.02.2015) Martin Lengi (member of the board since 02.02.2015) Martti Singi
Supervisory Board	Erkki Raasuke (chairman) Rain Lõhmus Andres Viisemann Tiina Mõis Hannes Tamjärv Heldur Meerits Raivo Hein
Auditor	AS PricewaterhouseCoopers

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Management Report

AS LHV Pank is based on Estonian capital. The Bank's clients include private individuals, small and medium-sized companies and institutional investors. The branch offices of LHV Pank are located in Tallinn, Tartu, Riga and Vilnius. LHV Pank employs over 200 people. More than 60 000 clients use the Bank's services. The Bank has stronger investment and enterprise experience than other banks. LHV Pank is one of the largest brokers on NASDAQ OMX Baltic stock exchanges and the largest broker for Baltic retail investors in international markets. The Bank owns 65% of the subsidiary AS LHV Finance that provides hire-purchase service to retailers.

Business activities

Growth in the corporate credit portfolio consisting of loans and guarantees in the year 2014 was according to expectations. The portfolio grew by 84,5 million euros (+60%) compared to the year 2013, including growth in the loan portfolio of 81 million euros and growth in the portfolio of guarantees of 3,5 million euros. The loan portfolio turnover was very high during 2014: 190,6 million euros of loans were issued in total and loan repayments totalled 109,6 million euros.

The biggest source of growth was real estate related activity, an industry that is traditionally financed to the greatest extent by commercial banks. Compared to the previous year, loans and guarantees for activities related to real estate grew by 38,8 million euros (+82%). In addition to activities related to real estate, the company experienced the most loan growth to sport federations that are classified as part of recreational industries (14,7 million euros; +210%) and professional and scientific activities (9,1 million euros; +173%).

The greatest proportion of the company's loans have been issued in the real estate sector, which accounts for 38% of the bank's corporate credit portfolio. The majority of real estate loans are issued to projects of quality that generate rental income, the second major portion is real estate developments that are at their final stages for the most part. Most of the financed real estate developments are located in Tallinn, some also in the city of Tartu. The market share of LHV at the end of the year 2014 in the financing of new developments in Tallinn was approximately 25%.

LHV is mostly cautious with regard to the near future of the real estate sector as the supply has substantially increased in the secondary market of apartments during the year 2014. At the same time, the decline experienced in the number of transactions increases the risk of a price decline. LHV has positioned itself well for this scenario to play out as the developments that it has financed are located in good areas, the larger developments are in their final stages and the average ratio of project risk to expected sales price is around 50%.

The industries with the most credit exposure besides the real estate sector are the manufacturing industry (12% share) and financial and insurance activities, including holding companies (10%). The agricultural sector that is under heightened scrutiny due to the Russian import ban and the decline in the ruble only accounts for 3% of the portfolio and the credit growth in the sector has been clearly outpaced by the overall market.

The indirect impact arising from the Russian import ban is more difficult to estimate than the direct impact. The loss of a significant export market will cause a surplus of production capacity in several sectors, including agriculture and the food industry. In addition, the outlook for the remaining export partners of Estonia is impacted and thereby also affecting the export capacity of Estonia to other countries. Nevertheless, LHV is of the position that the impact of the Russian import ban on customers will be low and controlled and the more substantial concern may be the indirect impact from a bigger economic recession in Russia than was expected.

The overall performance of the relevant sector is becoming increasingly important in the financing decisions made in the near future as the financial results of different sectors may radically differ at the current stage. Differences in the growth rate are also increasing between exporting companies and companies that are focusing on domestic consumption.

In the second half of the year, the bank limited the conditions of issuing consumer loans in Finland, expedited the write-offs of loans and sold a portfolio of non-performing loans. The bank initiated negotiations with potential acquirers for the sale of the consumer-lending business in Finland and conducted a due diligence process. At 09.01.2015, the bank sold its consumer-lending business in Finland to the Swedish company JSM Financial Group AB. According to the sales agreement, the entire business of the Finnish branch was transferred to the new owner together with assets and liabilities. The transaction involved employment contracts with 8 employees and contracts with third parties. The size of the loan portfolio that changed ownership was approximately 15 million euros.

Development

From 1 February, the bank adopted the SEPA *Single Euro Payments Area* system. Instead of the former retail payment system of the central bank of Estonia, the company now uses the Single Euro Payments Area system. International IBAN bank account numbers were adopted, as well as new formats for bulk import of payments and bank account statements and direct debits were replaced by a service for e-invoice payment via standing order. The bank joined the SEPA payments system as an indirect member of the EBA Clearing payment infrastructure provider, however in order to ensure more efficient operation of the payments service the bank decided in the second half of the year to become a direct member of EBA, which will become effective from March 2015.

As its biggest developments, the bank introduced “Au-clients” customer loyalty programme and a gold card for individual customers and launched services for acceptance of card payments for merchants. In mid-year, the company completed an option to select the LHV electronic start-up accounts account when electronically registering a company. The company introduced a Russian-language website, online banking and mobile banking. LHV started providing insurance to hire purchase customers upon entry into contracts.

Substantial developments related to information technology included the transfer of the core of the banking system to a new version and a new and modern lending system was completed for the administration of corporate loans.

In the beginning of the year, the bank won the Member of the Year Award at the Baltic Market Awards for the third year running. LHV launched a partnership with Allfunds Bank, S.A., one of the largest fund distribution platforms in the world, in the field of investment services. Allfunds distributes more than 36,000 funds of more than 450 fund managers. Allfunds can now be used to distribute all of the existing funds of the bank and to make additions to the selection if necessary, to substantially enhance the efficiency of fund administration for the bank's back-office, to earn higher kick-backs and to gain access to the analysis reports of more than 450 international fund managers.

Organisation

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

Retail Banking hired a project manager of crypto finance who is tasked with keeping LHV up to date with developments occurring in the field of crypto finance and to develop proposals for LHV's participation in the field.

In Private and Business Banking, the client managers and portfolio managers were consolidated in a single Private Banking department and the new position of department manager was created. In the second half of the year, the international banking department was established and staffed in Private and Business Banking, with the focus on serving the international customers of the bank.

In the middle of the year, the composition and the chairman of the credit committee was changed. The Head of Credit assumed leadership of the credit committee.

In February of 2015, there was a change in the Chief Financial Officer position of the bank. Martin Lengi became the new Chief Financial Officer and member of the Management Board.

A personnel satisfaction survey was conducted. Compared to the surveys conducted two and four years ago, satisfaction increased in all categories: satisfaction with one's work, satisfaction with one's direct supervisor and satisfaction with LHV as an organisation. In January 2015, the bank was awarded the "Dream Employer 2014" award.

In order to emphasise the importance of the field of human resources management and to develop it and achieve greater awareness, the human resources department was moved from support functions to report directly to the Chairman of the Management Board.

The bank started preparations for the formation of its branch in Latvia by submitting the relevant documents to the Financial Supervision Authority. The Financial Supervision Authority of Latvia granted a licence on 02.02.2015.

The number of employees of the group increased by 22 people in a year to 208 employees (including passive and part-time), including the 10 persons employed at LHV Finance. The number of active full-time equivalent employees was 187 in total.

Sponsorship

The bank’s main sponsorship partners remained the same: Estonian Football Association, Estonian Optimist Class Association, Tallinn Restaurant Week, Enn Soosaar Foundation and the Education Information Technology Foundation. The Estonian Cyclists Union was added as a new partner.

At the start of the year, the bank extended its sponsorship agreement with the Estonian Football Association for the next five years, remaining the main sponsor of the Estonian Football Association and the Estonian national team. An extension and update to the LHV Football Card support system was also agreed.

Financial results

The profit before tax of LHV Pank in 2014 amounted to 5,6 million euros and net profit amounted to 6,2 million euros, up 173% compared to the previous year (2,3 million euros). Net interest income grew by 61% and net fee and commission income increased by 19%. Finance income was lower by 85% compared to the previous year as in the prior year a realised profit was recognised on its bond portfolio classified as available-for-sale, therefore income was higher.

The large increase in net interest income is attributable to a growth in business volumes. The total size of the bank's loan portfolios at the end of December amounted to 313 million euros (December 2013: 205 million euros). The portfolio volume grew by 53% year-on-year. The majority of the loan portfolio is made up of loans to businesses, which grew by 62% year-on-year to 214 million euros (133 million euros). The retail loan portfolio grew by 49% year-on-year to 75 million euros (50 million euros). LHV Pank issued a loan to the other subsidiary of AS LHV Group, UAB Mokilizingas, the amount of which at the year-end was 27 million euros (24 million euros).

The company focused on increasing the volume of deposits and reducing interest expense during the year. The company stopped offering term deposits denominated in dollars and the payment of interest on demand deposits in dollars. The terms of interest payment on the liquidity account were also changed.

The volume of deposits of the bank grew by 38% year-on-year and reached 462 million euros by year-end (356 million euros). Compared to the first half of the year, growth in deposit volumes accelerated in the second half of the year. As a result of the overall low interest rate environment, a change has occurred in the deposit structure. As the deployment of money in term deposits is no longer as attractive, LHV at the end of 2013 introduced the liquidity account concept to the market whereby if certain conditions are met, higher interest will be paid on demand deposits. Thus, the proportion of demand deposits has increased, accounting for 60% of all deposits as at the end of December (46% one year ago).

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

Operating expenses grew by 21% year-on-year, which was expected given the current phase of high growth.

During the year, the bank switched to a new methodology of collective provisioning, which accounts for the credit rating attributed to each company in forming collective provisions. As a result of the change in methodology and supplementary historical experience, the collective provision rate of business loans increased from 0,5% to 0,7% of the portfolio. Loan provisions costs were 25% lower compared to the previous year as a result of the sale of the portfolio of non-performing loans in Finland, which was previously more conservatively valued in the balance sheet, causing a partial reversal of provisions due to the sale.

Liquidity and capitalization

The liquidity coverage ratio (LCR) of the bank, calculated according to the definitions of the Basel Committee, was 189% at the end of December (31.12.2013: 306%). The bank includes cash and bond portfolios, accounting for 42% of the balance sheet total, among its liquidity buffer (31.12.2013: 48%). The bank's loan-to-deposit ratio at the end of 2014 was 68% (31.12.2013: 57%).

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

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

Through a shares and subordinated bonds issue by the bank's parent entity, AS LHV Group, the bank's share capital was increased by 12 million euros in the middle of the year and the amount of subordinated bonds by 2 million euros.

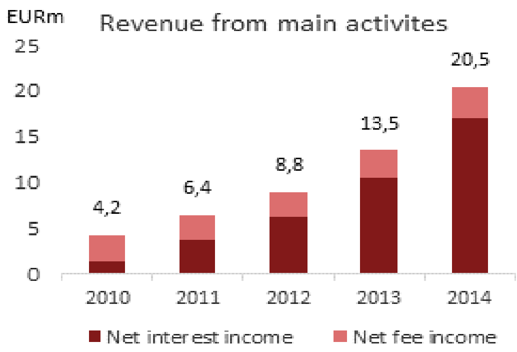
The bank's level of own funds at 31.12.2014 was 56,5 million euros. The bank is well-capitalised as at the end of the reporting period with a capital adequacy level of 19,0% (31.12.2013: 19,9%).

AS LHV Pank and its subsidiary AS LHV Finance are included in the calculation of capital adequacy. The bank 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 bank has complied with all capital requirements during the financial year and in previous year.

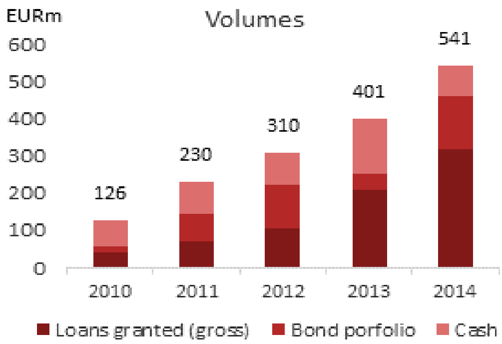
Each year, an internal capital adequacy assessment process (ICAAP) is performed, the goal of which is to identify potential capital needs in addition to regulatory capital requirements.

Leverage ratio, calculated according to Basel Committee on Banking Supervision requirements, as at 31.12.2014 was 6,9% (31.12.2013: 6,3%). Leverage ratio is calculated as bank's total Tier 1 own funds divided by bank's total risk exposure measure (incl risk position on assets and off the balance sheet liabilities). As at the end of the reporting period, the leverage ratio is arithmetic mean of the monthly leverage ratios over the last quarter.

Statement of comprehensive income, EUR million	**2014**	**2013**	**change**
net interest income	16,90	10,50	61%
net fee and commission income	3,56	2,98	19%
net gains from financial assets	0,34	2,34	-85%
total net operating revenues	20,80	15,82	32%
other income	0,03	0,06	-52%
operating expenses	-13,30	-10,99	21%
loan losses	-2,97	-2,62	-25%
net income	5,56	2,27	145%



Volumes, EUR million	**31.12.2014**	**31.12.2013**	**change**
loan portfolio	312,8	204,6	53%
bond portfolio	142,5	42,7	234%
deposits	462,0	356,3	30%
equity	45,2	26,9	68%
number of customers holding assets in bank	61 170	48 863	25%



Key figures, EUR million	**2014**	**2013**	**change**
net profit	6,2	2,3	173%
net profit attributable to owners of the parent	6,0	2,4	154%
average equity	35,9	20,8	72%
return on equity (ROE) % *	16,7	11,4	5,3
Average assets	471	356	32%
Return on assets (ROA) %	1,3	0,6	0,7
net interest income	16,9	10,5	61%
average interest earning assets	443	336	40%
net interest margin (NIM) %	3,82	3,14	0,68
spread %	3,75	3,08	0,67
cost/income ratio %	63,9	69,2	-5,3

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

Explanations

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

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

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

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

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

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

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

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

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

Capital adequacy

Capital base	31.12.2014	31.12.2013
Paid-in share capital	45 500	33 500
Statutory reserves paid in from net profit	118	0
Accumulated deficit	-6 796	-9 044
Intangible assets (subtracted)	-522	-533
Net profit for accounting period	5 999	2 366
Non-controlling interests	186	77
Total Tier 1 capital	**44 485**	**26 366**
Subordinated loans	12 000	10 000
Total Tier 2 capital	**12 000**	**10 000**
Net own funds for capital adequacy calculation	**56 485**	**36 366**
Capital requirements		
Credit institutions and investment companies under standard method	7 929	339
Companies under standard method	180 283	10 702
Retail claims under standard method	81 580	5 597
Overdue claims under standard method	2 052	177
Other assets under standard method	3 461	145
Total capital requirements for covering the credit risk and counterparty credit risk	**275 305**	**16 960**
Capital requirement against foreign currency risk	148	22
Capital requirement against interest position risk	2 043	312
Capital requirement against equity portfolio risks	96	6
Capital requirement for operational risk under base method	19 194	975
Total capital requirements for adequacy calculation	**296 786**	**18 275**
Capital adequacy (%)	**19,03**	**19,90**
Tier 1 Capital Ratio (%)	**14,99**	**14,43**

Management and compensation policy

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

General meeting

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

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

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

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

Supervisory Board

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

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

Management Board

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

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

Committees

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

Audit committee

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

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

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

Compensation committee

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

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

Compensation policy

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

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

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

Share options

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

The granting and size of share options was dependent upon the successful achievement of operational targets of the overall company and the targets of individual management board members and employees. Share options were granted to five members of the management board of LHV Pank and twenty four employees in the total amount of 435 thousand euros. The company entered into share option agreements with the members of the management board and employees for a three-year term for the granting of share options. Share options can be exercised after the expiry of a three-year period.

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

Wages and salaries

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

Calculated gross salaries and wages *(EUR thousand)*	**base salary**	**incentive salary**	**total**	**number of employees**
retail banking	2 157	47	2 204	123
private and corporate banking	813	5	818	31
support services	1 015	0	1 015	58
infotechnology	880	0	880	48
total	**4 865**	**52**	**4 917**	**260**

Business environment

Relativity is the keyword best characterising the current global economic environment. The 7% economic growth of China is out of reach for all other major economies, nevertheless there is concern about a slow-down in the Chinese economy. Economic growth of the United States has been positive for several years, however it has been outshadowed by weakness of the Eurozone and geopolitical tensions. The decline in the oil price is beneficial to all oil-importing countries but too fast of a decline will affect the outlook of the Middle East and is essentially crippling the Russian economy.

Relativity also very accurately describes Europe. Among larger economies of the Eurozone, economic activity is improving in Spain while Germany and France are still waiting for improvement and the Italian economy is still in a recession. On the backdrop of a 3% global economic growth, the 1% economic growth forecast for the Eurozone seems poor. Although some underlying trends indicate potential improvement – European economic growth should improve on the back of growth in domestic consumption and increased employment – earlier expectations have been higher. This has led to a situation where forecasts are being made on the basis of improving trends.

Given the IMF warning about the increase in the probability of economic recession of the Eurozone and the increase in deflationary risk, the policy rates lowered by the European Central Bank to the lowest level in history in September 2014 and the monetary policy that has become sharply more expansionary at the start of 2015, are understandable. The quantitative easing programme is good news for companies that are still only contemplating investment decisions due to weak foreign demand or an unstable environment. For banks, however, it puts pressure on profit as the decline in financing cost cannot fully offset the decline in interest income.

A mixed picture also prevails among the neighbouring countries closer to Estonia. Supported by domestic consumption, the Swedish economy remains relatively strong, although economic growth forecasts have been substantially cut there also due to weakness in exports.

Among the three largest export partners of Estonia, unlike the strength in Sweden, the economies of Finland and Russia are showing clear signs of weakness. Finland has gone through three consecutive years of recession, however the extent of recession has improved with each year. For 2015, economic growth is generally forecast for the Finnish economy, however expectations have recently been moderated by the sanctions related to Russia that impact the country.

In Russia it is likely that the economy will contract by more than the 4-5% that has been forecast for the year 2015. Added to the weakening of the rouble against the euro to the extent of 40% in 2014, further declines are expected with regard to the volume of goods and services exported to Russia.

The aforementioned fears are also influencing the markets where LHV has a presence: Estonia, Latvia and Lithuania. All of these economies are influenced by various collective factors but at the same time the processes ongoing domestically are somewhat different. Estonia is falling behind both Lithuania and Latvia in terms of improvement of several important macroeconomic indicators and both of these countries are projected to have significantly better economic growth.

The economic outlook for Lithuania is strong. Consumption remains robust and is broad-based, supporting an increase in the loan volume. Growth is related to an improvement in employment and growth in real wages with a positive impact also from the adoption of the euro at the start of 2015. As a result, the positive trends are expected to continue throughout the year 2015, an expectation that was recently confirmed by the Central Bank of Lithuania raising their forecasts for economic growth and related forecasts for consumer expenditure. The biggest risk is the geopolitical situation as compared to the other Baltic States the share of Lithuania's export to Russia is the highest.

There is also concern about Russia in Latvia, although unlike Lithuania the Central Bank of Latvia has significantly its cut economic expectations. The expected economic growth for the year 2015 has been lowered to 2%. The economy of Latvia is being led by domestic demand through consumption and construction whereas manufacturing, transport and warehousing are weakening.

The Estonian economy is characterised by the continuation of the previous year's trends in the year 2015. There will be a slowdown in the growth in average wage but it will nevertheless exceed 5%, supporting both consumption and companies geared to domestic consumption. In addition to growth in the minimum wage, another source of wage growth is shortage of labour supply, forcing companies to increasingly compete for labour. Wage pressures jointly with sluggish external demand have led to a decline in the profits and productivity of companies, therefore the current slump in investment is justified. Businesses are nonetheless able to adapt to the current situation and use the favourable interest rate environment and weakening of the euro, which improves the sales potential of the export sector, for making investments.

LHV is positioned with moderate optimism for the year 2015. The economy is growing, although earlier expectations may be cut on a short-term basis. The volume of investment will increase and credit institutions will be open towards financing. Competition in the banking market is increasing.

As a result of the economic environment, LHV is putting growing emphasis on overall portfolio management in addition to the selection of quality financing projects. The strategy for the near future calls for an increase in the proportion of financing lower risk projects. LHV is offering a competitive interest rate for strong projects to achieve this objective.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of Comprehensive Income

(in thousands of euros)	Note	2014	2013
Continuing operations			
Interest income		15 594	9 894
Interest expense		-2 560	-2 131
Net interest income	5	**13 034**	**7 763**
Fee and commission income		4 499	3 668
Fee and commission expense		-1 166	-879
Net fee and commission income	6	**3 333**	**2 789**
Net gains from financial assets measured at fair value	10	338	2 354
Foreign exchange rate gains/losses		3	-12
Net gains from financial assets		**341**	**2 342**
Other income		31	64
Operating expenses	7	-11 501	-9 362
Profit before impairment losses on loans and advances		**5 238**	**3 596**
Impairment losses on loans and advances	12	-1 005	-1 123
Net profit for the year from continuing operations		**4 233**	**2 473**
Profit from discontinued operations	11	**1 922**	**-205**
Net profit for the year		**6 155**	**2 268**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments:			
Revaluation of available-for-sale financial assets	9	21	-27
Total comprehensive income for the year		**6 176**	**2 241**
Profit attributable to:			
Owners of the parent		5 999	2 366
Non-controlling interest		156	-98
Total profit for the year		**6 155**	**2 268**
Total comprehensive income/loss attributable to:			
Owners of the parent		6 020	2 339
Incl. continuing operations		*4 098*	*2 544*
Incl. discontinued operations		*1 922*	*-205*
Non-controlling interest		156	-98
Total comprehensive income/loss for the year		**6 176**	**2 241**

Notes on pages 16 to 58 are an integral part of the consolidated financial statements.

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Consolidated statement of Financial Position

(in thousands of euros)	**Note**	**31.12.2014**	**31.12.2013**
Assets			
Balances with central banks	8	45 427	133 839
Due from credit institutions	8	22 482	15 300
Due from investment companies	8	14 484	1 456
Available-for-sale financial assets	9	4 273	11 903
Financial assets at fair value through profit or loss	10	138 290	30 816
Assets of discontinued operations, classified as held for sale	11	15 473	0
Loans and advances to customers	12	297 980	204 563
Receivables from customers	13	361	719
Other assets	14	1 485	939
Tangible assets	15	236	416
Intangible assets	15	522	533
Total assets		**541 013**	**400 484**
Liabilities			
Deposits from customers and loans received	16	479 117	359 837
Financial liabilities at fair value through profit or loss	10	302	433
Accounts payable and other liabilities	17	3 984	3 317
Liabilities of discontinued operations, classified as held for sale	11	220	0
Subordinated loans	19	12 249	10 025
Total liabilities		**495 872**	**373 612**
Equity			
Share capital	20	45 500	33 500
Statutory reserve capital		118	0
Other reserves	9	-6	-27
Accumulated deficit		-704	-6 678
Total equity attributable to owners of the parent		**44 908**	**26 795**
Non-controlling interest		233	77
Total equity		**45 141**	**26 872**
Total liabilities and equity		**541 013**	**400 484**

Notes on pages 16 to 58 are an integral part of the consolidated financial statements.

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Consolidated statement of Cash Flows

(in thousands of euros)	Note	2014	2013
Cash flows from operating activities			
Interest received		15 191	9 596
Interest paid		-2 279	-3 398
Fees and commissions received		4 502	3 656
Fees and commissions paid		-1 166	-879
Other income received		31	64
Staff costs paid		-5 875	-4 501
Administrative and other operating expenses paid		-4 812	-4 189
Cash flows from operating activities before change in operating assets and liabilities		**5 592**	**349**
Net increase/decrease in operating assets:			
Net acquisition/disposal of trading portfolio		-6	-4
Loans and advances to customers		-109 004	-99 159
Term deposits with other credit institutions		-1	2
Mandatory reserve at central bank		-1 101	-846
Security deposits		-133	64
Other assets		-400	-43
Net increase/decrease in operating liabilities:			
Demand deposits of customers		112 617	87 354
Term deposits of customers		-6 920	-12 128
Loans received and repayments		13 556	-612
Financial liabilities held for trading at fair value through profit or loss		-131	-223
Other liabilities		730	1 215
Net cash generated from / used in operating activities from continuing operations		**14 799**	**-24 031**
Cash generated from / used in operating activities from disconinued operations		1 865	-1 504
Net cash generated / used in from operating activities		**16 664**	**-25 535**
Cash flows from investing activities			
Purchase of non-current assets	15	-489	-414
Acquisition of investment securities held to maturity		0	-2 790
Proceeds from disposal and redemption of investment securities available for sale		7 730	61 130
Net changes of investment securities at fair value through profit or loss		-107 208	14 090
Net cash used in / from investing activities		**-99 967**	**72 016**
Cash flows from financing activities			
Paid in share capital	20	12 000	9 800
Non-controlling interest contribution to subsidiary´s share capital		0	175
Subordinated loans received	19	8 000	3 000
Repayment of subordinated debt	19	-6 000	0
Net cash from financing activities		**14 000**	**12 975**
Net decrease/increase in cash and cash equivalents		**-69 303**	**59 456**
Cash and cash equivalents at the beginning of the year	8	147 198	87 742
Cash and cash equivalents at the end of the year	**8**	**77 895**	**147 198**

Notes on pages 16 to 58 are an integral part of the consolidated financial statements.

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Consolidated statement of Changes in Equity

(in thousands of euros)	Attributable to owners of the parent: Share capital	Statutory reserve capital	Other reserves	Accumulated deficit	Total	Non-controlling interest	Total equity
Balance as at 01.01.2013	**23 700**	**0**	**0**	**-9 044**	**14 656**	**0**	**14 656**
Paid in share capital	9 800	0	0	0	9 800	0	**9 800**
Non-controlling interest contribution to subsidiary´s share capital	0	0	0	0	0	175	**175**
Profit for the year	*0*	*0*	*0*	*2 366*	*2 366*	*-98*	***2 268***
Other comprehensive income	*0*	*0*	*-27*	*0*	*-27*	*0*	***-27***
Total comprehensive income for 2013	0	0	-27	2 366	2 339	-98	**2 241**
Balance as at 31.12.2013	**33 500**	**0**	**-27**	**-6 678**	**26 795**	**77**	**26 872**
Balance as at 01.01.2014	**33 500**	**0**	**-27**	**-6 678**	**26 795**	**77**	**26 872**
Paid in statutory reserve capital	0	118	0	-118	0	0	**0**
Paid in share capital	12 000	0	0	0	12 000	0	**12 000**
Share options	0	0	0	93	93	0	**93**
Profit for the year	*0*	*0*	*0*	*5 999*	*5 999*	*156*	***6 155***
Other comprehensive income	*0*	*0*	*21*	*0*	*21*	*0*	***21***
Total comprehensive income for 2014	0	0	21	5 999	6 020	156	**6 176**
Balance as at 31.12.2014	**45 500**	**118**	**-6**	**-704**	**44 908**	**233**	**45 141**

Notes on pages 16 to 58 are an integral part of the consolidated financial statements.

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Notes to the consolidated financial statements

NOTE 1 General information

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by European Union for the year ended 31 December 2014 for AS LHV Pank (the "Bank") and its subsidiary AS LHV Finance (together the "Group"). AS LHV Pank holds 65% interest in AS LHV Finance. AS LHV Finance was incorporated January 23, 2013.

AS LHV Pank (Bank) provides banking, financial advisory and securities brokerage services to customers in Estonia, Latvia, Lithuania and Finland. There are offices for client servicing in Tallinn, Tartu, Riga, Vilnius and a branch office in Helsinki. LHV is a limited liability company incorporated and domiciled in Estonia. The address of its registered office is Tartu mnt. 2, Tallinn. As at 31.12.2014, the Group employed total of 208 people, including 196 active employees (as at 31.12.2013: 186 people, non-active employees). LHV Finance offers hire-purchase services to merchants.

The consolidated annual report (incl. financial statements) was approved by the Management Board on 27 February 2015. The consolidated annual report will be presented for approval to the sole shareholder AS LHV Group. Rain Lõhmus, who owns 28,0% of the voting rights and Andres Viisemann, who owns 8,9% of the voting rights (see also Note 20), have significant influence over AS LHV Group.

The consolidated annual report approved by the Management Board shall be authorised for approval by the Supervisory Board and shareholders. The shareholders have the right not to approve the consolidated annual report while the Supervisory Board does not have that right.

NOTE 2 Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements of the Group for the financial year 2014 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union. The financial statements have been prepared under the historical cost convention, except as disclosed in some of the accounting policies below, such as: "financial assets and liabilities at fair value through profit or loss", including derivatives and assets available for sale.

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

The financial year started at 1 January 2014 and ended at 31 December 2014. The financial figures have been presented in thousands of euros unless referred differently in specific disclosures.

Certain new International Financial Reporting Standards, amendments to existing standards and the interpretations of the standards have been published by the time of compiling these financial statements which became mandatory for the Group's accounting periods beginning on or after 1 January 2014. The overview of these standards and the Group management's estimate of the potential impact of applying the new standards and interpretations are stated below.

(a) **Adoption of New or Revised Standards and Interpretations**

The following new or revised standards and interpretations became effective for the Group from 1 January 2014.

IFRS 12, Disclosure of Interest in Other Entities (effective for annual periods beginning on or after 1 January 2014), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated

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financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

To meet these objectives, the new standard requires disclosures in a number of areas, including;

- significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities;
- extended disclosures on share of non-controlling interests in group activities and cash flows;
- summarised financial information of subsidiaries with material non-controlling interests; and
- detailed disclosures of interests in unconsolidated structured entities.

The adoption of the standard did not have a material impact on the Group.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2014 that have a material impact to the Group.

(b) **New accounting pronouncements**

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 1 January 2015, and which the Group has not early adopted.

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

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

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

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

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

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

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

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

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

2.2 Consolidation

The 2014 consolidated financial statements include the financial statements of AS LHV Pank (parent company) and its subsidiary AS LHV Finance.

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

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

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

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

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

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

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

Non-controlling interest

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

2.3 Foreign currency translation

(a) Functional and presentation currency

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

(b) Foreign currency transactions and balances

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

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2.4 Cash and cash equivalents

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

2.5 Financial assets

The Group classifies its financial assets into the following categories:

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

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

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

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

Financial assets at fair value through profit or loss include

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

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

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

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

Derivative financial instruments (futures, forward, swap and option contracts) are initially recognised in the balance sheet at the fair value net of transaction costs at the trade date and are subsequently valued at fair value through profit or loss. If derivatives are quoted on an active market, market value is used as the fair value. Otherwise, the valuation techniques are used to find the fair value. Profits and losses from derivatives are recognised as income or expense of the period in the statement of comprehensive income under "Net gains/losses from financial assets measured at fair value". Derivatives are carried in balance sheet as assets, if their fair value is positive and as liabilities, if the fair value is negative. The fair values of derivative assets and liabilities recorded in the balance sheet

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are not netted. The Group does not use hedge accounting to account for its derivative financial instruments.

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

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

Refer to Note 3.6 for fair value of financial assets.

(b) Held-to-maturity financial investments

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

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

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

(c) Available-for-sale financial assets

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

(d) Loans and advances

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

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

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

Trade receivables arise from provision of services to the customers and are initially recognised at fair value plus

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transaction costs and subsequently measured at amortised cost using the effective interest rate method (less repayments and a possible provision for impairment).

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

2.6 Impairment of financial assets carried at amortised cost

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

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

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

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

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

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

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

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

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

2.7 Discontinued operations

A discontinued operation is a component of the Group that is classified as held for sale, and represents a separate major line of business or geographical area of operations and is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations. Non-current asset

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or disposal group is classified as held for sale when their carrying amount is to be covered principally through a sale transaction rather than through continuing use, and the sale is considered highly probable. The disposal group is recognized at carrying amount or fair value less costs related to the transaction of sale, depending on which is lower. The carrying amount of the assets of LHV Finnish brach, which are recognized as discontinuing operations at the end of 2014, is equal to its fair value. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented. Intergroup transactions between discontinued and countuing operations are eliminated depending on whether the transactions will continue after the transaction of sale.

2.8 Tangible assets

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

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

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

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

2.9 Intangible assets

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

2.10 Financial guarantees 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

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performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as loans and receivables upon transfer of the loss compensation to the guarantee's beneficiary.

2.11 Financial liabilities

The Group classifies financial liabilities to 2 categories:

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

b) financial liabilities measured at amortised cost

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

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

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

2.12 Payables to employees

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

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

2.13 Share-based payments

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

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

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

When the options are exercised, LHV Group issues new shares. According to the contractual conditions of the share options there are no social tax charges when excercising the options after the 3-year period.

2.14 Provisions and contingent liabilities

Liabilities arising from an obligating event before the balance sheet date that have either a legal or contractual basis or that have arisen from the Group's current operating practice (legal or constructive obligation) that require the outflow of resources , the realisation of which is probable (it is more likely than not that an outflow of resources will be required to settle the obligation) and the amount of which can reliably be estimated but for which the timing or amount are not definitely known are recognised as provisions in the balance sheet. The provisions are recognised based on the management's estimates regarding the amount and timing of the expected outflows. A provision is recognised

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in the balance sheet in the amount which according to the management is necessary as at the balance sheet date for the meeting of the obligation arising from the provision or transfer to the third party. The provision expense and an expense from the change in the carrying amount of provisions are included within expenses in the accounting period. Provisions are not set up to cover future operating losses.

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

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

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

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

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

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

2.16 Revenues and expenses

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

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

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

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash

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flows considering all contractual terms of the financial instrument, but does not consider future impairment losses. The calculation includes all significant fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

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

2.17 Asset management services

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

2.18 Leases - Group as the lessee

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

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

2.19 Taxation and deferred income tax

Corporate income tax in Estonia

According to the Income Tax Act, the annual profit earned by entities is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying amounts of assets and liabilities and no deferred tax assets or liabilities arise. Instead of the income tax payable on profits, the Estonian entities pay corporate income tax on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. The tax rate as of 01.January 2015 is 20/80 (21/79 until 31.12.2014) on net dividends paid. The corporate income tax arising from the payment of dividends is recognised as a liability and an income tax expense in the period in which dividends are declared, regardless of the period for which the dividends are paid or the actual payment date. An income tax liability is due on the 10th day of the month following the payment of dividends.

Corporate income tax in other countries

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

Corporate income tax rates	2014	2013
Latvia	15%	15%
Lithuania	15%	15%
Finland	20%	24.5%

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

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

2.20 Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only

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when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. The Group has not used offsetting in financial year or previous year.

2.21 Statutory reserve capital

Statutory reserve capital is formed from annual net profit allocations to comply with the requirements of the Commercial Code. During each financial year, at least one-twentieth of the net profit shall be transferred to the statutory reserve, until 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.

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NOTE 3 Risk management

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

3.1 Capital management

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

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

The amount of capital that the Group managed as of 31.12.2014 was 56 485 thousand euros (31.12.2013: 36 366 thousand euros). Capital is managed according to internal rules. Risk and Capital Committee (RCC) oversees capital management in the Group. The RCC is involved in the development of an optimal balance sheet structure, it monitors liquidity and interest rate risk, and makes recommendations for raising additional share capital, if necessary, in order to ensure the Group's further development and to comply at any given time with the prudential requirements established for credit institutions.

Own funds	**31.12.2014**	**31.12.2013**
Paid-in share capital	45 500	33 500
Statutory reservs paid in from net profit	118	0
Accumulated deficit	-6 796	-9 044
Intangible assets (subtracted)	-522	-533
Net profit for accounting period	5 999	2 366
Non-controlling interests	186	77
Total Level 1 own funds	**44 485**	**26 366**
Subordinated loans	12 000	10 000
Total Level 2 own funds	**12 000**	**10 000**
Total net own funds	**56 485**	**36 366**
Capital adequacy (%)	**19,03**	**19,90**
Tier 1 Capital Ratio (%)	**14,99**	**14,43**

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

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

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

In Estonia, in addition to the baseline capital requirements, credit institutions have been subjected to capital maintenance and systemic risk buffers, which are 2,5% (imposed by the Financial Supervisory Authority) and 2,0% (imposed by Estonian Central Bank), respectively. As the aforementioned buffers are incremental to the Tier 1 and the total baseline capital

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requirements, the minimum Tier 1 requirement in Estonia is 10,5% and the total capital requirement is 12,5%. The latter is also subject to the specific supplementary Pillar 2 requirement applicable to credit institutions. An overview of capital requirements is provided in the table below:

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

Each year, the Bank's Supervisory Board confirms the goals of capitalization and the target level of capital adequacy to cover potential risks 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 Bank has complied with all capital requirements during the financial year and in previous year.

3.2 Credit risk

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

3.2.1 Distribution of credit risks

Grupp jaotab krediidiriski kandvad finantsvarad järgnevatesse olulisematesse kategooriasse:

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

Maximum exposure to credit risk	31.12.2014	31.12.2013
Loans and advances to banks and investment companies (note 8)	82 393	150 595
Other financial assets at fair value (note 9, note 10)	142 563	42 719
Loans and advances to customers (note 12)	297 980	204 563
Receivables from customers (note 13)	361	719
Other assets (note 14)	783	650
Total assets	**524 080**	**399 246**
Assets of discontinued operations, classified as held for sale	15 413	0
Exposures related to off-balance sheet items (note 22), excluding performance guarantees	67 233	34 160
Total maximum exposure to credit risk	**606 726**	**433 406**

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a) Debt securities

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

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

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

Rating	FVTPL	AFS	Total 31.12.2014	FVTPL	AFS	Total 31.12.2013
AAA	110 645	3 261	113 906	15 462	9 198	24 660
AA- to AA+	13 438	0	13 438	2 842	189	3 031
A- to A+	6 094	609	6 703	6 602	599	7 201
BBB- to BBB+	8 086	403	8 489	5 577	1 917	7 494
B- to BB+	0	0	0	313	0	313
Total (Note 9, 10)	**138 263**	**4 273**	**142 536**	**30 796**	**11 903**	**42 699**

b) Loans and advances to banks

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

Rating	Credit institutions	Inv. companies	Total 31.12.2014	Credit institutions	Inv. companies	Total 31.12.2013
Central bank	45 427	0	45 427	133 839	0	133 839
AA- to AA+	1 899	0	1 899	1 140	0	1 140
A- to A+	18 145	14 268	32 413	11 881	1 359	13 240
BBB to BBB+	164	0	164	454	0	454
Non-rated	2 274	216	2 490	1 815	107	1 922
Total (Note 8)	**67 909**	**14 484**	**82 393**	**149 129**	**1 466**	**150 595**

c) Leverage loans

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

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

As of 31.12.2014 LHV Pank has one leverage loan in the amount of 18 thousand euros with a collateral value of 0 and the loan has been fully impaired (31.12.2013:18 thousand euros).

d) Corporate loans and overdraft

Issuance of corporate loans is regulated by AS LHV Group Credit Policy, Credit Policy of the Bank and other internal rules. The maximum limit of a loan issued to a customer by LHV Pank is 25% of net own funds.

Corporate loans are evaluated on individual basis. Each customer is assigned a credit rating between 1-13, where 1 means the lowest probability of default and 13 indicates

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

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

After issuing the loan, follow-up monitoring of each customer's financial position is performed at least once a quarter. See Note 3.2.2. for more detailed information on the credit quality of loans.

e) Consumer loans without collateral (discontinued operations)

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

As consumer loans are homogeneous loans, provisions for potential credit loss level is calculated based on historical performance of these homogeneous loans and applied to current portfolio at the balance sheet date. For the purpose of recognition of group-based impairment losses, the receivables are grouped into subclasses on the basis of homogeneous credit risk features, considering customers' payment practice, past due time and the time passed from initiation of proceedings by the bailiff. For the receivables that have been grouped, the amount of the impairment loss is the multiple of the carrying amount of the receivables in the group and the group's percentage rate of impairment loss. The framework is based on the classic method of calculating the probability of default (PD), loss given default (LGD) and exposure at default (EAD). As at 31.12.2014, the group-based impairment reserve makes up 9,2% of consumer loans and the related interest receivables (31.12.2013: 9,4%). Loans and receivables, in respect of which the bailiff has sent a notice regarding the termination of the proceedings, have been written off the balance sheet

f) Credit cards

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

Provisions for potential credit losses are made based on the same framework as the consumer loans. The framework is based on PD, LGD and EAD indicators. EAD consists of two components: the amount of the existing receivable and the amount of use of an estimated additional limit. For calculating the latter, the model includes the credit conversion factor (CCF). As of 31 December 2014, the group-based impairment reserve amounted to 3,1% of credit card loans and related receivables (31 December 2013: 3,6%).

g) Leasing

In autumn 2012, LHV Pank started to offer leasing products for individuals and legal persons. The creditworthiness of customers is assessed by using scoring models, which mainly consists of characteristics described for consumer loans. Similarly to other homogenous portfolios provisions are made based on the same framework as consumer loans. As of 31 Decembrer 2014, the group-based impairment reserve amounted to 0,9% of leasing portfolio (31.12.2013: 1,0%).

h) Hire-purchase

In 2013 subsidiary LHV Finance started to offer hire-purchase services for merchants. The creditworthiness of customers is assessed by using scoring models, which mainly consist of characteristics described for consumer loans. Similarly to other homogenous portfolios provisions are made based on the same framework as consumer loans. As of 31 Decembrer 2014, the group-based impairment reserve amounted to 1,6% of hire-purchase (31.12.2013: 1,4%).

i) Mortgage loans

In 2013 the Group started to offer mortgage loans to customers. This line of business is relatively small and no provisions have been made for those loans.

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

Loans and advances to customers as at 31.12.2014	Neither past due nor impaired	Past due, but not impaired	Individually impaired	**Total**	Collective impairment	Individual impairment	**Net**
Loans to legal persons							
Loans to other subsidiaries of the parent company	27 074	0	0	27 074	0	0	**27 074**
Corporate loans	201 921	2 475	3 110	207 506	-1 185	-329	**205 992**
Overdraft	6 871	0	0	6 871	-27	0	**6 844**
Hire-purchase	64	0	0	64	-1	0	**63**
Leverage loans	4 164	0	0	4 164	0	0	**4 164**
Leasing	22 324	1 240	15	23 579	-208	0	**23 371**
Mortgage loans	0	0	0	0	0	0	**0**
Credit card loans	61	0	0	61	-1	-1	**59**
Loans to individuals							
Hire-purchase	12 138	277	181	12 597	-150	-46	**12 401**
Leverage loans	5 014	0	18	5 032	0	-18	**5 014**
Leasing	4 040	102	0	4 142	-38	0	**4 104**
Mortgage loans	5 980	0	0	5 980	0	0	**5 980**
Credit card loans	2 753	96	49	2 898	-65	-24	**2 809**
Overdraft	92	0	0	92	0	0	**92**
Other loans to individuals	0	13	0	13	0	0	**13**
Total loans and advances to customers	**292 496**	**4 203**	**3 374**	**300 073**	**-1 675**	**-418**	**297 980**
Consumer loans (discontinued operations)	7 863	5 922	2 528	16 313	-869	-634	**14 810**
Total (Note 12)	**300 359**	**10 125**	**5 902**	**316 386**	**-2 544**	**-1 052**	**312 790**

Loans and advances to customers as at 31.12.2013	Neither past due nor impaired	Past due, but not impaired	Individually impaired	**Total**	Collective impairment	Individual impairment	**Net**
Loans to legal persons							
Loans to other subsidiaries of the parent company	24 075	0	0	**24 075**	0	0	**24 075**
Corporate loans	125 067	1 408	2 344	**128 819**	-639	-231	**127 949**
Overdraft	3 918	0	0	**3 918**	0	0	**3 918**
Leverage loans	4 218	0	0	**4 218**	0	0	**4 218**
Leasing	11 299	1 248	32	**12 579**	-111	-9	**12 459**
Mortgage loans	43	0	0	**43**	0	0	**43**
Credit card loans	47	0	0	**47**	-2	0	**45**
Loans to individuals							
Consumer loans	7 906	5 582	2 394	**15 882**	-951	-644	**14 387**
Hire-purchase	4 714	133	36	**4 883**	-56	-13	**4 814**
Leverage loans	5 721	0	18	**5 739**	0	-18	**5 721**
Leasing	2 566	228	5	**2 799**	-25	-2	**2 772**
Mortgage loans	1 948	0	0	**1 948**	0	0	**1 948**
Credit card loans	2 083	107	61	**2 251**	-54	-27	**2 170**
Overdraft	29	0	0	**29**	0	0	**29**
Other loans to individuals	0	15	0	**15**	0	0	**15**
Total (Note 12)	**193 634**	**8 721**	**4 890**	**207 245**	**-1 738**	**-944**	**204 563**

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Loans are individually impaired when the payment delay has been longer than 90 days. In the consolidated annual report of 2013 loans were individually impaired from the first day of payment delay. In consolidated annual report of 2014 the comparative data is corrected according to the 90-day delay principle.

As part of risk analysis the Group is performing regularly stress tests and sensitivity analysis regarding credit risk and its components (such as probability of default (PD), loss given default (LGD)). In collective impairment credit assessment the Group is basing on potential loss calculation. The Group has performed stress test in cases when PD and LGD estimations will both increase 10 percent (for example, from 1,0% to 1,1%). The impact of the described stress test to impairments is aggregated in the table below.

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

Impact to impairment as at 31.12.2013 (in case PD and LGD levels will increase by 10%)	**Balance as at 31.12.2013**	**Impairment with increased PDs and LGDs**	**Impact to impairment booked**
Loans to legal persons			
Corporate loans (including overdraft)	128 819	-933	-63
Leasing	12 579	-133	-13
Loans to individuals			
Consumer loans	15 882	-1 734	-239
Hire-purchase	4 883	-76	-7
Leasing	2 799	-29	-2
Credit card loans	2 251	-97	-14
Total	**167 213**	**-3 061**	**-337**

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

Distribution of internal ratings of corporate loans:

- 1 – minimum credit risk. Rating is attributed only on the basis of ratings issued by rating agencies; average rating of rating agencies must be equivalent to at least AAA (Moody's Aaa).
- 2 – minimum credit risk. Rating is attributed only on the basis of ratings issued by rating agencies, average rating must be equivalent to at least AA+ (Moody's Aa1).
- 3 – low credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least AA- (Moody's Aa3).
- 4 – low credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least A- (Moody's A3).
- 5 – low credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average

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rating of rating agencies must be equivalent to at least BBB+ (Moody's Baa1).

- 6 – low credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least BBB (Moody's Baa2).
- 7 – medium credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least BBB- (Moody's Baa3).
- 8 – medium credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least BB (Moody's Ba2).
- 9 – heightened credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least BB- (Moody's Ba3).
- 10 – high credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least B+ (Moody's B1).
- 11 – high credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least B- (Moody's B3).
- 12 – non-satisfactory rating. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least C (Moody's Caa3).
- 13 – insolvent – the entity is insolvent. The entity is 90 days past due or is subject in a restructuring or bankruptcy procedure. Average rating of rating agencies must be equivalent to at least D (Moody's C).

Distribution of corporate loans and overdraft by internal ratings as 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 rating	18 236	146	0	18 382
11 high rating	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 as 31.12.2013	**Neither past due nor impaired**	**Past due, but not impaired**	**Individually impaired**	**Total**
4 low credit risk	1 139	0	0	1 139
5 low credit risk	350	0	0	350
6 low credit risk	8 286	0	0	8 286
7 medium credit risk	34 284	215	0	34 499
8 medium credit risk	40 054	0	0	40 054
9 heightened credit risk	20 463	121	0	20 584
10 high rating	15 205	0	0	15 205
11 high rating	5 286	0	0	5 286
12 non-satisfactory rating	0	871	2 344	3 215
13 insolvent	0	201	0	201
Total	**125 067**	**1 408**	**2 344**	**128 819**

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

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

In addition to loans issued, loan agreements have been concluded and signed for the unused loan commitment amount of 64 334 thousand euros at 31.12.2014 (31.12.2013: 32 629 thousand euros), see Note 22.

In the following table there are presented unused portions of corporate loans and financial guarantee limits. In addition to that as at 31.12.2014 the Group has also committed to grant mortgage loans in total amount of 242 thousand euros (31.12.2013: 351 thousand euros) and a loan to the other subsidiary of the parent company AS LHV Group of 3 000 thousand euros. No impairment provisions have been made for off-balance sheet liabilities because the value of collateral exceeds the value of potential liabilities.

Credit quality of off-balance sheet liabilities	**31.12.2014**	**31.12.2013**
4 low credit risk	0	2 129
5 low credit risk	5 055	2 950
6 low credit risk	5 344	9 581
7 medium credit risk	18 384	14 205
8 medium credit risk	27 839	5 486
9 heightened credit risk	6 366	3 887
10 high rating	1 003	10
12 non-satisfactory rating	76	580
Total (Note 22)	**63 991**	**38 834**

Distribution of internal ratings for other loan products:

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

The following table does not include other loans to individuals in amount of 13 thousand euros that were past due but not impaired as of 31.12.2014 (31.12.2013: 15 thousand). Corporate overdrafts in 2014 have been classified according to the rating scale of companies and presented as part of corporate loans together with the corporate loan portfolio. In 2013, the overdraft of individuals and companies is presented on a combined basis in the table below.

As of 31.12.2014	**Leverage loans**	**Credit cards**	**Leasing**	**Hire-purchase**	**Over-draft**	**Mortgage loans**	**Total**	**Discontinued operations**
Neither past due nor impaired								
Excellent	9 178	0	0	0	0	0	**9 178**	0
Good and very good	0	2 814	26 364	12 202	92	5 980	**47 452**	7 863
Past due, but not impaired								
Good	0	75	961	218	0	0	**1 254**	3 810
Satisfactory	0	15	218	59	0	0	**292**	1 518
Weak or doubtful	0	6	163	0	0	0	**169**	594
Individually impaired								
Weak or doubtful	18	49	15	182	0	0	**264**	2 528
Kokku	**9 196**	**2 959**	**27 721**	**12 661**	**92**	**5 980**	**58 609**	**16 313**

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As of 31.12.2013	Leverage 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	13 864	4 714	3 947	1 991	7 906	**34 552**
Past due, but not impaired								
Good	0	81	1 360	131	0	0	3 486	**5 058**
Satisfactory	0	18	104	1	0	0	1 579	**1 702**
Weak or doubtful	0	8	13	1	0	0	517	**539**
Individually impaired								
Weak or doubtful	18	61	37	36	0	0	2 394	**2 546**
Kokku	**9 957**	**2 298**	**15 378**	**4 883**	**3 947**	**1 991**	**15 882**	**54 336**

Loans against collateral as at 31.12.2014	Loans to other subsidiaries of the parent company	Corporate loans (including overdraft)	Leverage loans	Credit cards	Leasing	Hire-purchase	Mortgage loans and overdraft to private individuals	Total
Listed securities	0	0	9 178	0	0	0	0	9 178
Unlisted equity securities	0	29 179	0	0	0	0	0	29 179
Mortgages, real estate	0	131 308	0	0	0	0	6 085	137 393
Guarantee of KredEx and Rural Development Foundation	0	13 839	0	0	0	0	0	13 839
Pledges of rights of claim	27 074	26 712	0	0	0	0	0	53 786
Deposits	0	3 338	0	0	0	0	0	3 338
Leased assets	0	0	0	0	27 721	12 661	0	40 382
Others	0	8 825	0	0	0	0	0	8 825
Unsecured loans	0	1 176	18	2 959	0	0	0	4 153
Total	**27 074**	**214 377**	**9 196**	**2 959**	**27 721**	**12 661**	**6 085**	**300 073**

Loans against collateral as at 31.12.2013	Loans to other subsidiaries of the parent company	Corporate loans (including overdraft)	Leverage loans	Credit cards, consumer loans	Leasing	Hire-purchase	Mortgage loans and overdraft to private individuals	Total
Listed securities	0	0	9 939	0	0	0	0	9 939
Unlisted equity securities	0	14 765	0	0	0	0	0	14 765
Mortgages, real estate	0	84 410	0	0	0	0	2 035	86 445
Guarantee of KredEx and Rural Development Foundation	0	11 937	0	0	0	0	0	11 937
Pledges of rights of claim	24 075	7 283	0	0	0	0	0	31 358
Deposits	0	4 104	0	0	0	0	0	4 104
Leased assets	0	0	0	0	15 378	4 883	0	20 261
Others	0	9 086	0	0	0	0	0	9 086
Unsecured loans	0	1 151	18	18 180	0	0	0	19 349
Total	**24 075**	**132 737**	**9 957**	**18 180**	**15 378**	**4 883**	**2 035**	**207 245**

Unsecured loans in the year 2014 include credit card loans and in 2013 unsecured loans also include Finnish consumer loans that were excluded from the table in 2014 as discontinued operations. Unsecured corporate loans were issued to the government sector.

Collaterals for leverage loans are monitored on daily basis and in case of collateral value falling immediate measures are taken to avoid credit losses. As of 31 December 2014, all leveraged loans and repurchase loans are over-collateralized, except one leveraged loan in the amount of EUR 18 thousand (2013: 18 thousand), which has been provisioned. Consumer loans and credit card loans are issued without collateral and risk mitigation is done by regular monitoring of clients payment behaviour. The Group monitors customers in arrears of leasing and hire-purchases on regular basis.

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

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Under-collateralized loans include contracts more than 90 days overdue totalling 602 thousand euros with a collateral value of 543 thousand euros.

	Over-collateralized loans		Under-collateralized loans	
Corporate loans and corporate credit lines	Balance sheet value	Fair value of collateral	Balance sheet value	Fair value of collateral
As at 31.12.2014	164 587	311 982	49 790	31 543
As at 31.12.2013	99 887	212 692	34 169	16 636

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 last scheduled payment):

As at 31.12.2014	**Corporate loans**	**Leverage loans**	**Credit cards**	**Leasing**	**Hire-purchase**	**Total**	**Individual impairment**	**Net**
No past due payments	2 432	0	0	0	0	**2 432**	-219	**2 213**
Past due receivables								
61-90 days	0	0	0	0	41	**41**	-3	**38**
91-180 days	570	0	13	15	49	**647**	-76	**571**
181-360 days	108	0	18	0	66	**192**	-83	**109**
more than 360 days	0	18	18	0	26	**75**	-37	**38**
Total	**3 110**	**18**	**49**	**15**	**182**	**3 374**	**-418**	**2 956**

As at 31.12.2013	**Corporate loans**	**Leverage loans**	**Credit cards**	**Leasing**	**Hire-purchase**	**Consumer loans**	**Total**	**Individual impairment**	**Net**
No past due payments	2 344	0	0	0	0	0	**2 344**	-231	**2 113**
Past due receivables									
91-180 days	0	0	61	37	7	1 156	**1 261**	-333	**928**
181-360 days	0	0	0	0	29	1 083	**1 112**	-284	**828**
more than 360 days	0	18	0	0	0	155	**173**	-96	**77**
Total	**2 344**	**18**	**61**	**37**	**36**	**2 394**	**4 890**	**-944**	**3 946**

Credit quality of other receivables	**31.12.2014**	**31.12.2013**
Receivables not impaired and not past due	1 077	1 336
Receivables past due (not impaired)	67	33
incl. receivables from individuals	33	16
incl. receivables from legal persons	34	17
Total (Note 13)	**1 144**	**1 369**

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3.3 Market risk

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

3.3.1 Foreign currency risk

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

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

Open currency exposures

The following tables present the risks arising from open currency exposures. Assets and liabilities denominated in foreign currencies have been presented in EUR equivalent in respective columns, according to the exchange rate prevailing at the balance sheet date. Derivatives reported at fair value in the balance sheet have been included at contractual amounts under contingencies and commitments. Open currency exposure and the volume of financial assets and liabilities of the Group at the balance sheet date do not significantly differ from the average exposure during the year. The balances of total assets and total liabilities bearing currency risk do not include currency futures at their fair value, but they are shown here at their full contractual cash flow amounts as contingencies and commitments (see also Note 9); also, the table does not include the assets (tangible and intangible assets) and liabilities (provisions) not bearing currency risk and equity.

31.12.2014	**EUR**	**LTL**	**GBP**	**SEK**	**USD**	**Other**	**Total**
Assets bearing currency risk							
Balances with other banks and inv. companies	78 639	368	576	538	1 507	765	**82 393**
Securities	95 926	2 970	0	2	43 664	1	**142 563**
Loans granted	296 954	70	6	19	915	16	**297 980**
Receivables from customers	359	0	0	0	2	0	**361**
Other assets	149	0	0	0	634	0	**783**
Total assets bearing currency risk	**472 027**	**3 408**	**582**	**559**	**46 722**	**782**	**524 080**
Liabilities bearing currency risk							
Deposits from customers and loans received	433 218	808	275	521	55 866	678	**491 366**
Interest rate swaps	302	0	0	0	0	0	**302**
Accrued expenses and other liabilities	320	2 597	305	35	133	314	**3 704**
Total liabilities bearing currency risk	**433 840**	**3 405**	**580**	**556**	**55 999**	**992**	**495 372**
Off-balance sheet assets at contractual value	0	0	0	0	9 275	0	**9 275**
Off-balance sheet liabilities at contractual value	9 275	0	0	0	0	0	**9 275**
Open foreign currency position	**28 912**	**3**	**2**	**3**	**-2**	**-210**	**28 708**

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31.12.2013	EUR	LTL	LVL	SEK	USD	Other	Total
Assets bearing currency risk							
Balances with other banks and inv. companies	139 759	646	410	313	7 784	1 683	**150 595**
Securities	42 394	4	0	1	319	1	**42 719**
Loans granted	203 422	90	295	15	708	33	**204 563**
Receivables from customers	718	0	0	0	1	0	**719**
Other assets	93	0	0	0	558	0	**651**
Total assets bearing currency risk	**386 386**	**740**	**705**	**329**	**9 370**	**1 717**	**399 247**
Liabilities bearing currency risk							
Deposits from customers and loans received	357 054	685	841	332	9 333	1 617	**369 862**
Interest rate swaps	433	0	0	0	0	0	**433**
Accrued expenses and other liabilities	3 159	32	9	10	73	34	**3 317**
Total liabilities bearing currency risk	**360 646**	**717**	**850**	**342**	**9 406**	**1 651**	**373 612**
Open foreign currency position	**25 740**	**23**	**-145**	**-13**	**-36**	**66**	**25 635**

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

Impact on comprehensive income	Change	2014	Change	2013
USD exchange rate	+/-10%	+/-0	+/-10%	+/-4
SEK exchange rate	+/-10%	+/-0	+/-10%	+/-1

3.3.2 Price risk

Financial instruments bearing price risk at LHV Pank are securities held in the trading portfolio and investment portfolio (Note 9,10). At the Group, limits are set for the size of the trading portfolio and acceptable credit quality ratings are specified for bonds in the investment portfolio. The risk management unit monitors the compliance with limits. The Group does not hold significant amounts of equity securities in its position, due to which the sensitivity to change in the market value of these positions is marginal. The Group's debt securities portfolio recognised at the market price is short-term and of high quality, therefore, the effect of the changes in market risk premiums on the market value of the debt security portfolio should remain at around 0,9% (2013: 0,7%).

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

Impact on comprehensive income	Change	2014	Change	2013
Equity securities	+/-10%	+/-2	+/-10%	+/-2
Debt securities	+/-0.9%	+/-1 273	+/-0.7%	+/-287

3.3.3 Interest rate risk

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

The goal of monitoring, measuring and managing interest rate risk is to evaluate the profitability of the Group's interest-bearing

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products, to forecast interest income and to set limits for risk management in order to prevent significant reduction of income through limitation of risks in two aspects:

- cash flow interest rate risk whereby in case of a 1% change in market interest rates, a change in annual net interest income is limited as compared to the estimated actual income based on the term structure of instruments currently in the balance sheet;
- fair value interest rate risk whereby in case of a 1% change in market interest rates, a change in the Group's economical 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.

In 2014 the interest rates of the deposits did not change and ranged up to 1,0 % (up to 1,0% in 2013).

The interest rates for leverage loans granted are changed at most once a month according to fluctuations in market interest rates. In 2014, the interest rate on loans received for specific purposes was 1,4% (2013: 1,5%). The effective interest rate of subordinated loans entered into in 2012 was 7,25% (2013: 7,27%) and the effective interest rate of subordinated loans entered into in 2014 was 7,44%. The information about contractual interest rates is provided in Note 19.

As at 31.12.2014, an increase of 1% percentage point in interest rates would affect the Group's annual net interest income and profit by EUR +2 114 thousand (2013: EUR +1 841 thousand). In the same time, a decrease of 1% percentage point in interest rates would affect the Group's annual net interest income (profit) by EUR -1 766 thousand (2013: -860 thousand). A 1% percentage point increase in market interest rates would raise the Group's economical value, i.e. equity, by EUR 3 318 thousand (2013: EUR 3 117 thousand). A 1% percentage point decrease in market interest rates would decrease the Group's economical value (equity) by EUR -1 452 thousand (2013: EUR -644 thousand). The effect on the Group's economic value is positive due to the fact that the Group has invested in current assets and because of the nature of demand deposits the average duration of interest-earning assets is shorter than the average duration of interest-bearing liabilities.

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

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

31.12.2014	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Interest-earning assets					
Balances with other banks and inv. companies	82 393	0	0	0	**82 393**
Financial investments and securities	72 562	55 921	8 130	2 592	**139 205**
Loans granted	112 198	132 516	50 037	3 827	**298 578**
Total	**267 153**	**188 437**	**58 167**	**6 419**	**520 176**
Interest-bearing liabilities					
Deposits from customers and loans received	76 141	180 589	219 525	2 269	**478 524**
Subordinated loans *	0	0	4 000	8 000	**12 000**
Total	**76 141**	**180 589**	**223 525**	**10 269**	**490 524**
Interest pricing gap	**191 012**	**7 848**	**-165 358**	**-3 850**	**29 652**

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31.12.2013	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest-earning assets					
Balances with other banks and inv. companies	150 595	0	0	0	**150 595**
Financial investments and securities	30 169	7 084	3 854	0	**41 107**
Loans granted	68 529	75 574	58 462	8 148	**210 713**
Total	**249 293**	**85 658**	**62 316**	**8 148**	**402 415**
Interest-bearing liabilities					
Deposits from customers and loans received	96 536	144 946	116 574	1 214	**359 270**
Subordinated loans *	0	0	10 000	0	**10 000**
Total	**96 536**	**144 946**	**126 574**	**1 214**	**369 270**
Interest pricing gap	**152 757**	**-62 288**	**-64 258**	**6 934**	**33 145**

* The contractual term of subordinated loans received in 2014 is 10 years and the interest rate is fixed at 7,25%. The contractual term of subordinated loans received in 2012 is 8 years. The interest rate will be changed annually after 3 years.

3.4 Liquidity risk

Liquidity risk relates to the solvency of LHV Pank to meet its contractual obligations on time and it arises from differences between maturities of assets and liabilities. LHV Panks' liquidity management and strategy is based on risk policies, resulting in various liquidity risk measures, limits and internal procedures. As per policy statements, LHV Panks' liquidity management reflects a conservative approach towards liquidity risk. The liquidity risk management includes stress testing and business continuity plan for liquidity management. Stress testing framework includes a survival period metrics, which represents a combined liquidity risk scenario, including both idiosyncratic and market-wide stress. Internal metrics are complemented by the Basel III metrics - the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) which LHV Pank is fully compliant with as of 31.12.2014 ja 31.12.2013. The aim of the liquidity coverage ratio (LCR) standard is to ensure that the bank has an adequate amount of unencumbered assets of high quality and liquidity that could be monetised without incurring material losses to meet a liquidity requirement in a 30-day stress scenario. The output of the standard is the ratio of liquid assets to stress scenario liquidity requirement, which has a limit of 100%. The bank's liquidity coverage ratio level as at 31.12.2014 was 189%.

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

The treasury of LHV Pank is responsible for the management of liquidity risk. In order to hedge liquidity risk, the probable net position of receivables and liabilities by maturities is regularly monitored and adequate amounts of liquid assets are kept in each time period, also the concentration of bank's liabilities by maturities is monitored. To enable covering unexpected monetary outflows, LHV Pank holds a liquidity buffer. The liquidity buffer consists of cash and deposits with the central bank and liquid securities held by the Treasury, which can be readily sold or used as a collateral in funding operations with the central bank. LHV Pank has a sufficient supply of liquid resources to enable issuing standby loans. As at 31.12.2014 and 31.12.2013, the Group does not have any debts past due.

Short-term loans can be obtained from the central bank, secured by the majority of instruments from the bond portfolio. In 2013 it was decided to reclassify the held to maturity bond portfolio to portfolio held at market value and to sell most of it.

The following tables present the distribution of financial assets and liabilities, excl. derivatives, by due dates and by future contractual undiscounted cash flows and therefore, the tables do not reconcile to the positions in the balance sheet. In the maturity analysis, the cash flows are split into the maturity buckets in which the cash flows occur (including interest cash flows). Explanation of the fair value of these financial assets and liabilities is presented in Note 3.6

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31.12.2014	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities by contractual maturity dates						
Deposits from customers and loans received	276 833	76 666	110 303	15 292	982	**480 076**
Subordinated loans	0	465	645	3 453	14 893	**19 456**
Other liabilities	0	3 704	0	0	0	**3 704**
Unused loan commitments	0	64 334	0	0	0	**64 334**
Financial guarantees by contractual amounts	0	9 791	0	0	0	**9 791**
Interest rate swaps	0	24	161	118	0	**303**
Total liabilities	**276 833**	**154 984**	**111 109**	**18 863**	**15 875**	**577 664**
Assets held for managing liquidity risk by contractual maturity dates						
Balances with banks and inv. companies	81 413	980	0	0	0	**82 393**
Debt securities in market value	0	55 499	51 540	32 599	5 147	**144 785**
Loans granted	0	17 419	62 123	226 927	27 174	**333 643**
Receivables from customers	0	361	0	0	0	**361**
Total assets held for managing liquidity risk	**81 413**	**74 259**	**113 663**	**259 526**	**32 321**	**561 182**
Maturity gap from assets and liabilities	**-195 420**	**-80 725**	**2 554**	**240 663**	**16 446**	**-16 482**

31.12.2013	On demand	0-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities by contractual maturity dates						
Deposits from customers and loans received	164 513	96 528	92 717	5 687	1 268	**360 713**
Subordinated loans	0	0	700	3 199	11 787	**15 685**
Other liabilities	0	3 127	0	0	0	**3 127**
Unused loan commitments	0	32 629	0	0	0	**32 629**
Financial guarantees by contractual amounts	0	6 556	0	0	0	**6 556**
Interest rate swaps	0	24	177	236	0	**436**
Total liabilities	**164 513**	**138 864**	**93 595**	**9 121**	**13 055**	**419 147**
Assets held for managing liquidity risk by contractual maturity dates						
Balances with banks and inv. companies	150 469	126	0	0	0	**150 595**
Debt securities in market value	0	12 601	9 313	21 479	0	**43 393**
Loans granted	0	22 804	39 834	155 216	19 356	**237 211**
Receivables from customers	0	719	0	0	0	**719**
Total assets held for managing liquidity risk	**150 469**	**36 251**	**49 147**	**176 695**	**19 356**	**431 918**
Maturity gap from assets and liabilities	**-14 044**	**-102 613**	**-44 447**	**167 574**	**6 302**	**12 771**

3.5 Risk concentration

Distribution of financial assets and liabilities is shown in the tables below. As at 31.12.2014, the loans issued to 5 customers and 2 correspondent banks (2013: total 6) had a large risk exposure, i.e. more than 10% of the net own funds (NOF) of LHV Pank either individually or via group risk, totaling 117% of NOF (2013: 79%). The Group has invested in the bonds of 5 issuers (2013: 2) with a large risk exposure, totaling 219% of NOF (2013: 51%). In 2014 the Group granted loans to another subsidiary of the parent company totaling 24 074 thousand euros (2013: 24 075), which is 48% of the Group NOF(2013: 66%). Unused loan commitments in amount of 61 334 thousand euros are for Estonian residents and 3 000 thousand euros for other subsidiaries of the parent company (2013: 32 629).

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31.12.2014	Estonia	Latvia	Lithuania	Finland	Nether-lands	Germany	EU	USA	Other	Total
Balances with banks and inv. companies	61 139	295	1 430	1 902	550	0	2 691	14 268	118	**82 393**
Financial investments and securities	611	4 026	3 385	0	285	14 313	76 287	43 656	0	**142 563**
Loans granted	264 008	521	27 867	2 444	15	0	3 108	0	17	**297 980**
Receivables from customers	352	2	6	0	0	0	0	0	1	**361**
Other financial assets	108	0	0	0	0	0	0	675	0	**783**
Total financial assets	**326 218**	**4 844**	**32 688**	**4 346**	**850**	**14 313**	**82 086**	**58 599**	**136**	**524 080**
Deposits from customers and loans received	406 604	1 556	1 680	361	2	125	53 992	598	14 199	**479 117**
Subordinated loans	12 249	0	0	0	0	0	0	0	0	**12 249**
Other financial liabilities	2 644	0	0	0	0	0	13	3	0	**2 660**
Total financial liabilities	**421 497**	**1 556**	**1 680**	**361**	**2**	**125**	**54 005**	**601**	**14 199**	**494 026**

31.12.2013	Estonia	Latvia	Lithuania	Finland	Nether-lands	Germany	EU	USA	Other	Total
Balances with banks and inv. companies	143 245	518	1 237	1 150	452	0	2 526	1 359	108	**150 595**
Financial investments and securities	612	0	349	201	282	6 020	29 291	814	5 149	**42 719**
Loans granted	159 116	580	24 692	16 996	15	0	3 163	0	1	**204 563**
Receivables from customers	711	2	6	0	0	0	0	0	0	**719**
Other financial assets	8	0	0	0	0	0	0	642	0	**939**
Total assets	**303 692**	**1 100**	**26 284**	**18 347**	**749**	**6 020**	**34 980**	**2 815**	**5 258**	**399 246**
Deposits from customers and loans received	353 442	860	1 850	569	2	42	2 359	129	585	**359 837**
Subordinated loans	10 025	0	0	0	0	0	0	0	0	**10 025**
Other financial liabilities	2 671	0	0	0	0	0	11	2	0	**2 684**
Total liabilities	**366 138**	**860**	**1 850**	**569**	**2**	**42**	**2 370**	**131**	**585**	**372 546**

Distribution of loans granted by industry (gross):	31.12.2014	%	31.12.2013	%
Individuals	30 755	10,25%	33 546	16,19%
Real estate	87 503	29,16%	50 077	24,16%
Financial services	49 169	16,39%	43 903	21,18%
Manufacturing	26 751	8,91%	20 875	10,07%
Professional, scientific and technical activities	2 401	0,80%	10 127	4,89%
Wholesale and retail	14 798	4,93%	8 975	4,33%
Other servicing activities	7 629	2,54%	6 052	2,92%
Art and entertainment	24 810	8,27%	6 037	2,91%
Transport and logistics	10 468	3,49%	5 713	2,76%
Agriculture	8 058	2,69%	5 579	2,69%
Administrative activities	11 321	3,77%	4 197	2,03%
Construction	4 822	1,61%	3 170	1,53%
Education	1 714	0,57%	2 238	1,08%
Information and communication	4 049	1,35%	2 216	1,07%
Other areas at activities	15 825	5,27%	4 540	2,20%
Total	**300 073**	**100%**	**207 245**	**100%**

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3.6 Fair value of financial assets and financial liabilities

	Level 1	Level 2	Level 3	31.12.2014	Level 1	Level 2	Level 3	31.12.2013
Financial assets at fair value through profit or loss								
equity securities	27	0	0	**27**	20	0	0	**20**
debt securities available-for-sale (note 9)	4 273			**4 273**	11 903	0	0	**11 903**
debt securities at fair value through profit or loss (note 10)	138 263	0	0	**138 263**	30 796	0	0	**30 796**
Total financial assets	**142 563**	**0**	**0**	**142 563**	**42 719**	**0**	**0**	**42 719**
Financial liabilities at fair value through profit or loss								
interest rate swaps	0	**302**	0	**302**	**0**	**433**	0	**433**
Total financial liabilities	**0**	**302**	0	**302**	**0**	**433**	**0**	**433**

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

Levels used in hierarchy:

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

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

AS at 31.12.2014 the fair value of corporate loans and overdraft is EUR 228 thousand (0,1%) higher than their carrying amount. The loans have been issued at market conditions in the segment that the Group operates in and therefore their fair value is not much different from their carrying amount as at 31.12.2014 and 31.12.2013. The fair value of corporate loans is level 3 as significant judgmental assumptions are used for the valuation process (discounted cash flow method with current market interest).

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

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

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

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

The majority of subordinated loans were received in 2014 and the remainder in 2012. These loans carry approximately equal interest rates and considering the short term of the loan received in June 2014, 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.

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3.7 Operating risk

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

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

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

NOTE 4 Significant management estimates and assumptions

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

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

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

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NOTE 5 Net interest income

Interest income	**2014**	**2013**
Balances with credit institutions and investment companies	37	21
Balances with central bank	19	45
Debt securities	459	1 066
incl. debt securities available-for-sale	*79*	*601*
incl. debt securities at fair value through profit or loss	*380*	*465*
Leasing	923	352
incl. loans to related parties	*4*	*0*
Leverage loans and lending of securities	833	833
Hire-purchase	1 924	334
Loans to companies	9 768	6 622
Other loans	1 631	620
incl. loans to related parties	*1 296*	*407*
Total	**15 594**	**9 894**
Interest expense		
Deposits from customers and loans received	-2 560	-2 131
incl. loans from related parties	*-850*	*-424*
Total	**-2 560**	**-2 131**
Net interest income	**13 034**	**7 763**

Interest income of loans by customer location (interests from bank balances and debt securities not included):	**2014**	**2013**
Estonia	13 837	8 229
Latvia	37	42
Lithuania	1 205	490
Total	**15 079**	**8 761**

NOTE 6 Net fee and commission income

Fee and commission income	**2014**	**2013**
Security brokerage and commissions	2 176	2 072
incl. related parties	*1*	*8*
Asset management and similar fees	756	619
Currency convert revenues	393	350
Fees from cards and payments	770	399
Fees related to collection of debts	7	0
Other fee and commission income	397	228
Total	**4 499**	**3 668**
Fee and commission expense		
Security brokerage and commissions paid	-518	-504
Other fee and commission expense	-648	-375
Total	**-1 166**	**-879**
Net fee and commission income	**3 333**	**2 789**

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Fee and commission income by customer location:	2014	2013
Estonia	4 158	3 294
Latvia	107	116
Lithuania	233	258
Total	**4 498**	**3 668**

NOTE 7 Operating expenses

	2014	2013
Wages, salaries and bonuses	4 592	3 483
Social security and other taxes	1 475	1 152
Total staff costs	**6 067**	**4 635**
IT expenses	841	664
Information services and bank services	404	360
Marketing expenses	891	549
Office expenses	348	310
Transportation and communication costs	119	82
Training and travelling expenses of employees	175	135
Other outsourced services	434	650
Other administrative expenses	911	825
Depreciation	558	464
Operating lease payments	663	629
Other operating expenses	90	59
Total other operating expenses	**5 434**	**4 727**
Total operating expenses	**11 501**	**9 362**

NOTE 8 Balances with central bank, credit institutions and investment companies

	31.12.2014	31.12.2013
Demand deposits and time deposits up to 3 months*	36 966	16 756
Statutory reserve capital at central bank	4 498	3 397
Other receivables from central bank	40 929	130 442
Total	**82 393**	**150 595**
* cash and cash equivalents in the statement of cash flows	77 895	147 198

Distribution of receivables by countries is presented in Note 3. Balances with investment companies amounting to EUR 14 484 thousand (2013: EUR 1 466 thousand) are included under demand deposits. All other demand and term deposits are held at credit institutions or the central bank.

Mandatory banking reserve as at 31.12.2014 was 1% (2013: 1%) of all financial resources taken in (Deposits from customers and loans received). The reserve requirement is to be fulfilled as a monthly average in euros or in the foreign securities preapproved by the central bank.

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NOTE 9 Available-for-sale financial assets

The Group has available-for-sale bond portfolio in amount of 4 273 thousand euros as of 31.12.2014 (31.12.2013: 11 903) which resulted from reclassification of held-to-maturity portfolio. The balance of other reserv in equity is 6 thousand euros (31.12.2013:comprehensive loss 27 thousand).

In 2014 a gain of 4 thousand euros from the sales of bonds was recognized in statement of comprehensive income. In 2013, as a result of reclassification and sales of the portfolio a gain of 2 228 thousand euros was recognized in statement ofcomprehensive income. Interest income from bond portfolio is recognized in interest income.

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

Securities held for trading:	**31.12.2014**	**31.12.2013**
Equity securities	27	20
Debt securities	138 263	30 796
Total financial assets	**138 290**	**30 816**
Interest rate swaps	302	433
Total financial liabilities	**302**	**433**

Bid price is the fair value of investments in the case of publicly listed securities (Note 3.6). In 2014, a gain of 280 thousand euros was recognised on the revaluation of bonds (2013: -43 thousand euros) and a loss arose on the revaluation of interest rate swaps in the amount of 70 thousand euros (2013: 7 thousand euros). Interest income from bonds is recognized in interest income.

NOTE 11 Discontinued operations

At 09.01.2015, the Group disposed of the business of the branch in Finland, therefore in these financial statements assets and liabilities related to the branch are presented separately as assets and liabilities held for sale. The fair value of these assets and liabilities did not differ from their carrying amount at the time of sale.

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

Net income from discontinued operations:	**2014**	**2013**
Interest income	4 649	3 403
Fee and commissions income	384	341
Total expenses	-3 111	-3 949
Net profit for the year from discontinued operations	**1 922**	**-205**

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NOTE 12 Loans granted

	31.12.2014	31.12.2013
Loans to legal persons	**269 318**	**173 699**
incl. loans to other subsidiaries of the parent company	27 074	24 075
incl. corporate loans	207 506	128 819
incl. overdraft	6 871	3 918
incl. hire-purchase	64	0
incl. leverage loans	4 164	4 218
incl. leasing	23 579	12 579
incl. credit card loans	61	47
incl. mortgage loans	0	43
Loans to individuals	**30 754**	**33 546**
incl. consumer loans	0	15 882
incl. hire-purchase	12 598	4 883
incl. leveraged loans	5 032	5 739
incl. leasing	4 142	2 799
incl. credit card loans	2 898	2 251
incl. mortgage loans	5 980	1 948
incl. overdraft	92	29
Incl. other loans	13	15
Total	**300 073**	**207 245**
Impairment provisions	-2 093	-2 682
Total	**297 980**	**204 563**

As at 31.12.2014 loans have been issued to related parties in the amount of EUR 29 120 thousand and the loans have been issued on market terms (as at 31.12.2013 EUR 24 423 thousand). See also Note 23.

In 2014, the average effective interest rate of new consumer loans issued to individuals recognized as discontinued operations was 28-40%.The average effective interest rate for hire-purchase was around 24%, credit cards 13% and leasing 4%. The contractual interest rate of leveraged loans issued to individuals is generally equal to their effective interest rate, because no other significant fees have been received upon their issue.

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

Changes in impairments in 2013	**Corporate loans**	**Consumer loans**	**Credit cards**	**Hire-purchase**	**Leasing**	**Leverage loans**	**Total**
Balance as at January 1	-26	-1 029	-34	0	0	-18	**-1 107**
Impairment provisions set up during the year	-858	-1 496	-49	-69	-147	0	**-2 619**
Written off during the year	14	1 030	0	0	0	0	**1 044**
Balance as at December 31	**-870**	**-1 495**	**-83**	**-69**	**-147**	**-18**	**-2 682**

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Net and gross investments on Leasings according to remaining maturity	Net investment	Unearned future interest income	Gross investment
up to 1 year	7 430	810	8 240
1-5 years	20 213	1 206	21 419
over 5 years	78	197	275
Total as at 31.12.2014	**27 721**	**2 213**	**29 934**
up to 1 year	4 505	323	4 828
1-5 years	10 801	786	11 587
over 5 years	72	120	192
Total as at 31.12.2013	**15 378**	**1 229**	**16 607**

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

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

Distribution of loans granted by due dates is disclosed in Note 3.4.

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

For interest income on loans granted, see Note 5.

NOTE 13 Receivables from customers

	31.12.2014	31.12.2013
Asset management fees from customers	48	45
Other fees for providing services to customers	252	661
Payments in transit	60	1
Other receivables related to collection of receivables	1	12
Kokku	**361**	**719**

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

NOTE 14 Other assets

	31.12.2014	31.12.2013
Guarantee deposits of Baltic stock exchanges	8	8
Guarantee deposit of MasterCard and VISA	775	642
Prepayments to Financial Supervision Authority	100	144
Other prepayments *	602	145
Total	**1 485**	**939**

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

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

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NOTE 15 Tangible and intangible assets

	Tangible assets	Intangible assets	Total
Balance as at 31.12.2012			
Cost	1 688	745	2 433
Accumulated depreciation and amortisation	-1 057	-304	-1 361
Carrying amount	**631**	**441**	**1 072**
Changes occurred in 2013:			
Purchase of non-current assets	64	350	414
Depreciation/amortisation charge	-279	-258	-537
Balance as at 31.12.2013			
Cost	1 752	1 095	2 847
Accumulated depreciation and amortisation	-1 336	-562	-1 898
Carrying amount	**416**	**533**	**949**
Changes occurred in 2014:			
Purchase of non-current assets	125	364	489
Depreciation/amortisation charge	-245	-375	-620
Balance as at 31.12.2014			
Cost	1 877	1 459	3 336
Accumulated depreciation and amortisation	-1 581	-937	-2 518
Assets of discontinued opertaions, classified as held	-60	0	-60
Carrying amount	**236**	**522**	**818**

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

In 2014 and 2013, there was no indication of impairment of tangible and intangible assets.

NOTE 16 Deposits from customers and loans received

	Individuals	Legal entities	Public sector	**31.12.2014 total**	Individuals	Legal entities	Public sector	**31.12.2013 total**
Demand deposits	77 492	198 077	1 199	276 768	49 187	109 176	5 790	**164 153**
Term deposits	78 637	99 915	6 117	184 669	80 857	86 505	24 226	**191 588**
Loans received	0	13 534	3 557	17 091	0	107	3 422	**3 529**
Accrued interest liability	315	249	25	589	322	202	43	**567**
Total	**156 444**	**311 775**	**10 898**	**479 117**	**130 366**	**195 990**	**33 481**	**359 837**
incl. related parties (Note 23)	*2 829*	*11 933*	*0*	*14 822*	*110*	*5 192*	*0*	*5 302*

Loans received from public sector includes loans from Maaelu Edendamise Sihtasutus (Rural Development Foundation) in the amount of 3 557 thousand euros (31.12.2013: 3 529 thousand) with an intended purpose to finance loans to small enterprises operating in rural areas and a loan from the European Central Bank, secured with the bond portfolio, in the amount of 13 005 thousand (31.12.2013: 0) euros and internest rate 0,15%. The nominal interest rates of most deposits from customers and loans received equal their effective interest rates as no other significant fees have been paid.

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

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

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

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NOTE 17 Accounts payable and other liabilities

Financial liabilities	**31.12.2014**	**31.12.2013**
Trade payables	*1 404*	*1 343*
Other short-term liabilities	*515*	*679*
Payments in transit	*611*	*158*
Financial guarantee contracts issued	*98*	*69*
Subtotal	**2 628**	**2 249**
Non-financial liabilities		
Performance guarantee contracts issued	*182*	*122*
Tax liabilities	*506*	*377*
Payables to employees	*668*	*567*
Subtotal	**1 356**	**1 066**
Total	**3 984**	**3 317**

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

NOTE 18 Operating lease

The Group leases office premises under the operating lease terms. All lease agreements are cancellable upon the consent of both parties. The future minimum lease payments under unilaterally non-cancellable lease payable in the next period amounts to EUR 2 971 thousand (2013: EUR 1 190 thousand), the current portion of which amounts to EUR 637 thousand (2013: EUR 558 thousand) and the non-current portion amounts to EUR 2 334 thousand (2013: EUR 633 thousand). In 2014, the operating lease payments for office premises in the amount of EUR 663 thousand (2013: EUR 629 thousand) are included within operating expens.

NOTE 19 Subordinated loans

As at 31.12.2013, subordinated loans include bonds issued in the total amount of EUR 10 000 thousand (31.12.2012: EUR 7 000 thousand). The parent LHV Group purchased these securities, having issued subordinated bonds itself and partially deposited the proceeds received from the issue to the bank under the same conditions with the goal of including subordinated bonds within the bank's net own funds.

In June 2014, subordinated bonds were issued totalling 8 000 thousand euros carrying a rate of interest at 7.25%. The due date of the bonds is 20 June 2024. Subordinated bonds totalling 6 000 thousand euros issued in 2013 were simultaneously redeemed.

In December 2012, subordinated bonds were issued in the amount of EUR 4 000 thousand. The due date of the bonds is 20 December 2020 and the interest rate is 7% during the first three-year period and 7% + 3 months EURIBOR onwards. After three years, the issuer has the right to prematurely redeem the bonds.

Interest expenses on subordinated bonds in the amount of EUR 787 thousand (2013: EUR 422 thousand) are included within interest expenses in the income statement. As of 31 December 2014, the accrued interest liability of subordinated bonds was EUR 224 thousand (31 December 2013: EUR 25 thousand). Interest liabilities are accounted in the balance sheet using the effective interest rate.

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NOTE 20 Shareholders' equity in the public limited company

The sole shareholder of the Group is a company registered in Estonia, AS LHV Group. Rain Lõhmus who owns 28,0% of the voting rights and Andres Viisemann who owns 8,9% of the voting rights in AS LHV Group have significant influence over the company (31.12.2013: 34,5% and 10,3%, respectively). According to the Company's articles of association, the minimum share capital is 25 million euros and the maximum share capital is 100 million euros (at 31.12.2013: 10 million euros and 40 million euros, respectively). The share capital is fully paid-up in cash. In 2014, the share capital of AS LHV Pank was increased by 12 million euros through a cash contribution by the sole shareholder AS LHV Group. In 2013, share capital was increased in three occasions: cash contributions of 3 million, 1,8 million and 5 million were made. The bank's share capital increased to 45,5 million euros by the year-end 2014.

As at 31.12.2014, the accumulated loss of the Group amounted to 704 thousand euros (31.12.2013: loss of 6 678 thousand euros). Thus, it is not possible to pay dividends to the shareholders.

	31.12.2014	**31.12.2013**
Share capital (in EUR thousand)	45 500	33 500
Number of shares (pcs)	45 500 000	33 500 000
Par value of a share	1 EUR	1 EUR

NOTE 21 Assets under management

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

	31.12.2014	**31.12.2013**
Cash balance of customers	6 047	5 620
Securities of customers	**590 802**	**356 051**
incl. parent company	*50 051*	*38 062*
incl. shareholders of the parent company and related entities	*22 029*	*17 708*
Total	**596 849**	**361 671**

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

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

NOTE 22 Contingent assets and liabilities

Irrevocable transactions	**Performance guarantees**	**Financial guarantees**	**Unused loan commitments**	**Total**
Contractual amount 31.12.2014	6 892	2 899	64 334	**74 125**
Contractual amount 31.12.2013	5 025	1 531	32 629	**39 185**

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

The tax authorities have not performed any tax audits at the Group during 2012 - 2013. The Group's management estimates that there are no such circumstances which may lead the tax authorities to impose significant additional taxes on the Group.

NOTE 23 Transactions with related parties

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

- owners (parent company and owners of the parent that have significant impact on the group's parent company);
- entities in the consolidation group (incl. fellow subsidiaries and associates);
- members of the management board, head of internal audit unit and legal entities controlled by them (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**	**2014**	**2013**
Interest income	**6**	**1 300**	**407**
incl. management		4	0
incl. entities in the consolidation group of the parent		1 296	407
Interest expenses	**6**	**845**	**424**
incl. management		*0*	*2*
incl. parent company		*782*	*422*
incl. shareholders, related entities and close relatives that have significant influence		*63*	*0*
Fee and commission income	**5**	**8**	**8**
incl. shareholders, related entities and close relatives that have significant influence		*1*	*8*
Other income		**46**	**45**
incl. shareholders, related entities and close relatives that have significant influence		*46*	*45*

Balances	**Note**	**31.12.2014**	**31.12.2013**
Loans and receivables as at the year-end	**12**	**29 120**	**24 423**
incl. management		*347*	*345*
incl. shareholders, related entities and close relatives that have significant influence		*28 773*	*24 078*
Loans received as at the year-end		**27 071**	**15 327**
incl. management	*16*	*162*	*110*
incl. parent company	*19*	*12 249*	*10 025*
incl. shareholders, related entities and close relatives that have significant influence	*16*	*14 660*	*5 192*

The table provides an overview of the material balances and transactions involving related parties. All other transactions involving the close relatives and the entities related to members of the management board and supervisory board and the minority shareholders of the parent company AS LHV Group have occurred according to the overall price list of the bank.

In 2013 the Group granted loans to another subsidiary of the parent company in amount of 24 million euros and 2014 the Group granted additional loans of 3 million euros. The interest rate of this loan is dependant of financing cost and capital requirements of the Group and is changed on quarterly basis. As of 31.12.2014 the interest rate was 3,86% (31.12.2013:

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4,54%). As of 31.12.2014 the Group has taken a commitment to grant loans up to 30 million euros.

As at 31.12.2014, the management did not have term deposits and the interest rate on demand deposits corresponds to the overall price list applicable to customers. The term deposits due to management as at 31.12.2013 are with maturities in January to July 2014 and with interest rates 0,4 – 1,0%.

The subordinated loan received in June 2014 has the interest rate of 7,25%The subordinated loan received in December 2012 has the interest rate of 7% during the first three years and 3 months EURIBOR + 7% since December 2015.

The interest rate of all subordinated loans is the same as the parent is paying on its own subordinated loan received from a third party, and it deposited the funds at the Bank.

In 2014, salaries and other compensations paid to the management of LHV totalled 426 thousand EUR (2013:430 thousand), including all taxes. The Management Board of the Bank had 6 members in 2014 like in 2013. As at 31.12.2014, remuneration for December and accrued holiday pay in the amount of EUR 94 thousand (as at 31.12.2014: 56 thousand) is reported as a payable to management (Note 17). The Group did not have any long-term payables or commitments to the members of the Management Board and the Supervisory Board as at 31.12.2014 and 31.12.2013 (pension liabilities, termination benefits, etc). In 2014, the remuneration paid to the members of the Supervisory Board totalled EUR 7 thousand (2013: EUR 23 thousand).

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

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

NOTE 24 Subsequent events

At 09.01.2015, the Group disposed of the business of its branch in Finland. As a result, the assets and liabilities of the sold business unit have been presented in these financial statements as assets and liabilities held for sale in the balance sheet and the results of the sold business unit have been presented separately in the income statement from continued operations.

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NOTE 25 Separate financial statements of parent company

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

Statement of comprehensive income of the parent

(in thousands of euros)	**2014**	**2013**
Continuing operations		
Interest income	13 984	9 605
Interest expense	-2 560	-2 131
Net interest income	**11 424**	**7 474**
Fee and commission income	4 480	3 666
Fee and commission expense	-1 161	-878
Net fee and commission income	**3 319**	**2 788**
Net gains from financial assets measured at fair value	338	2 354
Foreign exchange rate losses	3	-12
Net gains from financial assets	**341**	**2 342**
Other income	36	75
Operating expenses	-10 489	-8 872
Profit/loss before loan losses	**4 631**	**3 807**
Impairment losses on loans and advances	-844	-1 054
Net profit for the year from continuing operations	**3 787**	**2 753**
Profit from discontinued operations	**1 922**	**-205**
Net profit for the year	**5 709**	**2 548**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale investments:		
Revaluation of available-for-sale financial assets	21	-27
Total comprehensive income/loss for the year	**5 730**	**-2 521**

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Statement of Financial Position of the parent

(in thousands of euros)	31.12.2014	31.12.2013
Assets		
Balances with central bank	45 427	133 839
Due from credit institutions	22 482	15 300
Due from investment companies	14 484	1 456
Available-for-sale financial assets	4 273	11 903
Other financial assets at fair value through profit or loss	138 290	30 816
Assets of discontinued operations, classified as held for sale	15 473	0
Loans and advances to customers	296 028	203 457
Receivables from customers	213	687
Other assets	1 482	938
Subsidiaries	325	325
Tangible assets	207	414
Intangible assets	408	442
Total assets	**539 092**	**399 577**
Liabilities		
Deposits from customers and loans received	479 117	359 837
Financial liabilities at fair value through profit or loss	302	433
Accrued expenses and other liabilities	2 405	2 305
Liabilities of discontinued operations, classified as held for sale	220	0
Subordinated loans	12 249	10 025
Total liabilities	**494 293**	**372 600**
Equity		
Share capital	45 500	33 500
Statutory reserve capital	118	0
Other reserves	-6	-27
Accumulated deficit	-813	-6 496
Total equity	**44 799**	**26 977**
Total liabilities and equity	**539 092**	**399 577**

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Statement of cash flows of the parent

(in thousands of euros)	2014	2013
Cash flows from operating activities		
Interest received	13 646	9 337
Interest paid	-2 308	-3 410
Fees and commissions received	4 483	3 654
Fees and commissions paid	-1 161	-878
Other operating income received	36	75
Staff costs paid	-5 460	-4 298
Administrative and other operating expenses paid	-4 291	-3 934
Cash flows from operating activities before change in operating assets and liabilities	**4 945**	**546**
Net increase/decrease in operating assets:		
Net acquisition/disposal of trading portfolio	-6	-4
Loans and advances to customers	-107 918	-97 958
Term deposits with other credit institutions	-1	2
Mandatory reserve at central bank	-1 101	-846
Security deposits	-133	64
Other assets	-411	-56
Net increase/decrease in operating liabilities:		
Demand deposits of customers	112 617	87 354
Term deposits of customers	-6 920	-12 128
Loans received and repayments	13 556	-612
Financial liabilities for trading at fair value through profit or loss	-131	-223
Other liabilities	206	222
Net cash generated from / used in operating activities from continuing operations	**14 703**	**-23 639**
Cash generated from / used in operating activities from discontinued operations	1 865	-1 504
Net cash generated from / used in operating activities	**16 568**	**-25 143**
Cash flows from investing activities		
Purchase of non-current assets	-393	-306
Acquisition of investment securities held to maturity	0	-2 790
Proceeds from disposal and redemption of investment securities available for sale	7 730	61 130
Net changes of investment securities at fair value through profit or loss	-107 208	14 090
Investment in share capital of subsidiary	0	-325
Net cash used in / from investing activities	**-99 871**	**71 799**
Cash flows from financing activities		
Paid in share capital	12 000	9 800
Subordinated loans received	2 000	3 000
Net cash from financing activities	**14 000**	**12 800**
Net decrease / increase in cash and cash equivalents	**-69 303**	**59 456**
Cash and cash equivalents at the beginning of the year	147 198	87 742
Cash and cash equivalents at the end of the year	**77 895**	**147 198**

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Statement of changes in shareholders' equity

(in thousands of euros)	Share capital	Statutory reserve capital	Other reserves	Accumulated deficit	Total
Balance as at 31.12.2013	**23 700**	**0**	**0**	**-9 044**	**14 656**
Paid-in share capital	9 800	0	0	0	**9 800**
Profit for the year	*0*	*0*	*0*	*2 548*	***2 548***
Other comprehensive income	*0*	*0*	*-27*	*0*	***-27***
Total comprehensive income for 2013	0	0	-27	2 548	**2 521**
Balance as at 31.12.2013	**33 500**	**0**	**-27**	**-6 496**	**26 977**
Carrying amount of holdings under control and significant influence	0	0	0	-325	-325
Value of holdings under control and significant influence under equity method	0	0	0	143	143
Adjusted unconsolidated equity as at 31.12.2013	**33 500**	**0**	**-27**	**-6 678**	**26 795**
Balance as at 01.01.2014	**33 500**	**0**	**-27**	**-6 678**	**26 795**
Paid in statutory reserve capital	0	118	0	-118	**0**
Paid in share capital	12 000	0	0	0	**12 000**
Share-based payments	0	0	0	92	**92**
Profit for the year	*0*	*0*	*0*	*5 709*	***5 709***
Other comprehensive income	*0*	*0*	*21*	*0*	***21***
Total comprehensive income for 2014	0	0	21	5 709	**5 730**
Balance as at 31.12.2014	**45 500**	**118**	**-6**	**-813**	**44 799**
Carrying amount of holdings under control and significant influence	0	0	0	-325	-325
Value of holdings under control and significant influence under equity method	0	0	0	455	455
Adjusted unconsolidated equity as at 31.12.2014	**45 500**	**118**	**-6**	**-683**	**44 929**

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Kuupäev/date 27.02.15
PricewaterhouseCoopers, Tallinn

Signatures of the Management Board to the Consolidated Annual Report

The Management Board has prepared the management report and the consolidated financial statements of AS LHV Pank for the financial year ended on 31 December 2014. The consolidated financial statements present a true and fair view of the Bank's financial position, the results of operations and its cash flows.

27.02.2015

Erki Kilu /signed/
Chairman of the Management Board

Andres Kitter /signed/
Member of the Management Board

Indrek Nuume /signed/
Member of the Management Board

Jüri Heero /signed/
Member of the Management Board

Martin Lengi /signed/
Member of the Management Board

Martti Singi /signed/
Member of the Management Board

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholder of AS LHV Pank

We have audited the accompanying consolidated financial statements of AS LHV Pank and its subsidiary, which comprise the consolidated statement of financial position as of 31 December 2014 and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AS LHV Pank and its subsidiary as of 31 December 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

/signed/	/signed/
Ago Vilu Auditor's Certificate No. 325	Verner Uibo Auditor's Certificate No. 568

27 February 2015

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

Proposal for profit distribution

The Management Board of LHV Pank proposes to the General Meeting of Shareholders to distribute the profit of the financial year 2014 as follows:

- to add EUR 301 thousand to statutory reserve capital
- to add the profit for reporting period attributable to shareholders of the parent in the amount of EUR 5 719 thousand to the accumulated deficit.

Signatures of the Supervisory Board to the Annual Report

The Supervisory Board has reviewed the annual report which consists of the management report and the financial statements, the independent auditor's report and the profit allocation proposal, and approved it for presentation at the General Meeting of Shareholders.

25.03.2015

Erkki Raasuke
Chariman of the Supervisory Board

Rain Lõhmus
Member of the Supervisory Board

Andres Viisemann
Member of the Supervisory Board

Tiina Mõis
Member of the Supervisory Board

Hannes Tamjärv
Member of the Supervisory Board

Heldur Meerits
Member of the Supervisory Board

Raivo Hein
Member of the Supervisory Board

Allocation of income according to EMTA classificators

EMTAK	Activity	2014	2013
66121	Security and commodity contracts brokerage	2 932	2 691
64191	Credit institutions (banks) (granting loans)	21 271	14 263
64911	Leasing	923	352
	Total income	**25 126**	**17 306**