AS LHV Group
Consolidated Annual Report 2014
(translation of the Estonian original)

Consolidated Annual Report **01.01.2014 – 31.12.2014**

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

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Statement of Managing Director

2014 was a successful year for the LHV Group (LHV). The majority of targets set at the start of the year were achieved and in many cases surpassed. At the same time there was and always will be room for improvement and further development. Looking back at 2014, one can say that the economic climate remained favourable and supporting for our business, in spite of the general perception of fragility and risk exposure. It is clear that the repercussions of the global financial crisis can still be felt. Because of measures taken by central banks for stabilizing the European economy and promoting growth, we are now operating in a totally new situation. Base interest rates and deposit interest rates have fallen to non-existing levels, and commercial banks are essentially forced to pay for holding a liquidity buffer. In spite of slow growth of credit offering, enterprises are reluctant to invest and remain very careful in launching new projects. Because during the crisis the recession of Baltic economies was one of the steepest and fastest in Europe, it is understandable that the convergence with a more developed Europe that has been stalling is again growing and picking up speed. This is reflected mainly in relatively rapid domestic wage growth (5-7% a year) and, as a result, the strengthening of consumer confidence and purchasing power. The sharp drop in fuel prices in the second half of the year contributed to the process. In our opinion it is these short-term developments that have been clearly supporting the local financial market. All three Baltic economies are displaying strong growth of savings and relatively low credit losses. In its financial activities, LHV has been sailing in moderate tailwind.

The net profit of LHV in 2014 was EUR 9.7 million. Business volumes and profits of all our main businesses increased significantly. We have become a visible and strong market participant in our areas of activity.

To support the growth and development of LHV, last summer we carried out a share issue in the course of which we issued 3.5 million new stock. Together with the swap of convertible bonds to shares we increased the share capital of LHV by EUR 16.2 million. During the year as a whole, the equity of LHV increased by EUR 26.1 million, and amounted to EUR 58 million.

The profit of LHV Pank, the largest business unit of LHV, increased and amounted to EUR 6.2 million. By the year-end, loan volumes totalled EUR 312 million and customer deposits stood at EUR 461 million. Growth was mainly driven by corporate banking that finances small and medium-sized enterprises in Estonia. Professional customer service of the LHV team enabled to significantly increase the loan portfolio. Favourable economic climate together with active risk management kept credit losses very low. 2014 was a successful year for the majority of our customers.

In retail banking we launched a service for accepting card payments which essentially completes the basic banking offering of LHV. With the help of LHV Pank, private persons and small and medium-sized enterprises can handle their everyday financial matters and do it rapidly and very cost-efficiently.

The profit of LHV Varahaldus reached EUR 3.6 million. The volume of second-pillar pension plans continues to grow rapidly in Estonia. During the year, pension funds managed by LHV Varahaldus increased 31%, totalling EUR 471 million. LHV has been successfully managing pension funds in the long term and is posting the highest returns in the whole market. One of the cornerstones of our investment philosophy is the objective to avoid larger one-off losses. In the opinion of our fund managers, the global economy was too fragile and vulnerable in 2014, and they correspondingly reduced risks. In the short term, this has meant earning slightly lower returns than the market average and, consequently, slower growth of customers.

The development of the LHV Persian Gulf Fund was directly influenced by a sharp fall in commodity prices. Rapid growth in the start of the year turned to a decline in the second half. The fund ended the year with the volume of EUR 33 million and the return of 12%.

The annual profit of Mokilizingas was EUR 0.6 million and the financing portfolio amounted to EUR 30 million. After the acquisition in 2013 and restructuring the operations, the business is doing well. We are one of the largest service providers in the Lithuanian market of consumer financing and have a very positive image. We see good opportunities for expanding our business in a balanced way and to offer our customers more varied possibilities for better management of short-term cash flow.

For LHV, 2014 was a year of hard work and we ended it with good results. From the start, we have managed to offer good return for the capital provided by our shareholders – LHV's average return of equity was 20% in 2014 (without the positive impact of deferred tax assets). We are clearly focused on growth, but focus only on businesses where we see the possibility to achieve our targets for return of equity. During the year, we analysed several business expansion opportunities through acquisitions, but decided not to close the deals yet. We see good possibilities for natural growth and speed up growth by acquisitions only if it enables us to make strong progress without making unnecessary compromises in returns and risks.

The goals of LHV for the near-term future have not changed:

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

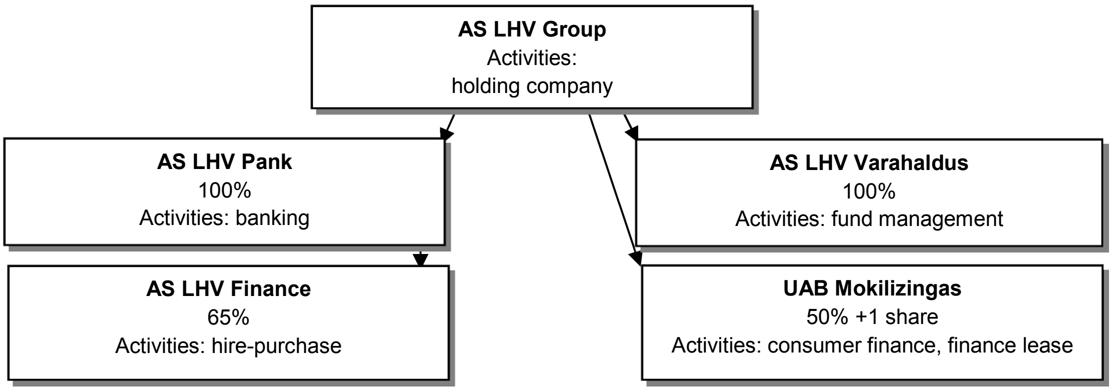
- We wish to conduct business in a manner that we achieve a return on equity employed in excess of 20% per annum;
- We aim to become a public company with publicly listed shares on a local securities exchange.

Erkki Raasuke

Management Report

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

LHV was established in 1999 by people with long experience in investing and entrepreneurship. LHV-s offices for client servicing are located in Tallinn, Tartu, Riga and Vilnius. Over 200 people work in LHV. Over 60 000 customers use banking services offered by LHV and the LHV's pension funds have over 130 000 clients.



Key events in 2014:

- **Group´s structure**

In 2014 the Group sold its 40% share in AS LHV Capital and 10% share in SIA EUVECA Livonia Partners.

- **Changes in share capital**

In 2014 the Group's share capital was increased in total amount 4.2 million euros. The capital paid in was 16.3 million euros, including the share premium.

- **Issuing subordinated bonds**

In 2014 subordinated bonds in the amount of 16.45 million euros were redeemed and bonds in the amount of 2.45 million were converted into stock. New subordinated bonds were issued in the amount of 15.9 million euros and due date of the bonds is 10 years.

Strategy directions

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

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

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

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

Shareholders

AS LHV Group has 23 256 005 common shares with par value of 1 euro.

AS at 31.12.2014 AS LHV Group had 263 shareholders:

- 13 370 738 shares (57.2%) belonged to the members of the supervisory board and management board and to their related parties.
- 9 173 290 shares (39.3%) belonged to Estonian entrepreneurs and investors and to their related parties.
- 811 977 shares (3.5%) belonged to current and previous employees of LHV and to their related parties.

Ten biggest shareholders as at 31.12.2014:

Number of shares	Percentage	Name of the shareholder
3 357 920	14,4%	AS Lõhmus Holdings
3 178 367	13,6%	Rain Lõhmus
1 637 897	7,0%	Andres Viisemann
1 418 000	6,1%	Ambient Sound Investments OÜ
1 210 215	5,2%	OÜ Krenno
995 000	4,3%	AS Genteel
931 978	4,0%	AS Amalfi
696 297	3,0%	OÜ Kristobal
653 165	2,8%	SIA Krugmans
576 667	2,5%	Bonaares OÜ

Business Environment

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

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

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

Supported by domestic consumption, the Swedish economy remains relatively strong, although economic growth forecasts have been substantially cut there also due to weakness in exports.

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

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

The economies of Estonia, Latvia and Lithuania are influenced by various collective factors but at the same time the processes ongoing domestically are somewhat different. Estonia is falling behind both Lithuania and Latvia in terms of improvement of several important macroeconomic indicators and both of these countries are projected to have significantly better economic growth.

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

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

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

Financial Results

EUR million	2010	2011	2012	2013	2014
Volume of deposits	**114**	**208**	**279**	**352**	**457**
Volume of loans	**38**	**67**	**106**	**207**	**316**
Volume of funds	**85**	**144**	**252**	**374**	**504**
Net interest income	1,3	3,5	6,1	11,8	20,3
Net fee income	4,5	5,3	6,5	9,5	12,8
Net financial income	-0,3	-1,1	0,8	2,7	0,5
Net income	5,5	7,7	13,4	24,0	33,6
Expenses	8,4	13,5	14,0	16,7	21,7
Operating profit	-2,9	-5,9	-0,7	7,3	11,9
Loan provisions	0,0	2,6	1,1	2,9	2,6
Income tax expense	0,0	0,0	0,0	0,1	-0,4
Profit	**-2,9**	**-8,5**	**-1,8**	**4,3**	**9,7**
including attributable to owners of the parent	**-2,7**	**-8,5**	**-1,8**	**4,2**	**9,2**

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

The Group's pre-tax profit for 2014 amounted to EUR 9.3 million and net profit totalled EUR 9.7 million, which is 122% more than a year earlier (EUR 4.3 million). Net interest income grew 72% and net fee income increased 36%. Financial income were 81% lower than in the previous year when the profit of the bond portfolio held for sale was realized and enabled to earn higher profit.

By the end of December, the total volume of the Group's loan portfolio less impairments amounted to EUR 316 million (December 2013: EUR 207 million). The volume of portfolios increased 53% in a year. In the loan portfolio, the majority is corporate loans that increased 62% in a year to EUR 214 million (2013: EUR 133 million). The portfolio of retail loans increased 35% in a year, amounting to EUR 107 million (2013: EUR 79 million).

The volume of Group's deposits increased 30% in a year and totalled EUR 457 million by the year-end (2013: EUR 352 million). The share of demand deposits of all deposits increased and reached 60% (31.12.2013: 46%).

Operating expenses increased 30% in a year which can be expected in the rapid growth phase.

By business units, in consolidated figures in 2014, AS LHV Pank earned profit of EUR 6.2 million, LHV Varahaldus earned EUR 3.6 million and UAB Mokilizingas earned a profit of EUR 0.6 million. LHV Group itself ended the year with a loss of EUR 0.7 million due to the fact that it has no separate profit-making unit and the main expense in the Group is the interest expense from subordinated liabilities.

Liquidity and capitalization

The liquidity coverage ratio (LCR) of the Group, calculated according to the definitions of the Basel Committee, was 190% at the end of December (31.12.2013: 169%). The Group includes cash and bond portfolios, accounting for 41% of the balance sheet total, among its liquidity buffer (31.12.2013: 47%). The Group's loan-to-deposit ratio at the end of 2014 was 70% (31.12.2013: 60%).

The Group's level of own funds as at 31.12.2014 was EUR 72,5 million (31.12.2013: EUR 44,9 million). The Group is well-capitalised as at the end of the reporting period with a capital adequacy level of 22,8% (31.12.2013: 23,0%) and Tier 1 capital ratio of 17,6% (31.12.2013: 15,3%).

The Group uses the standard method for the calculation of credit risk and market risk capital requirements and the basic indicator approach for the calculation of operational risk capital requirements. The Group has complied with all capital requirements during the financial year and in previous year.

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

Leverage ratio, calculated according to Basel Committee on Banking Supervision requirements, as at 31.12.2014 was

31.12.2014 8,5%. Leverage ratio is calculated as Group's total Tier 1 own funds divided by Group 's total risk exposure measure (incl risk position on assets and off the balance sheet liabilities). As at the end of the reporting period, the leverage ratio is arithmetic mean of the monthly leverage ratios over the last quarter.

Key figures, EUR million	**2014**	**2013**	**change**
net profit	9,7	4,3	122%
net profit attributable to owners of the parent	9,2	4,2	117%
average equity	43,1	25,7	68%
return on equity (ROE) % *	21,4	16,5	4,9
average assets	485	366	33%
return on assets (ROA) %	2,0	1,2	0,8
net interest income	20,3	11,8	72%
average interest earning assets	479	360	33%
net interest margin (NIM) %	4,25	3,29	0,96
spread %	4,16	3,22	0,94
cost/income ratio %	64,7	69,7	-5,0

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

Explanations

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

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

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

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

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

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

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

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

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

Risk Management

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

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

Capital base	**31.12.2014**	**31.12.2013**
Paid-in share capital	23 356	19 202
Share premium	33 992	21 871
Statutory reserves paid in from net profit	435	223
Accumulated deficit	-11 244	-15 581
Intangible assets (subtracted)	-1 574	-1 665
Net profit for accounting period	9 203	4 206
Non-controlling interests	1 727	1 695
Total Tier 1 capital	**55 895**	**29 951**
Subordinated loans	16 650	19 600
Total Tier 2 capital	**16 650**	**19 600**
Exceeding limitations of subordinated loans and preferred stock	0	-4 625
Net own funds for capital adequacy calculation	**72 545**	**44 927**
Capital requirements		
Credit institutions and investment companies under standard method	8 237	3 726
Companies under standard method	153 250	83 034
Retail claims under standard method	101 741	73 483
Overdue claims under standard method	5 438	3 661
Investment funds' shares with standardised approach	5 608	4 216
Other assets under standard method	5 675	5 638
Total capital requirements for covering the credit risk and counterparty credit risk	**279 949**	**173 758**
Capital requirement against foreign currency risk	5 735	4 315
Capital requirement against interest position risk	2 028	4 139
Capital requirement against equity portfolio risks	96	60
Capital requirement for operational risk under base method	30 066	13 307
Total capital requirements for adequacy calculation	**317 874**	**195 579**
Capital adequacy (%)	**22,82**	**22,97**
Tier 1 Capital Ratio (%)	**17,58**	**15,31**

Overview of the Group's subsidiaries in 2014

AS LHV Pank consolidation group

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

Business activities

Growth of deposits and loans in the year 2014 was according to expectations.

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

The loan portfolio volume grew by 53% year-on-year and amounted to 313 mln euros at the end of December. The majority of the loan portfolio is made up of loans to businesses, which grew by 62% year-on-year to 214 million euros (133 million euros). The retail loan portfolio grew by 49% year-on-year to 75 million euros (50 million euros). LHV Pank issued a loan to the other subsidiary of AS LHV Group, UAB Mokilizingas, the amount of which at the year-end was 27 million euros (24 million euros). The biggest source of growth was real estate related activity, an industry that is traditionally financed to the greatest extent by commercial banks. Compared to the previous year, loans and guarantees for activities related to real estate grew by 38,8 million euros (+82%). In addition to activities related to real estate, the company experienced the most loan growth to sport federations that are classified as part of recreational industries (14,7 million euros; +210%) and professional and scientific activities (9,1 million euros; +173%).

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

Development

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

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

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

In the beginning of the year, the bank won the Member of the Year Award at the Baltic Market Awards for the third year running. LHV launched a partnership with Allfunds Bank, S.A., one of the largest fund distribution platforms in the world, in the field of investment services. Allfunds distributes more than 36,000 funds of more than 450 fund managers.

Financial results

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

The large increase in net interest income is attributable to a growth in business volumes.

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

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

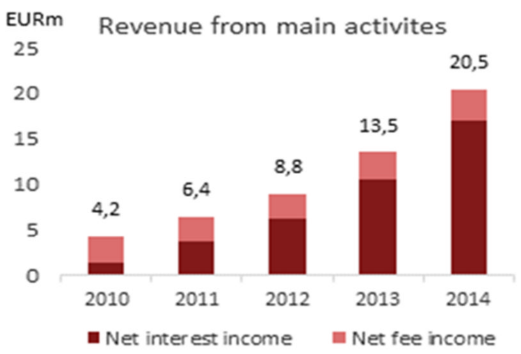
During the year, the bank switched to a new methodology of collective provisioning, which accounts for the credit rating attributed to each company in forming collective provisions. As a result of the change in methodology and supplementary historical experience, the collective provision rate of business loans increased from 0,5% to 0,7% of the portfolio.

Loan provisions costs were 25% lower compared to the previous year as a result of the sale of the portfolio of non-performing loans in Finland, which was previously more conservatively valued in the balance sheet, causing a partial reversal of provisions due to the sale.

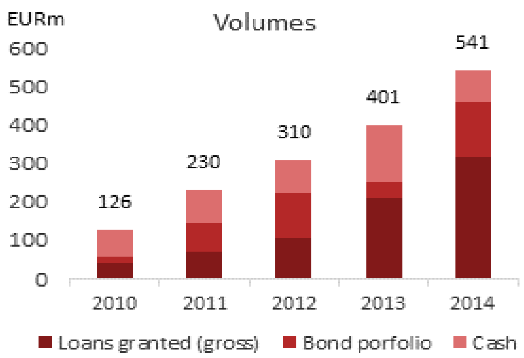
Organisatsion

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

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



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



AS LHV Varahaldus

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

In 2014, the main activity of the Company was the provision of fund management services to five compulsory pension funds, one voluntary pension fund and two UCITSs investing in equities.

During the year the Company's operating income increased 46%. The volume of fund assets managed by the Company increased 35% - from 374 million euros to 504 million euros. The number of active clients of compulsory pension funds increased from 122 thousand to 129 thousand (market share of 20,5%).

In terms of the number of clients, the Company is the third largest compulsory pension fund management company in Estonia and second largest by the volume of funds' assets in 2014. The returns of the compulsory pension funds of LHV varied between 1,26% (LHV pf XL) and 5,51% (LHV pf XS). The return of LHV Supplementary Pension Fund was 1,68%. Bond markets, where LHV had invested throughout the year, performed better than expected. Bond markets both in the Eurozone and USA expanded throughout the 2014. In the United States, the return of a ten-year government bond decreased from the 3% level at the start of the year to 2.2%. In Germany, the respective figures were 1.9% and 0.5%. Among fundamental factors, the bond market has been supported mainly by falling inflation – while inflation in the Eurozone was still 0.8% at the start of 2014, inflation fell for the rest of the first half and because of cheaper oil prices, it decreased to -0.2% by the end of the year. In addition to fundamental indicators, the movement of bond markets after the last financial crisis has been strongly influenced by extraordinary measures taken by central banks. Because of such expectations, the yield of German two-year government bond fell to -0.1% at the end of the year. At the start of 2015, the European Central Bank announced that it will start buying mainly governments bonds in the volume of EUR 60 billion a month.

After making no new investments in 2013 because of falling bond prices, asset management made significant changes in its bond portfolios already at the start of 2014 by acquiring new Latvian 7-year and Lithuanian 10-year international bonds from both the initial issue and also from the aftermarket, making them into the two largest positions in the bond portfolio. Of more significant positions, also Bulgarian and Romanian bonds were acquired during the summer and autumn, while Lithuanian bonds denominated in the local currency were acquired before the country's accession to the Eurozone. These investments also contributed the most to the annual growth of returns in portfolios.

In 2014, global equity markets continued positively, although some stock exchanges performed better than others. United States equity markets ended the year with an increase of more than 10%. For European investors, growth was more than 25% because of the strengthening of the US Dollar. Returns of stock markets in other developed markets such as Western Europe and Japan was between 5% and 10% (in euros). The biggest losses were posted by regions that are heavily dependent on commodity prices such as Russia and Latin America. Stock prices in the Baltic countries continued to slide and by the end of the year, the stock index was 7.7% lower.

Contrary to expectations, the global economy did not turn to growth also in 2014. A positive surprise was the US economic growth in the second and third quarter, but it remained the only good news. During the year, growth forecasts were adjusted downward in Europe, Japan, China and emerging markets. However, the expectation for 2015 remains again optimistic, especially in Europe where economy should get a boost from lower energy prices and the QE by the European Central Bank.

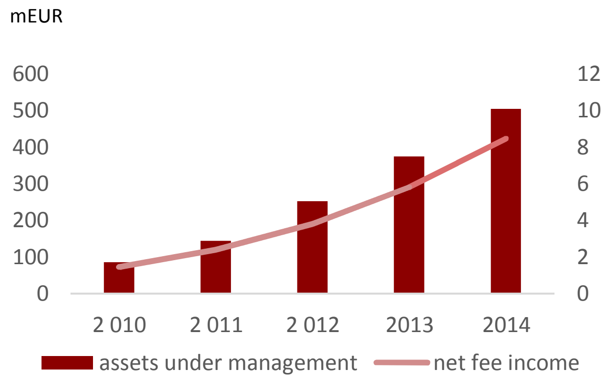
During the year, no significant changes were made in the investment strategy of pension funds. In the opinion of fund managers, equity prices are still not matching financial results of listed companies whereas stock indices are mainly driven up by high expectations on measures imposed by central banks. Therefore, direct positions in equities remain low and the main focus is mainly on Baltic equities. As compared to equity markets, alternative investments are offering better long-term growth prospects. In 2014, the first such investment was made in the local forest fund. In addition, positions in the commercial real estate were strengthened and investments were made in several private capital funds in the Balkan and Baltic regions.

The Company manages two UCITS compliant funds – LHV World Equities Fund and LHV Persian Gulf Fund. The latter has been very popular among foreign investors who own the majority of fund units. To further increase the marketing of the fund and increase tax effectiveness, the Company decided to redomicile the Fund to Luxembourg. The Swedbank Group platform has been chosen as the most optimal alternative for redomicilation. The redomicilation will occur through a cross border merger with a Luxembourg-based fund. The Financial Supervision Authority gave the permission to merge the two funds on the 23th of February 2015 and on the 13th of April 2015 SEF – LHV Persian Gulf Fund as the merging fund and LHV Persian Gulf Fund as the receiving fund will be merged together. Zawya Thomson Reuters awarded the fund "The Best Equity GCC Fund of 2013" second year in a row on the 1st of June 2014. On the 25th of November 2014, LHV Persian Gulf Fund won the International Finance Magazine award for the fastest growing GCC region equity fund. The same ceremony acknowledged the Company as the Best Fund Management Company in Estonia.

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

Financial results

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



UAB Mokilizingas

The Lithuanian economy continues to expand, driven mainly by the growth in domestic demand and, in particular, private consumption. After estimated growth of 2.9% in 2014, GDP is forecast to grow also in 2015 at 3.11%. Inflation remains very low and stable, as the price of goods in world markets continues to be favourable for consumers and inflation in the Eurozone area is low. Concerns for geopolitical instability are also visible in the Lithuanian economy, reflected in weaker household consumption and lack of investments by enterprises. As a result, growth in domestic demand that has been exceeding the long-term average for some time is now converging.

Hire-purchase

The objectives that Mokilizingas set for itself for 2014 included continued active cooperation with partners with a focus on stronger integration, better efficiency and synergy as well as increasing business volumes and offering consumers the best solutions in the market.

The number of active partners has increased about 9% a year as compared to 2013 and exceeded 1,200 by the end of 2014. The portfolio of instalment loans is growing about 30% a year, similarly to sales growth that amounted to almost EUR 31 million in 2014 and the portfolio volume was EUR 21 million by the end of the year.

The market of instalment loans is growing in parallel with the recovery of private consumption in the economy. Successful sales in 2014 have enabled Mokilizingas to strength its position in the market.

Although the number of competitors in the market remains small, competition in the market remains tough and is mostly driven by price. Figures reported by our partners show that the market has been waiting for the country's accession to the Eurozone, as shown by the termination of litas-denominated contracts, resulting in the declining share of instalment financing in the sale of retail loans. Customers have been using the investment opportunity to buy goods for Lithuanian litas, instead of using instalment as a way to maintain their savings.

Mokilizingas works closely with partners and clients to offer innovative solutions that would allow achieving efficiency, save time and which would be useful and simple to use. Mokilizingas introduced an updated purchase protection to its clients, which was first offered in 2013. In 2014 the list of categories that could be covered by this protection was expanded. In order to ease periodic payment process and save time, Mokilizingas introduced a direct debit service. Customers can sign the direct debit agreement whilst signing the agreement with Mokilizingas at the partner premises – the client does not need to contact his / her bank.

Consumer loans

The aim and goal set for 2014 was to continue the work started in 2013 – to successfully compete and increase the share in the intensive consumer credit market by offering innovative and effective solutions to our partners and clients.

In 2014, the revenue of consumer loans amounted to EUR 8 million, an increase of 21% as compared to 2013. Consumer loan portfolio increased by 17% to 9 million euros. As for the market of consumer loans, it is expected to grow much faster than the market of instalment loans. The market of small loans (up to EUR 290) seems to have reached its volume and is growing slowly.

Starting from May 2013, consumer loans, which are transferred to the client's bank account, are issued at PayPost units. Given the demand for cash loans, starting from August 2014 we have introduced cash-based consumer loans available at PayPost units.

Competition in the consumer credit market remains particularly intense, however, the market is expanding and it attracts new players. Alongside existing market participants, there are new active companies that operate using the same principles or new alternative financing providers issuing consumer loans using completely different financing models. Large expenses are incurred in order to attract clients using traditional channels (TV, radio, web). However, continuous noise in the information space makes it necessary to look for new innovative channels no one has used before. If compared with main competitors, Mokilizingas external marketing expenditure in 2014 was comparably small. The objective is to offer an effective and useful solution for the best price possible. However, even with prices usually smaller than those of our direct competitors, reaching the client through this marketing noise is difficult. Thus, a challenge for 2015 will be to encourage clients to look for the best available option.

Financial results

The loan portfolio increased 15% in 2014. As at the end of 2014, the total loan portfolio stood at EUR 30 million and the number of customers was 78 thousand. Net interest income during the accounting period was EUR 3.8 million and net income from fees was EUR 0.8 million. Operating expenses totalled EUR 3.2 million, loan provisions amounted to EUR 0.7 million, corporate income tax was EUR 0.1 million and the profit for the period was EUR 0.6 million.

Governance of the Group

Supervisory board

Rain Lõhmus is a founder of LHV and the chairman of the supervisory board. He is a member of the supervisory boards of AS LHV Pank, AS Audentes and AS Arco Vara and a member of the management boards and supervisory boards of other companies. Rain Lõhmus graduated from Tallinn University of Technology and management program of Harvard Business School. He is a member of Estonian Business Association. Rain Lõhmus owns 3 178 367 and AS Lõhmus Holdings owns 3 357 920 shares of AS LHV Group.

Raivo Hein is the owner and a member of management board of OÜ Kakssada Kakskümmend Volti. He is a member of the supervisory board of AS LHV Pank and a member of management boards and supervisory boards of other companies. Raivo Hein graduated from Tallinn University of Technology. Raivo Hein does not own shares of AS LHV Group. OÜ Kakssada Kakskümmend Volti owns 536 651 shares of AS LHV Group.

Heldur Meerits is the owner and a member of the management board of AS Amalfi. He is a member of the supervisory boards of AS LHV Pank, AS Audentes and Kodumaja AS and a member of the management boards and supervisory boards of other companies. Heldur Meerits graduated from the Faculty of Economics and Business Administration of Tartu University. He is a member of the supervisory boards of SA Avatud Eesti Fond, SA Dharma and other foundations. Heldur Meerits does not own shares of AS LHV Group. AS Amalfi owns 931 978 shares of AS LHV Group.

Tiina Mõis is the owner and manager of AS Genteel. She is a member of the supervisory boards of AS LHV Pank, AS Baltika, AS Nordecon International and other companies. Tiina Mõis graduated from Tallinn University of Technology. She is a member of management board of Estonian Chamber of Commerce and Industry and a member of Estonian Accounting Standards Board. Tiina Mõis does not own any shares of AS LHV Group. AS Genteel owns 995 000 shares of AS LHV Group.

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

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

Management board

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

Erkki Raasuke is the chairman of the supervisory boards of AS LHV Pank, AS LHV Varahaldus and AS Eesti Energia and a member of the supervisory board of EfTEN Kinnisvarafond AS and AS TREV-2 Group. Previously he has worked as an advisor to the Minister of Economic Affairs, as the chairman of the supervisory board of AS Estonian Air, as CFO of AB Swedbank and as the chairman of the management board, the CEO and CFO of AS Swedbank. Erkki Raasuke graduated from Tallinn University of Technology and management programs of INSEAD and BICG. Erkki Raasuke owns 80 000 shares of AS LHV Group and share options to aquire 25 391 shares in 2017.

Supervisory and Management Boards of the Subsidiaries

AS LHV Pank
Supervisory Board: Rain Lõhmus (chairman), Raivo Hein, Heldur Meerits, Tiina Mõis, Erkki Raasuke, Hannes Tamjärv, Andres Viisemann
Management Board: Erki Kilu (chairman), Jüri Heero, Andres Kitter, Martin Lengi, Indrek Nuume, Martti Singi

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

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

Management Board: Khalid Bouzerda, Erki Kilu, Erkki Raasuke, Alvydas Žabolis

CEO: Jurgis Rubaževičius

Share options

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

The granting and size of share options was dependent upon the successful achievement of operational targets of the overall company and the targets of individual management board members and employees. Share options were granted to 36 people in the total amount of 645 thousand euros. The company entered into share option agreements with the members of the management board and employees for a three-year term for the granting of share options. Share options can be exercised between the period of 01.07.2017-30.09.2017 and shares with nominal value of 1 euro can be acquired for 2 euros per share.

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

Corporate Governance report

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

1. General meeting

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

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

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

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

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

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

In 2014, the company called one annual general meeting and no extraordinary general meetings. The annual general meeting of shareholders held on 21.05.2014 approved the annual report of the 2013 financial year, changed the statute, called back all the previous memberes of the supervisory board and elected new members, approved the compensation policy for supervisory board members, approved the share options program ja resolved to increase share capital. The general meeting was held in Estonian.

In 2014 the chair of the general meeting was an independent person Sven Papp, who introduced the procedure for conducting the general meeting and the procedure of asking questions from the Management Board about the company’s activities.

In 2014 member of the management board Erkki Raaseke, chairman of the supervisory board Rain Lõhmus, members of the supervisory board Andres Viisemann, Tiina Mõis, Heldur Meerits, Raivo Hein and Tauno Tats and auditors Ago Vilu and Verner Uibo attended the general meeting of shareholders. If any members of the supervisory board are up for election at the general meeting who have not previously been supervisory board members of LHV and the auditor, the persons up for election shall attend the relevant general meeting. In 2014, an additional member of the supervisory board, Rain Lõhmus, was elected, who attended the general meeting.

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

Shareholders with significant interest are Rain Lõhmus and persons related to him with 28.0% and Andres Viisemann and persons related to him with 10.6%.

2. Management Board

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

Management board member is Erkki Raasuke. The supervisory board has entered into a service contract with Erkki Raasuke. The supervisory board sets the compensation policy for management board members.

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

Management board members submit an annual declaration of economic interests and conflicts of economic interests. In 2014, no business transactions took place between LHV and its management board members, their close relatives or persons related to them.

Erkki Raasuke is not a management board member of other issuers. Erkki Raasuke is the chairmen of supervisory board of AS Eesti Energia.

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

3. Supervisory Board

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

Supervisory board members are Rain Lõhmus (chairman), Andres Viisemann, Tiina Mõis, Hannes Tamjärv, Heldur Meerits, Raivo Hein and Tauno Tats. The general meeting of shareholders has set the compensation policy of supervisory board members at 500 euros per each supervisory board meeting attended.

Supervisory board members submit an annual declaration of economic interests and conflicts of economic interests. In 2014, no business transactions took place between LHV and its supervisory board members, their close relatives or persons related to them.

In 2014, there were 11 regular supervisory board meetings and two extraordinary meetings. As part of supervisory board meetings, the supervisory board was regularly briefed on the operating and financial results of LHV's subsidiaries. The supervisory board formed the audit committee and compensation committee, approved the rules of procedure for the supervisory board, audit commitee, compensation commitee and internel audit, policy of capital management and capital goals as well as risk management policy, the 2012 annual report, share options program and increase of share capital before these were presented to the annual general meeting of shareholders for approval, premature redemption of subordinated and issuances of new subordinated bonds, dispossession of ownership interests in associates AS LHV Capital and EuVECA Livonia Partners SIA and the financial plan of LHV and internel audit workplan for 2015.. Hannes Tamjärv attended less than half of supervisory board meetings.

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

3.1. Audit committee

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

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

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

Audit committee members are Gerli Kilusk (chair), Marilin Hein and Tauno Tats. The compensatation for audit committee members is 100 euros per month.

3.2. Compensation committee

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

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

The members of the compensation committee are Erkki Raasuke (chair), Rain Lõhmus and Andres Viisemann. No compensation is paid for the members of the compensation committee.

4. Cooperation of the management and supervisory boards

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

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

5. Disclosure of information

LHV treats all shareholders equally and notifies all shareholders of material developments equally.

LHV has an investor relations website. LHV publishes on its website a financial calendar containing the publication dates of the annual report and interim reports and the date of the annual general meeting of shareholders.

In 2014, meetings with investors were held as needed and based on investor requests.

6. Financial reporting and auditing

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

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

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

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

Declaration of conformity

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

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

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

"*2.2.1. The Management Board shall have more than one (1) member and a Chairman elected by its members.*

The Management Board or Supervisory Board shall establish an area of responsibility for each member of the Management Board, defining as clearly as possible the duties and powers of each board member. The principles for co-operation between members of the board shall also be established.

The Chairman of the Supervisory Board shall conclude a contract of service with each member of the board for discharge of their functions "

LHV management board has one member. LHV is a holding company without any day-to-day business activities. The major subsidiaries of LHV have Management Boards consisting of several members.

"2.2.2. Member of the Management Board cannot be simultaneously a member of management boards of more than two issuers nor a chairman of the supervisory board of another issuer. Member of the Management Board can be chairman of the Supervisory Board of an issuer that belongs to the same Group."

Erkki Raasuke is the Chairman of the Supervisory Board of Eesti Energia. Eesti Energia has not issued bonds on the Tallinn Stock Exchange, but has issued bonds on the London Stock Exchange.

"*2.2.7. Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the issuer or the amount of foreseeable expense as of the day of disclosure.*

The Chairman of the Supervisory Board shall present the essential aspects of the management board remuneration and *changes in it to the General Meeting. If the remuneration of some of the Management Board members has occurred on a different base, then the General Meeting shall be presented the differences together with the reasons therefore*."

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

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

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

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Income

(in thousands of euros)	Note	2014	2013
Continuing operations			
Interest income		19 499	11 507
Interest expense		-3 025	-2 401
Net interest income	6	**16 474**	**9 106**
Fee and commission income		13 691	10 099
Fee and commission expense		-1 143	-865
Net fee and commission income	7	**12 548**	**9 234**
Net gains from financial assets measured at fair value	11	528	2 416
Foreign exchange rate gains/losses		-15	-23
Other financial income		0	312
Net gains from financial assets		**513**	**2 705**
Other income and expense		-16	64
Staff costs	8	-8 554	-6 158
Other operating expenses	8	-11 375	-8 952
Profit before impairment losses on loans and advances		**9 590**	**5 999**
Share of the other comprehensive income/loss of associates accounted for using the equity method		-14	10
Impairment losses on loans and advances	13	-1 680	-1 375
Profit before taxes		**7 896**	**4 634**
Income tax expense	5	-151	-84
Net profit for the year from continuing operations		**7 745**	**4 550**
Profit from discontinued operations	12	**1 922**	**-205**
Net profit for the year		**9 667**	**4 345**
Profit attributable to:			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments:			
Revaluation of available-for-sale financial assets	10	21	-27
Total comprehensive income for the year		**9 688**	**4 318**
Total comprehensive income/loss attributable to:			
Owners of the parent		9 203	4 237
Non-controlling interest		464	108
Total profit for the year		**9 667**	**4 345**
Total comprehensive income/loss attributable to:			
Owners of the parent		9 224	4 210
Incl. continuing operations		*7 302*	*4 415*
Incl. discontinued operations		*1 922*	*-205*
Non-controlling interest		464	108
Total comprehensive income/loss for the year		**9 688**	**4 318**

Notes on pages 26 to 71 are an integral part of the consolidated financial statements.

Consolidated Statement of Financial Position

(in thousands of euros)	Note	31.12.2014	31.12.2013
Assets			
Balances with central banks	9	45 427	133 839
Due from credit institutions	9	24 218	17 004
Due from investment companies	9	14 484	1 466
Available-for-sale financial assets	10	4 273	11 903
Financial assets at fair value through profit or loss	11	145 252	36 702
Assets of discontinued operations, classified as held for sale	12	15 473	0
Loans and advances to customers	13	301 032	206 768
Receivables from customers	14	1 566	1 507
Other assets	15	2 048	3 892
Goodwill	5	1 044	1 044
Tangible assets	16	308	491
Intangible assets	16	530	621
Investment in associates	5	36	131
Total assets		**555 691**	**415 368**
Liabilities			
Deposits from customers and loans received	17	475 013	356 381
Financial liabilities at fair value through profit or loss	11	302	433
Accounts payable and other liabilities	18	5 435	6 891
Liabilities of discontinued operations, classified as held for sale	12	220	0
Subordinated loans	20	16 688	19 716
Total liabilities		**497 658**	**383 421**
Equity			
Share capital	21	23 356	19 202
Share premium		33 992	21 871
Statutory reserve capital		435	223
Other reserves	10, 21	132	-12
Accumulated deficit		-2 041	-11 032
Total equity attributable to owners of the parent		**55 874**	**30 252**
Non-controlling interest		2 159	1 695
Total equity		**58 033**	**31 947**
Total liabilities and equity		**555 691**	**415 368**

Notes on pages 26 to 71 are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

(in thousands of euros)	Note	2014	2013
Cash flows from operating activities			
Interest received		19 109	11 163
Interest paid		-2 777	-3 619
Fees and commissions received		13 233	10 187
Fees and commissions paid		-1 144	-865
Other income received		0	64
Staff costs paid		-8 415	-6 026
Administrative and other operating expenses paid		-10 746	-8 447
Cash flows from operating activities before change in operating assets and liabilities		**9 260**	**2 457**
Net increase/decrease in operating assets:			
Net acquisition/disposal of trading portfolio		-5	-636
Loans and advances to customers		-110 526	-80 517
Term deposits with other credit institutions		-1	2
Mandatory reserve at central bank		-1 101	-846
Security deposits		-133	64
Other assets		1 815	-942
Net increase/decrease in operating liabilities:			
Demand deposits of customers		111 970	85 911
Term deposits of customers		-6 920	-12 128
Loans received and repayments		13 556	-19 820
Financial liabilities held for trading at fair value through profit or loss		-131	-223
Other liabilities		-1 376	1 862
Net cash generated from / used in operating activities from continuing operations		**16 408**	**-24 816**
Cash generated from / used in operating activities from disconinued operations		1 865	-1 504
Net cash generated from/ used in operating activities		**18 273**	**-26 319**
Cash flows from investing activities			
Purchase of non-current assets	16	-530	-486
Acquistion of subsidiaries		0	304
Acquisition and disposal of associates		78	-52
Acquisition of investment securities held to maturity		0	-2 790
Proceeds from disposal and redemption of investment securities available for sale		7 730	61 130
Net changes of investment securities at fair value through profit or loss	11	-108 107	13 076
Net cash used in / from investing activities		**-100 829**	**71 182**
Cash flows from financing activities			
Paid in share capital	21	13 825	564
Non-controlling interest contribution to subsidiary´s share capital		0	175
Sale of treasury shares		0	1
Subordinated loans received	20	15 900	15 450
Repayment of subordinated debt	20	-16 450	0
Net cash from financing activities		**13 275**	**16 190**
Net decrease/increase in cash and cash equivalents		**-69 281**	**61 053**
Cash and cash equivalents at the beginning of the year	9	148 912	87 859
Cash and cash equivalents at the end of the year	**9**	**79 631**	**148 912**

Notes on pages 26 to 71 are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

(in thousands of euros)	Share capital	Share premium	Statutory reserve capital	Other reserves	Accumulated deficit	Treasury shares	**Total equity attributable to owners of the parent**	Non-controlling interest	**Total equity**
Balance as at 01.01.2013	**17 382**	**18 827**	**223**	**232**	**-15 581**	**-1**	**21 082**	**0**	**21 082**
Conversion of subordinated bonds issued in 2010 to share capital	1 200	1 800	0	-210	0	0	2 790	0	**2 790**
Conversion of subordinated bonds issued in 2012 to share capital	433	867	0	-7	0	0	1 293	0	**1 293**
Paid in share capital	187	377	0	0	0	0	564	0	**564**
Sale of treasury shares	0	0	0	0	0	1	1	0	**1**
Non-controlling interest contribution to subsidiary´s share capital	0	0	0	0	0	0	0	175	**175**
Non-controlling interest arising on business combination	0	0	0	0	312	0	0	1 412	**1 724**
Profit for the year	*0*	*0*	*0*	*0*	*4 237*	*0*	*4 237*	*108*	*4 345*
Other comprehensive income	*0*	*0*	*0*	*-27*	*0*	*0*	*-27*	*0*	*-27*
Total comprehensive income for 2013	0	0	0	-27	4 237	0	4 210	108	**4 318**
Balance as at 31.12.2013	**19 202**	**21 871**	**223**	**-12**	**-11 032**	**0**	**30 252**	**1 695**	**31 947**
Balance as at 01.01.2014	**19 202**	**21 871**	**223**	**-12**	**-11 032**	**0**	**30 252**	**1 695**	**31 947**
Conversion of subordinated bonds issued in 2012 to share capital	654	1 796	0	-15	0	0	2 435	0	**2 435**
Paid in share capital	3 500	10 325	0	0	0	0	13 825	0	**13 825**
Share options	0	0	0	138	0	0	138	0	**138**
Paid in statutory reserve capital	0	0	212	0	-212	0	0	0	**0**
Profit for the year	*0*	*0*	*0*	*0*	*9 203*	*0*	*9 203*	*464*	***9 667***
Other comprehensive income	*0*	*0*	*0*	*21*	*0*	*0*	*21*	*0*	***21***
Total comprehensive income for 2014	0	0	0	21	9 203	0	9 224	464	**9 688**
Balance as at 31.12.2014	**23 356**	**33 992**	**435**	**132**	**-2 041**	**0**	**55 874**	**2 159**	**58 033**

Notes on pages 26 to 71 are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

NOTE 1 General information

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by European Union for the year ended 31 December 2014 for AS LHV Group (the "Group") and its subsidiaries AS LHV Pank, AS LHV Finance (subsidiary of LHV Pank), AS LHV Varahaldus, LHV Finance Oy and UAB Mokilizingas. AS LHV Group holds 50% + 1 share interest in UAB Mokislizingas and 65% interest in LHV Finance through AS LHV Pank. AS LHV Finance was incorporated January 23, 2013.

AS LHV Group is a limited liability company incorporated in and domiciled in Estonia. The address of its registered office is Tartu Road 2, Tallinn. AS LHV Group is a holding company whose subsidiary AS LHV Pank (Bank) provides banking, financial advisory and securities brokerage services to customers in Estonia, Latvia, Lithuania and Finland (discontinued operation). There are offices for client servicing in Tallinn, Tartu, Riga and Vilnius. The business activity of the LHV Pank branch office in Helsinki has been sold after the balance sheet date. AS LHV Finance offers hire-purchase services to merchants. AS LHV Varahaldus offers fund management services for pension funds and other funds to clients in Estonia. UAB Mokilizingas offers consumer finance and finance lease services in Lithuania. As at 31.12.2014 the Group employed 281 full-time employees, incl 17 non-active (31.12.2013: 252 employees, incl non-active).

The consolidated annual report (incl. financial statements) was approved by the Management Board on 25 March 2015. Rain Lõhmus, who owns 28,0% of the voting rights and Andres Viisemann, who owns 8,9% of the voting rights (see also Note 21), have significant influence over AS LHV Group.

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

NOTE 2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

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

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

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

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

IFRS 12, Disclosure of Interest in Other Entities (effective for annual periods beginning on or after 1 January 2014), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

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

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

Further information regarding application of the standard is disclosed in note 5.

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

(b) **New accounting pronouncements**

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

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

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

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

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

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

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

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

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

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

2.2 Consolidation

The 2014 consolidated financial statements include the financial statements of AS LHV Group (parent company) and its

subsidiaries AS LHV Pank, AS LHV Finance (subsidiary of LHV Pank), AS LHV Varahaldus, LHV Finance Oy and UAB Mokilizingas. AS LHV Group holds 50% + 1 share interest in UAB Mokislizingas and 65% interest in LHV Finance through AS LHV Pank.

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

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

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

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

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

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

In the parent separate primary financial statements, disclosed to these consolidated financial statements (see Note 26), the investments into the shares of subsidiaries are accounted for at cost less any impairment recognized.

Non-controlling interest

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

2.3 Associates

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

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

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

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

At each balance sheet date, it is assessed whether there is any indication that the recoverable amount of the investment has fallen below its carrying amount, If any such indications exist, an impairment test is performed. To determine the recoverable amount of the investment, the principles described in section 2.9 are used as the basis.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Foreign currency transactions and balances

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

2.5 Cash and cash equivalents

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

2.6 Financial assets

The Group classifies its financial assets into the following categories:

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

The classification depends on the purpose for which the financial assets were acquired. Management of the Group determines the classification of its financial assets at initial recognition. Refer to note 4 for information about reclassification of held-to-maturity financial investments to available-for-sale assets. As of March 2013 the group has no held-to-maturity financial investments, refer to Note 10.

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

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

Financial assets at fair value through profit or loss include

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

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

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

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

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

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

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

Refer to Note 3.6 for fair value of financial assets.

(b) Held-to-maturity financial investments

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

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

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

(c) Available-for-sale financial assets

Available-for-sale financial assets are financial instruments which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Investment securities available-for-sale are carried at fair value.

Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Other changes in fair values of these financial assets are recognised in other comprehensive income.

(d) Loans and advances

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

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

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

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

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

2.7 Impairment of financial assets carried at amortised cost

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

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

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past

experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently. The Group regularly reviews future cash flow assessment methods and assumptions, in order to reduce potential differences between loss estimates and actual losses.

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

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

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

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

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

2.8 Discontinued operations

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

2.9 Tangible assets

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

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

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

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

2.10 Intangible assets

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

2.11 Financial guarantees and performance guarantees

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

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

2.12 Financial liabilities

The Group classifies financial liabilities to 2 categories:

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

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

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

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

2.13 Payables to employees

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

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

2.14 Share-based payments

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

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

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

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

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

2.15 Provisions and contingent liabilities

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

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

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

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

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

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

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

2.17 Revenues and expenses

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

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

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

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

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

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

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

2.18 Asset management services

The Group is engaged in providing asset management services (Note 22). Such assets have been given to the Group to be managed by third parties and these assets are recorded off-balance sheet. Service fees are derived from management of such assets and no associated credit and market risks arise for the Group.

2.19 Leases - Group as the lessee

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

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

2.20 Taxation and deferred income tax

Corporate income tax in Estonia

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

Corporate income tax in other countries

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

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

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

A deferred income tax liability in respect of the Group's available equity which would accompany the payment of available equity as dividends, is not reported in the balance sheet. The maximum amount of income tax payable, which would arise paying out the retained earnings as dividends, is disclosed in the Note 21 to the financial statements.

2.21 Offsetting

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

2.22 Statutory reserve capital

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

NOTE 3 Risk management

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

3.1 Capital management

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

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

The amount of capital that the Group managed as of 31.12.2014 was 72 545 thousand euros (31.12.2013: 44 927 thousand euros). The goals of the Group's capital management are set based on both the regulative requirements and additional internal buffer.

The Group follows the general principles in its capital management:

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

Own funds	**31.12.2014**	**31.12.2013**
Paid-in share capital	23 356	19 202
Share premium	33 992	21 871
Statutory reservs paid in from net profit	435	223
Accumulated deficit	-11 244	-15 581
Intangible assets (subtracted)	-1 574	-1 665
Net profit for accounting period	9 203	4 206
Non-controlling interests	1 727	1 695
Total Level 1 own funds	**55 895**	**29 951**
Subordinated loans	16 650	19 600
Total Level 2 own funds	**16 650**	**19 600**
Exceeding limitations of subordinated loans and preferred stock	0	-4 625
Total net own funds	**72 545**	**44 927**

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

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

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

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

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

Each year, the Group's Supervisory Board confirms the goals of capitalization and the target level of capital adequacy to cover potential risks arising from fast growth. Each year, an internal capital adequacy assessment process (ICAAP) is performed, the goal of which is to identify potential capital needs in addition to regulatory capital requirements.

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

The own funds of LHV Varahaldus as the fund manager need at any given time exceed the minimum amount of share capital laid down in the Investment Funds Act (3 000 thousand euros). The net own funds of a fund manager, who is managing pension funds with the market value of over EUR 125 million, must be at least EUR 2.5 million and 1% of the market value of managed pension funds, which exceeds EUR 125 million. In addition, the fund manager must maintain additional own funds equal to 0.02% of the portion of the market value of all managed funds, which exceeds EUR 250 million.

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

3.2 Credit risk

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

3.2.1 Distribution of credit risks

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

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

Maximum exposure to credit risk	31.12.2014	31.12.2013
Loans and advances to banks and investment companies (note 9)	84 129	152 309
Held for sale financial assets (note 10)	4 273	11 903
Financial assets at fair value (debt securities) (note 11)	139 146	32 466
Loans and advances to customers (note 13)	301 032	206 768
Receivables from customers (note 14)	1 566	1 507
Other assets (note 15)	783	650
Total assets	**537 035**	**409 839**
Loans and advances of discontinued operations, classified as held for sale (note 12)	14 813	0
Exposures related to off-balance sheet items (note 23), excluding performance guarantees	64 233	35 810
Total maximum exposure to credit risk	**616 081**	**445 649**

a) Debt securities

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

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

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

Rating	FVTPL	AFS	Total 31.12.2014	FVTPL	AFS	Total 31.12.2013
AAA	110 645	3 261	113 906	15 462	9 198	24 660
AA- to AA+	13 667	0	13 667	2 842	189	3 031
A- to A+	6 094	609	6 703	6 602	599	7 201
BBB- to BBB+	8 740	403	9 143	6 807	1 917	8 724
B- to BB+	0	0	0	313	0	313
Total (note 10, note 11)	**139 146**	**4 273**	**143 419**	**32 026**	**11 903**	**43 929**

b) Loans and advances to banks

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

Rating	Credit institutions	Inv. companies	Total 31.12.2014	Credit institutions	Inv. companies	Total 31.12.2013
Central bank	45 427	0	45 427	133 839	0	133 839
AA- to AA+	1 899	0	1 899	1 140	0	1 140
A- to A+	19 881	14 268	34 149	13 480	1 359	14 839
BBB to BBB+	164	0	164	569	0	569
Non-rated	2 274	216	2 490	1 815	107	1 922
Total (Note 9)	**69 645**	**14 484**	**84 129**	**150 843**	**1 466**	**152 309**

c) Leverage loans

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

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

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

d) Corporate loans and overdraft

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

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

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

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

e) Consumer loans without collateral

The Group offers consumer loans in Lithuania and until 9th of January 2015 consumer loans were also offered in Finland, which in this report of consolidated financial statements is considered as discontinued operations. Consumer loans are issued only to individuals against future income.

The credit scoring model is being used to assess clients credit behaviour. In addition to the customer's previous payment behaviour and income, the credit scoring model also takes into account other statistical parameters, which have previously been collected by types of customer.

As consumer loans are homogeneous loans, provisions for potential credit loss level is calculated based on historical performance of these homogeneous loans and applied to current portfolio at the balance sheet date. For the purpose of recognition of group-based impairment losses, the receivables are grouped into subclasses on the basis of homogeneous credit risk features, considering customers' payment practice, past due time and the time passed from initiation of proceedings by the bailiff. For the receivables that have been grouped, the amount of the impairment loss is the multiple of the carrying amount of the receivables in the group and the group's percentage rate of impairment loss. The framework is based on the classic method of calculating the probability of default (PD), loss given default (LGD) and exposure at default (EAD).

Lithuanian consumer loans are classified as performing (less than 90 days overdue and are not terminated), non-performing (more than 90 days overdue and/or terminated) and doubtful (Original loan schedule has expired and there has been no cash flows received for continuous period of 6 months; fraud case, etc.). Loss rates are calculated from the past historical data for defaults and full history of recoveries. Due to default rate volatility and uncertain data quality a conservative buffer of 20% shall be imposed for both product PD and LGD rates. PD and LGD values are updated at least once a year with new historical

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data in order to maintain adequate provision levels on portfolio. If necessary, additional impairments will be made in the balance sheet. If non-performing or doubtful loan recovery is neither economical nor practical to continue, the loan is written off as irrecoverable.

As at 31.12.2014, the group-based impairment reserve makes up 11,2% of consumer loans and the related interest receivables (31.12.2013:Lithuania and Finland combined 11,7%).

f) Credit cards

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

Provisions for potential credit losses are made based on the same framework as the consumer loans. The framework is based on PD, LGD and EAD indicators. EAD consists of two components: the amount of the existing receivable and the amount of use of an estimated additional limit. For calculating the latter, the model includes the credit conversion factor (CCF). As of 31 December 2014, the group-based impairment reserve amounted to 3.1% of credit card loans and related receivables (31 December 2013: 3.6%).

g) Leasing

In autumn 2012, LHV Pank started to offer leasing products for individuals and legal persons. The creditworthiness of customers is assessed by using scoring models, which mainly consists of characteristics described for consumer loans. Similarly to other homogenous portfolios provisions are made based on the same framework as consumer loans. As of 31 December 2014, the group-based impairment reserve amounted to 0.9% of leasing portfolio (31.12.2013: 1.0%).

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

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

As of 31 Decembrer 2014, the group-based impairment reserve amounted to 4,1% of leasing portfolio (31.12.2013: 7,0%).

h) Hire-purchase

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

The Group offers hire-purchase to private indivudals in Lithuania. The creditworthiness of customers is assessed and provisions are made based on the same framework as for Lithuanian consumer loans. As of 31 Decembrer 2014, the group-based impairment reserve amounted to 4,1% of hire-purchase (31.12.2013: 7,4%).

i) Mortgage loans

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

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

Loans and advances to customers 31.12.2014	Neither past due nor impaired	Past due, but not impaired	Indi-vidually impaired	**Total**	Col-lective impair-ment	Indi-vidual impair-ment	**Net**
Loans to legal persons							
Corporate loans (incl corporate overdraft)	201 921	2 475	3 110	**207 506**	-1 185	-329	**205 992**
Overdraft	6 871	0	0	**6 871**	-27	0	**6 844**
Hire-purchase	64	0	0	**64**	-1	0	**63**
Leverage loans	4 164	0	0	**4 164**	0	0	**4 164**
Leasing	22 986	1 429	54	**24 469**	-236	-19	**24 214**
Mortgage loans	0	0	0	**0**	0	0	**0**
Credit card loans	61	0	0	**61**	-1	-1	**59**
Loans to individuals							
Consumer loans (incl corporate overdraft)	6 666	1 556	1 248	**9 470**	-623	-433	**8 414**
Hire-purchase	29 407	3 258	1 421	**34 086**	-664	-403	**33 019**
Leverage loans	5 014	0	18	**5 032**	0	-18	**5 014**
Leasing	4 255	138	0	**4 393**	-38	0	**4 355**
Mortgage loans	5 980	0	0	**5 980**	0	0	**5 980**
Credit card loans	2 753	96	49	**2 898**	-65	-24	**2 809**
Overdraft	92	0	0	**92**	0	0	**92**
Other loans to individuals	0	13	0	**13**	0	0	**13**
Total loans and advances to customers (Note 13)	**290 234**	**8 965**	**5 900**	**305 099**	**-2 840**	**-1 227**	**301 032**
Consumer loans (discontinued operations) (Note 12)	7 863	5 922	2 528	**16 313**	-869	-634	**14 810**
Total	**298 097**	**14 887**	**8 428**	**321 412**	**-3 709**	**-1 861**	**315 842**

Loans and advances to customers 31.12.2013	Neither past due nor impaired	Past due, but not impaired	Indi-vidually impaired	**Total**	Col-lective impair-ment	Indi-vidual impair -ment	**Net**
Loans to legal persons							
Corporate loans	125 067	1 408	2 344	**128 819**	-639	-231	**127 949**
Overdraft	3 918	0	0	**3 918**	0	0	**3 918**
Leverage loans	4 218	0	0	**4 218**	0	0	**4 218**
Leasing	12 394	2 473	32	**14 899**	-310	-9	**14 580**
Mortgage loans	43	0	0	**43**	0	0	**43**
Credit card loans	47	0	0	**47**	-2	0	**45**
Loans to individuals							
Consumer loans	13 226	7 270	3 295	**23 791**	-1 582	-1 194	**21 015**
Hire-purchase	18 091	3 254	1 757	**23 102**	-695	-721	**21 686**
Leverage loans	5 721	0	18	**5 739**	0	-18	**5 721**
Leasing	3 083	229	157	**3 469**	-25	-13	**3 431**
Mortgage loans	1 948	0	0	**1 948**	0	0	**1 948**
Credit card loans	2 083	107	61	**2 251**	-54	-27	**2 170**
Overdraft	29	0	0	**29**	0	0	**29**
Other loans to individuals	0	15	0	**15**	0	0	**15**
Total (Note 13)	**189 868**	**14 756**	**7 664**	**212 288**	**-3 307**	**-2 213**	**206 768**

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

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

Impact to impairment as at 31.12.2014 (in case PD and LGD levels will increase by 10%)	Balance as at 31.12.2014	Impairment with increased PDs and LGDs	Impact to impairment booked
Loans to legal persons			
Corporate loans	214 377	-1 865	-324
Leasing	24 468	-306	-53
Loans to individuals			
Consumer loans	9 722	-1 280	-222
Hire-purchase	33 515	-1 199	-208
Leasing	4 713	-138	-24
Credit card loans	2 898	-108	-19
Total	**289 693**	**-4 896**	**-850**

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

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

Distribution of internal ratings of corporate loans:

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

- rating of rating agencies must be equivalent to at least A- (Moody's A3).
- 5 – low credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least BBB+ (Moody's Baa1).
- 6 – low credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least BBB (Moody's Baa2).
- 7 – medium credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least BBB- (Moody's Baa3).
- 8 – medium credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least BB (Moody's Ba2).
- 9 – heightened credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least BB- (Moody's Ba3).
- 10 – high credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least B+ (Moody's B1).
- 11 – high credit risk. Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least B- (Moody's B3).
- 12 – non-satisfactory rating . Rating is attributed on the basis of an evaluation of rating agencies or LHV. Average rating of rating agencies must be equivalent to at least C (Moody's Caa3).
- 13 – insolvent – the entity is insolvent. The entity is 90 days past due or is subject in a restructuring or bankruptcy procedure. Average rating of rating agencies must be equivalent to at least D (Moody's C).

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

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

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

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

In addition to loans issued, loan agreements have been concluded and signed for the unused loan commitment amount of 61 334 thousand euros at 31.12.2014 (31.12.2013: 32 629 thousand euros), see Note 23.

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

Credit quality of off-balance sheet liabilities	**31.12.2014**	**31.12.2013**
4 low credit risk	0	2 129
5 low credit risk	5 055	2 950
6 low credit risk	5 344	9 581
7 medium credit risk	18 384	14 205
8 medium credit risk	27 839	5 486
9 heightened credit risk	6 366	3 887
10 high credit risk	1 003	10
12 non-satisfactory rating	76	580
Total (Note 23)	**63 991**	**38 834**

Distribution of internal ratings for other loan products:

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

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

As of 31.12.2014	**Finance leverage**	**Credit cards**	**Leasing**	**Consumer loans**	**Hire-purchase**	**Over-draft**	**Mortgage loans**	**Total**	**Discontinued operations**
Neither past due nor impaired									
Excellent	9 178	0	0	0	0	0	0	**9 178**	0
Good and very good	0	2 814	27 241	6 666	29 471	92	5 980	**72 264**	7 863
Past due but not impaired									
Good	0	75	1 125	1 021	2 277	0	0	**4 498**	3 810
Satisfactory	0	15	279	322	657	0	0	**1 273**	1 518
Weak or doubtful	0	6	163	213	324	0	0	**706**	594
Individually impaired									
Weak or doubtful	18	49	54	1 248	1 421	0	0	**2790**	2 528
Total	**9 196**	**2 959**	**28 862**	**9 470**	**34 150**	**92**	**5 980**	**90 709**	**16 313**

As of 31.12.2013	Finance leverage	Credit cards	Leasing	Hire-purchase	Over-draft	Mortgage loans	Consumer loans	Total
Neither past due nor impaired								
Excellent	9 939	0	0	0	0	0	0	**9 939**
Good and very good	0	2 130	15 476	18 092	3 947	1 991	13 226	**54 862**
Past due but not impaired								
Good	0	81	2 425	2 520	0	0	4 684	**9 710**
Satisfactory	0	18	236	593	0	0	1 941	**2 788**
Weak or doubtful	0	8	41	140	0	0	646	**835**
Individually impaired								
Weak or doubtful	18	61	189	1 757	0	0	3 295	**5 320**
Total	**9 957**	**2 298**	**18 367**	**23 102**	**3 947**	**1 991**	**23 792**	**83 454**

Loans against collateral as at 31.12.2014	Corporate loans (including overdraft)	Leverage loans	Credit cards, consumer loans	Leasing	Hire-purchase	Mortgage loans and overdraft to private individuals	Total
Listed securities	0	9 196	0	0	0	0	9 196
Unlisted equity securities	29 179	0	0	0	0	0	29 179
Mortgages, real estate	131 308	0	0	0	0	6 085	137 393
Guarantee of KredEx and Rural Development Foundation	13 839	0	0	0	0	0	13 839
Pledges of rights of claim	26 712	0	0	0	0	0	26 712
Deposits	3 338	0	0	0	0	0	3 338
Leased assets	0	0	0	28 862	34 150	0	63 012
Others	8 825	0	0	0	0	0	8 825
Unsecured loans	1 176	0	12 429	0	0	0	13 605
Total	**214 377**	**9 196**	**12 429**	**28 862**	**34 150**	**6 085**	**305 099**

Loans against collateral as at 31.12.2013	Corporate loans (including overdraft)	Leverage loans	Credit cards, consumer loans	Leasing	Hire-purchase	Mortgage loans and overdraft to private individuals	Total
Listed securities	0	9 939	0	0	0	0	9 939
Unlisted equity securities	14 765	0	0	0	0	0	14 765
Mortgages, real estate	84 411	0	0	0	0	2 035	86 446
Guarantee of KredEx and Rural Development Foundation	11 937	0	0	0	0	0	11 937
Pledges of rights of claim	7 283	0	0	0	0	0	7 283
Deposits	4 104	0	0	0	0	0	4 104
Leased assets	0	0	0	18 367	23 102	0	41 469
Others	9 086	0	0	0	0	0	9 086
Unsecured loans	1 151	18	26 090	0	0	0	27 259
Total	**132 737**	**9 957**	**26 090**	**18 367**	**23 102**	**2 035**	**212 288**

Unsecured loans in the year 2014 include credit card loans and Lithuanian consumer loans and in 2013 Finnish consumer loans. The latter were excluded from the table in 2014 as discontinued operations, but they were unsecured in 2014 as well. Unsecured corporate loans were issued to the government sector.

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

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

Corporate loans and corporate credit lines	Over-collateralized loans		Under-collateralized loans	
	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 past due and impaired loans according to past due time (loans which have overdue interest or principal payments as at the balance sheet date, are divided in past due categories according to the past due time from the last scheduled payment):

As at 31.12.2014	**Corporate loans**	**Financial leverage loans**	**Credit cards**	**Leasing**	**Hire-purchase**	**Consumer loans**	**Total**	**Discontinued operations**
No past due payments	2 432	0	0	0	0	0	**2 432**	0
Past due receivables								
1-30 days	412	0	75	1 125	2 277	1 021	**4 910**	3 810
31-60 days	55	0	15	279	657	322	**1 328**	1 518
61-90 days	2 008	0	6	163	365	213	**2 755**	594
91-180 days	570	0	13	19	573	362	**1 537**	1 220
181-360 days	108	0	18	2	431	400	**959**	1 308
more than 360 days	0	18	18	33	376	486	**931**	0
Total	**5 585**	**18**	**145**	**1 621**	**4 679**	**2 817**	**14 865**	**8 450**

As at 31.12.2013	**Corporate loans**	**Financial leverage loans**	**Credit cards**	**Leasing**	**Hire-purchase**	**Consumer loans**	**Total**
No past due payments	2 344	0	0	0	0	0	**2 344**
Past due receivables							
1-30 days	639	0	81	2 425	2 520	4 683	**10 364**
31-60 days	0	0	18	236	593	1 941	**2 788**
61-90 days	769	0	8	41	140	646	**1 605**
91-180 days	0	0	61	43	163	1 381	**1 648**
181-360 days	0	0	0	96	184	1 396	**1 676**
more than 360 days	0	18	0	49	1 411	518	**1 996**
Total	**3 752**	**18**	**168**	**2 891**	**5 011**	**10 566**	**22 420**

Credit quality of other receivables	**31.12.2014**	**31.12.2013**
Receivables not impaired and not past due	1 365	1 405
Receivables past due (not impaired)	201	102
incl. receivables from individuals	*34*	*17*
incl. receivables from legal persons	*167*	*85*
Total (Note 14)	**1 566**	**1 507**

3.3 Market risk

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

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

3.3.1 Foreign currency risk

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

As at 31.12.2014 the LTL position was insignificant due to Lithuania's euro adoption as of 1'st of January 2015.

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

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

Open currency exposures

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

31.12.2014	EUR	LTL	GBP	SEK	USD	Other	Total
Assets bearing currency risk							
Balances with other banks and inv. companies	79 917	826	576	538	1 507	765	**84 129**
Financial assetsat fair value	102 888	2 970	0	2	43 664	1	**149 525**
Loans and receivables from customers	271 057	29 019	6	19	915	16	**301 032**
Other receivables from customers	1 390	174	0	0	2	0	**1 566**
Other assets	149	0	0	0	634	0	**783**
Total assets bearing currency risk	**455 401**	**32 989**	**582**	**559**	**46 722**	**782**	**537 035**
Liabilities bearing currency risk							
Deposits from customers and loans received	416 865	808	275	521	55 866	678	**475 013**
Interest rate swaps	302	0	0	0	0	0	**302**
Accrued expenses and other liabilities	747	3 321	305	35	133	314	**4 855**
Subordinated loans	16 688	0	0	0	0	0	**16 688**
Total liabilities bearing currency risk	**434 602**	**4 129**	**580**	**556**	**55 999**	**992**	**496 858**
Off-balance sheet asstes at contractual value	33 608	0	0	0	9 275	0	**42 883**
Off-balance sheet liabilities at contractual value	9 275	33 608	0	0	0	0	**42 883**
Open foreign currency position	**45 132**	**-4 748**	**2**	**3**	**-2**	**-210**	**40 177**

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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	140 417	1 703	410	313	7 784	1 683	**152 309**
Financial assets at fair value	48 280	4	0	1	319	1	**48 605**
Loans and receivables from customers	179 493	26 224	295	15	708	33	**206 768**
Other receivables from customers	1 293	213	0	0	1	0	**1 507**
Muud varad	93	16	0	0	558	0	**667**
Total assets bearing currency risk	**369 575**	**28 160**	**705**	**329**	**9 370**	**1 717**	**409 856**
Liabilities bearing currency risk							
Deposits from customers and loans received	343 573	685	841	332	9 333	1 617	**356 381**
Interest rate swaps	433	0	0	0	0	0	**433**
Accrued expenses and other liabilities	3 463	3 302	9	10	73	34	**6 891**
Other assets	19 716	0	0	0	0	0	**19 716**
Total liabilities bearing currency risk	**367 185**	**3 987**	**850**	**342**	**9 406**	**1 651**	**383 421**
Off-balance sheet asstes at contractual value	25 003	0	0	0	0	0	**25 003**
Off-balance sheet liabilities at contractual value	0	25 003	0	0	0	0	**25 003**
Open foreign currency position	**25 393**	**-830**	**-145**	**-13**	**-36**	**66**	**26 435**

3.3.2 Price risk

Financial instruments bearing price risk at Group are securities held in the trading portfolio and investment portfolio (Note 10, 11). At the Group, limits are set for the size of the trading portfolio and acceptable credit quality ratings are specified for bonds in the investment portfolio. The risk management unit monitors the compliance with limits.

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

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

AS LHV Pank does not hold significant amounts of equity securities in its position, due to which the sensitivity to change in the market value of these positions is marginal.

Pank's debt securities portfolio recognised at the market price is short-term and of high quality, therefore, the effect of the changes in market risk premiums on the market value of the debt security portfolio should remain at around 0.9% (2013: 0.7%).

Sensitivity analysis of the impact to net result from the risk exposures of the Group's largest enity LHV Pank (bonds 142,5 mln and shares and fund units 0,02 mln EUR) against reasonable possible change (in thousands euros):

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

3.3.3 Interest rate risk

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

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

- cash flow interest rate risk whereby in case of a 1% change in market interest rates, a change in annual net interest income is limited as compared to the estimated actual

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

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

The interest rates for leverage loans granted are changed at most once a month according to fluctuations in market interest rates. In 2014, the interest rate on loans received for specific purposes was 1,4% (2013: 1,5%). The effective interest rate of subordinated loans entered into in 2012 was 7,25% (2013: 7,27%) and the effective interest rate of subordinated loans entered into in 2014 was 7,44%. The information about contractual interest rates is provided in Note 20 .

As at 31.12.2014, stress tests were performed to the biggest interest sensitive subsidiary of the group: AS LHV Pank. An increase of 1% percentage point in interest rates would affect the bank's annual net interest income and profit by EUR +2 114 thousand (2013: EUR +1 841 thousand). In the same time, a decrease of 1% percentage point in interest rates would affect the bank's annual net interest income (profit) by EUR -1 766 thousand (2013: - 860 thousand). A 1% percentage point t increase in market interest rates would raise the bank's economic value, i.e. equity, by EUR 3 318 thousand (2013: EUR 3 117 thousand). A 1% percentage point decrease in market interest rates would decrease the bank's economic value (equity) by EUR -1 452 thousand (2013: EUR -644 thousand). Effect on the bank's economic value is positive due to the fact that the bank has invested pikemaajalisest in current assets and because of the nature of demand deposits, hence the average duration of interest-earning assets is shorter than the average duration of interest-bearing liabilities.

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

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

31.12.2014	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Interest-earning assets					
Balances with other banks and inv. companies	84 129	0	0	0	**84 129**
Finantsial assets at fair	72 562	55 921	8 729	2 792	**140 004**
Loans and advances to customers	93 549	147 176	59 081	3 827	**303 633**
Total	**250 240**	**203 097**	**67 810**	**6 619**	**527 766**
Interest-bearing liabilities					
Deposits from customers and loans received	72 138	180 589	219 525	2 269	**474 521**
Subordinated loans *	0	750	0	15 900	**16 650**
Total	**72 138**	**181 339**	**219 525**	**18 169**	**491 171**
Interest pricing gap	**178 102**	**21 758**	**-151 715**	**-11 550**	**36 595**

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

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

3.4 Liquidity risk

Liquidity risk relates to the solvency of the Group to meet its contractual obligations on time and it arises from differences between maturities of assets and liabilities. The Group's liquidity management and strategy is based on risk policies, resulting in various liquidity risk measures, limits and internal procedures. As per policy statements, the Group's liquidity management reflects a conservative approach towards liquidity risk. The liquidity risk management includes stress testing and business continuity plan for liquidity management. Stress testing framework includes a survival period metrics, which represents a combined liquidity risk scenario, including both idiosyncratic and market-wide stress. Internal metrics are complemented by the Basel III metrics - the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) which the Group is fully compliant with as of 31.12.2014 ja 31.12.2013. The aim of the liquidity coverage ratio (LCR) standard is to ensure that the Group has an adequate amount of unencumbered assets of high quality and liquidity that could be monetised without incurring material losses to meet a liquidity requirement in a 30-day stress scenario. The output of the standard is the ratio of liquid assets to stress scenario liquidity requirement, which has a limit of 100%. The Group's liquidity coverage ratio level as at 31.12.2014 was 190%.

The objective of the net stable funding ratio (NSFR) is to ensure that the Group has adequate stable funding sources to finance longer-term assets. According to the proposals published in the banking regulation and the banking committee of Basel in October 2014, the Group's NSFR level as at 31.12.2014 was 138%. The net stable funding ratio will be imposed as minimum requirement from the year 2018.

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

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

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

31.12.2014	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities by contractual maturity dates						
Deposits from customers and loans received	272 830	76 666	110 303	15 292	982	**476 073**
Subordinated loans	0	301	904	4 823	21 890	**27 918**
Other liabilities	0	4 855	0	0	0	**4 855**
Unused loan commitments	0	61 334	0	0	0	**61 334**
Financial guarantees by contractual amounts	0	9 791	0	0	0	**9 791**
Interest rate swaps	0	24	161	118	0	**303**
Total liabilities	**272 830**	**152 971**	**111 368**	**20 233**	**22 872**	**580 274**
Assets held for managing liquidity risk by contractual maturity dates						
Balances with banks and inv. companies	83 149	980	0	0	0	**84 129**
Financial assets at fair value	0	55 516	51 555	33 279	5 353	**145 703**
Loans and advances to customers	0	26 635	78 501	211 142	27 174	**343 451**
Other advances to customers	0	1 566	0	0	0	**1 566**
Total assets held for managing liquidity risk	**83 149**	**84 697**	**130 056**	**244 421**	**32 527**	**574 849**
Maturity gap from assets and liabilities	**-189 681**	**-68 274**	**18 688**	**224 188**	**9 655**	**-5 425**

31.12.2013	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities by contractual maturity dates						
Deposits from customers and loans received	160 697	96 888	92 717	5 687	1 268	**357 257**
Subordinated loans	0	1 366	1 047	5 721	23 787	**31 921**
Other liabilities	0	6 318	0	0	0	**6 318**
Unused loan commitments	0	32 629	0	0	0	**32 629**
Financial guarantees by contractual amounts	0	6 556	0	0	0	**6 556**
Interest rate swaps	0	24	177	236	0	**436**
Total liabilities	**160 697**	**143 781**	**93 941**	**11 644**	**25 055**	**435 117**
Assets held for managing liquidity risk by contractual maturity dates						
Balances with banks and inv. companies	152 183	126	0	0	0	**152 309**
Financial assets at fail value	0	12 626	9 335	22 423	408	**44 792**
Loans and advances to customers	0	32 168	54 288	137 794	19 356	**243 606**
Other advances to customers	0	1 507	0	0	0	**1 507**
Total assets held for managing liquidity risk	**152 183**	**46 427**	**63 623**	**160 217**	**19 764**	**442 214**
Maturity gap from assets and liabilities	**-8 514**	**-97 354**	**-30 318**	**148 573**	**-5 291**	**7 097**

3.5 Risk concentration

Distribution of assets and liabilities by geographic region is presented below. As at 31.12.2014, the loans issued to 3 customers and 2 correspondent banks (2013: total 6) had a large risk exposure, i.e. more than 10% of the net own funds (NOF) of Group either individually or via group risk, totalling 75% of NOF (2013: 70%). The Group has invested in the bonds of 5 issuers (2013: 2) with a large risk exposure, totalling 170% of NOF (2013: 43%). Unused loan commitments in amount of 61 334 thousand euros are for Estonian residents (2013: 32 629 thousnad).

31.12.2014	Estonia	Latvia	Lithuania	Finland	Nether-lands	Ger-many	EU	USA	Other	Total
Balances with banks and inv. companies	61 800	295	2 504	1 902	550	1	2 691	14 268	118	**84 129**
Financial assets at fail value	6 919	4 237	3 828	0	285	14 313	76 287	43 656	0	**149 525**
Loans and advances to customers	264 008	521	30 919	2 444	15	0	3 108	0	17	**301 032**
Other receivables from customers	1 383	2	180	0	0	0	0	0	1	**1 566**
Other financial assets	108	0	0	0	0	0	0	675	0	**783**
Total financial assets	**334 218**	**5 055**	**37 431**	**4 346**	**850**	**14 314**	**82 086**	**58 599**	**136**	**537 035**
Deposits from customers and loans received	402 500	1 556	1 680	361	2	125	53 992	598	14 199	**475 013**
Subordinated liabilities	16 688	0	0	0	0	0	0	0	0	**16 688**
Other financial liabilities	2 835	0	708	0	0	0	13	3	0	**3 559**
Total financial liabilities	**422 023**	**1 556**	**2 388**	**361**	**2**	**125**	**54 005**	**601**	**14 199**	**495 260**

31.12.2013	Estonia	Latvia	Lithuania	Finland	Nether-lands	Ger-many	EU	USA	Other	Total
Balances with banks and inv. companies	143 768	518	2 427	1 150	452	1	2 526	1 359	108	**152 309**
Financial assets at fail value	5 437	0	790	201	282	6 020	29 501	815	5 558	**48 605**
Loans and advances to customers	159 116	580	25 897	16 996	15	0	3 163	0	1	**206 768**
Other receivables from customers	1 342	2	163	0	0	0	0	0	0	**1 507**
Other financial assets	8	0	0	0	0	0	0	642	0	**650**
Total financial assets	**309 671**	**1 100**	**29 277**	**18 347**	**749**	**6 021**	**35 191**	**2 815**	**5 667**	**408 838**
Deposits from customers and loans received	349 985	860	1 850	569	2	42	2 358	129	585	**356 381**
Subordinated liabilities	19 716	0	0	0	0	0	0	0	0	**19 716**
Other financial liabilities	2 193	0	3 075	0	0	0	11	2	0	**5 281**
Total financial liabilities	**371 894**	**860**	**4 925**	**569**	**2**	**42**	**2 370**	**131**	**585**	**381 378**

Distribution of loans granted by industry (gross):	**31.12.2014**	**%**	**31.12.2013**	**%**
Individuals	61 965	20,31%	60 344	28,43%
Real estate	87 516	28,68%	26 039	12,27%
Manufacturing	26 804	8,79%	21 004	9,89%
Art and entertainment	24 812	8,13%	6 048	2,85%
Financial services	22 097	7,24%	43 958	20,71%
Wholesale and retail	14 838	4,86%	9 125	4,30%
Administrative activities	11 321	3,71%	4 200	1,98%
Transport and logistics	11 136	3,65%	7 360	3,47%
Agriculture	8 065	2,64%	5 598	2,64%
Other servicing activities	7 646	2,51%	6 076	2,86%
Construction	4 853	1,59%	3 298	1,55%
Information and communication	4 049	1,33%	2 218	1,05%
Professional, scientific and technical activities	2 443	0,80%	10 204	4,81%
Education	1 717	0,56%	2 249	1,06%
Other areas at activities	15 837	5,19%	4 567	2,15%
Total	**305 099**	**100%**	**212 288**	**100%**

Loans classified as discontinued operations are granted to private individuals.

3.6 Fair value of financial assets and financial liabilities

	Level 1	Level 2	Level 3	31.12.2014	Level 1	Level 2	Level 3	31.12.2013
Financial assets at fair value through profit or loss								
equity securities	6 107	0	0	**6 107**	4 676	0	0	**4 676**
debt securities available-for-sale (note 10)	4 273	0	0	**4 273**	11 903	0	0	**11 903**
debt securities at fair value through profit or loss (note 11)	139 145	0	0	**139 145**	32 026	0	0	**32 026**
Total financial assets	**149 525**	**0**	**0**	**149 525**	**48 605**	**0**	**0**	**48 605**
Financial liabilities at fair value through profit or loss								
interest rate swaps	0	302	0	**302**	0	433	0	**433**
Total financial liabilities	**0**	**302**	0	**302**	**0**	**433**	**0**	**433**

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

Levels used in hierarchy:

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

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

AS at 31.12.2014 the fair value of corporate loans and overdraft is EUR 228 thousand (1%) lower than their carrying amount (31.12.2013: 522 thousand, 0,4% higher) . The loans have been issued at market conditions in the segment that the Group operates in and therefore their fair value is not much different from their carrying amount as at 31.12.2014 and 31.12.2013. The fair value level of corporate loans is 3 as significant judgmental assumptions are used for the valuation process (discounted cash flow method with current market interest).

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

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

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

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

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

3.7 Operating risk

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

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

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

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

NOTE 4 Significant management estimates and assumptions

In accordance with IFRS, several financial figures presented in the financial statements are strictly based on critical accounting estimates and assumptions made by management, which affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities presented in the financial statements at the balance sheet date, and the reported amounts of revenue and expenses of subsequent reporting periods. Although these estimates have been made to the best of management's knowledge and their judgement of current events, the actual outcome may ultimately not coincide with them and may significantly differ from these estimates. Management's estimates have been applied to valuation of loans, receivables and investments (Notes 3.2, 9,10, 11, 12 and 13).

According to IAS 39, the Group classified a portion of its bond portfolio as a held-to-maturity portfolio. At the start of 2013, the Group's management estimated that it does not intend to hold the investments until maturity and the bond portfolio that was held-to-maturity was reclassified as available-for-sale portfolio (see also Note 10). As a result of the reclassification of the portfolio, the Group's equity increased by EUR 2.2 million since the market value of the portfolio was higher than the amortised cost recognised in the balance sheet. The difference between carrying amount and fair value of the portfolio was at first recognized in other comprehensive income and after selling most of the portfolio reclassified to statement of profit or loss. According to IAS 39 the Group cannot classify debt securities to held-to-maturity for the next two years because of the breach of held-to-maturity criteria set in IAS 39.

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

NOTE 5 Subsidiaries and associated companies, goodwill

As at 31.12.2014, the Group's subsidiaries which have been consolidated in these financial statements include:

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

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

As at 31.12.2014, the Group's associates include:

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

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

As at 31.12.2014, goodwill in amount EUR 1 044 thousand in the consolidated financial statements of AS LHV Group consists of:

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

Impairment tests were performed as at 31.12.2014 and as at 31.12.2013. The cash generating unit of goodwill is AS LHV Varahaldus. The calculation of the value in use is based on the following assumptions:

- The volume of assets under management is expected to increase 22% per annum (2013: 29%)
- Increase of income of fund manager is expected to be average of 13% per annum (2013: 21%);
- Due to the economic environment, growth of 4% in indirect costs is expected per annum (2013: 14%);
- The discount rate used is 13% (2013: 11%)

When using the main assumptions, the management used previous years' experience and its best estimate in respect of probable expectations. Expectations are more conservative due to the changes in the market situation and legislatsion. Based on the results of the impairment test performed as at 31.12.2014 and as at 31.12.2013, the recoverable amount of cash generating units is higher than its carrying amount, as a result of which no impairment losses have been recognized.

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

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

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

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

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

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

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

Summarised statement on Financial Position	UAB Mokilizingas 31.12.2014	UAB Mokilizingas 31.12.2013	AS LHV Finance 31.12.2014	AS LHV Finance 31.12.2013
Loans and advances to customers and other current assets	31 877	30 494	12 628	4 861
Non-current assets	79	87	143	93
Liabilities	28 104	27 345	12 104	4 734
Total net assets	**3 852**	**3 236**	**667**	**220**

Summarised statement of Comprehensive Income	UAB Mokilizingas 2014	UAB Mokilizingas II half-year 2013	AS LHV Finance 2014	AS LHV Finance 2013
Total net revenue	4 615	2 119	1 624	290
Profit before income tax	767	496	446	-280
Income tax expense	-151	-84	0	0
Net profit	**616**	**412**	**446**	**-280**
Total comprehensive income	616	412	446	-280
Comprehensive income allocated to non-controling interests	308	206	156	-98

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

NOTE 6 Net interest income

Interest income	**2014**	**2013**
From balances with credit institutions and investment	43	24
From balances with central bank	19	45
From debt securities	501	1 105
incl. debt securities available-for-sale	*79*	*601*
incl. debt securities at fair value through profit or loss	*422*	*504*
Leasing	1 024	441
incl. loans to related parties	*159*	*198*
Leverage loans and lending of securities	833	833
Consumer loans	1 993	773
Hire purchase	4 442	334
Loans to companies	9 768	6 623
Other loans	876	1 329
Total	**19 499**	**11 507**
Interest expense		
Deposits from customers and loans received and subprdinated loans	-3 025	-2 401
Incl.loans to related parties (note 24)	*-390*	*-206*
Total	**-3 025**	**-2 401**
Net interest income	**16 474**	**9 106**

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

NOTE 7 Net fee and commission income

Fee and commission income	**2014**	**2013**
Security brokerage and commissions	2 175	2 066
incl. related parties (Note 24)	*0*	*3*
Asset management and similar fees	9 212	6 429
*Incl. funds managed by the Group**	*8 093*	*5 675*
Currency convert revenues	393	350
Fees from cards and payments	770	399
Fees related to collection of debts	7	0
Fee for Snoras portfolio administration**	526	515
Other fee and commission income	608	340
Total	**13 691**	**10 099**
Commission expense		
Security brokerage and commissions paid	-517	-504
Other fee expense	-626	-361
Total	**-1 143**	**-865**
Net fee and commission income	**12 548**	**9 234**

* Commission fees from pension and investment funds are calculated as a fixed percentage of total assets of the fund and varies between 0.9% -2%.

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

Fee income by customer location:	**2014**	**2013**
Estonia	11 921	8 883
Latvia	113	120
Lithuania	972	888
Finland	20	0
Sweden	665	208
Total	**13 691**	**10 099**

NOTE 8 Operating expenses

	2014	**2013**
Wages, salaries and bonuses	6 489	4 633
Social security and other taxes	2 065	1 525
Total staff costs	**8 554**	**6 158**
IT expenses	1 209	855
Information services and bank services	584	453
Marketing expenses	4 198	2 966
Office expenses	418	355
Transportation and communication costs	178	122
Training and travelling expenses of employees	260	166
Other outsourced services	1 899	1 695
Other administrative expenses	1 003	868
Depreciation	682	515
Operating lease payments	850	760
Other operating expenses	94	197
Other operating expenses	**11 375**	**8 952**
Total operating expenses	**19 929**	**15 110**

NOTE 9 Balances with central bank, credit institutions and investment companies

	31.12.2014	31.12.2013
Term deposits with maturity less than 3 months *	38 702	18 470
Statutory reserve capital at central bank	4 498	3 397
Other receivables from central bank *	40 929	130 442
Total	**84 129**	**152 309**
* cash and cash equivalents in the statement of cash flows	79 631	148 912

Distribution of receivables by countries is presented in Note 3.5. Balances with investment companies amounting to EUR 14 484 thousand (2013: EUR 1 466 thousand) are included under demand deposits. All other demand and term deposits are held at credit institutions or the central bank. Mandatory banking reserve as at 31.12.2014 was 1% (2013: 1%) of all financial resources taken in (deposits from customers and loans received). The reserve requirement is to be fulfilled as a monthly average in euros or in the foreign securities preapproved by the central bank.

NOTE 10 Available-for-sale financial assets

The Group has available-for-sale bond portfolio in amount of 4 273 thousand euros as of 31.12.2014 (31.12.2013: 11 903) which resulted from reclassification of held-to-maturity portfolio. The balance of other reserv in equity is 6 thousand euros (31.12.2013: 27 thousand euros).
In 2014 a gain of 4 thousand euros from the sales of bonds was recognized in statement of comprehensive income. In 2013, as a result of reclassification and sales of the portfolio a gain of 2 228 thousand euros was recognized in statement ofcomprehensive income. Interest income from bond portfolio is recognized in interest income in the amount of 79 thousand euros (2013: 602 thousand euros), refer to note 6.

NOTE 11 Financial assets and liabilities at fair value through profit or loss

Securities held for trading:	**31.12.2014**	**31.12.2013**
Equity securities	519	460
Debt securities	139 145	32 026
Designated as at fair value through profit or loss upon initial recognition:		
Fund units	5 588	4 216
incl. investments in managed pension funds	*5 588*	*4 006*
incl. investments in managed investment funds	*0*	*210*
Total financial assets	**145 252**	**36 702**
Interest rate swaps	302	433
Total financial liabilities	**302**	**433**

Bid price is the fair value of investments in the case of publicly listed securities (Note 3.6). In 2014, a gain of 280 thousand euros was recognised on the revaluation of bonds (2013: -43 thousand euros) and a loss arose on the revaluation of interest rate swaps in the amount of 70 thousand euros (2013: 7 thousand euros). Interest income from bonds is recognized in interest income in the amount of 422 thousand euros (2013: 503 thousand euros), refer to note 6.

The volume of pension and investent fund assets managed by the Group as at 31.12.2014 was 504 million euros (31.12.2013: 374 million euros)

NOTE 12 Discontinued operations

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

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

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

NOTE 13 Loans and advances to customers

	31.12.2014	**31.12.2013**
Loans to legal persons	**243 135**	**151 945**
incl. corporate loans	207 506	128 819
incl. overdraft	6 871	3 918
incl. hire-purchase	64	0
incl. leveraged loans	4 164	4 218
incl. leasing	24 469	14 900
incl. credit card loans	61	47
incl. mortgage loans	0	43
Loans to individuals	**61 964**	**60 344**
incl. consumer loans	9 470	23 792
incl. hire-purchase	34 086	23 102
incl. leveraged loans	5 032	5 739
incl. leasing	4 393	3 468
incl. credit card loans	2 898	2 251
incl. mortgage loans	5 980	1 948
incl. credit lines	92	29
Incl. other loans	13	15
Total	**305 099**	**212 288**
incl. related parties (note 24)	*2 023*	*894*
Impairment provisions	-4 067	-5 520
Total	**301 032**	**206 768**

Changes in impairments in 2014	**Corporate loans**	**Consumer loans**	**Credit cards**	**Hire-purchase**	**Leasing**	**Leverage loans**	**Total**
Balance as at January 1	-870	-2 775	-83	-1 417	-357	-18	**-5 520**
Impairment provisions set up during the year	-671	-1 158	-43	-913	31	0	**-2 754**
Written off during the year	0	1 374	35	1 262	33	0	**2 704**
Re-classified impairment provisions from discountinued operations	0	1 503	0	0	0	0	**1 503**
Balance as at December 31	**-1 541**	**-1 056**	**-91**	**-1 068**	**-293**	**-18**	**-4 067**

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

Net and gross investments on finance leases according to remaining maturity	Net investment	Unearned future interest income	Gross investment
up to 1 year	8 217	842	9 059
1-5 years	20 518	1 211	21 729
over 5 years	78	197	275
Total as at 31.12.2014	**28 813**	**2 250**	**31 063**
up to 1 year	6 018	422	6 440
1-5 years	12 145	836	12 981
over 5 years	72	120	192
Total as at 31.12.2013	**18 235**	**1 378**	**19 613**

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

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

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

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

For interest income on loans granted, see Note 6.

NOTE 14 Other receivables from customers

	31.12.2014	31.12.2013
Asset management fees from customers	783	594
incl. related parties (Note 26)	*735*	*549*
Other fees for providing services to customers	548	687
Payments in transit	60	1
Other receivables related to collection of receivables	1	12
Other receivables	174	213
Kokku	**1 566**	**1 507**

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

NOTE 15 Other assets

	31.12.2014	31.12.2013
Guarantee deposits of Baltic stock exchanges	8	8
Guarantee deposits of VISA and MasterCard	775	642
Prepayments to Financial Supervision Authority	162	144
Tax prepayments	141	114
Repossessed assets	19	15
Prepayments to merchants for registered customer contracts	66	2 629
Other prepayments *	877	339
Total	**2 048**	**3 892**

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

NOTE 16 Tangible and intangible assets

	Tangible assets	Intangible assets	Total
Balance as at 31.12.2012			
Cost	1 706	801	2 507
Accumulated depreciation and amortisation	-1 071	-322	-1 393
Carrying amount	**635**	**479**	**1 114**
Changes occurred in 2013:			
Purchase of non-current assets	64	422	486
Acquisition of subsidiary	92	8	100
Depreciation/amortisation charge	-300	-288	-588
Balance as at 31.12.2013			
Cost	1 862	1 231	3 093
Accumulated depreciation and amortisation	-1 371	-610	-1 981
Carrying amount	**491**	**621**	**1 112**
Changes occurred in 2014:			
Purchase of non-current assets	166	364	530
Write-off of non-current assets	-20	-47	-67
Depreciation/amortisation charge	-269	-408	-677
Balance as at 31.12.2014			
Cost	2 008	1 548	3 556
Accumulated depreciation and amortisation	-1 640	-1 018	-2 658
Assets of discontinued opertaions (note 12)	-60	0	-60
Carrying amount	**308**	**530**	**838**

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

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

NOTE 17 Deposits from customers and loans received

	Individuals	Legal entities	Public sector	31.12.2014 total	Individuals	Legal entities	Public sector	31.12.2013 total
Demand deposits	77 492	194 976	1 199	**273 667**	49 187	105 720	5 790	**160 697**
Term deposits	78 637	98 915	6 117	**183 669**	80 857	86 505	24 226	**191 588**
Loans received	0	13 534	3 557	**17 091**	0	107	3 422	**3 529**
Accrued interest liability	315	246	25	**586**	322	202	43	**567**
Total	**156 444**	**307 671**	**10 898**	**475 013**	**130 366**	**192 534**	**33 481**	**356 381**
incl. related parties (Note 24)	*2 770*	*8 862*	*0*	*11 632*	*673*	*1 726*	*0*	*2 399*

Loans received from public sector includes loans from Maaelu Edendamise Sihtasutus (Rural Development Foundation) in the amount of 3 557 thousand euros (31.12.2013: 3 529 thousand) with an intended purpose to finance loans to small enterprises operating in rural areas and a loan from the European Central Bank, secured with the bond portfolio, in the amount of 13 005 thousand (31.12.2013: 0) euros and internest rate 0,15%. The nominal interest rates of most deposits from customers and

loans received equal their effective interest rates as no other significant fees have been paid.
Distribution of deposits from customers and loans received by currency is presented in Note 3.3.
Distribution of deposits from customers and loans received by maturity is presented in Note 3.4.
Distribution of deposits from customers and loans received by geography is presented in Note 3.5.

NOTE 18 Accounts payable and other liabilities

Financial liabilities	**31.12.2014**	**31.12.2013**
Trade payables	*1 845*	*1 503*
Payables to merchants	*490*	*2 873*
Other short-term liabilities	*515*	*678*
Payments in transit	*611*	*158*
Financial guarantee contracts issued	*98*	*69*
Subtotal	**3 559**	**5 281**
Non-financial liabilities		
Performance guarantee contracts issued	*182*	*122*
Tax liabilities	*491*	*371*
Payables to employees	*902*	*734*
Other short-term liabilities	*301*	*383*
Subtotal	**1 575**	**1 610**
Total	**5 435**	**6 891**

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

NOTE 19 Operating lease

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

NOTE 20 Subordinated loans

The Group has received subordinated loans in order to increase share capital. In the case of default of the Group, the subordinated debts are repayable arter all ohter debts have been paid, but before debts to shareholders are paid. As at 31.12.2014, subordinated loans include bonds issued in the total amount of EUR 16 650 thousand (31.12.2013: EUR 18 635 thousand).

In June 2014, subordinated bonds were issued totalling 15 900 thousand euros carrying a rate of interest at 7.25%. The due date of the bonds is 20 June 2024. In June 2013, subordinated bons were isused totalling 15 450 thousand eurot, which were redeemned in the same amount in Juna 2014. In addition, subordinated bonds isused in June 2011 were redeemed totalling 1 000 thousand euros.

In December 2012, subordinated bonds were issued totalling 4 500 thousand euros. Most of these bonds have been converted to share capital (refer to note 21) and the remaing bonds total to 750 thousand euros as at balace sheet date. The due date of the bonds is 20 June 2020 and the interest rate is 7% during the first three-year period and 7% + 3 months EURIBOR onwards. . After three years, the issuer has the right to prematurely redeem the bonds. During three years, investors have the right to convert their bonds to the issued shares of the Group.

Interest expenses on subordinated bonds in the amount of EUR 1 245 thousand (2013: EUR 526 thousand) are included within interest expenses in the statement of comprehensive income. As of 31 December 2014, the accrued interest liability of subordinated bonds was EUR 38 thousand (31 December 2013: EUR 48 thousand). Interest liabilities are accounted in the statement of financial position using the effective interest rate.

NOTE 21 Shareholders' equity in the public limited company

Transactions with share capital	Date	Share price	Share capital	Share premium	Total
Share capital as at 31.12.2012			**17 382**		
Conversion of subordinated bonds issued in 2010 to share capital	March 2013	2.50	1 200	1 800	3 000
Conversion of subordinated bonds issued in 2012 to share capital	June 2013	3.00	433	867	1 300
Paid in share capital	July 2013	3.00	187	377	564
Total transactions in 2013					**4 864**
Share capital as at 31.12.2013			**19 202**		
Conversion of subordinated bonds issued in 2012	June 2014	3.75	654	1 796	2 450
Paid in share capital	June 2014	3.95	3 500	10 325	13 825
Total transactions in 2014					**16 275**
Share capital as at 31.12.2014			**23 356**		

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

According to the Company's articles of association, the minimum share capital is EUR 15 million and the maximum share capital is EUR 60 million (31.12.2013 10 and 40 million respectively).

Rain Lõhmus who owns 28,0% of the voting rights and Andres Viisemann who owns 8,9% of the voting rights in AS LHV Group have significant influence over the company (31.12.2013: 34,5% and 10,3%, respectively).

As at 31.12.2014, the accumulated deficit of the Group totalled EUR 2 041 thousand (31.12.2013: accumulated deficit EUR 11 032 thousand). Thus, it is not possible to pay dividends to the shareholders.

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

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

NOTE 22 Assets under management

LHV Pank, operating as an account manager for its customers, has custody of or intermediates the following customer assets:	31.12.2014	31.12.2013
Cash balance of customers	6 047	5 620
Securities of customers	540 751	317 989
incl. shareholders of the parent company and related entities	*22 029*	*17 708*
Total	**546 798**	**323 609**

Asset management fees for the management of these assets have been in the range of 0.015 – 0.025 % (for, respective income, see Note 7).

The monetary funds of the customers who use the platform of an active securities trader or the trading system LHV Trader offered by LHV Pank, have been recognised as off-balance sheet assets. Due to the nature of the system, LHV Pank has deposited these funds in personalised accounts with its partner and as the monetary funds of these customers are not used for business purposes by LHV Pank (they cannot be lent to other customers or used as collateral), therefore the monetary funds

LHV

are recognised as off-balance sheet assets. LHV Pank earns commission and interest income on intermediation of transactions in these accounts similarly to customers' accounts reflected in the Group's financial statement. LHV Pank has provided contractual guarantees to its partner in respect of LHV Trader accounts, guaranteeing potential losses to be incurred from financing of the transactions executed by customers intermediated by itself (leveraging), with the primary collateral being the securities used as collateral for leveraged loans. In its current practice, no such losses in respect of which the guarantee provided by LHV Pank would apply have incurred and LHV Pank has not paid any compensation relating to the guarantee.

NOTE 23 Contingent assets and liabilities

Irrevocable transactions	Performance guarantees	Financial guarantees	Unused loan commitments	Total
Liability in contractual amount 31.12.2014	6 892	2 899	61 334	**71 125**
Liability in contractual amount 31.12.2013	5 025	1 531	32 629	**39 185**

Tax authorities have the right to review the company's tax records for up to 5 years after submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. The tax authorities have not performed any tax audits at the Group during 2013. The Group's management estimates 2014 that there are no such circumstances which may lead the tax authorities to impose significant additional taxes on the Group.

NOTE 24 Transactions with related parties

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

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

Transactions	Lisa	2014	2013
Interest income	6	**159**	**198**
incl. management		*4*	*1*
incl. shareholders, related entities and close relatives that have significant influence		*155*	*197*
Fee and commission income	7	**0**	**3**
incl. management		*0*	*3*
Interest expenses from deposits	6	**63**	**1**
incl. management		*1*	*1*
incl. shareholders, related entities and close relatives that have significant influence		*62*	*0*
Interest expenses from subordinated loans	6	**327**	**205**
incl. management		*21*	*10*
incl. shareholders, related entities and close relatives that have significant influence		*306*	*195*

Balances	Lisa	31.12.2014	31.12.2013
Loans and receivables as at the year-end		**2 023**	**894**
incl. management	*12*	*347*	*345*
incl. shareholders, related entities and close relatives that have significant influence	*12*	*1 676*	*549*
Deposits as at the year-end		**11 632**	**2 399**
incl. management	*17*	*1 010*	*474*
incl. shareholders, related entities and close relatives that have significant influence	*17*	*10 622*	*1 925*
Subordinated loans as at the year-end		**5 700**	**3 450**
incl. management	*20*	*300*	*300*
incl. shareholders, related entities and close relatives that have significant influence	*20*	*5 400*	*3 150*

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

Loans granted to related parties are issued at market conditions.

As at 31.12.2014 as well as 31.12.2013, the management did not have term deposits and the interest rate on demand deposits corresponds to the overall price list applicable to customers.

The subordinated loan received in June 2014 has the interest rate of 7,25%, refer to note 20. The subordinated loan received in December 2012 has the interest rate of 7% during the first three years and 3 months EURIBOR + 7% since December 2015.

In 2014, salaries and other compensations paid to the management of the parent AS LHV Group and its subsidiaries totalled EUR 778 thousand (2013: EUR 743 thousand), including all taxes. As at 31.12.2014, remuneration for December and accrued holiday pay in the amount of EUR 140 thousand (31.12.2013: EUR 75 thousand) is reported as a payable to management (Note 18). The Group did not have any long-term payables or commitments to the members of the Management Board and the Supervisory Board as at 31.12.2014 and 31.12.2013 (pension liabilities, termination benefits, etc.). In 2014, the remuneration paid to the members of the Group's Supervisory Board totalled EUR 25 thousand (2013: EUR 23 thousand).

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

Information on assets of related parties held as an account manager is presented in Note 22.

NOTE 25 Subsequent events

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

NOTE 26 Separate financial statements of parent company

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

Statement of comprehensive income of the parent

(in thousands of euros)	**2014**	**2013**
Interest income	836	462
Interest expenses	-1 245	-525
Net interest income	**-409**	**-63**
Net gains from investments to subsidiaries	53	0
Foreign exchange rate losses	-12	-4
Other financial income	0	112
Net gains from financial assets	**41**	**108**
Operating expenses	-289	-131
Net loss for the year	**-657**	**-86**
Total comprehensive loss for the year	**-657**	**-86**

Statement of financial position of the parent

(in thousands of euros)	**31.12.2014**	**31.12.2013**
Assets		
Due from banks and investment companies	3 025	3 596
Loans granted	12 803	10 579
Other receivables and assets	7	0
Investments in subsidiaries	54 420	42 290
Investments in associates	36	62
Total assets	**70 291**	**56 527**
Liabilities		
Accrued expenses and other liabilities	41	23
Subordinated liabilities	16 688	18 683
Total liabilities	**16 729**	**18 706**
Shareholders' equity		
Share capital	23 356	19 202
Share premium	33 992	21 871
Reserves	435	223
Other reserves	138	15
Accumulated deficit	-4 359	-3 490
Total shareholders' equity	**53 562**	**37 821**
Total shareholders' equity and liabilities	**70 291**	**56 527**

Statement of cash flows of the parent

(in thousands of euros)	**2014**	**2013**
Cash flows from operating activities		
Interest received	836	462
Interest paid	-1 245	-525
Other financial income received	-206	112
Operating and other expenses	-95	-135
Cash flows from operating activities before change in operating assets and liabilities	**-710**	**-86**
Net increase/decrease in operating liabilities::		
Net increase/decrease of other assets	-231	336
Net increase/decrease of other liabilities	146	-194
Net cash used in / generated from operating activities	**-795**	**56**
Cash flows from investing activities		
Loans granted	-8 000	-3 550
Repayments of loans granted	6 000	0
Acquisitions and disposals of subsidiaries and associates	-12 051	-10 952
Net cash used in/ generated from investing activities	**-14 051**	**-14 502**
Cash flows from financing activities		
Payment to share capital (incl. share premium)	13 825	564
Disposal of treasury shares	0	1
Subordinated loans paid back	-15 450	0
Subordinated loans received	15 900	15 450
Net cash from financing activities	**14 275**	**16 015**
Increase/decrease in cash and cash equivalents	**-571**	**2 027**
Cash and cash equivalents at the beginning of the financial year	3 596	1 569
Cash and cash equivalents at the end of the financial year	**3 025**	**3 596**

Statement of changes in shareholders' equity

(in thousands of euros)	Share capital	Share premium	Statutory reserve capital	Other reserves	Accumulated deficit	Treasury shares	Total
Balance as at 01.01.2013	**17 382**	**18 827**	**223**	**232**	**-3 404**	**-1**	**33 259**
Conversion of subordinated bonds issued in 2010 to share capital	1 200	1 800	0	-210	0	0	**2 790**
Conversion of subordinated bonds issued in 2012 to share capital	433	867	0	-7	0	0	**1 293**
Paid-in share capital	187	377	0	0	0	0	**564**
Disposal of treasury shares	0	0	0	0	0	1	**1**
Total comprehensive income for 2013	0	0	0	0	-86	0	**-86**
Balance as at 31.12.2013	**19 202**	**21 871**	**223**	**15**	**-3 490**	**0**	**37 821**
Carrying amount of holdings under control and significant influence	0	0	0	0	-41 459	0	**-41 459**
Value of holdings under control and significant influence under equity method	0	0	0	-27	33 917	0	**33 917**
Adjusted unconsolidated equity as at 31.12.2013	**19 202**	**21 871**	**223**	**-12**	**-11 032**	**0**	**30 252**
Balance as at 01.01.2014	**19 202**	**21 871**	**223**	**15**	**-3 490**	**0**	**37 821**
Conversion of subordinated bonds issued in 2012 to share capital	654	1 796	0	-15	0	0	**2 435**
Paid-in share capital	3 500	10 325	0	0	0	0	**13 825**
Paid in statutory reserve capital	0	0	212	0	-212	0	**0**
Share options	0	0	0	138	0	0	**138**
Total comprehensive income for 2014	0	0	0	0	-657	0	**-657**
Balance as at 31.12.2014	**23 356**	**33 992**	**435**	**138**	**-4 359**	**0**	**53 562**
Carrying amount of holdings under control and significant influence	0	0	0	0	-53 589	0	**-53 589**
Value of holdings under control and significant influence under equity method	0	0	0	-6	55 907	0	**55 901**
Adjusted unconsolidated equity as at 31.12.2014	**23 356**	**33 992**	**435**	**132**	**-2 041**	**0**	**55 874**

Signatures of the Management Board to the Consolidated Annual Report

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

25.03.2015

Erkki Raasuke /signed/

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS LHV Group

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

Management Board's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

AS PricewaterhouseCoopers

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

25 March 2015

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

Proposal for profit distribution

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

- to add EUR 460 thousand to statutory reserve capital
- to add the profit for reporting period attributable to shareholders of the parent in the amount of EUR 8 743 thousand to the accumulated deficit.

Signatures of the Supervisory Board to the annual report

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

01.04.2015

Chairman of the Supervisory Board:

Rain Lõhmus /signed/

Members of the Supervisory Board:

Raivo Hein /signed/

Heldur Meerits /signed/

Tiina Mõis /signed/

Hannes Tamjärv /signed/

Tauno Tats /signed/

Andres Viisemann /signed/

Allocation of income according to EMTA classificators

Consolidated:

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

Separate:

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