



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

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

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

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

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

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

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

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

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

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

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

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## 1. INTRODUCTORY INFORMATION

### 1.1. Applicable Law

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

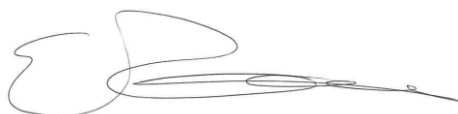
Before reading this Prospectus, please take notice of the following important introductory information.

### 1.2. Persons Responsible and Limitations of Liability

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

**AS LHV Group**

**Erkki Raasuke**



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

### 1.3. Presentation of Information

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

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

Date of Information. This Prospectus is drawn up based on information which was valid as of 30 June 2015. Where not expressly indicated otherwise, all information presented in this Prospectus (including the consolidated financial information of the Group, the facts concerning its operations and any information on the markets in which it operates) must be understood to refer to the state of affairs

as of the aforementioned date. Where information is presented as of a date other than 30 June 2015, this is identified by either specifying the relevant date or by the use of expressions “the date of this Prospectus”, “to date”, “until the date hereof” and other similar expressions, which must all be construed to mean the date of this Prospectus (2 October 2015).

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

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

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

#### **1.4. Documents in Display**

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

#### **1.5. Accounting Principles**

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

#### **1.6. Forward-Looking Statements**

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

In particular, such forward-looking statements may be identified by use of words such as “strategy”, “expect”, “plan”, “anticipate”, “believe”, “will”, “continue”, “estimate”, “intend”, “project”, “goals”, “targets” and other words and expressions of similar meaning. Forward-looking statements can also be identified

by the fact that they do not relate strictly to historical or current facts. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances, and the Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements contained in this Prospectus whether as a result of such changes, new information, subsequent events or otherwise.

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

### **1.7. Use of Prospectus**

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

## 2. SUMMARY

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

### Section A – Introduction and Warnings

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

### Section B – Issuer

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



<b>B.4b</b>	Known trends affecting the Company and industry	There has been no material adverse change in the prospects of Group since 30 June 2015.																																																										
<b>B.5</b>	Group description; position of the Company within the Group	The Company is the holding company of the Group with limited operations of its own. The Company is engaged in investor relations management and ensuring necessary capitalisation for the Group companies. The Company has two fully-owned Subsidiaries – LHV Pank (a licensed credit institution) and LHV Varahaldus (a licensed fund manager). The Company holds 50%, plus one share, in Mokilizingas, a Lithuanian financial institution, engaged in offering hire-purchase and consumer loan services in the Lithuanian market. LHV Pank holds 65% shares in LHV Finance, an Estonian financial institution offering hire-purchase services in the Estonian market.																																																										
<b>B.9</b>	Profit forecast	Not applicable.																																																										
<b>B.10</b>	Qualifications in audit report on the historical financial information	Not applicable.																																																										
<b>B.12</b>	Selected historical key financial information; changes in prospects and financial position	<table border="1"> <thead> <tr> <th><i>(in MEUR)</i></th> <th><b>2014</b></th> <th><b>2013</b></th> <th><b>Q2 2015</b></th> <th><b>Q1 2015</b></th> </tr> </thead> <tbody> <tr> <td>Net interest income</td> <td>16.5</td> <td>9.1</td> <td>5.4</td> <td>5.2</td> </tr> <tr> <td>Net profit</td> <td>9.7</td> <td>4.3</td> <td>3.0</td> <td>5.1</td> </tr> <tr> <td>Net profit attributable to owners of the parent</td> <td>9.2</td> <td>4.2</td> <td>2.8</td> <td>4.9</td> </tr> <tr> <td>Average assets</td> <td>485</td> <td>366</td> <td>612</td> <td>574</td> </tr> <tr> <td>Average interest earning assets</td> <td>479</td> <td>360</td> <td>579</td> <td>559</td> </tr> <tr> <td>Average equity</td> <td>43.1</td> <td>25.7</td> <td>62.3</td> <td>58.4</td> </tr> <tr> <td>Return on equity (ROE) %</td> <td>21.4</td> <td>16.5</td> <td>17.9</td> <td>33.6</td> </tr> <tr> <td>Net interest margin (NIM) %</td> <td>4.25</td> <td>3.29</td> <td>3.76</td> <td>3.73</td> </tr> <tr> <td>Spread %</td> <td>4.16</td> <td>3.22</td> <td>3.68</td> <td>3.66</td> </tr> <tr> <td>Cost/ income ratio %</td> <td>64.7</td> <td>69.7</td> <td>63.7</td> <td>60.3</td> </tr> </tbody> </table> <p>In the opinion of the Management, the key ratios and indicators are the most appropriate ratios and indicators, considering the markets where</p>				<i>(in MEUR)</i>	<b>2014</b>	<b>2013</b>	<b>Q2 2015</b>	<b>Q1 2015</b>	Net interest income	16.5	9.1	5.4	5.2	Net profit	9.7	4.3	3.0	5.1	Net profit attributable to owners of the parent	9.2	4.2	2.8	4.9	Average assets	485	366	612	574	Average interest earning assets	479	360	579	559	Average equity	43.1	25.7	62.3	58.4	Return on equity (ROE) %	21.4	16.5	17.9	33.6	Net interest margin (NIM) %	4.25	3.29	3.76	3.73	Spread %	4.16	3.22	3.68	3.66	Cost/ income ratio %	64.7	69.7	63.7	60.3
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		<p>the Group companies operate. These ratios and indicators enable adequate evaluation of the profitability of the operations of the Group, considering business volumes of the Group companies.</p> <p>There have been no significant changes in the financial or trading position of the Group since 30 June 2015.</p>
<b>B.13</b>	Recent events relevant to evaluation of solvency of the Company	According to the knowledge of the Management, there are no recent events relevant to the evaluation of solvency of the Company.
<b>B.14</b>	Dependency upon Group companies	The Company is a holding company conducting its operations through the Subsidiaries. The Company itself does not own significant assets other than investments into the Subsidiaries. Therefore, in order to be able to meet its obligations arising from the Bonds, the Company is dependent on the receipt of dividends, interest payments or payments from share capital decrease from its Subsidiaries.
<b>B.15</b>	Principal activities	According to the latest available annual report of the Company, i.e. the annual report for the financial year ended on 31 December 2014, the field of activity of the Company was “activities of holding companies” (EMTAK <sup>1</sup> 64201). The consolidated fields of activity of the Group were “security and commodity contracts brokerage” (EMTAK 66121), “credit institutions (banks, granting loans)” (EMTAK 64191), “finance lease” (EMTAK 64911) and “fund management” (EMTAK 66301).
<b>B.16</b>	Controlling shareholders of the Company	There are no controlling shareholders of the Company. The founders of the Group – Mr Rain Lõhmus and Mr Andres Viisemann hold, directly and indirectly through related parties, altogether approximately 38.6% of all the Shares, whereas approximately 28% of the Shares are held by Mr Rain Lõhmus and 10.6% by Mr Andres Viisemann.
<b>B.17</b>	Credit ratings of the Bonds	Not applicable.

### Section C – Securities (Bonds 20.06.2024)

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

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

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

### Section C – Securities (Bonds 29.10.2025)

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

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

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

	<p>disruptions to the Group's information technology systems could prevent it from conducting its operations.</p> <p><u>Dependency on Cash-Flows from Subsidiaries.</u> The Company is a holding company conducting its operations through the Subsidiaries. The Company itself does not own significant assets other than investments into the Subsidiaries. Therefore, in order to be able to meet its obligations arising from the Bonds, the Company is dependent on the receipt of dividends, interest payments or payments from share capital decrease from its Subsidiaries.</p> <p><u>Dependency on Qualified Staff.</u> The results of operations of the Group companies depend highly on the ability to engage and retain qualified, skilled and experienced staff. In the highly competitive environment, the Group companies must make continuous efforts to attract new qualified personnel and motivate existing management and employees.</p> <p><u>Competitive Market.</u> The Group operates in a highly competitive market.</p> <p><u>Exposure to Conduct of Other Market Participants.</u> The Group's access to financing, investment and derivative transactions may be adversely affected by market practises of other market participants.</p> <p><u>Control over Joint Ventures.</u> The operations of these joint ventures (LHV Finance and Mokilizingas) may be adversely affected by the joint venture partners of the Company.</p> <p><u>Changes in Economic Environment.</u> Each of the Group's operating segments is affected by general economic and geopolitical conditions.</p> <p><u>Exposure to Regulative Changes.</u> The Group operates in highly regulated fields of business and its operations are subject to a number of laws, regulations, policies, guidance and voluntary codes of practice, which are subject to changes.</p> <p><u>Maintaining Capital Adequacy Ratios.</u> Credit institutions and investment firms are subject to strict capital adequacy requirements subject to frequent reforms and changes.</p> <p><u>Exposure to Regulatory Actions and Investigations.</u> The Group provides various financial services and products and is therefore subject to extensive and comprehensive regulations imposed both through local and through European legal acts. Several local and European authorities, including financial supervision, consumer protection, anti-money laundering, tax, and other authorities, regularly perform investigations, examinations, inspections and audits of the Group's business, including, but not limited to regarding capital requirements, standards of consumer lending, anti-money laundering, anti-bribery, payments, reporting, corporate governance, etc.</p> <p><u>Contractual Risks.</u> The operations of the Group are materially dependent on the validity and enforceability of the transactions and agreements entered into by the Group.</p>
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		<p><u>Exposure to Civil Liability.</u> The Group operates in a legal and regulatory environment that exposes it to significant risk of claims, disputes and legal proceedings.</p> <p><u>Tax Regime Risks.</u> Tax regimes of the geographical markets where the Group operates are from time to time subject to change, some of which may be dictated by short-term political needs and may therefore be unexpected and unpredictable.</p>
<b>D.3</b>	Key risks specific to the Bonds	<p><u>Credit Risk.</u> An investment into the Bonds is subject to credit risk, which means that the Company may fail to meet its obligations arising from the Bonds in a duly and timely manner.</p> <p><u>Subordination Risk.</u> The Bonds are subordinated to all unsubordinated claims against the Company; however, not to the claims, which are subordinated to the Bonds or which rank <i>pari passu</i> with the Bonds. The subordination of the Bonds means that upon the liquidation or bankruptcy of the Company, all the claims arising from the Bonds shall fall due in accordance with the Terms of the Bonds and shall be satisfied only after the full satisfaction of all unsubordinated recognised claims against the Company in accordance with the applicable law.</p> <p><u>Early Redemption Risk.</u> According to the Terms of the Bonds, the Bonds may be redeemed prematurely on the initiative of the Company. The Bonds may; however, be redeemed prematurely by the Company only if the FSA (or the EBA if it is in the competence thereof) has granted its consent to the early redemption.</p> <p><u>Changes to Bond Terms.</u> The Terms of the Bonds 20.06.2024 may be amended on the grounds and following the procedure set forth in the Terms of the Bonds 20.06.2024.</p> <p><u>No Ownership Rights.</u> An investment into the Bonds is an investment into debt instruments, which does not confer any legal or beneficial interest in the equity of the Company or any of the Subsidiaries thereof or any voting rights or rights to receive dividends or other rights which may arise from equity instruments.</p> <p><u>Tax Regime Risks.</u> Adverse changes in the tax regime applicable in respect of transacting with the Bonds or receiving interest or principal payments based on the Bonds may result in an increased tax burden of the bondholders and may therefore have adverse effect on the rate of return from the investment into the Bonds.</p> <p><u>Cancellation of Offering.</u> Although best efforts will be made by the Company to ensure that the Offering is successful, the Company cannot provide any assurance that the Offering will be successful and that the investors will receive the Offer Bonds they subscribed for.</p> <p><u>Highly Volatile and Illiquid Market.</u> The Company will apply for the listing of the Bonds in the Bond List of the Nasdaq Tallinn Stock Exchange; however, although every effort will be made by the Company to ensure the listing of the Bonds as anticipated by the Company, no assurance can be provided that the Bonds will be listed and admitted to trading.</p>



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

Element	Title	Disclosure
<b>E.2b</b>	Reasons for offer; use of proceeds	<p>The primary purpose of the Offering is to strengthen the capital structure of the Group. The proceeds from the Offering will be used for the general corporate purposes to support the further growth and market position of the Group, increase the business volumes of the Group and ensure conservative capital buffer for the Group companies.</p> <p>The Company is looking to engage additional capital in the amount of up to EUR 10 million and should the Company choose to exercise the right to increase the number of Offer Bonds and the volume of the Offering in the amount of up to EUR 15 million. The total amount of costs related to the Offering is estimated to range between EUR 100,000 and EUR 200,000, which will be deducted from the proceeds of the Offering before using the proceeds as described above.</p>
<b>E.3</b>	Terms and conditions of offer	<p>In the course of the Offering, altogether up to 10,000 Offer Bonds are being offered to retail and institutional investors in Estonia. In case of over-subscription of the Offer Bonds in the course of the Offering, the Company has the right to increase the Offering volume and issue up to 5,000 additional Offer Bonds as a result of which the total number of the Offer Bonds offered in the course of the Offering may be up to 15,000 and the total volume of the Offering up to EUR 15,000,000.</p> <p>The Retail Offering is directed to all retail and institutional investors in Estonia.</p> <p>The Offer Price is EUR 1,000 per one Offer Bond. The Offer Price will be the same in the Institutional Offering and in the Retail Offering.</p> <p>The Offering Period commences on 5 October 2015 at 12.00 local time in Estonia and terminates on 26 October 2015 at 17.00 local time in Estonia.</p> <p>The Company will decide on the allocation of the Offer Bonds after the expiry of the Offering Period, and no later than on 28 October 2015. The Offer Bonds will be allocated to the investors participating in the Offering in accordance with the following principles:</p> <ul style="list-style-type: none"> <li>(i) the Company shall be entitled to prefer Estonian investors to foreign investors who may participate in the Institutional Offering;</li> <li>(ii) the Company shall be entitled to prefer its existing shareholders and bondholders to other investors;</li> <li>(iii) the allocation shall be aimed to create a solid and reliable investor base for the Company; and</li> </ul>



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

### 3. RISK FACTORS

#### 3.1. Introduction

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

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

#### 3.2. Business Risks

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

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

situation, accounts for just 2% of the portfolio. The concentration risk may have material adverse effect on the Group's operations, financial condition and results of operations.

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

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

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

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

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

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

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

Dependency on Cash-Flows from Subsidiaries. The Company is a holding company conducting its operations through the Subsidiaries. The Company itself does not own significant assets other than investments into the Subsidiaries. Therefore, in order to be able to meet its obligations arising from the Bonds, the Company is dependent on the receipt of dividends, interest payments or payments from share capital decrease from its Subsidiaries. According to Estonian law, a company may only pay

dividends or make other distributions if its current profits and retained earnings are sufficient for such distribution. Therefore, the Group's financial position is dependent on the Subsidiaries' profit and ability to pay dividends.

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

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

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

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

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

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

### 3.3. Political, Economic and Legal Risks

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

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

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



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

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

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

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

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

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

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

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

### **3.4. Group's Risk Management**

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

### **3.5. Risks Related to Bonds and Listing**

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

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

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

Changes to Bond Terms. The Bond Terms may be amended on the grounds and following the procedure set forth in the Bond Terms. Changes in the material terms of the Bond Terms, such as



interest payable on the Bonds or the maturity term of the Bonds, may have adverse effect on the rate of return from an investment into the Bonds.

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

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

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

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

## 4. TERMS AND CONDITIONS OF OFFERING

### 4.1. Offering

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

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

### 4.2. Right to Participate in Offering

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

### 4.3. Offer Price

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

### 4.4. Offering Period

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

### 4.5. Subscription Undertakings

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

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

- (i) AS LHV Pank;

- (ii) AS Swedbank;
- (iii) AS SEB Pank;
- (iv) Nordea Bank AB Estonian branch;
- (v) Danske Bank A/S Estonian branch;
- (vi) AS Eesti Krediidipank;
- (vii) Tallinna Äripanga AS;
- (viii) AS Citadele banka; and
- (ix) Versobank AS.

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

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

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

personally or through a representative whom the investor has authorized (in the form required by law) to submit the Subscription Undertaking.

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

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

By submitting a Subscription Undertaking every investor:

- (i) accepts the terms and conditions of the Offering set out under this Section and elsewhere in this Prospectus and agrees with the Company that such terms will be applicable to the investor's acquisition of any Offer Bonds;
- (ii) confirms that it/he/she has read the Terms of the Bonds 29.10.2025 and that the Terms of the Bonds 29.10.2025 are fully understandable and acceptable to it/him/her;
- (iii) acknowledges that the Retail Offering does not constitute an offer of the Offer Bonds by the Company in legal terms or otherwise and that the submission of a Subscription Undertaking does not itself entitle the investor to acquire the Offer Bonds nor result in a contract for the sale of Offer Bonds between the Company and the investor;
- (iv) accepts that the number of the Offer Bonds indicated by the investor in the Subscription Undertaking will be regarded as the maximum number of the Offer Bonds, which the investor wishes to acquire (the **Maximum Amount**) and that the investor may receive less (but not more) Offer Bonds than the Maximum Amount (please see Section "Distribution and Allocation");
- (v) undertakes to acquire and pay for any number of Offer Bonds allocated to it/him/her in accordance with these terms and conditions, up to the Maximum Amount;
- (vi) authorizes and instructs its/his/her custodian to forward the registered transaction instruction to the registrar of the ECRS;
- (vii) authorizes the custodian and the registrar of the ECRS to amend the information contained in the investor's transaction instruction, including (a) to specify the value date of the transaction and (b) to specify the number of the Offer Bonds to be purchased by the investor and the total amount of the transaction found by multiplying the Offer Price by the number of Offer Bonds allocated to the relevant investor.

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

#### 4.6. Payment

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

sufficient funds on the cash account connected to its/his/her ECRS securities account or its/his/her securities account to cover the whole transaction amount for that particular Subscription Undertaking.

#### **4.7. Distribution and Allocation**

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

- (v) the Company shall be entitled to prefer Estonian investors to foreign investors who may participate in the Institutional Offering;
- (vi) the Company shall be entitled to prefer its existing shareholders and bondholders to other investors;
- (vii) the allocation shall be aimed to create a solid and reliable investor base for the Company; and
- (viii) under the same circumstances, all investors shall be treated equally.

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

#### **4.8. Option to Increase Offering Volume**

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

#### **4.9. Settlement and Trading**

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

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

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

#### **4.10. Return of Funds**

If the Offering or a part thereof is cancelled in accordance with the terms and conditions described in this Prospectus, if the investor's Subscription Undertaking is rejected or if the allocation deviates from the amount of Offer Bonds applied for, the funds blocked on the investor's cash account, or a part

thereof (the amount in excess of payment for the allocated Offer Bonds) will be released by the respective custodian on or about 29 October 2015. The Company shall not be liable for the release of the respective amount and for the payment of interest on the released amount for the time it was blocked.

#### **4.11. Cancellation of Offering**

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

#### **4.12. Conflicts of Interests**

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

## 5. REASONS FOR OFFERING AND USE OF PROCEEDS

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

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

## 6. BONDS

### 6.1. Bonds 20.06.2024

#### Type and Class of Bonds

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

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

#### Applicable Law

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

#### Form and Registration

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

#### Currency

The Bonds 20.06.2024 are denominated in euro.

#### Ranking and Subordination

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

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

#### Rights Attached to Bonds

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

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

The rights arising from the Bonds 20.06.2024 can be exercised by the bondholders in accordance with the Terms of the Bonds 20.06.2024 and the applicable law. According to the Terms of the Bonds 20.06.2024, any dispute between the Company and a bondholder shall be solved by amicable negotiations and if such negotiations have no positive outcome during a reasonable period of time, the



dispute shall be settled by Estonian courts, whereas Harju County Court shall be the court of first instance. Claims arising from the Bonds 20.06.2024 shall expire in accordance with the statutory terms arising from applicable law.

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

#### Interest and Yield

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

#### Maturity Date

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

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

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

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

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

### Transferability

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

### Agent

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

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

## **6.2. Bonds 29.10.2025**

### Type and Class of Bonds

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

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

### Applicable Law

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

### Form and Registration

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

### Currency

The Bonds 29.10.2025 are denominated in euro.

### Ranking and Subordination

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

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

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

#### Rights Attached to Bonds

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

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

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

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

#### Interest and Yield

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

#### Maturity Date

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

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

The Bonds 29.10.2025 may be redeemed prematurely by the Company on the above-described grounds only if the FSA (or the EBA if it is in the competence thereof) has granted its consent to the early redemption. The FSA (or the EBA if it is in the competence thereof) may grant its consent for the early redemption of the Bonds 29.10.2025 as from 29.10.2020 only if the conditions of Article 78(1) of

the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 are met. The FSA (or the EBA if it is in the competence thereof) may grant its consent for the early redemption of the Bonds 29.10.2025 before 29.10.2020 only if the conditions of Article 78(4) of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 are met<sup>6</sup>.

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

#### Transferability

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

#### Agent

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

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

### **6.3. Taxation**

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

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

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

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

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

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

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

#### **6.4. Listing and Admission to Trading**

The Company intends to apply for the listing and admission to trading of the Bonds 20.06.2024 and the Bonds 29.10.2025 on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange. The expected date of listing and the admission to trading of the Bonds 20.06.2024 is on or about 5 October 2015. The expected date of listing and the admission to trading of the Bonds 29.10.2025 is on or about 2 November 2015. While every effort will be made and due care will be taken in order to ensure the

listing and the admission to trading of the Bonds by the Company, the Company cannot ensure that the Bonds are listed and admitted to trading on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange. For the general information on the Nasdaq Tallinn Stock Exchange, please see Section “Estonian Securities Market”.

## 7. GENERAL CORPORATE INFORMATION AND ARTICLES OF ASSOCIATION

### 7.1. General Corporate Information

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

The contact details of the Company are the following:

Address: Tartu mnt 2, 10145 Tallinn, Estonia

Phone: +372 6 800 400

Fax: +372 6 800 410

E-mail: [lhv@lhv.ee](mailto:lhv@lhv.ee)

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

### 7.2. Articles of Association

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

- (i) the minimum amount of the share capital of the Company is EUR 15,000,000 and the maximum amount of the share capital of the Company is EUR 60,000,000, whereas within the minimum and maximum amount of share capital, the share capital of the Company may be increased and decreased without amending the currently effective version of the Articles of Association of the Company;
- (ii) the Company has one type of shares only. The nominal value of the ordinary share of the Company is EUR 1 and each share grants the shareholder one vote at the General Meeting of shareholders;
- (iii) the Shares may be paid in by monetary or non-monetary contribution into the share capital as determined by the General Meeting of shareholders of the Company;
- (iv) the Shares are freely transferrable and may be pledged in accordance with applicable law;
- (v) the Company may issue convertible bonds;
- (vi) the Supervisory Board comprises of five to seven members elected for a period of five years; only persons with sufficient knowledge and professional experience for the position of a member of the Supervisory Board may be elected as members of the Supervisory Board; the Articles of Association

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



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

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

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

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

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



## 8. SHARE CAPITAL, SHARES AND OWNERSHIP STRUCTURE

### 8.1. Share Capital and Shares

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

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

### 8.2. Shareholders of Company

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

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

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

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

### 8.3. Rights of Shareholders

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

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

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

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

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

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

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

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

As a rule, the resolutions of a general meeting of shareholders require the affirmative vote of the majority of the votes represented at the meeting. Certain resolutions, such as amending the articles of association, increasing or decreasing the share capital, resolutions relating to a merger or liquidation of the company, etc., require a qualified majority of 2/3 of the votes represented at the meeting of shareholders. In addition to such resolutions, there are resolutions which require an even higher rate of

affirmative votes of shareholders, such as excluding the shareholders' preferential right to subscribe for new shares upon an increase of the share capital, which requires the affirmative vote of 3/4 of the votes represented at the general meeting of shareholders, and squeeze-out of minority shares, which requires the affirmative vote of 95/100 of the votes represented at the general meeting of shareholders. Higher quorum and voting requirements compared to the ones described herein may be stipulated by the articles of association of a public limited company. The quorum and voting requirements set forth by the Articles of Association of the Company do not deviate from the ones set forth by the applicable law.

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

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

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

#### 8.4. Convertible Bonds

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

<b>Issuer:</b>	the Company
<b>Agent:</b>	AS LHV Pank

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

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

### 8.5. Shareholders' Agreements

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

### 8.6. Management and Key Employees Share Option Program

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

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

- (i) options are granted for certain number of Shares and such number is not subject to change upon increase or decrease of the share capital of the Company (i.e. no anti-dilution protection is granted);
- (ii) option price is determined in accordance with the Black-Scholes model, whereas the input for option price calculation is determined by the Supervisory Board;

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

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

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

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

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

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

## 9. MANAGEMENT

### 9.1. Management Structure

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

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

### 9.2. Management Board

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

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

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

- (i) approval of annual business plan and budget;
- (ii) approval of annual report and amendment of the proposal on the division of profit made by the Management Board;
- (iii) acquisition or disposal of shareholdings in other entities;
- (iv) resolving establishment or dissolution of a subsidiary of the Company;
- (v) acquisition, disposal of an enterprise or termination of the operations thereof;
- (vi) transfer or encumbering of real estate or registered property;
- (vii) establishment or liquidation of a foreign branch;
- (viii) making investments in the amount exceeding the budget for the respective financial year;
- (ix) taking loans or assuming debt obligations in the amount exceeding the budget for the respective financial year;
- (x) granting loans or securing debt obligations not within the Company's ordinary scope of business;
- (xi) appointing and recalling a procurator;
- (xii) appointing and recalling the members of the Management Board; appointing the Chairman of the Management Board;



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

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

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

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

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

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

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

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

### **9.3. Supervisory Board**

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

Duties. In accordance with the Estonian Commercial Code, before the ordinary General Meeting of shareholders is held, the Supervisory Board must review the annual report and provide the General Meeting of shareholders with a written report on the annual report, indicating whether the Supervisory Board approves the report but also providing information on how the Supervisory Board has organised



and supervised the activities of the Company during the year. In practice, the referred report is made available along with the notice on convening the General Meeting of shareholders. The duties of the Supervisory Board members, as well as restrictions on serving as a member of the Supervisory Board and the work procedure of the Supervisory Board are further specified with the Rules of Procedure of the Supervisory Board approved by the Supervisory Board on 21 May 2015. The main purposes of establishing the Rules of Procedure were to ensure effective avoidance of conflicts of interests and to specify the work procedure of the Supervisory Board.

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

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

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

Mr Heldur Meerits. Mr Meerits was born in 1959. Mr Meerits was awarded a degree in finance and credit from the University of Tartu in 1982. During his professional career Mr Meerits has worked for the Estonian National Bank (1988 – 1991 and 1995 –1997), whereas between 1991 and 1995 he worked for the predecessor of AS Swedbank (operating under the business names AS Hoiupank and AS Hansapank). From 1999 to 2002, Mr Meerits served as a state official working for the Government Office. Since 2002, he has been engaged in investing via Amalfi AS, an investment vehicle fully-owned

by Mr Meerits. Within the Group, he serves, in addition to his position as a member of the Supervisory Board of the Company, as a member of the Supervisory Board of LHV Pank. Mr Meerits is a member of the Management Board of AS Altamira, AS Amalfi and SIA Valdemara Group and a member of the Supervisory Board of AS Audentes, Kodumaja AS, AS Smart City Group, Green Clay Manufacturing OÜ and non-profit organisations SA Avatud Eesti Fond, SA Dharma, SA Tähelaps and SA Põltsamaa Ühisgümnaasiumi Toetusfond.

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

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

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

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

#### **9.4. Other Key Executive Personnel**

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

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

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

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

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

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

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

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

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

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

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

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

## 9.5. Audit Committee

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

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

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

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

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

#### **9.6. Remuneration Committee**

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

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

#### **9.7. Remuneration and Benefits**

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

#### **9.8. Share Ownership**

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

#### **9.9. Conflicts of Interests**

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

#### **9.10. Statement of Compliance with Corporate Governance**

The Company complies with the corporate governance regime of the Republic of Estonia. Further to the compliance with the applicable laws and regulations, the Company has committed itself to adhere the highest standards of corporate governance within the Group companies for ensuring the transparent management of the Group companies and avoiding conflicts of interests. For these purposes, the Group



companies have adopted work procedure rules for all corporate governance bodies to further specify the rules, requirements, limitations and liability of their members arising in general from the applicable law and the Articles of Association. The Company follows the principles of good corporate governance arising from the Good Corporate Governance Code as adopted by the FSA and the relevant reports are published as part of the annual reports of the Company. The Good Corporate Governance Code is binding on the basis of “comply or explain principle”, whereas the requirements, which are currently not fully followed by the Company have been described in the latest Good Corporate Governance Report made available in the audited consolidated financial statements of the Group for the year ended on 31 December 2014.

#### **9.11. External Auditors**

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

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

## 10. PRINCIPAL MARKETS

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

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

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

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<sup>8</sup> Facts and data from the market statistics by the FSA, available at [http://www.fi.ee/public/turg\\_seisuga\\_2014\\_12\\_inglise.pdf](http://www.fi.ee/public/turg_seisuga_2014_12_inglise.pdf)

<sup>9</sup> Facts and data from the market statistics by the FSA, available at [http://www.fi.ee/failid/turg\\_seisuga\\_2008\\_12.pdf](http://www.fi.ee/failid/turg_seisuga_2008_12.pdf)

<sup>10</sup> Facts and data from the market statistics by the FSA, available at [http://www.fi.ee/public/turg\\_seisuga\\_2014\\_12\\_inglise.pdf](http://www.fi.ee/public/turg_seisuga_2014_12_inglise.pdf)



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

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

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

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<sup>11</sup> Facts and data from the statistics of the Nasdaq Tallinn Stock Exchange, available at [http://www.nasdaqomxbaltic.com/market/?pg=bulletins&bb\\_id=259](http://www.nasdaqomxbaltic.com/market/?pg=bulletins&bb_id=259); and from the statistics of the Estonian National Bank, available at [http://www.eestipank.ee/sites/eestipank.ee/files/publication/en/FinancialStabilityReview/2015/ep\\_fsy\\_2015\\_1\\_eng\\_pdf.pdf](http://www.eestipank.ee/sites/eestipank.ee/files/publication/en/FinancialStabilityReview/2015/ep_fsy_2015_1_eng_pdf.pdf)

<sup>12</sup> Facts and data from the analysis of and proposal for the Estonian consumer credit market, available at [https://www.mkm.ee/sites/default/files/kiirlanuturg\\_analysys\\_ja\\_ettepanekud.pdf](https://www.mkm.ee/sites/default/files/kiirlanuturg_analysys_ja_ettepanekud.pdf)

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

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

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

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

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<sup>13</sup> Facts and data from the Nasdaq Riga Stock Exchange, available at

[http://www.nasdaqomxbaltic.com/market/?pg=bulletins&bb\\_id=259](http://www.nasdaqomxbaltic.com/market/?pg=bulletins&bb_id=259)

<sup>14</sup> Facts and data from the Nasdaq Vilnius Stock Exchange, available at

[http://www.nasdaqomxbaltic.com/market/?pg=bulletins&bb\\_id=259](http://www.nasdaqomxbaltic.com/market/?pg=bulletins&bb_id=259)

<sup>15</sup> Facts and data from the Lithuanian National Bank, available at [https://www.lb.lt/annual\\_report\\_2014](https://www.lb.lt/annual_report_2014)

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

## 11. BUSINESS OVERVIEW

### 11.1. History and Development of Group

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

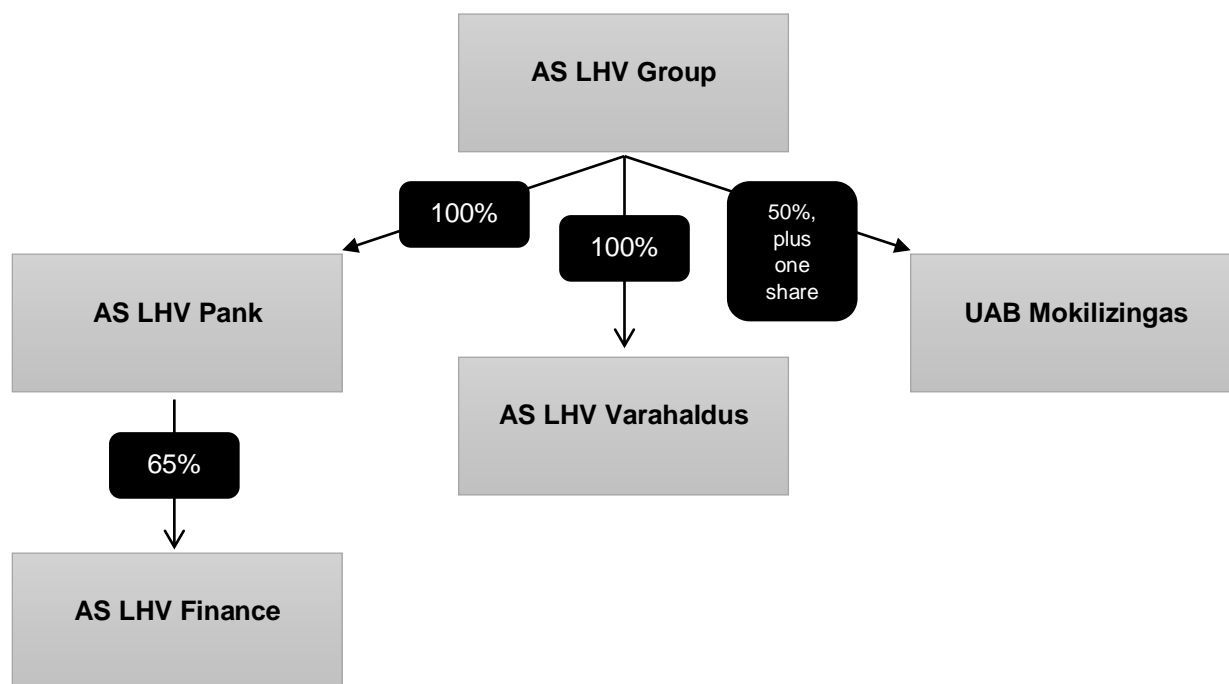
The milestones in the history of the Company and the development of the Group are summarised in the following table:

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

## 11.2. Group Structure and Group Companies

### Group Structure

As at the date of this Prospectus, the Group structure is the following<sup>16</sup>:



### Group Companies

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

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

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

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

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

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

### **11.3. Business Segments**

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

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

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

### **11.4. Geographical Markets**

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

## 11.5. Competitive Position and Competitive Strengths

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

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

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

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

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

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

(v) well-experienced and strong management team – considering its history, the Group companies believe to have access to stronger investment and enterprise experience than their competitors. The Group is one of the biggest brokers on the Nasdaq Baltic stock exchanges and the biggest broker for Baltic retail investors on international markets. Since the acquiring of the credit institution license in 2009, the Group has focused on building and development of credit knowledge and experience. LHV Pank built a strong credit team from the very early days and is proud to employ one of the most senior



and experienced credit teams in the market. Most of the team members have over 10 years of experience from the credit origination, work-out and credit risk management areas. In addition to the initial thorough credit risk assessment, a lot of emphasis is put on actively managing the credit portfolio and on constant risk monitoring. In order to achieve its long-term goals and grow quicker than the rest of the market, the Group needs to attract the best people available. Its track record so far is strong. Over the past years, LHV Pank has been consistently nominated by different survey companies as one of the top 10 most attractive employers in Estonia;

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

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

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

## 11.6. Investments

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

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

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

## 11.7. Material Agreements

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

Joint Venture Agreement with KÜB RAZFIN. In conjunction with the joint acquisition of Mokilizingas (where the Company acquired controlling shareholding, i.e. 50% of all issued and outstanding shares, plus one share), the Company and KÜB RAZFIN entered into a joint venture agreement on 16 May 2013. The purpose of the agreements was to establish the principles of strategic co-operation between the Company and KÜB RAZFIN in managing their joint venture Mokilizingas. The joint venture

agreement includes the parties' agreements on the conduct of business affairs, corporate governance, financing of operations, dividend policy, non-competition and restrictions on the transfer of shares of the company. In the opinion of the Management, the parties' agreements contained in the joint venture agreement are in compliance with the market practise for similar agreements and form solid grounds for the parties' co-operation. The agreement is well-balanced between the parties, considering the shareholdings of the parties in Mokilizingas. In accordance with the relevant agreement between the Company and KÜB RAZFIN, the operations of Mokilizingas are fully funded by LHV Pank.

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

### **11.8. Trend Information**

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

### **11.9. Legal Proceedings**

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

## 12. SELECTED FINANCIAL INFORMATION

### 12.1. Introduction

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

### 12.2. Selected Historical Financial Information

#### Consolidated Statement of Comprehensive Income

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

#### **Profit attributable to:**

*Items that may be reclassified subsequently to profit or loss:*

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

Consolidated Statement of Financial Position

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

**Liabilities**

Deposits from customers and loans received	475,013	356,381	284,150
Financial liabilities at fair value through profit or loss	302	433	656
Accounts payable and other liabilities	5,435	6,891	2,169
Liabilities of discontinued operations, classified as held for sale	220	0	603
Subordinated loans	16,688	19,716	8,634
<b>Total liabilities</b>	<b>497,658</b>	<b>383,421</b>	<b>296,212</b>

**Equity**

Share capital	23,356	19,202	17,382
Share premium	33,992	21,871	18,827
Statutory reserve capital	435	223	223
Other reserves	132	-12	231
Accumulated deficit	-2,041	-11,032	-15,581
<b>Total equity attributable to owners of the parent</b>	<b>55,874</b>	<b>30,252</b>	<b>21,082</b>
Non-controlling interest	2,159	1,695	0
<b>Total equity</b>	<b>58,033</b>	<b>31,947</b>	<b>21,082</b>

<b>Total liabilities and equity</b>	<b>555,691</b>	<b>415,368</b>	<b>317,294</b>
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Consolidated Statement of Cash Flows

<i>(in TEUR)</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>
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**Cash flows from operating activities**

Interest received	19,109	11,163	10,980
Interest paid	-2,777	-3,619	-4,888
Fees and commissions received	13,233	10,187	7,378
Fees and commissions paid	-1,144	-865	-889
Other income received	0	64	0
Staff costs paid	-8,415	-6,026	-5017
Administrative and other operating expenses paid	-10,746	-8,447	-8485

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

<b>Net cash used in / from investing activities</b>	<b>-100,829</b>	<b>71,182</b>	<b>-37,272</b>
<b>Cash flows from financing activities</b>			
Paid in share capital	13,825	564	8,591
Non-controlling interest contribution to subsidiary's share capital	0	175	0
Sale of treasury shares	0	1	-2
Subordinated loans received	15,900	15,450	4,500
Repayment of subordinated debt	-16,450	0	0
<b>Net cash from financing activities</b>	<b>13,275</b>	<b>16,190</b>	<b>13,089</b>
<b>Net decrease/increase in cash and cash equivalents</b>	<b>-69,281</b>	<b>61,053</b>	<b>13,776</b>
Cash and cash equivalents at the beginning of the year	148,912	87,859	74,083
<b>Cash and cash equivalents at the end of the year</b>	<b>79,631</b>	<b>148,912</b>	<b>87,859</b>

#### Consolidated Statement of Changes in Equity

<i>(in TEUR)</i>	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
<b>Balance as at 01.01.2013</b>	<b>17,382</b>	<b>18,827</b>	<b>223</b>	<b>232</b>	<b>-15,581</b>	<b>-1</b>	<b>21,082</b>	<b>0</b>	<b>21,082</b>
Conversion of subordinated bonds issued in 2010 to share capital	1,200	1,800	0	-210	0	0	2,790	0	2,790
Conversion of subordinated bonds issued in 2012 to share capital	433	867	0	-7	0	0	1,293	0	1,293
Paid in share capital	187	377	0	0	0	0	564	0	564
Sale of treasury shares	0	0	0	0	0	1	1	0	1
Non-controlling interest contribution to subsidiary's share capital	0	0	0	0	0	0	0	175	175
Non-controlling interest arising on business combination	0	0	0	0	312	0	312	1,412	1,724
<i>Profit for the year</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>4,237</i>	<i>0</i>	<i>4,237</i>	<i>108</i>	<i>4,345</i>
<i>Other comprehensive income</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>-27</i>	<i>0</i>	<i>0</i>	<i>-27</i>	<i>0</i>	<i>-27</i>
Total comprehensive income for 2013	0	0	0	-27	4,237	0	4,210	108	4,318
<b>Balance as at 31.12.2013</b>	<b>19,202</b>	<b>21,871</b>	<b>223</b>	<b>-12</b>	<b>-11,032</b>	<b>0</b>	<b>30,252</b>	<b>1,695</b>	<b>31,947</b>
<b>Balance as at 01.01.2014</b>	<b>19,202</b>	<b>21,871</b>	<b>223</b>	<b>-12</b>	<b>-11,032</b>	<b>0</b>	<b>30,252</b>	<b>1,695</b>	<b>31,947</b>
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
<i>Profit for the year</i>	0	0	0	0	9,203	0	9,203	464	9,667
<i>Other comprehensive income</i>	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
<b>Balance as at 31.12.2014</b>	<b>23,356</b>	<b>33,992</b>	<b>435</b>	<b>132</b>	<b>-2,041</b>	<b>0</b>	<b>55,874</b>	<b>2,159</b>	<b>58,033</b>

### Key Ratios and Indicators

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

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

### Explanations

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

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

### 12.3. Selected Interim Financial Information

#### Consolidated Statement of Comprehensive Income

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

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

*Consolidated Statement of Financial Position*

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

*Consolidated Statement of Cash Flows*

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

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

### Consolidated Statement of Changes in Equity

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

### Key Ratios and Indicators

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

### Explanations

Quarterly ratios have been expressed on an annualised basis.

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

### **12.4. Changes in Financial Position**

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



## 12.5. Additional Remarks on Financial Statements

### Introductory Remarks

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

### Financial Statements for Financial Year ended on 31 December 2014

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

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

*Financial Statements for Financial Year ended on 31 December 2013*

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

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

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

## **13. ESTONIAN SECURITIES MARKET**

### **13.1. Nasdaq Tallinn Stock Exchange**

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

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

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

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

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

### **13.2. ECRS and Registration of Securities**

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

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

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

### **13.3. Listing Securities on Nasdaq Tallinn Stock Exchange**

The Baltic stock exchanges have a common presentation of all listed Baltic companies on a common list, the companies in which are grouped in the lists described below. In legal terms, the companies are

listed on their home market, i.e. the exchange in Tallinn, Riga or Vilnius and supervised by the local financial supervisory authority.

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

- (i) Baltic Main List;
- (ii) Baltic Secondary List;
- (iii) Baltic Bond List;
- (iv) Baltic Fund List;
- (v) First North (alternative marketplace, multilateral trading facility, not a regulated market).

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

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

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

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

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

#### **13.4. Trading on Nasdaq Tallinn Stock Exchange**

Nasdaq Baltic Stock Exchanges employ two trading systems:

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

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

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

### **13.5. Financial Supervision**

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

### **13.6. Abuse of Securities Market**

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

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

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

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



## 14. GLOSSARY

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

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

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

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

## 15. INDEX OF SCHEDULES

<b>Schedule 1</b>	Audited consolidated financial statements of the Group for the year ended on 31 December 2013
<b>Schedule 2</b>	Audited consolidated financial statements of the Group for the year ended on 31 December 2014
<b>Schedule 3</b>	Reviewed unaudited interim consolidated financial statements for the three and six months ended on 30 June 2015
<b>Schedule 4</b>	Terms of Bonds 20.06.2024 (unofficial translation from Estonian language)
<b>Schedule 5</b>	Terms of Bonds 29.10.2025 (unofficial translation from Estonian language)

## **COMPANY**

AS LHV Group

(Tartu mnt 2, 10145 Tallinn, Estonia)



## **LEGAL COUNSEL TO COMPANY**

OÜ Advokaadibüroo Red

(Liivalaia 13, 10118 Tallinn, Estonia)



## **AUDITORS**

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