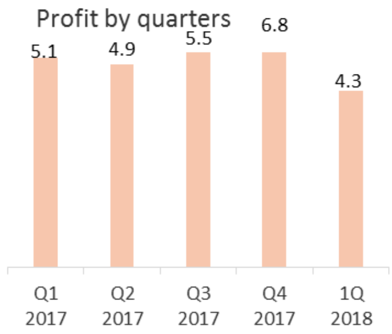
# Interim Report January – March 2018
# Summary of Results

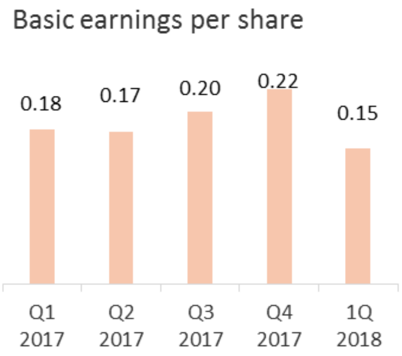
**Q1 2018 in comparison with Q4 2017**

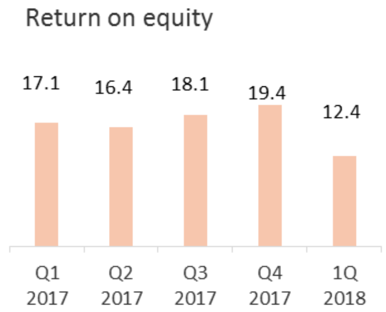
- Net profit EUR 4.3 m (EUR 6.8 m), of which EUR 4.0 m (EUR 5.7 m) is attributable to owners of the parent
- Earnings per share EUR 0.15 (EUR 0.22)
- Net income EUR 16.3 m (EUR 15.4 m)
- Operating expenses EUR 8.9 m (EUR 8.5 m)
- Loan provisions EUR 1.2 m (EUR -0.04 m)
- Income tax expenses EUR 2.0 m (EUR 0.2 m)
- Return on equity 12.4% (19.4%)
- Capital adequacy 17.3% (19.6%)

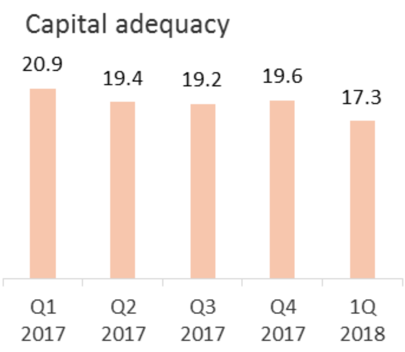
**Q1 2018 in comparison with Q1 2017**

- Net profit EUR 4.3 m (EUR 5.1 m), of which EUR 4.0 m (EUR 4.5 m) is attributable to owners of the parent
- Earnings per share EUR 0.15 (EUR 0.18)
- Net income EUR 16.3 m (EUR 13.8 m)
- Operating expenses EUR 8.9 m (EUR 7.7 m)
- Loan provisions EUR 1.2 m (EUR 0.1 m)
- Income tax expenses EUR 2.0 m (EUR 1.0 m)
- Return on equity 12.4% (17.1%)
- Capital adequacy 17.3% (20.9%)




Earnings per share and return on equity ratios are based on the profit attributed to the shareholders and equity of AS LHV Group and do not include non-controlling interest.

# Managing Director's Statement

Dear investor in LHV,

As expected, trends seen last year have continued in the first quarter of the current year. We consider it a strong result that the number of bank customers grew by 6,000. More and more customers made their way to LHV and our commitment to providing the best possible customer care and great services play a key role. The quality of LHV's customer service scored highly in a study conducted by Dive (result: 91%). We are looking to improve the quality of service further, and to this end we declared February our Good Customer Service Month within the company. Also in the first quarter, Euromoney magazine named LHV's private banking service the best in Estonia. As to new products, we introduced two new loans: a Health and Beauty Loan and a Home Furnishing Loan. We helped with the market launch of mTasku, a payment solution developed by Telia that has gained a loyal following in just a short time.

Our business is growing. Our loan portfolio, which increased by EUR 34 million during the quarter, largely met expectations, and a component in the EUR 188 million growth in deposits was an increase in deposits held by payment brokers – EUR 126 million.

The group's consolidated Q1 profit of EUR 4.3 million was largely influenced by income tax on dividends amounting to EUR 1.9 million and greater impairments occasioned by the adoption of the IFRS standard's impairment model. At the same time, monthly volatility in impairments is to be expected, as changes in the economic environment must also be taken into account besides the customer's own financial situation.

The most important events in Q1 included the opening of LHV Bank's United Kingdom branch, which received a licence from the UK financial supervision authority in February. The objective of the London branch is to develop its area of activity geared to financial intermediaries. The UK branch will allow LHV Bank to join Pound Payments Systems and provide both euro and pound payments service to financial intermediaries in real time, and if necessary, bridge financing and currency exchange for managing liquidity.

In March, we announced the establishment of a new Pillar 2 pension fund that invests into Estonia. Provided suitable investments exist, the fund will invests up to 100% of its assets into Estonian stocks, bonds, real estate and other funds. These are actively managed funds and we believe that the greater time and work expenditure will pay off and be reflected in good yields for fund investors in the long term. The Estonia-oriented fund will also stimulate the local capital market, offering Estonian companies a serious financing alternative to bank loans.

Late in the first quarter, we disclosed an offer made by AS Inbank to the current owners of UAB Mokilizingas – AS LHV Group and UAB Inovatyvūs prekybos sprendimai – for the acquisition of 100% of the shares in the company.

In February, for the first time, we released a long-term, five-year financial forecast in addition to this year's financial plan. LHV continues to be a rapidly growing company, and to support the growth, we increased LHV Bank's share capital by EUR 10 million within the group. This was an event provided for in the capital plan. Nevertheless, in the context of rapid growth, we are following LHV's dividend policy, and in April, following the quarter, the general shareholders meeting of LHV decided to pay dividends of 16 euro cents per share from last year's earnings.

LHV's solid fundamentals are supported by the Estonian economic environment. Economic growth has accelerated and domestic risks are offset by a balanced budget, low government debt, and a positive balance of trade. The main risk is the high development volume in the real estate sector. The supply of residential developments has risen significantly in the last few quarters and as to commercial real estate, the risk of oversupply has existed for some time. As to external risks, I'm pleased that the outlook for our trading partners is improving. The forecasts have been upgraded for both Scandinavia and the Baltics as well as for the Eurozone, and Russia, which is restoring its position as a trading partner.

The credit market remains strong. All of the main credit products are seeing growth, including corporate loans and home loans. Domestic households are in relatively strong financial health, and the ratio of deposits to loans is improving. The share of overdue loans has fallen to less than 1%, being largely covered by write-downs.

Financial results

The group's unconsolidated profit in Q1 was EUR 4.3 million, shrinking by EUR 2.5 million from Q4 of 2017 and by EUR 0.8 million compared to Q1 of last year. A significant factor impacting profits was income tax expense on dividends – the payment of dividends by LHV Varahaldus to LHV Group incurred income tax expense of EUR 1.1 million and the income tax expense on the LHV Bank dividend amounted to EUR 0.8m.

ROE for LHV shareholders was 12.4% in Q1 of 2018, thus being seven percentage points off the pace set in Q4 of 2017 (19.4%).

The group's consolidated net loan portfolio grew by EUR 34 million (Q4 2017: EUR 77 million) and the consolidated deposits grew EUR 188 million (Q4 2017: EUR 269 million). Deposits related to financial intermediaries grew by EUR 126 million (Q4 2017: EUR 152 million).

The group's equity decreased by EUR 0.9 million compared to the last quarter and risk-weighted assets increased by EUR 35 million, which reduced the Tier 1 and capital adequacy ratios by 0.8 and 1 percentage point, respectively, to 13.2% and 17.3%. Besides the increase in risk-weighted assets related to conventional credit risk, risk-weighted assets related to operational risks also grew by EUR 16 million in the Q1 of 2018 due to the inclusion of 2017 net profit in the calculations of risk-weighted assets related to operational risk.

The bank's consolidated profit was EUR 3.6 million in Q1, which is EUR 0.3 million less than last quarter's result (Q4 2017: EUR 3.9 million). The first quarter was characterized by the fact that customers remained highly active and growth in loans and deposits, which was nevertheless under Q4 of 2017, a period in which several records were set. The bank gained more than 6,000 new customers during the quarter (Q4 of 2017: 5,600) and the total number of customers approached 140,000.

The bank's loan portfolio grew by EUR 34 million in Q1 (Q4 2017: EUR 72 million), reaching EUR 753 million. With regard to loans, business loans grew the most. Loan impairment costs were EUR 0.9 million in the quarter, which is EUR 0.35 million more than in the previous quarter. This change is largely related to the changeover to IFRS 9 in early 2018.

Customers' deposits grew by EUR 183 million in the quarter, falling short of the record growth in Q4 of 2017, which was EUR 270 million. The total volume of deposits was EUR 1,733 million by the end of Q1, and demand deposits swelled to EUR 183 million (EUR 267 million in the last quarter) and term deposits fell by EUR 0.5 million (growth in the last quarter exceeded EUR 3 million).

The profit of LHV Varahaldus was EUR 0.7 million in Q1 (Q4 2017: EUR 1.8 million), being influenced by the income tax expense of EUR 1.1 million on payment of dividends to AS LHV Group. Varahaldus's income from service charges fell by EUR 0.1 million to EUR 3.3 million. The operating expenses of Varahaldus were EUR 0.5 million lower than in the quarter before.

The total volume of funds managed by LHV grew by EUR 24 million (Q4 2017 EUR 35 million). The number of active Pillar 2 pension customers grew by 1,200 in the quarter (decrease of 200 in Q4).

Mokilizingas posted a profit of EUR 0.2 million in Q1, which is EUR 1.1 million less than in the last quarter of 2017. The net loan portfolio increased by EUR 10.3 million during the quarter, standing at EUR 59.8 million by the end of the quarter. The portfolio's credit quality remains stable.

Madis Toomsalu

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# Financial Summary

| **Income statement**<br>EUR million | **Q1 2018** | **Q1 2017** | **Year over year** | **3M 2018** | **3M 2017** | **Year over year** |
|---|---|---|---|---|---|---|
| Net interest income | 10.20 | 8.16 | 25% | 10.20 | 8.16 | 25% |
| Net fee and commission income | 6.23 | 5.29 | 18% | 6.23 | 5.29 | 18% |
| Other financial income | -0.09 | 0.40 | -123% | -0.09 | 0.40 | -123% |
| Total net operating income | 16.34 | 13.85 | 18% | 16.34 | 13.85 | 18% |
| Other income | 0.0 | -0.02 | -100% | 0.0 | -0.02 | -100% |
| Operating expenses | -8.88 | -7.70 | 15% | -8.88 | -7.70 | 15% |
| Loan losses | -1.19 | -0.09 | 1 222% | -1.19 | -0.09 | 1 222% |
| Income tax expenses | -2.01 | -0.98 | 105% | -2.01 | -0.98 | 105% |
| Net profit | 4.26 | 5.05 | -16% | 4.26 | 5.05 | -16% |
| including attributable to owners of the parent | 3.95 | 4.47 | -12% | 3.95 | 4.47 | -12% |

| **Business volumes**<br>EUR million | **Q1 2018** | **Q4 2017** | **Quarter over quarter** | **Q1 2017** | **Year over year** |
|---|---|---|---|---|---|
| Loan portfolio | 765.6 | 732.0 | 5% | 545.7 | 40% |
| Financial investments | 57.1 | 56.6 | 1% | 68.7 | -17% |
| Deposits of customers | 1 725.4 | 1536.9 | 12% | 798.2 | 116% |
| incl. deposits of financial intermediates | 732.3 | 606.6 | 21% | 61.3 | 1 094% |
| Equity (including minority interest) | 141.8 | 128.0 | 11% | 113.0 | 25% |
| Equity (owners' share) | 134.7 | 120.1 | 12% | 107.1 | 26% |
| Volume of funds managed | 1 126.7 | 1 102.8 | 2% | 1 020.3 | 10% |
| Assets managed by bank | 1 137.9 | 1 203.5 | -5% | 1 040.5 | 9% |

| **Ratios**<br>EUR million | **Q1 2018** | **Q1 2017** | **Year over year** | **3M 2018** | **3M 2017** | **Year over year** |
|---|---|---|---|---|---|---|
| Average equity (attributable to owners of the parent) | 127.4 | 104.8 | 22.6 | 127.4 | 104.8 | 22.6 |
| Return on equity (ROE), % | 12.4 | 17.1 | -4.7 | 12.4 | 17.1 | -4.07 |
| Return on assets (ROA), % | 0.9 | 2.1 | -1.2 | 0.9 | 2.1 | -1.2 |
| Interest-bearing assets, average | 1 821.0 | 933.8 | 887.2 | 1 821.0 | 933.8 | 887.2 |
| Net interest margin (NIM) % | 2.24 | 3.50 | -1.26 | 2.24 | 3.50 | -1.26 |
| Price spread (SPREAD) % | 2.22 | 3.45 | -1.23 | 2.22 | 3.45 | -1.23 |
| Cost/income ratio % | 54.4 | 55.7 | -1.3 | 54.4 | 55.7 | -1.3 |
| Profit attributable to owners before income tax | 5.6 | 5.4 | 0.2 | 5.6 | 5.4 | 0.2 |

**Explanations to ratios** (quarterly ratios have been expressed on an annualised basis)

Average equity (attributable to owners of the parent) = (equity as at the end of the reporting period + equity as at the end of the previous reporting period) / 2

Return on equity (ROE) = net profit for the quarter (share of owners of the parent) / average equity (attributable to owners of the parent) *100

Return on assets (ROA) = net profit for the quarter (share of owners of the parent) / average assets*100

Net interest margin (NIM) = net interest income / interest-bearing assets, average * 100

Price spread (SPREAD) = interest yield from interest-bearing assets – cost of external capital

Interest yield from interest-bearing assets = interest income / interest-bearing assets, average * 100

Cost of external capital = interest expenses / interest-bearing liabilities, average * 100

Cost/income ratio = total operating cost / total income * 100

# Operating Environment

The global economy is growing at the fastest pace since 2011, and cyclical growth is accepted to accelerate to 3.8% this year. The recovery is supported by a noticeable upsurge in trade, and a growth in investments and industrial output, which have a positive influence on commodities markets and labour market. Although the lack of pressure on core inflation has allowed dovish monetary policy to continue, the central banks of the developed countries are quietly changing course, led by the United States. Growing asset values reflect the historically low-volatility environment created by the expansive monetary policy of central banks, with investors accepting an increasingly lower long-term yield for the risk taken. Dampening the positive trends, however, are the geopolitical tensions that arose in the spring in connection with US tariffs and the worsening of relations between the West and Russia, which also exerted a negative influence on financial markets.

Economic growth in the euro area sped up to 2.7% in Q4, and economic growth last year proved to be the fastest of the decade thus far. The general economic outlook has improved, manifesting on a larger scale in more countries and sectors. The good outlook allows the European Central Bank to exit the former expansionary monetary policy – the bond purchase programme will continue according to the existing plan in a reduced volume until September, but an increase in interest rates is still not expected until the next year. Consumer prices rose by 1.4% in March, according to flash estimates. Inflationary pressures continue to be low, expected to remain below the long-term average of 2.0%, established as the objective by the European Central Bank. The consensus forecasts that economic growth in the euro area will slow down to 2.3% in 2018. Consumption is supported by a continued drop in unemployment and a growth in the labour force participation rate, which should sooner or later bring about the long-awaited acceleration in the growth of wages. Increased order volumes and use of production capacities should stimulate a growth in investments. Governments are also expected to loosen their fiscal policy. The strengthening of the euro against other currencies is seen as somewhat concerning, though it has been offset to this point by increased foreign demand bolstered by the faster growth of the global economy.

The economic sentiment indicator of Estonia's key trade partners in Europe is close to the all-time high achieved during the economic boom in 2007 and in fact is around the highest level of the past two decades across the 19 Eurozone countries.

In Sweden, economic growth increased to 3.3% in Q4, which was largely on par with expectations. Continued strong domestic demand and growth in investments had a positive effect, but a robust increase in import volumes had a negative impact on net export. On Sweden’s housing market, the decline in prices and transaction activity continued in the beginning of the year. This is a welcome phenomenon, but it is important to watch that the price correction stays within the limits of reason. Market participants are not currently concerned – sentiment indicators and consumer confidence remain high and real estate prices are expected to stabilise this year. Nevertheless, there is concern that the negative impact will spread to the housing construction sector. Sweden will hold parliamentary elections in September and the expected equally matched results are anticipated to bring about a probability of expansionary fiscal policy. The consensus forecasts that Sweden’s economic growth will slow down to 2.4% in 2018. Estonia's interests revolve around the continued growth in Swedish import volumes, the outlook for which is good, with Swedish banks being investment-friendly.

The Finnish economy continued to perform at a good pace in Q4, growing by 2.7%. The economic sentiment is strong, on a broad basis. The main driving engines were a growth in investments and net export, with private consumption also staying strong. The economic growth of 2017 turned out to be the fastest in the past nine years for Finland. The consensus forecasts that the Finnish economic growth will slow down to 2.5% in 2018, but the economy should remain broadly solid. The recovery of the labour market will have a positive impact on domestic demand and this year, growth of private consumption in particular is poised to make a strong contribution. Similarly to Sweden, Estonia's interests lie in further growth in Finnish import volumes, the outlook for which is good.

Economic growth in Lithuania – a major destination market for LHV – continued at a good pace, accelerating to 3.9% in Q4. The economy is generally strong – domestic and foreign demand and rapid growth of investments are exerting a positive effect. The latter in particular should gain a more significant role in the coming years. Lithuania is characterized by strong external demand, a lack of qualified labour and a record use of production capacities, all of which is forcing enterprises to make new investments. The volume of projects financed with EU support is also increasing. The consensus forecasts that economic growth in Lithuania will slow down to 3.2% in 2018.

Economic growth in Estonia was 4.9% in 2017, accelerating to 5.0% in the last quarter. The local economy is in the best shape since the recession, but the risk of overheating has also increased. The strong growth stems from a coincidence of a number of favourable factors. Europe’s dovish monetary policy supports economic growth among Estonia’s major trading partners and local investments. The government has increased budgetary spending. The confidence indices that gauge performance in various sectors are also strong, reflecting strong sentiment and consumer confidence. In addition to the torrid construction sector, the role of high value-added business services in the economy has increased. The inflation rate, which rocketed last year, has unfortunately been accompanied by a significant slowdown in the growth in private consumption. Consumer prices increased by 2.8% in March. In its forecast published in December, the Bank of Estonia called for economic growth to slow to 4.2% this year and to 3.1% in 2019. Private consumption and investments will be the driving engines, while the contribution of net export into economic growth is negative. Private consumption is still positively influenced by a rapid increase in wages and the steep rise of the income-tax-free minimum wage accompanied by a marginal decrease in the pace of inflation. Investments are driven by a more active use of the resources of the EU structural funds in the public sector. Despite strong external demand, the investment volumes of enterprises will not grow in 2018 due to the impact of ship purchases in the reference base. The key problems revolve around the shortage of labour and its potential magnification in connection with the increase in general government expenditure. The IMF delegation that visited Estonia in March also noted in its recommendations that postponing lower-priority capital expenditures would help relieve pressure on the country’s already strained construction sector. The priority lies in the achievement of sustainable, long-term economic growth, balanced between the different sectors.

LHV expects the positive trends in the Estonian economy to continue in the next twelve months. Economic growth will slow but will remain brisk and exceed the potential long-term sustainability level. The lack of available resources will lay an increasing emphasis on corporate adaptability and successful productivity enhancement. This requires a robust continuation of additional investments.

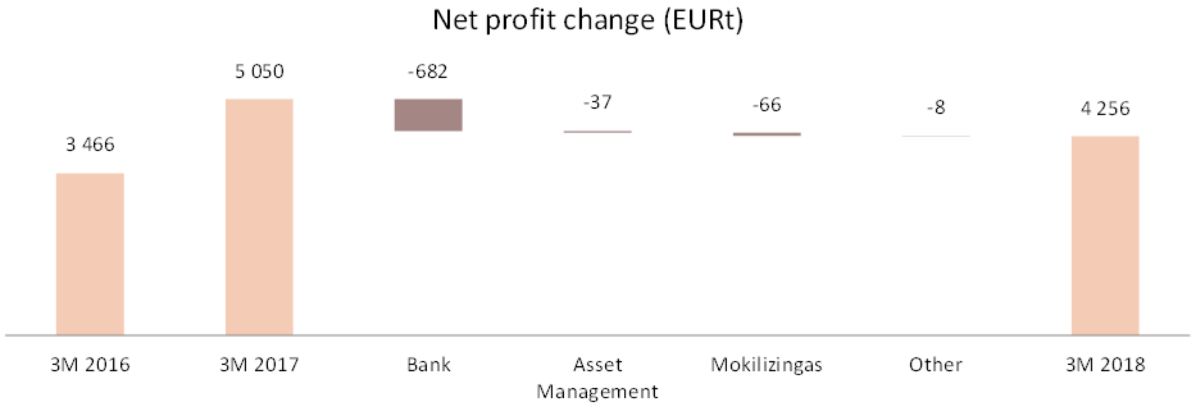
By economic sectors, the risks remain higher-than-average in the construction sector, which is at risk for overheating, transport and warehousing. LHV remain conservative with regard to the real estate market, monitoring the dynamics on the local and Scandinavian market and paying particular attention to developments in Sweden. Rental property projects involve a risk of insufficient demand for absorbing the developed volumes in the near future, with corrections expected in either rental prices or vacancy rates.

On a positive note, the financing environment remains favourable. The quick growth in the balance of loans taken from credit institutions continues, but the pace somewhat slowed down compared to the beginning of last year. The loan to deposit ratio and overdue loans have maintained their post-crisis lows. With the record-low interest rates and tight interbank competition having a positive impact on local entrepreneurship, the opportunities should be further exploited. LHV stands ready to boldly and efficiently contribute to the search of new sources of growth, offering a long-term partnership to enterprises and making an effort to create additional value.

# Financial Results of the Group

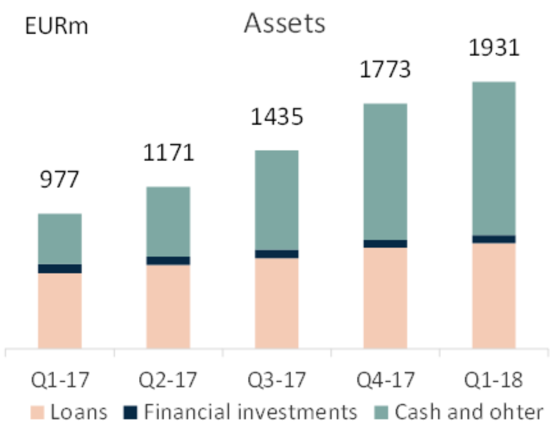
Compared to Q4 2017, the Group's net interest income increased in Q1 by 3%, standing at EUR 10.2 (Q4: 9.9) million. Net fee and commission income increased by 4% and stood at EUR 6.20 (Q4: 6.0) million. Financial income decreased and stood at EUR -0.1 (Q4: -0.4) million. In total, the net income of the Group increased by 6% in Q1, compared to Q4 2017, amounting to EUR 16.3 (Q4: 15.4) million, with expenses increasing by 5% and amounting to EUR 8.9 (Q4: 8.5) million. The Group's operating profit for Q1 amounted to EUR 6.3 (Q4: 7.0) million. The loss from loan impairments mounted to EUR 1.2 million in Q1 (Q4: profit 0.04). The Group's total profit for Q1 amounted to EUR 4.2 million (Q4: 6.8). Compared to Q1 2017, the Group's net interest income increased by 25% and net fee and commission income by 18%.

In terms of business entities, AS LHV Pank posted in Q1 a consolidated profit of EUR 3.5 million, AS LHV Varahaldus a profit of EUR 0.7 million and UAB Mokilizingas a profit of EUR 0.2 million. The AS LHV Group on solo bases posted a profit of EUR 6.3 million due to dividends paid by subsidiaries.




The Group's volume of deposits as at the end of Q1 amounted to EUR 1 725 (Q4: 1 537) million, of which demand deposits formed EUR 1 598 (Q4: 1 410) million and term deposits EUR 127 (Q4: 127) million.

As at the end of Q1, the volume of loans granted by the Group amounted to EUR 766 (Q4: 732) million, increasing in Q1 by 5%. Compared to Q1 2017, the volume of the Group's deposits has increased by 116% and the volume of loans by 40%.



# The Group's Liquidity, Capitalisation and Asset Quality

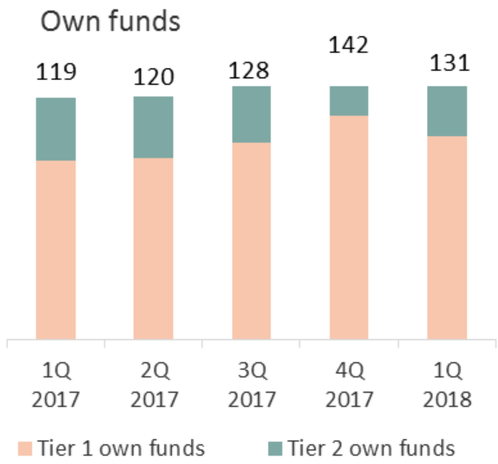
As at 31 March 2018, the Group's own funds stood at EUR 131.2 million (31 December 2017: EUR 141.6 million). LHV Group own funds are calculated based on regulative requirements. In first quarter own funds were negatively affected by dividend offer and increase in credit impairments. At same time annual general meeting was held in April, not allowing Group to include 4th quarter profit into own funds regulations.

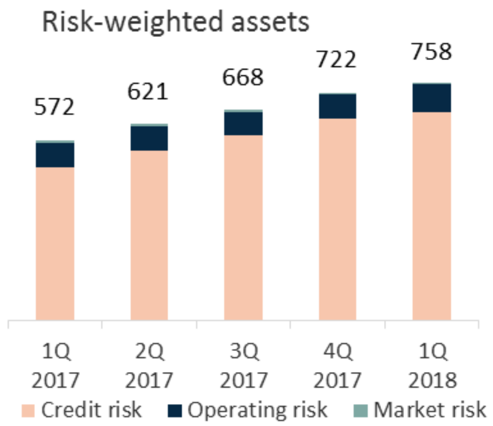
Compared to Group's internal capital adequacy ratio target 15.06%, the Group is well capitalised as at the end of the reporting period, with the capital adequacy ratio amounting to 17.3% (31 December 2017: 19.6%). In addition to total capital adequacy targets the Group has also set internal targets for the core Tier 1 capital adequacy ratio to 10,61% and core Tier 1 capital adequacy ratio to 12.29%. Bank of Estonia informed on 17th of April 2018 that from 1st of January 2019 LHV Group minimum capitalization requirements will increase by 0.5%. As of today Group has already buffers for that and internal capital targets will remain at same level.

In the end of 2017 Estonian Financial Supervision Authority new prudential ratio - the minimum requirement for own funds and eligible liabilities (MREL), which is valid from 1st of January 2018. This ratio is included into resolution plan and LHV has to keep enough own funds and qualifying liabilities which can be used to cover losses in resolution planning. Minimum requirement was set at 5.79% and will be reviewed annually by Estonian Financial Supervision Authority. Group has set internal MREL minimal target at 6.08%. As of 31st of March the MREL ratio was 7.26% (31st of December 2017 8.41%).

The Group's liquidity coverage ratio (LCR), as defined by the Basel Committee, stood at 115.5% as at the end of March (31 December 2017: 121.3%). Banks liquidity situation remained same in Q1, change in LCR levels are related to significantly higher financial intermediates deposits what Bank covers 100% with liquid assets. Excluding the financial intermediates deposits the Groups LCR in 199.3%. The Group recognises cash and bond portfolios as liquidity buffers. These accounted for 58% of the balance sheet (31 December 2017: 57%). The ratio of loans to deposits stood at 45% as at the end of the first quarter (31 December 2017: 48%). Group's maturity structure is presented in Note 5.

The Group's credit quality was good. As at the end of March, provisions for estimated loan losses amounted to EUR 9.1 million in the balance sheet, i.e. approximately 1.2% of the loan portfolio (31 December 2017: EUR 8.1 million, 1.1%). Estimated loan losses make up 58.6% (31 December 2017: 46.7%) of the portfolio of loans overdue for more than 90 days. The increase in overdue loans is related to few clients



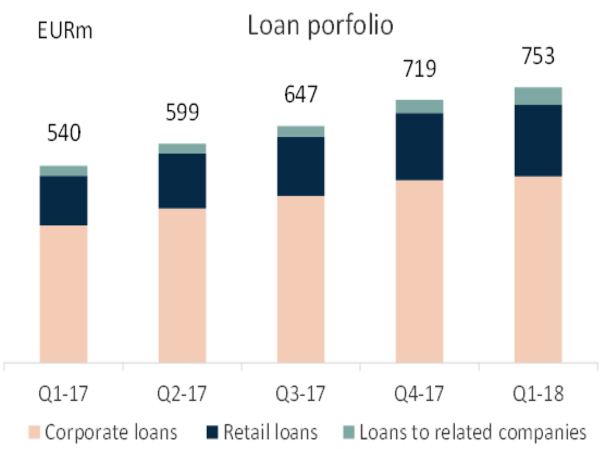




| EUR thousand | 31.03.2018 | Proportion | 31.12.2017 | Proportion |
|---|---|---|---|---|
| Loans to customers | 774 760 | | 740 169 | |
| including overdue loans: | 38 535 | 5.0% | 32 736 | 4.4% |
| 1-30 days | 18 029 | 2.3% | 7 938 | 1.1% |
| 31-60 days | 4 218 | 0.5% | 6 633 | 0.9% |
| 61-90 days | 727 | 0.1% | 752 | 0.1% |
| 91 and more days | 15 560 | 2.0% | 17 413 | 2.4% |
| Impairment of loans | -9 111 | -1.2% | -8 125 | -1.1% |
| Impairment % of loans overdue for more than 90 days | 58.6% | | 46.7% | |

| Capital base | 31.03.2018 | 31.12.2017 | 31.12.2016 |
|---|---|---|---|
| Paid-in share capital | 25 767 | 25 767 | 25 356 |
| Share premium | 46 304 | 46 304 | 45 892 |
| Statutory reserves transferred from net profit | 3 451 | 2 471 | 1 580 |
| Other reserves | -70 | 36 | -40 |
| Accumulated deficit | 44 880 | 24 468 | 10 517 |
| Intangible assets (subtracted) | -19 015 | -7 940 | -8 114 |
| Net profit for the reporting period | 0 | 19 603 | 17 816 |
| Other adjustments | -986 | 0 | 0 |
| **Total Tier 1 capital** | **100 331** | **110 709** | **93 007** |
| Subordinated debt | 30 900 | 30 900 | 30 900 |
| **Total Tier 2 capital** | **30 900** | **30 900** | **30 900** |
| **Net own funds for capital adequacy** | **131 231** | **141 609** | **123 907** |
| **Capital requirements** | | | |
| Central governments and central bank under standard method | 886 | 945 | 1 498 |
| Credit institutions and investment companies under standard method | 5 454 | 6 950 | 7 415 |
| Companies under standard method | 432 846 | 428 428 | 334 314 |
| Retail claims under standard method | 156 500 | 144 237 | 114 689 |
| Public sector under standard method | 359 | 185 | 216 |
| Housing real estate under standard method | 23 245 | 20 039 | 7 079 |
| Overdue claims under standard methods | 7 752 | 20 956 | 2 313 |
| Investment funds' shares under standard method | 18 582 | 6 281 | 10 886 |
| Other assets under standard method | 15 231 | 13 824 | 7 610 |
| **Total capital requirements for covering the credit risk and counterparty credit risk** | **660 855** | **641 845** | **486 020** |
| Capital requirement against foreign currency risk under standard method | 4 410 | 3 551 | 5 032 |
| Capital requirement against interest position risk under standard method | 263 | 412 | 1 709 |
| Capital requirement against equity portfolio risks under standard method | 544 | 585 | 601 |
| Capital requirement against credit valuation adjustment risks under standard method | 53 | 15 | 24 |
| Capital requirement for operational risk under base method | 91 575 | 75 999 | 61 812 |
| **Total capital requirements for adequacy calculation** | **757 700** | **722 407** | **555 198** |
| | | | |
| **Capital adequacy (%)** | **17.32** | **19.60** | **22.32** |
| **Tier 1 capital ratio (%)** | **13.24** | **15.32** | **16.75** |

# Overview of AS LHV Pank Consolidation Group

- (Net) growth in deposit volume in Q1 – EUR 182 million
- (Net) growth in loan volume EUR 34 million
- Clients activity at record level




| EUR million | Q1 2018 | Q4 2017 | Change % | Q1 2017 | Change % | From the beginning of 2018 | From the beginning of 2017 | Change % |
|---|---|---|---|---|---|---|---|---|
| Net interest income | 9.19 | 8.38 | 10% | 7.17 | 28% | 9.19 | 7.17 | 10% |
| Net fee and commission income | 2.25 | 1.93 | 17% | 1.82 | 24% | 2.25 | 1.82 | 17% |
| Other financial income | -0.06 | -0.48 | -87% | 0.25 | -125% | -0.06 | 0.25 | -87% |
| Total net operating income | 11.38 | 9.83 | 16% | 9.24 | 23% | 11.38 | 9.24 | 16% |
| Other income | 0.03 | 0.04 | -34% | 0.01 | 170% | 0.03 | 0.01 | -34% |
| Operating expenses | -6.10 | -5.41 | 13% | -4.90 | 24% | -6.10 | -4.90 | 13% |
| Loan losses | -0.88 | -0.53 | 65% | -0.07 | -1 160% | -0.88 | -0.07 | 65% |
| Income tax expenses | -0.84 | 0.0 | - | 0.0 | - | -0.84 | 0.0 | - |
| Net profit | 3.59 | 3.93 | -9% | 4.28 | -16% | 3.59 | 4.28 | -9% |
| Loan portfolio | 753 | 719 | 5% | 540 | 39% | | | |
| Financial investments | 49 | 50 | -2% | 57 | -14% | | | |
| Deposits of customers | 1 733 | 1 551 | 12% | 811 | 114% | | | |
| incl. deposits of financial intermediates | 732 | 607 | 21% | 61 | 1 100% | | | |
| Subordinated liabilities | 20 | 20 | 0% | 20 | 0% | | | |
| Equity | 110 | 100 | 10% | 85 | 29% | | | |

Q1 was successful in terms of business volumes. LHV Bank generated EUR 9.2 million in net interest income and EUR 2.3 million in net fee and commission income. In total, the bank's net income amounted to EUR 11.4 million, expenditure to EUR 6.1 million and loan provisions to EUR 0.9 million. The net profit of LHV Bank amounted to EUR 3.6 million in Q1. This constitutes a 9% decrease from Q4 (3.9) and a 16% decrease from Q1 2017 (4.3). Net interest income increased 10% compared to previous quarter. Net fee and commission income increased 17% compared to Q4. Net operating income increased by 13% compared to previous quarter. In Q1 other financial expenses amounted to EUR 0.1 million (Q4: 0.5 million). Bank paid the dividend income tax in the amount of EUR 0.8 million.

Securities brokerage fees, transaction fees and fees from cards are greatest contributor to fee and commission income.
The increase in net interest income stems from the growth in business volumes. By the end of Q1, the total volume of the bank's loan portfolios amounted to EUR 753 million (Q4: EUR 719 million). The volume of portfolios grew 5% over the quarter.

The corporate credit portfolio of loans and guarantees grew by EUR 135.3 million year-on-year (+34%) and by EUR 11.4 million (+2%) on a quarterly basis. The main source of growth was loans for real estate activities – an area traditionally the most financed by commercial banks – growing by EUR 58.0 million (+40%). Commercial real estate projects with a strong rental income stream were the greatest contributor to growth. Loans for real estate activities were followed by loans issued to the processing industry, which grew by EUR 19.5 million over the year (+40%). Loans issued in the administrative and auxiliary activities sector grew by EUR 12.4 million (+164%) compared to the previous year.

The greatest contributors to portfolio growth, compared to Q4 of the previous year, included loans and guarantees issued in the area of real estate activities (EUR 4.1 million; +2%), the administrative and auxiliary activities sector (EUR 3.6 million; +22%), and the art, entertainment and leisure time sector (EUR 2.5 million; +9%)

The largest amount of corporate loans was granted to the real estate sector, which accounts for 39% of the bank's total portfolio of corporate loans. The bulk of the real estate loans have been issued for projects with a high-quality rent flow. Real estate development ranks second, far behind. The majority of the real estate developments financed are located in Tallinn, with a few in other major Estonian cities. LHV's market share in the financing of new developments in Tallinn was nearly 20% at the end of Q1 2018. LHV’s real estate development portfolio is well-positioned for potential changes in market trends – the financed projects are situated in good locations, with the average risk to planned price ratio at an average of 50%.

Besides the real estate sector, the greatest volume of credit was provided to companies pursuing financial activities (share: 16%) as well as the processing industry (share: 13%). As regards sectors with a higher-than-average credit risk, accommodation and catering contributes 2%, construction 3% and transport and warehousing 1% of the total portfolio volume.

The year started on a high note for the bank. The growth in the number of new customers increased beyond the strong pace set in Q4 last year. The number of bank customers grew by more than 6,000 in Q1 and the level of customer activity set records by the end of the quarter.

During the quarter, the volume of deposits grew by EUR 182 million and the volume of loans increased by EUR 34 million. Deposits of ordinary customers grew by EUR 57 million and deposits of financial intermediaries by EUR 125 million. The deposits of financial intermediaries also grew in January. Starting in February, the deposits of financial intermediaries have grown, as was set out in the year’s financial plan. Corporate loans increased by EUR 10 million, retail loans by EUR 13 million and a loan to Mokilizingas by EUR 11 million. The profit for the quarter before income tax was EUR 4.4 million; and net profit, EUR 3.6 million. Net profit exceeded the financial plan by EUR 0.7 million, due above all to greater revenue.

A new loan impairment model was adopted at the beginning of the year as part of the changeover to IFRS 9, but this has only a limited effect on the bank’ loan impairments. To ensure the planned growth of the loan portfolio, the bank’s share capital was increased by EUR 10 million in February, as set out in the financial plan.

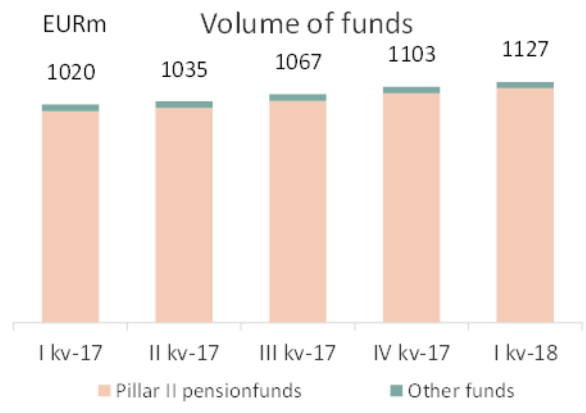
New products introduced in the quarter were a Home Furnishing Loan and Health and Beauty Loan. The restrictions on transaction amounts were lifted in the case of video identification. From the start of the year, the MiFID 2 rules entered into force, which resulted in changes to investment products offered to bank customers.

On 28 January, the UK’s financial supervision authority gave its approval to the founding of the bank’s branch in the United Kingdom. On 19 March, the opening ceremony was held in London. The branch’s main focus is currently on recruitment of personnel.

At the beginning of the year, the bank’s private banking service received international recognition as Euromoney chose LHV Bank as the best private banking service provider in Estonia.

# Overview of AS LHV Varahaldus

- A new Pillar 2 pension fund was launched – LHV Pensionifond Eesti
- Volume of investment funds totals 1 127 EURm, growth of EUR 24 million
- Dividends totalling EURs 4.4 million was paid out to LHV Group




| EUR million | Q1 2018 | Q4 2017 | Change % | Q1 2017 | Change % | From the beginning of 2018 | From the beginning of 2017 | Change % |
|---|---|---|---|---|---|---|---|---|
| Net fee and commission income | 3.34 | 3.45 | -3% | 3.30 | 1% | 3.34 | 3.30 | 1% |
| Net financial income | -0.06 | 0.01 | -700% | 0.11 | -155% | -0.06 | 0.11 | -155% |
| Operating expenses | -1.04 | -1.57 | -34% | -1.63 | -36% | -1.04 | -1.63 | -36% |
| Depreciation of non-current assets | -0.45 | -0.1 | 350% | -0.1 | 350% | -0.45 | -0.1 | 350% |
| Profit | 1.79 | 1.79 | 0% | 1.68 | 7% | 1.79 | 1.68 | 7% |
| Financial investments | 7.7 | 6.3 | 22% | 11.0 | -30% | | | |
| Subordinated liabilities | 2.1 | 2.1 | 0% | 2.1 | 0% | | | |
| Equity | 23.5 | 16.5 | 42% | 18.0 | 31% | | | |
| Assets under management | 1 126.7 | 1 102.8 | 2% | 1 020.3 | 10% | | | |

The operating income of LHV Asset Management in Q1 amounted to EUR 3.34 million (EUR 3.45 million in Q4). The drop in operating income in Q1 is seasonal as the management fees for second-pillar funds are lowered due to volume once a year from February. In 2018, the fee decreased by an average of 6%.

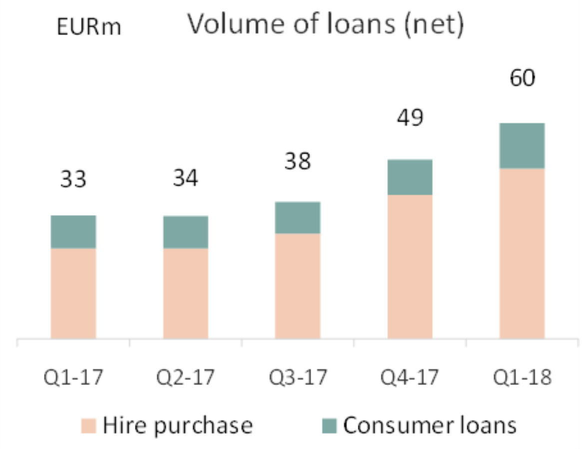
In 2018, the IFRS 15 standard came into force. It requires expenses related to obtaining clients to be capitalized and expensed (depreciation on non-current assets). The operating expenses in Q1 were EUR 1.49 million, including depreciation on non-current assets of EUR 0.45 million. According to the IFRS standard, Q4 operating expenses would have been EUR 1.48 million, including depreciation on non-current assets of EUR 0.45 million.

LHV Asset Management paid EUR 4.4 million in dividends to LHV Group from 2017 profit. Income taxes expenses of EUR 1.1 million were incurred on the payment. The net profit in Q1 was EUR 0.69 million (EUR 1.98 million in Q4 according to the IFRS 15 standard).

The total volume of funds managed by LHV grew by EUR 24 million (EUR 35 million in Q4). The growth of the volume of funds was slowed by volatility returning to stock markets. Global stock markets fell 4% on average in the quarter. LHV's active investment profile pension funds showed good returns in this environment, as they continue to avoid risks related to larger stock markets and focus on direct investments into Estonia. The number of active Pillar 2 pension customers grew by 1,200 in the quarter (decrease of 200 in Q4).

In March, a new Pillar 2 pension fund was launched – LHV Pensionifond Eesti. Where possible and if suitable instruments are found, the fund's assets are invested up to 100% into Estonia and instruments connected to Estonia. The percentage of Estonia-related instruments in the fund is at least 50% of the value of the fund's assets.

# Overview of UAB Mokilizingas




| EUR million | Q1 2018 | Q4 2017 | Change % | Q1 2017 | Change % | From the beginning of 2018 | From the beginning of 2017 | Change % |
|---|---|---|---|---|---|---|---|---|
| Net interest income | 1.2 | 1.7 | -29% | 1.2 | 0% | 1.2 | 1.2 | 0% |
| Net fee and commission income | 0.6 | 0.6 | 0% | 0.2 | 200% | 0.6 | 0.2 | 200% |
| Operating expenses | -1.2 | -1.3 | -8% | -1.0 | 20% | -1.2 | -1.0 | 20% |
| Loan losses | -0.3 | 0.6 | -150% | -0.02 | 1 400% | -0.3 | -0.02 | 1 400% |
| Income tax expenses | -0.1 | -0.2 | -50% | -0.03 | 233% | -0.1 | -0.03 | 233% |
| Profit | 0.2 | 1.4 | -86% | 0.3 | -33% | 0.2 | 0.3 | -33% |
| Loan portfolio | 59.8 | 49.4 | 21% | 35.0 | 71% | | | |
| Equity | 9.0 | 8.7 | 3% | 7.1 | 27% | | | |

Mokilizingas generated EUR 1.5 million net interest income during Q1 2018 with 15% increase in comparison to Q1 2017. Total business expenses amounted to EUR 1.2 million. When compared to Q1 2017 expenditures increased by 23%, which is related to increase in marketing and other administrative costs. The net profit amounted to EUR 0.2 million in Q1 2018.

Mokilizingas continues working in a strong collaboration with main partners, launching seasonal campaigns and supporting the sales in Hire Purchase and Consumer Loan segments. Q1 2018 sales amounted to EUR 21.8 million (EUR 7.1 million during Q1 2017), of which Consumer Loan sales amounted to EUR 4.5 million and increased by more than 300% compared to Q1 2017. Sales margins slightly decreased compared to Q1 2017.

2018 will be dedicated to further optimizing internal processes and business development.

# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income

| *(in thousands of euros)* | Note | Q1 2018 | 3M 2018 | Q1 2017 | 3M 2017 |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| Interest income | | 12 081 | 12 081 | 9 251 | 9 251 |
| Interest expense | | -1 887 | -1 887 | -1 087 | -1 087 |
| **Net interest income** | 9 | **10 194** | **10 194** | **8 164** | **8 164** |
| Fee and commission income | | 7 789 | 7 789 | 6 650 | 6 650 |
| Fee and commission expense | | -1 557 | -1 557 | -1 366 | -1 366 |
| **Net fee and commission income** | 10 | **6 232** | **6 232** | **5 284** | **5 284** |
| Net gains/losses from financial assets measured at fair value | | -72 | -72 | 335 | 335 |
| Foreign exchange gains/losses | | -15 | -15 | 61 | 61 |
| **Net gains from financial assets** | | **-87** | **-87** | **396** | **396** |
| Other income | | 7 | 7 | 17 | 17 |
| Other expense | | -12 | -12 | -39 | -39 |
| **Total other income** | | **-5** | **-5** | **-22** | **-22** |
| Staff costs | 11 | -4 141 | -4 141 | -3 591 | -3 591 |
| Administrative and other operating expenses | 11 | -4 738 | -4 738 | -4 105 | -4 105 |
| **Total expenses** | | **-8 879** | **-8 879** | **-7 696** | **-7 696** |
| **Profit before impairment losses on loans and advances** | | **7 455** | **7 455** | **6 126** | **6 126** |
| Impairment losses on loans and advances | | -1 186 | -1 186 | -93 | -93 |
| **Profit before tax** | | **6 269** | **6 269** | **6 033** | **6 033** |
| Income tax expense | | -2 014 | -2 014 | -983 | -983 |
| **Net profit for the reporting period** | 2 | **4 255** | **4 255** | **5 050** | **5 050** |
| **Other comprehensive income** | | | | | |
| Items that may be reclassified subsequently to profit or loss: | | | | | |
| Available-for-sale investments: | | | | | |
| Revaluation of available-for-sale financial assets | | -106 | -106 | 45 | 45 |
| **Total profit and other comprehensive income for the reporting period** | | **4 149** | **4 149** | **5 095** | **5 095** |
| **Total profit of the reporting period attributable to:** | | | | | |
| Owners of the parent | | 3 949 | 3 949 | 4 469 | 4 469 |
| Non-controlling interest | | 306 | 306 | 581 | 581 |
| **Total profit for the reporting period** | 2 | **4 255** | **4 255** | **5 050** | **5 050** |
| **Total comprehensive income attributable to:** | | | | | |
| Owners of the parent | | 3 843 | 3 843 | 4 514 | 4 514 |
| Non-controlling interest | | 306 | 306 | 581 | 581 |
| **Total comprehensive income for the reporting period** | | **4 149** | **4 149** | **5 095** | **5 095** |
| Basic earnings per share (in euros) | 16 | 0.15 | 0.15 | 0.18 | 0.18 |
| Diluted earnings per share (in euros) | 16 | 0.15 | 0.15 | 0.17 | 0.17 |

The Notes on pages 19 to 35 are an integral part of the consolidated interim financial statements.

# Condensed Consolidated Interim Statement of Financial Position

| *(in thousands of euros)* | **Note** | **31.03.2018** | **31.12.2017** |
|---|---|---|---|
| **Assets** | | | |
| Due from central bank | 4, 5, 6, 12 | 1 040 941 | 920 714 |
| Due from credit institutions | 4, 5, 6, 12 | 22 529 | 26 312 |
| Due from investment companies | 4, 6, 12 | 8 352 | 14 186 |
| Available-for-sale financial assets | 4, 6, 7 | 775 | 775 |
| Financial assets at fair value through profit or loss | 4, 6, 7 | 56 316 | 55 859 |
| Loans and advances to customers | 4, 6, 8 | 765 649 | 732 043 |
| Receivables from customers | | 12 257 | 9 800 |
| Other financial assets | | 2 236 | 2 289 |
| Other assets | | 1 296 | 1 516 |
| Tangible assets | | 1 473 | 1 421 |
| Intangible assets | | 15 401 | 4 327 |
| Goodwill | | 3 614 | 3 614 |
| **Total assets** | 2 | **1 930 839** | **1 772 856** |
| **Liabilities** | | | |
| Deposits of customers and loans received | 13 | 1 731 372 | 1 542 929 |
| Financial liabilities at fair value through profit or loss | 6 | 4 | 2 |
| Accounts payable and other liabilities | 14 | 26 793 | 71 070 |
| Subordinated debt | 6 | 30 900 | 30 900 |
| **Total liabilities** | 2 | **1 789 069** | **1 644 901** |
| **Owner's equity** | | | |
| Share capital | | 25 767 | 25 767 |
| Share premium | | 46 304 | 46 304 |
| Statutory reserve capital | | 3 451 | 1 413 |
| Other reserves | | 1 564 | 2 507 |
| Retained earnings / accumulated deficit | | 57 657 | 44 071 |
| **Total equity attributable to owners of the parent** | | **134 743** | **120 062** |
| Non-controlling interest | | 7 027 | 7 893 |
| **Total equity** | | **141 770** | **127 955** |
| **Total liabilities and equity** | | **1 930 839** | **1 772 856** |

The Notes on pages 19 to 35 are an integral part of the consolidated interim financial statements.

# Condensed Consolidated Interim Statement of Cash Flows

| *(in thousands of euros)* | Note | Q1 2018 | 3M 2018 | Q1 2017 | 3M 2017 |
|---|---|---|---|---|---|
| **Cash flow from operating activities** | | | | | |
| Interest received | | 11 166 | 11 166 | 9 245 | 9 245 |
| Interest paid | | -1 046 | -1 046 | -1 216 | -1 216 |
| Fees and commissions received | | 7 784 | 7 784 | 6 650 | 6 650 |
| Fees and commissions paid | | -1 552 | -1 552 | -1 366 | -1 366 |
| Other income | | 7 | 7 | -23 | -23 |
| Staff costs paid | | -3 670 | -3 670 | -3 304 | -3 304 |
| Administrative and other operating expenses paid | | -4 017 | -4 017 | -4 742 | -4 742 |
| Income tax | | -2 014 | -2 014 | 0 | 0 |
| **Cash flow from operating activities before change in operating assets and liabilities** | | **6 658** | **6 658** | **5 244** | **5 244** |
| **Net increase/decrease in operating assets:** | | | | | |
| Net acquisition/disposal of trading portfolio | | -18 | -18 | 4 | 4 |
| Loans and advances to customers | | -36 643 | -36 643 | -7 540 | -7 540 |
| Mandatory reserve at central bank | | -1 834 | -1 834 | -260 | -260 |
| Security deposits | | 53 | 53 | -108 | -108 |
| Other assets | | -621 | -621 | -146 | -146 |
| **Net increase/decrease in operating liabilities:** | | | | | |
| Demand deposits of customers | | 188 933 | 188 933 | 44 165 | 44 165 |
| Term deposits of customers | | -508 | -508 | -22 492 | -22 492 |
| Repayments of loans received | | 0 | 0 | -689 | -689 |
| Financial liabilities held for trading at fair value through profit and loss | | 373 | 373 | -170 | -170 |
| Other liabilities | | -45 224 | -45 224 | 15 984 | 15 984 |
| **Net cash generated from/used in operating activities** | | **111 169** | **111 169** | **33 992** | **33 992** |
| **Cash flow from investing activities** | | | | | |
| Purchase of non-current assets | | -577 | -577 | -246 | -246 |
| Proceeds from disposal and redemption of investment securities available for sale | | -106 | -106 | -6 | -6 |
| Net change of investments at fair value through profit or loss | | -523 | -523 | 7 914 | 7 914 |
| **Net cash flow from investing activities** | | **-1 206** | **-1 206** | **7 662** | **7 662** |
| **Cash flows from financing activities** | | | | | |
| Dividends paid | | -1 172 | -1 172 | 0 | 0 |
| **Net cash from financing activities** | | **-1 172** | **-1 172** | **0** | **0** |
| **Effect of exchange rate changes on cash and cash equivalents** | 6 | **-15** | **-15** | **61** | **61** |
| **Net decrease/increase in cash and cash equivalents** | | **108 776** | **108 776** | **41 715** | **41 715** |
| Cash and cash equivalents at the beginning of the period | | 945 837 | 945 837 | 298 764 | 298 764 |
| **Cash and cash equivalents at the end of the period** | 12 | **1 054 613** | **1 054 613** | **340 479** | **340 479** |

The Notes on pages 19 to 35 are an integral part of the consolidated interim financial statements

# Condensed Consolidated Interim Statement of Changes in Equity

| *(in thousands of euros)* | Share capital | Share premium | Statutory reserve capital | Other reserves | Accumulated deficit/ retained earnings | **Total equity attributable to owners of LHV Group** | Non-controlling interest | **Total equity** |
|---|---|---|---|---|---|---|---|---|
| **Balance as at 01.01.2017** | **25 356** | **45 892** | **1 580** | **1 244** | **28 335** | **102 407** | **5 319** | **107 726** |
| Transfer to statutory reserve capital | 0 | 0 | 891 | 0 | -891 | 0 | 0 | **0** |
| Share options | 0 | 0 | 0 | 179 | 0 | 179 | 0 | **179** |
| *Profit for the year* | 0 | 0 | 0 | 0 | 4 469 | 4 469 | 581 | **5 050** |
| *Other comprehensive loss* | 0 | 0 | 0 | 45 | 0 | 45 | 0 | **45** |
| Total profit and other comprehensive income for the reporting period | 0 | 0 | 0 | 45 | 4 469 | 4 514 | 581 | **5 095** |
| **Balance as at 31.03.2017** | **25 356** | **45 892** | **2 471** | **1 468** | **31 913** | **107 100** | **5 900** | **113 000** |
| | | | | | | | | |
| **Balance as at 01.01.2018** | **25 767** | **46 304** | **2 471** | **1 449** | **44 071** | **120 062** | **7 893** | **127 955** |
| Changes in accounting policies | 0 | 0 | 0 | 0 | 10 617 | 10 617 | 0 | **10 617** |
| Transfer to statutory reserve capital | 0 | 0 | 980 | 0 | -980 | 0 | 0 | **0** |
| Dividends paid | 0 | 0 | 0 | 0 | 0 | 0 | -1 172 | **-1 172** |
| Share options | 0 | 0 | 0 | 221 | 0 | 221 | 0 | **221** |
| *Profit for the year* | 0 | 0 | 0 | *0* | 3 949 | 3 949 | 306 | **4 255** |
| *Other comprehensive loss* | 0 | 0 | 0 | -106 | *0* | -106 | *0* | **-106** |
| Total profit and other comprehensive income for the reporting period | 0 | 0 | 0 | -106 | 3 949 | 3 843 | 306 | 4 149 |
| **Balance as at 31.03.2018** | **25 767** | **46 304** | **3 451** | **1 564** | **57 657** | **134 743** | **7 027** | **141 770** |

The Notes on pages 19 to 35 are an integral part of the consolidated interim financial statements

# Notes to the Condensed Consolidated Interim Financial Statements

## NOTE 1 Accounting Policies

The interim financial statements have been prepared in accordance with the international financial reporting standard IAS 34 "Interim Financial Reporting", as adopted in the European Union and accordance with International Financial Reporting Standards as adopted by European Union. The interim financial statements should be read in conjunction with the group's annual financial statements as at 31 December 2017.

The accounting policies adopted are consistent with those of the previous financial year except for the financial reporting standards that are presented at the end of this report in Note 19. Specification has been added to cash and cash equivalents accounting policy:

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

These condensed consolidated interim financial statements are not audited and do not contain the entire range of data required for the preparation of the financial statements.

The financial figures of the interim financial statements have been presented in thousands of euros, unless otherwise indicated. The interim financial statements have been consolidated and include the results of AS LHV Group and its subsidiaries AS LHV Varahaldus (100% interest), AS LHV Pank (100% interest), OÜ Cuber Tehnology (100% interest), AS LHV Finance (65% interest) and UAB Mokilizingas (50% interest + 1 share).

## NOTE 2 Business Segments

The Group divides its business activities into segments according to its legal structure. The business segments form a part of the Group, with a separate access to financial data and which are subject to regular monitoring of operating profit by the Group's decision-maker. The Management Board of AS LHV Group has been designated as the decision-maker responsible for allocation of funds and assessment of the profitability of the business activities. The result posted by a segment includes revenue and expenditure directly related to the segment.

The revenue of a reported segment includes gains from transactions between the segments, i.e. loans granted by AS LHV Pank to other group companies. The division of interest income and fee and commission income by customer location has been presented in Notes 9 and 10. The breakdown of interest income by customer location does not include the income from current accounts, deposits and investments in securities. The Group does not have any customers, whose income would account for more than 10% of the corresponding type of revenue.

| Q1 2018 | Retail banking | Private banking | Corporate banking | Asset manage-ment | Hire-purchase and consumer finance in Estonia | Hire-purchase and consumer finance in Lithuania | Treasury activities | Intra-segment elimi-nations | Total |
|---|---|---|---|---|---|---|---|---|---|
| Interest income | 2 187 | 294 | 5 565 | 0 | 2 223 | 1 504 | 2 453 | -2 145 | 12 081 |
| Interest expense | 0 | 0 | -926 | -42 | -278 | -309 | -2 477 | 2 145 | -1 887 |
| **Net interest income** | **2 187** | **294** | **4 639** | **-42** | **1 945** | **1 195** | **-24** | **0** | **10 194** |
| Fee and commission income | 2 824 | 323 | 19 | 3 339 | 126 | 647 | 511 | 0 | 7 789 |
| Fee and commission expense | -1 394 | 0 | -27 | 0 | -108 | -5 | -23 | 0 | -1 557 |
| **Net fee and commission income** | **1 430** | **323** | **-8** | **3 339** | **18** | **642** | **488** | **0** | **6 232** |
| **Net income** | **3 617** | **617** | **4 631** | **3 297** | **1 963** | **1 837** | **464** | **0** | **16 426** |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Net gains from financial assets | -3 | 0 | 0 | -24 | 0 | 0 | 2 118 | -2 178 | -87 |
| Administrative and other operating expenses, staff costs | -2 935 | -264 | -1 463 | -1 486 | -531 | -1 213 | -992 | 0 | -8 884 |
| **Operating profit** | **679** | **353** | **3 168** | **1 787** | **1 432** | **624** | **1 590** | **-2 178** | **7 455** |
| Impairment losses on loans and advances | 432 | 0 | -1 216 | 0 | -69 | -304 | -29 | 0 | -1 186 |
| Income tax | 0 | 0 | 0 | -1 100 | -838 | -76 | 0 | 0 | -2 014 |
| **Net profit** | **1 111** | **353** | **1 952** | **687** | **525** | **244** | **1 561** | **-2 178** | **4 255** |
| **Total assets** | **1 153 619** | **108 325** | **614 798** | **27 603** | **43 355** | **64 088** | **104 810** | **-185 759** | **1 930 839** |
| **Total liabilities** | **1 288 909** | **278 503** | **206 444** | **4 113** | **36 073** | **55 120** | **31 203** | **-111 296** | **1 789 069** |

| **Q1 2017** | **Retail banking** | **Private banking** | **Corporate banking** | **Asset manage-ment** | **Hire-purchase and consumer finance in Estonia** | **Hire-purchase and consumer finance in Lithuania** | **Treasury activities** | **Intra-segment elimi-nations** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| Interest income | 1 765 | 311 | 4 567 | 0 | 1 957 | 1 427 | 980 | -1 756 | 9 251 |
| Interest expense | 0 | 0 | -760 | -42 | -272 | -238 | -1 531 | 1 756 | -1 087 |
| **Net interest income** | **1 765** | **311** | **3 807** | **-42** | **1 685** | **1 189** | **-551** | **0** | **8 164** |
| Fee and commission income | 2 717 | 227 | 53 | 3 298 | 114 | 179 | 62 | 0 | 6 650 |
| Fee and commission expense | -1 140 | 0 | 0 | 0 | -158 | -11 | -57 | 0 | -1 366 |
| **Net fee and commission income** | **1 577** | **227** | **53** | **3 298** | **-44** | **168** | **5** | **0** | **5 284** |
| **Net income** | **3 342** | **538** | **3 860** | **3 256** | **1 641** | **1 357** | **-546** | **0** | **13 448** |
| Net gains from financial assets | -3 | 0 | 1 | 145 | 0 | 0 | 253 | 0 | 396 |
| Administrative and other operating expenses, staff costs | -2 413 | -298 | -1 164 | -1 726 | -329 | -992 | -796 | 0 | -7 718 |
| **Operating profit** | **926** | **240** | **2 697** | **1 675** | **1 312** | **365** | **-1 089** | **0** | **6 126** |
| Impairment losses on loans and advances | 4 | 0 | 21 | 0 | -95 | -23 | 287 | 0 | 194 |
| Income tax | 0 | 0 | 0 | -951 | 0 | -32 | -270 | 0 | -1 253 |
| **Net profit** | **930** | **240** | **2 718** | **724** | **1 217** | **310** | **-1 072** | **0** | **5 067** |
| **Total assets** | **318 767** | **103 508** | **516 746** | **21 706** | **35 451** | **36 982** | **101 271** | **-157 147** | **977 284** |
| **Total liabilities** | **476 610** | **224 183** | **159 987** | **3 791** | **28 735** | **29 872** | **31 175** | **-90 069** | **864 284** |

## NOTE 3 Risk Management

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the group's annual financial statements as at 31 December 2017.

There have been no major changes in the risk management department or in any risk management policies since the year end.

## NOTE 4 Breakdown of Financial Assets and Liabilities by Countries

| 31.03.2018 | Estonia | Latvia | Lithuania | Finland | The Netherlands | Germany | Other EU | USA | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Due from banks and investment companies | 1 051 015 | 47 | 1 810 | 0 | 0 | 0 | 8 530 | 8 352 | 2 068 | **1 071 822** |
| Financial assets at fair value | 8 950 | 781 | 17 134 | 0 | 0 | 29 185 | 1 039 | 2 | 0 | **57 091** |
| Loans and advances to customers | 674 035 | 3 744 | 56 301 | 1 125 | 91 | 39 | 26 446 | 43 | 3 825 | **765 649** |
| Receivables from customers | 10 706 | 372 | 1 179 | 0 | 0 | 0 | 0 | 0 | 0 | **12 257** |
| Other financial assets | 109 | 0 | 0 | 0 | 0 | 0 | 0 | 2 127 | 0 | **2 236** |
| **Total financial assets** | **1 744 815** | **4 944** | **76 424** | **1 125** | **91** | **29 224** | **36 015** | **10 524** | **5 893** | **1 909 055** |
| Deposits of customers and loans received | 914 674 | 8 923 | 1 177 | 4 199 | 175 | 845 | 779 492 | 2 327 | 19 560 | **1 731 372** |
| Subordinated debt | 30 900 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **30 900** |
| Accounts payable and other financial liabilities | 14 243 | 3 047 | 1 982 | 27 | 0 | 0 | 13 | 3 | 0 | **19 315** |
| Financial liabilities at fair value | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **4** |
| **Total financial liabilities** | **959 821** | **11 970** | **3 159** | **4 226** | **175** | **845** | **779 505** | **2 330** | **19 560** | **1 781 591** |

Unused loan commitments in the amount of EUR 190 839 thousand are for the residents of Estonia and in the amount of EUR 14 395 thousand for the residents of Lithuania.

| 31.12.2017 | Estonia | Latvia | Lithuania | Finland | The Netherlands | Germany | Other EU | USA | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Due from banks and investment companies | 919 599 | 47 | 2 528 | 0 | 0 | 0 | 3 051 | 28 152 | 7 835 | **961 212** |
| Financial assets at fair value | 7 466 | 779 | 17 456 | 0 | 0 | 29 867 | 1 064 | 2 | 0 | **56 634** |
| Loans and advances to customers | 650 871 | 3 644 | 46 269 | 998 | 91 | 42 | 26 580 | 45 | 3 503 | **732 043** |
| Receivables from customers | 8 481 | 372 | 947 | 0 | 0 | 0 | 0 | 0 | 0 | **9 800** |
| Other financial assets | 109 | 0 | 0 | 0 | 0 | 0 | 0 | 2 180 | 0 | **2 289** |
| **Total financial assets** | **1 586 526** | **4 842** | **67 200** | **998** | **91** | **29 909** | **30 695** | **30 379** | **11 338** | **1 761 978** |
| Deposits of customers and loans received | 848 642 | 5 024 | 825 | 2 717 | 12 505 | 632 | 639 608 | 2 855 | 30 121 | **1 542 929** |
| Subordinated debt | 30 900 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **30 900** |
| Accounts payable and other financial liabilities | 60 382 | 3 047 | 3 360 | 27 | 0 | 0 | 13 | 3 | 0 | **66 832** |
| Financial liabilities at fair value | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **2** |
| **Total financial liabilities** | **939 926** | **8 071** | **4 185** | **2 744** | **12 505** | **632** | **639 621** | **2 858** | **30 121** | **1 640 663** |

Unused loan commitments in the amount of EUR 168 228 thousand are for the residents of Estonia and in the amount of EUR 11 345 thousand for the residents of Lithuania.

## NOTE 5 Breakdown of Assets and Liabilities by Contractual Maturity Dates

| 31.03.2018 | On demand | 0-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **Liabilities by contractual maturity dates** | | | | | | |
| Deposits from customers and loans received | 1 598 607 | 44 033 | 82 773 | 3 438 | 2 864 | **1 731 715** |
| Subordinated debt | 0 | 532 | 1 596 | 8 511 | 35 022 | **45 661** |
| Accounts payable and other financial liabilities | 0 | 19 315 | 0 | 0 | 0 | **19 315** |
| Unused loan commitments | 0 | 211 684 | 0 | 0 | 0 | **211 684** |
| Financial guarantees by contractual amounts | 0 | 5 151 | 0 | 0 | 0 | **5 151** |
| Foreign exchange derivatives (gross settled) | 0 | 22 082 | 0 | 671 | 0 | **22 753** |
| Financial liabilities at fair value | 0 | 4 | 0 | 0 | 0 | **4** |
| **Total liabilities** | **1 598 607** | **302 801** | **84 369** | **12 620** | **37 886** | **2 036 283** |
| | | | | | | |
| **Financial assets by contractual maturity dates** | | | | | | |
| Due from banks and investment companies | 1 071 822 | 0 | 0 | 0 | 0 | **1 071 822** |
| Financial assets at fair value (debt securities) | 0 | 29 268 | 2 056 | 15 706 | 2 084 | **49 114** |
| Loans and advances to customers | 0 | 60 926 | 177 356 | 517 506 | 100 919 | **856 706** |
| Receivables from customers | 0 | 9 800 | 0 | 0 | 0 | **9 800** |
| Other financial assets | 0 | 22 082 | 0 | 671 | 0 | **22 753** |
| Foreign exchange derivatives | 2 236 | 0 | 0 | 0 | 0 | **2 236** |
| **Total financial assets** | **1 074 058** | **122 076** | **179 412** | **533 883** | **103 003** | **2 012 431** |
| | | | | | | |
| **Maturity gap from financial assets and liabilities** | **-524 549** | **-180 725** | **95 043** | **521 263** | **65 117** | **-23 852** |

| 31.12.2017 | On demand | 0-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **Liabilities by contractual maturity dates** | | | | | | |
| Deposits from customers and loans received | 1 409 662 | 37 104 | 90 332 | 3 335 | 2 864 | **1 543 297** |
| Subordinated debt | 0 | 532 | 1 596 | 8 511 | 35 554 | **46 193** |
| Accounts payable and other financial liabilities | 0 | 66 832 | 0 | 0 | 0 | **66 832** |
| Unused loan commitments | 0 | 179 572 | 0 | 0 | 0 | **179 572** |
| Financial guarantees by contractual amounts | 0 | 5 999 | 0 | 0 | 0 | **5 999** |
| Foreign exchange derivatives (gross settled) | 0 | 11 825 | 0 | 661 | 0 | **12 486** |
| Financial liabilities at fair value | 0 | 2 | 0 | 0 | 0 | **2** |
| **Total liabilities** | **1 409 662** | **301 8668** | **91 928** | **12 507** | **38 418** | **1 854 381** |
| | | | | | | |
| **Financial assets by contractual maturity dates** | | | | | | |
| Due from banks and investment companies | 961 212 | 0 | 0 | 0 | 0 | **961 212** |
| Financial assets at fair value (debt securities) | 0 | 180 | 30 952 | 17 005 | 2 084 | **50 221** |
| Loans and advances to customers | 0 | 55 668 | 171 720 | 488 968 | 95 517 | **811 873** |
| Receivables from customers | 0 | 9 800 | 0 | 0 | 0 | **9 800** |
| Other financial assets | 2 289 | 0 | 0 | 0 | 0 | **2 289** |
| Foreign exchange derivatives | 0 | 11 825 | 0 | 661 | 0 | **12 486** |
| **Total financial assets** | **963 501** | **77 473** | **202 672** | **506 634** | **97 601** | **1 847 881** |
| | | | | | | |
| **Maturity gap from financial assets and liabilities** | **-446 161** | **-224 393** | **110 744** | **494 127** | **59 183** | **-6 500** |

It is possible to take a short-term loan from the central bank against the security of the majority of instruments in the bond portfolio.
All cashflows from financial assets and –liabilities except derivatives include all contractual cash flows.

# NOTE 6 Open Foreign Currency Positions

| 31.03.2018 | EUR | CHF | GBP | SEK | USD | Other | Total |
|---|---|---|---|---|---|---|---|
| **Assets bearing currency risk** | | | | | | | |
| Due from banks and investment companies | 1 054 495 | 2 452 | 5 087 | 2 668 | 1 045 | 6 075 | **1 071 822** |
| Financial assets at fair value | 23 444 | 0 | 17 | 1 | 33 626 | 3 | **57 091** |
| Loans and advances to customers | 763 736 | 0 | 7 | 4 | 1 885 | 17 | **765 649** |
| Receivables from customers | 11 600 | 8 | 383 | 21 | 91 | 155 | **12 257** |
| Other financial assets | 288 | 0 | 0 | 0 | 1 948 | 0 | **2 236** |
| **Total assets bearing currency risk** | **1 853 563** | **2 460** | **5 494** | **2 694** | **38 595** | **6 250** | **1 909 055** |
| **Liabilities bearing currency risk** | | | | | | | |
| Deposits from customers and loans received | 1 660 677 | 2 435 | 20 485 | 4 287 | 38 882 | 4 606 | **1 731 372** |
| Financial liabilities at fair value | 0 | 0 | 0 | 0 | 4 | 0 | **4** |
| Accounts payable and other financial liabilities | 13 233 | 17 | 1 871 | 113 | 337 | 3 744 | **19 315** |
| Subordinated debt | 30 900 | 0 | 0 | 0 | 0 | 0 | **30 900** |
| **Total liabilities bearing currency risk** | **1 704 810** | **2 452** | **22 356** | **4 400** | **39 223** | **8 350** | **1 781 591** |
| Open gross position derivative assets at contractual value | 671 | 0 | 16 671 | 1 945 | 1 392 | 2 074 | **22 753** |
| Open gross position derivative liabilities at contractual value | 22 082 | 0 | 0 | 0 | 671 | 0 | **22 753** |
| **Open foreign currency position** | **127 342** | **8** | **-191** | **239** | **93** | **-26** | **127 465** |

| 31.12.2017 | EUR | CHF | GBP | SEK | USD | Other | Total |
|---|---|---|---|---|---|---|---|
| **Assets bearing currency risk** | | | | | | | |
| Due from banks and investment companies | 922 431 | 2 587 | 28 237 | 892 | 1 359 | 5 706 | **961 212** |
| Financial assets at fair value | 21 998 | 0 | 0 | 4 | 34 603 | 29 | **56 634** |
| Loans and advances to customers | 730 165 | 0 | 4 | 14 | 1 832 | 28 | **732 043** |
| Receivables from customers | 9 357 | 7 | 204 | 11 | 145 | 76 | **9 800** |
| Other financial assets | 288 | 0 | 0 | 0 | 2 001 | 0 | **2 289** |
| **Total assets bearing currency risk** | **1 684 239** | **2 594** | **28 445** | **921** | **39 940** | **5 839** | **1 761 978** |
| **Liabilities bearing currency risk** | | | | | | | |
| Deposits from customers and loans received | 1 457 593 | 2 534 | 33 134 | 3 558 | 42 646 | 3 464 | **1 542 929** |
| Financial liabilities at fair value | 0 | 0 | 0 | 1 | 1 | 0 | **2** |
| Accounts payable and other financial liabilities | 63 596 | 66 | 259 | 82 | 54 | 2 775 | **66 832** |
| Subordinated debt | 30 900 | 0 | 0 | 0 | 0 | 0 | **30 900** |
| **Total liabilities bearing currency risk** | **1 552 089** | **2 600** | **33 393** | **3 641** | **42 701** | **6 239** | **1 640 663** |
| Open gross position derivative assets at contractual value | 699 | 0 | 4 959 | 2 763 | 3 615 | 450 | **12 486** |
| Open gross position derivative liabilities at contractual value | 11 787 | 0 | 0 | 0 | 699 | 0 | **12 486** |
| **Open foreign currency position** | **121 062** | **-7** | **10** | **43** | **155** | **51** | **121 315** |

# NOTE 7 Fair Value of Financial Assets and Liabilities

The Management Board of the Group has determined the fair value of assets and liabilities recognised at amortised cost in the balance sheet. To determine the fair value, future cash flows are discounted based on the market interest curve.

The below table provides an overview of the assessment techniques, which depend on the hierarchy of assets and liabilities measured at fair value:

| | Level 1 | Level 2 | Level 3 | 31.03.2018 | Level 1 | Level 2 | Level 3 | 31.12.2017 |
|---|---|---|---|---|---|---|---|---|
| **Financial assets at fair value through profit and loss** | | | | | | | | |
| Shares and fund units* | 405 | 7 732 | 0 | **8 137** | 430 | 6 261 | 0 | **6 691** |
| Available-for-sale bonds and shares | 555 | 0 | 220 | **775** | 555 | 0 | 220 | **775** |
| Bonds at fair value through profit and loss | 48 113 | 0 | 0 | **48 113** | 49 138 | 0 | 0 | **49 138** |
| Interest rate swaps and foreign exchange forwards | 0 | 66 | 0 | **66** | 0 | 30 | 0 | **30** |
| **Total financial assets** | **49 073** | **7 798** | **220** | **57 091** | **50 123** | **6 291** | **220** | **56 634** |
| **Financial liabilities at fair value through profit and loss** | | | | | | | | |
| Interest rate swaps and foreign exchange | 0 | 4 | 0 | **4** | 0 | 2 | 0 | **2** |
| **Total financial liabilities** | **0** | **4** | **0** | **4** | **0** | **2** | **0** | **2** |

*Shares and fund units include the Group companies' AS LHV Varahaldus investment into pension fund units in the amount of EUR 7 732 (31.12.2017: 6 261) thousand. Pursuant to the Investment Funds Act, the mandatory shares of LHV Varahaldus as the management company is 0.5% of the number of units in each of the mandatory pension fund managed by it.

Hierarchy levels:

1. Level 1 – the price quoted on active market
2. Level 2 – a technique which uses market information as input (rates and interest curves of arms-length transactions)
3. Level 3 – other methods (e.g. discounted cash flow method) with estimations as input

Interest rate swaps are instruments, where the fair value is determined via the model-based approach by using the inputs available on the active market. The fair value of such non-market derivatives is calculated as a theoretical net present value (NPV), by using independent market parameters and without assuming the presence of any risks or uncertainties. The NPV is discounted by using the risk-free profitability rate available on the market.

As at 31.03.2018 the fair value of corporate loans and overdraft is EUR 1 817 thousand (0.36%) lower than their carrying amount (31.12.2017: 1 009 thousand, 0.1% higher). Loans are issued in the bank's business segments on market conditions. Therefore, the fair value of loans does not materially differ from their carrying amount as at 31 March 2018 and 31 December 2017. In determining the fair value of loans, considerable management judgements are used (discounted cash flow method with current market interest is used for the valuation). Loans issued are thus categorised under hierarchy level 3.

Lease interest rates offered to customers generally correspond to interest rates prevailing in the market for such products. Considering that the interest rate environment has been relatively stable since the Group started to provide leasing, consequently the fair value of lease agreements does not materially differ from their carrying amount. As significant management judgment is required to determine fair value, leases are classified as level 3 in the fair value hierarchy. Leveraged loans, hire-purchase and credit cards granted to customers are of sufficiently short-term nature and they have been issued at market terms, therefore the fair market rate of interest and also the fair value of loans do not change significantly during the loan term. The effective interest rate of consumer loans issued is at the same level as the interest rate of the loan product offered in the market and it can be stated that the carrying amount of loans does not significantly differ from their fair value. The fair value level of leveraged loans, hirepurchase, credit cards and consumer loans is 3 as significant judgmental assumptions are used for the valuation process.

Other receivables from customers, along with accrued expenses and other current receivables have been generated in the course of ordinary business and are subject to payment over a short period of time. Their fair value does not thus differ from the carrying amount. These receivables and payables do not bear any interest. The fair value of accounts payable, accrued expenses and other payables is determined based on hierarchy level 3.

Customer deposits with fixed interest rates are mostly short-term with the deposits priced pursuant to market conditions. The fair value of the deposits determined via discounting future cash flows does not thus materially differ from the carrying amount. In determining the fair value of customer deposits, considerable management judgements are used. Customer deposits are thus categorised under hierarchy level 3.

From all the subordinated loans received, EUR 15 000 thousand were received in October 2015 and the rest in 2014. Subordinated loans were issued on market terms and considering the movements in loan and interest market, we can say that the market conditions are similar as they were when issuing the subordinated loans so that the fair value of the loans does not materially differ from their net book value. In determining the fair value of loans, considerable management judgements are used. Loans issued are thus categorised under hierarchy level 3.

## NOTE 8 Breakdown of Loan Portfolio by Economic Sectors

| | 31.03.2018 | % | 31.12.2017 | % |
|---|---|---|---|---|
| Individuals | 208 015 | 26.8% | 191 744 | 25.9% |
| Real estate activities | 204 468 | 26.4% | 197 697 | 26.7% |
| Manufacturing | 70 375 | 9.1% | 68 252 | 9.2% |
| Arts and entertainment | 32 081 | 4.1% | 29 292 | 4.0% |
| Financial activities | 83 727 | 10.8% | 78 113 | 10.6% |
| Wholesale and retail trade | 19 888 | 2.6% | 21 112 | 2.9% |
| Administrative and support service activities | 25 397 | 3.3% | 33 947 | 4.6% |
| Transportation and storage | 5 921 | 0.8% | 5 876 | 0.8% |
| Agriculture | 9 642 | 1.2% | 8 717 | 1.2% |
| Other service activities | 14 401 | 1.9% | 15 485 | 2.1% |
| Construction | 19 613 | 2.5% | 19 421 | 2.6% |
| Information and communication | 8 027 | 1.0% | 8 439 | 1.1% |
| Professional, scientific and technical activities | 15 126 | 2.0% | 13 958 | 1.9% |
| Education | 2 230 | 0.3% | 2 218 | 0.3% |
| Other sectors | 55 849 | 7.2% | 45 897 | 6.2% |
| **Total** | **774 760** | **100%** | **740 168** | **100%** |
| Provision | -9 111 | | -8 125 | |
| **Total loan portfolio** | **765 649** | **100%** | **732 043** | **100%** |

## NOTE 9 Net Interest Income

| **Interest income** | **Q1 2018** | **3M 2018** | **Q1 2017** | **3M 2017** |
|---|---|---|---|---|
| Balances with credit institutions and investment companies | 15 | 15 | 4 | 4 |
| Bonds | 36 | 36 | 62 | 62 |
| Leasing | 565 | 565 | 464 | 464 |
| Leverage loans and lending of securities | 132 | 132 | 86 | 86 |
| Consumer loans | 1 833 | 1 833 | 1 439 | 1 439 |
| Hire purchase | 1 653 | 1 653 | 1 831 | 1 831 |
| Business loans | 5 577 | 5 577 | 4 742 | 4 742 |
| Creditcard loans | 186 | 186 | 163 | 163 |
| Other loans | 2 084 | 2 084 | 460 | 460 |
| **Total** | **12 081** | **12 081** | **9 251** | **9 251** |
| **Interest expense** | | | | |
| Deposits of customers and loans received | -384 | -384 | -280 | -280 |
| Balances with the central bank | -970 | -970 | -274 | -274 |
| Subordinated liabilities | -533 | -533 | -533 | -533 |
| including loans between related parties | -88 | -88 | -84 | -84 |
| **Total** | **-1 887** | **-1 887** | **-1 087** | **-1 087** |
| **Net interest income** | **10 194** | **10 194** | **8 164** | **8 164** |

| **Interest income on loans by customer location (interest on bank balances and bonds excluded):** | **Q1 2018** | **3M 2018** | **Q1 2017** | **3M 2017** |
|---|---|---|---|---|
| Estonia | 10 835 | 10 835 | 7 737 | 7 737 |
| Lithuania | 1 195 | 1 195 | 1 448 | 1 448 |
| **Total** | **12 030** | **12 030** | **9 185** | **9 185** |

## NOTE 10 Net Fee and Commission Income

| Fee and commission income | Q1 2018 | 3M 2018 | Q1 2017 | 3M 2017 |
|---|---|---|---|---|
| Security brokerage and commissions paid | 639 | 639 | 1 030 | 1 030 |
| Asset management and similar fees | 3 847 | 3 847 | 3 691 | 3 691 |
| Currency conversion revenues | 308 | 308 | 337 | 337 |
| Fees from cards and payments | 1 254 | 1 254 | 1 156 | 1 156 |
| Other fee and commission income | 1 741 | 1 741 | 436 | 436 |
| **Total** | **7 789** | **7 789** | **6 650** | **6 650** |
| **Fee and commission expense** | | | | |
| Security brokerage and commissions paid | -139 | -139 | -250 | -250 |
| Expenses related to cards | -562 | -562 | -444 | -444 |
| Expenses related to acquiring | -536 | -536 | -386 | -386 |
| Other fee and commission expense | -320 | -320 | -286 | -286 |
| **Total** | **-1 557** | **-1 557** | **-1 366** | **-1 366** |
| **Net fee and commission income** | **6 232** | **6 232** | **5 284** | **5 284** |

| Fee and commission income by customer location: | Q1 2018 | 3M 2018 | Q1 2017 | 3M 2017 |
|---|---|---|---|---|
| Estonia | 7 097 | 7 097 | 6 342 | 6 342 |
| Latvia | 6 | 6 | 6 | 6 |
| Lithuania | 641 | 641 | 250 | 250 |
| Luxembourg | 45 | 45 | 52 | 52 |
| **Total** | **7 789** | **7 789** | **6 650** | **6 650** |

## NOTE 11 Operating Expenses

| | Q1 2018 | 3M 2018 | Q1 2017 | 3M 2017 |
|---|---|---|---|---|
| Wages, salaries and bonuses | 3 208 | 3 208 | 2 733 | 2 733 |
| Social security and other taxes* | 933 | 933 | 858 | 858 |
| **Total personnel expenses** | **4 141** | **4 141** | **3 591** | **3 591** |
| IT expenses | 561 | 561 | 423 | 423 |
| Information services and bank services | 185 | 185 | 187 | 187 |
| Marketing expenses | 904 | 904 | 1 123 | 1 123 |
| Office expenses | 177 | 177 | 156 | 156 |
| Transportation and communication expenses | 78 | 78 | 92 | 92 |
| Staff training and business trip expenses | 232 | 232 | 94 | 94 |
| Other outsourced services | 872 | 872 | 813 | 813 |
| Other administrative expenses | 632 | 632 | 534 | 534 |
| Depreciation of non-current assets | 719 | 719 | 359 | 359 |
| Operational lease payments | 316 | 316 | 281 | 281 |
| Other operating expenses | 62 | 62 | 43 | 43 |
| **Total other operating expenses** | **4 738** | **4 738** | **4 105** | **4 105** |
| **Total operating expenses** | **8 879** | **8 879** | **7 696** | **7 696** |

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

## NOTE 12 Balances with the Central Bank, Credit Institutions and Investment Companies

| | 31.03.2018 | 31.12.2017 |
|---|---|---|
| Term deposits with maturity less than 3 months* | 30 881 | 40 498 |
| Legal reserve with the central bank | 17 209 | 15 375 |
| Other receivables from central bank* | 1 023 732 | 905 339 |
| **Total** | **1 071 822** | **961 212** |
| *Cash and cash equivalents in the Statement of Cash Flows | 1 054 613 | 945 837 |

The breakdown of receivables by countries has been presented in Note 4. Demand deposits include receivables from investment companies in the total amount of EUR 8 352 thousand (31 December 2017: EUR 14 186 thousand). All other demand and term deposits are held with credit institutions and the central bank.

The minimum reserve requirement as at 31 March 2018 was 1% (31 December 2017: 1%) of all financial resources (customer deposits and loans received). The reserve requirement is to be fulfilled as a monthly average in euros or in the foreign financial assets approved by the central bank.

## NOTE 13 Deposits of Customers and Loans Received

| **Deposits/loans by type** | **Individuals** | **Legal entities** | **Public sector** | **31.03.2018** |
|---|---|---|---|---|
| Demand deposits | 301 864 | 1 291 274 | 5 376 | 1 598 514 |
| Term deposits | 50 202 | 70 867 | 5 534 | 126 603 |
| Loans received | 0 | 6 000 | 0 | 6 000 |
| Accrued interest liability | 153 | 93 | 9 | 255 |
| **Total** | **352 219** | **1 368 234** | **10 919** | **1 731 372** |

| **Deposits/loans by type** | **Individuals** | **Legal entities** | **Public sector** | **31.12.2017** |
|---|---|---|---|---|
| Demand deposits | 278 430 | 1 124 946 | 6 203 | 1 409 579 |
| Term deposits | 51 075 | 70 221 | 5 816 | 127 112 |
| Loans received | 0 | 6 000 | 0 | 6 000 |
| Accrued interest liability | 144 | 87 | 7 | 238 |
| **Total** | **329 649** | **1 201 254** | **12 026** | **1 542 929** |

LHV Pank signed an unsecured 10-year loan agreement with the European Investment Fund (EIF) in the amount of EUR 12.5 million to increase the borrowing possibilities of small and medium-sized enterprises. As at 31.03.2018, the Bank had utilized 6,000 thousand euros of the loan amount.

The nominal interest rate of the deposits of customers and loans granted equals to their effective interest rate, as no other significant fees have been implemented.

## NOTE 14 Accounts payable and other liabilities

| **Financial liabilities** | **31.03.2018** | **31.12.2017** |
|---|---|---|
| Trade payables and payables to merchants | 7 022 | 8 946 |
| Other short-term financial liabilities | 1 368 | 1 878 |
| Accrued interest on subordinated loans | 214 | 210 |
| Payments in transit | 10 583 | 55 661 |
| Financial guarantee contracts issued | 128 | 137 |
| **Subtotal** | **19 315** | **66 832** |

| **Non-financial liabilities** | | |
|---|---|---|
| Performance guarantee contracts issued | 167 | 159 |
| Tax liabilities | 3 099 | 700 |
| Payables to employees | 1 474 | 1 238 |
| Other short-term liabilities | 2 738 | 2 141 |
| **Subtotal** | **7 478** | **4 238** |
| **Total** | **26 793** | **71 070** |

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

## NOTE 15 Contingent Liabilities

| **Irrevocable transactions** | **Performance guarantees** | **Financial guarantees** | **Letter of credit** | **Unused loan commitments** | **Total** |
|---|---|---|---|---|---|
| Liability in the contractual amount as at 31 March 2018 | 11 422 | 5 151 | 0 | 205 234 | **221 807** |
| Liability in the contractual amount as at 31 December 2017 | 10 129 | 5 999 | 51 | 179 572 | **195 751** |

## NOTE 16 Basic Earnings and Diluted Earnings Per Share

In order to calculate basic earnings per share, net profit has been divided by the weighted average number of shares issued.

| | **Q1 2018** | **3M 2018** | **Q1 2017** | **3M 2017** |
|---|---|---|---|---|
| Total profit attributable to owners of the parent (EUR thousand) | 3 949 | 3 949 | 4 469 | 4 469 |
| Weighted average number of shares (in thousands of units) | 25 767 | 25 767 | 25 356 | 25 356 |
| Basic earnings per share (EUR) | 0.15 | 0.15 | 0.18 | 0.18 |
| Weighted average number of shares used for calculating the diluted earnings per shares (in thousands of units) | 26 201 | 26 201 | 25 836 | 25 836 |
| Diluted earnings per share (EUR) | 0.15 | 0.15 | 0.17 | 0.17 |

## NOTE 17 Capital Management

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

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

The amount of capital that the Group managed as of 31.03.2018 was 131 231 thousand euros (31.12.2017: 141 609 thousand euros). The goals of the Group's capital management are set based on both the regulative requirements and additional internal buffer.

The Group follows the general principles in its capital management:

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

| **Capital base** | **31.03.2018** | **31.12.2017** |
|---|---|---|
| Paid-in share capital | 25 767 | 25 767 |
| Share premium | 46 304 | 46 304 |
| Reserves | 3 451 | 2 471 |
| Other reserves | -70 | 36 |
| Accumulated loss | 44 880 | 24 468 |
| Intangible assets (subtracted) | -19 015 | -7 940 |
| Profit for the reporting period | 0 | 19 603 |
| Other adjustments | -986 | 0 |
| **Total Tier 1 capital** | **100 331** | **110 709** |
| Subordinated liabilities | 30 900 | 30 900 |
| **Total Tier 2 capital** | **30 900** | **30 900** |
| **Total net own funds** | **131 231** | **141 609** |

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

## NOTE 18 Transactions with related parties

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

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

| Transactions | 3M 2018 | 3M 2017 |
|---|---|---|
| **Interest income** | **14** | **16** |
| incl. management | 8 | 7 |
| incl. shareholders and their related entities that have significant influence | 6 | 9 |
| **Fee and commission income** | **2** | **1** |
| Incl. management | 0 | 0 |
| incl. shareholders and their related entities that have significant influence | 2 | 1 |
| **Interest expenses from deposits** | **8** | **10** |
| incl. management | 0 | 0 |
| incl. shareholders and their related entities that have significant influence | 8 | 10 |
| **Interest expenses from subordinated loans** | **88** | **84** |
| incl. management | 2 | 2 |
| incl. shareholders and their related entities that have significant influence | 86 | 82 |

| Balances | 31.03.2018 | 31.12.2017 |
|---|---|---|
| **Loans and receivables as at the year-end** | **2 966** | **2 820** |
| incl. management | 1 667 | 1 736 |
| incl. shareholders and their related entities that have significant influence | 1 299 | 1 084 |
| **Deposits as at the year-end** | **13 547** | **22 995** |
| incl. management | 259 | 283 |
| incl. shareholders and their related entities that have significant influence | 13 288 | 22 712 |
| **Subordinated loans as at the year-end** | **4 999** | **4 999** |
| *incl. management* | 104 | 104 |
| *incl. shareholders and their related entities that have significant influence* | 4 895 | 4 895 |

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

Loans granted to related parties are issued at market conditions.

In Q1, salaries and other compensations paid to the management of the parent AS LHV Group and its subsidiaries totalled EUR 410 thousand (Q1 2017: EUR 316 thousand), including all taxes. As at 31.03.2018, remuneration for March and accrued holiday pay in the amount of EUR 103 thousand (31.12.2017: EUR 84 thousand) is reported as a payable to management (Note 14). The Group did not have any long-term payables or commitments to the members of the Management Board and the Supervisory Board as at 31.03.2018 and 31.12.2017 (pension liabilities, termination benefits, etc.). In Q1 2018, the remuneration paid to the members of the Group's Supervisory Board totalled EUR 10 thousand (Q1 2017: EUR 9 thousand).

Management is related to the share-based compensation plan. In Q1 2018 the share-based compensation to management amounted to EUR 106 thousand (Q1 2017: EUR 84 thousand).

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

# NOTE 19 Changes in accounting policies

**FINANCIAL ASSETS AND LIABILITIES**

**Financial assets**

Financial assets are recognised on the statement of financial position when the Group becomes a party to the contractual provisions of the instrument and are measured at fair value on initial recognition. Transaction costs are included in the fair value on initial recognition except for financial assets at fair value through profit or loss where transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows have expired, the Group has transferred substantially all risks and rewards and upon substantial modification. Transfers of financial assets with retention of all or substantially all risks and rewards include for example repurchase transactions and securities lending transactions. Financial assets at fair value are recognised on the statement of financial position on trade date. Financial assets measured at amortised cost are recognised on trade date. The Group classifies and subsequently measures its financial assets in the following categories: financial instruments at fair value through profit or loss; fair value through other comprehensive income and amortised cost. The classification will depend on if the financial asset is a debt instrument, an equity instrument or a derivative.

Debt instruments (Loans and debt securities)

The classification is based on a combination of assessing the business model for managing the financial assets and whether the contractual cash flows consist of solely payments of principal and interest (‘SPPI’). The business model assessment is performed for homogenous portfolios/products identified based on how the business is managed in the divisions of the Group. The assessment is based on reasonable scenarios taking into consideration how the portfolio is evaluated and reported to management; the risks affecting the performance of the portfolio and how these risks are managed; how managers are compensated; and the frequency, value and timing of sales including the reasons for the sales. In determining if the cash flows consist solely of principal and interest, the principal is defined as the fair value of the debt instrument at initial recognition, which can change over the life if there are repayments or capitalisation of interest. Interest cash flows are consistent with components per a basic lending arrangement including consideration for time value of money, credit risk, liquidity risk as well as administrative costs and profit margin. If there are contractual features introducing an exposure to other risks or volatility, it is not considered to consist of solely payments of principal and interest. SPPI tests are performed as a part of new product approval tests. In implementation of IFRS 9 SPPI was applied to 22 larger products carried at amortised cost. All products exept one remained in accounting with same treatment. With remaining one – margin loan, the product conditions were changed so that one functionality was taken out of the product and then product passed SPPI. All the LHV products remained with same accounting treatment as before.

Debt instruments are presented in the statement of financial position line items: Due from central banks, credit institutions and investment companies; Loans and advances to customers; Available-for-sale financial assets; Financial assets at fair value through profit or loss; Receivables from customers and Other financial assets, and include instruments in the following measurement categories.

Fair value through profit or loss: Debt instruments are classified in this category if not meeting the criteria for amortised cost or fair value through other comprehensive income. This is the case if the business model is held for trading; where financial assets are considered held for trading if they are held with the intention to be sold in the short-term and for the purpose of generating profits. Debt instruments are mandatorily measured at fair value through profit or loss if the assets are managed and evaluated on a fair value basis or the assets are held with an intention to sell, or alternatively, if the cash flows do not consist of solely payments of principal and interest.

Fair value through other comprehensive income: Debt instruments are classified in this category if both of the following criteria are met (a) the business model objective is to both hold assets to collect contractual cash flows and to sell the assets (b) the contractual cash flows consist of solely payments of principal and interest. The assets are measured at fair value and gains and losses arising from changes in fair value are reported in other comprehensive income and accumulated in equity. The cumulative gain or loss is reclassified from equity to profit or loss upon derecognition of the debt instrument. Interest is calculated by applying the effective interest method on interest-bearing financial assets and expected credit losses are recognised in profit or loss.

Amortised cost: Debt instruments are classified in this category if both of the following criteria are met (a) the business model objective is to hold assets to collect contractual cash flows and (b) the contractual cash flow characteristics consist of solely payments of principal and interest. The gross carrying amount of these assets is measured using the effective interest method and adjusted for expected credit losses.

Equity instruments

Equity instruments are per default classified as financial assets at fair value through profit or loss. An irrevocable election can be made on initial recognition to classify equity instruments (not held for trading) at fair value through other comprehensive income.

Derivatives

Derivatives are classified as fair value through profit or loss (held for trading).

**Modification**

The Group may renegotiate loans and modify contractual terms. If the new terms are substantially different from the original terms, the Group derecognises the original financial asset and recognises a new asset. The Group also assesses whether the new financial asset is credit-impaired at initial recognition. If the terms are not substantially different, the modification does not result in derecognition and the Group recalculates the gross carrying amount based on the new cash flows using the original effective interest rate of the financial asset and recognises a modification gain or loss.

**Reclassification**

In rare circumstances debt instruments (financial assets) excluding those designated at fair value through profit or loss on initial recognition, can be reclassified if there has been a change in the business model for managing the financial asset.

**Financial liabilities**

Financial liabilities are measured at fair value on initial recognition. In case the financial liabilities are measured at fair value through profit or loss, transaction costs directly attributable to the acquisition or the issuance of the financial liability are recognised in profit or loss. For other financial liabilities direct transaction cost are recognised as a deduction from the fair value.

Financial liabilities are derecognised when extinguished, that is, when the obligation is discharged, cancelled or expired.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are either classified as held for trading or designated as fair value through profit or loss on initial recognition (fair value option).

Financial liabilities held for trading are primarily derivatives not designated as hedging instruments.

Other financial liabilities

The category other financial liabilities primarily include the Group's short-term and long-term borrowings. After initial recognition other financial liabilities are measured at amortised cost, using the effective interest method. The statement of financial position line items Deposits from customers and loans received, Accounts payable and other liabilities and Subordinated debt are included in this category.

**Offsetting financial assets and liabilities**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legal right to offset transactions and an intention to settle net or realise the asset and settle the liability simultaneously.

**Embedded derivatives**

Some combined contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. If the host contract is a financial asset in scope of IFRS 9 the contract is assessed for classification in its entirety and the embedded derivative is not separated.

**Repurchase agreements**

When the Group borrows or purchases securities subject to a commitment to resell them (a 'reverse repo'), the securities are not included in the statement of financial position. Payments made are recognised as Loans and advances to customers. Reverse repurchase agreements are measured at amortised cost.

**REVENUES AND EXPENSES**

**Interest income and interest expense**

The effective interest method is applied to recognise interest income and interest expenses in profit or loss for financial assets and financial liabilities measured at amortised cost.

The effective interest method is a method of calculating the gross carrying amount of a financial asset or the amortised cost of a financial liability and of allocating interest income and interest expenses. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial instrument. When calculating future payments, all payments included in the terms and conditions of the contracts, such as advance payments, are taken into consideration. The calculation of the effective interest rate includes fees that are an integral part of the effective interest rate. However, expected credit losses are not taken into account.

If a financial asset subsequently has become credit impaired the interest income is recognised applying the effective interest rate to the amortised cost, i.e. gross carrying amount adjusted for the loss allowance. In case a financial asset is credit-impaired at initial recognition, the expected credit losses are included in the estimated cash flows to calculate a credit adjusted effective interest rate which then is applied to recognise the interest income.

**Fee and commission income**

The recognition of revenue from contracts with customers is reported as fee and commission income. This does not apply for revenue from leasing contracts or financial instruments and other contractual obligations within the scope of IFRS 9 Financial Instruments.

Fees that are included in the calculation of the effective interest rate of a financial instrument measured at amortised cost, such as loan origination fees, are allocated over the expected tenor of the instrument applying the effective interest method and presented in Net interest income.

Fee and commission income is recognised to depict the transfer of promised services to the customers in an amount that reflects the consideration to which LHV expects to be entitled in exchange for the service. The major types of fees are described below.

Fee and commission income for asset custody and asset management to customers is recognised as revenue over the period in which the services are provided. Performance based fees are recognised when it is highly probable that a significant reversal of recognised revenue will not occur, which is most often when the performance criteria are fulfilled.

Brokerage fees, commission and fees from negotiating a transaction for a third party, such as arrangement of acquisitions or purchase or sale of a business, are recognised on completion of the transaction.

Expenses that are directly related to the generation of fee and commission income are recognised as fee and commission expense.

**Net financial income**

Gains and losses arising from changes in fair value of financial assets and liabilities measured at fair value through profit or loss are reported under the item Net financial income. For financial liabilities designated at fair value through profit or loss the change in fair value relating to change in own credit risk is accounted for in other comprehensive income.

**Dividend income**

Dividends are recognised when the entity's legal right to receive payment is established.

**EXPECTED CREDIT LOSS**

**Measurement**

The impairment requirements are based on an expected credit loss (ECL) model. The guiding principle of the ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments.

All financial assets measured at amortised cost and fair value through other comprehensive income, as well as lease receivables, financial guarantees contracts, contract assets and certain loan commitments are in scope for expected credit loss.

ECLs on financial assets measured at amortised cost and lease receivables are presented as allowances, i.e., as an integral part of the measurement of those assets in the statement of financial position. The allowance reduces the gross carrying amount. ECLs on loan commitments and financial guarantee contracts are presented as provisions, i.e., as a liability, in the statement of financial position. Adjustment to the loss allowance and provision due to changes in ECLs is recognised in the statement of profit or loss as net expected credit losses.

The assessment of credit risk, and the estimation of ECL, shall be unbiased and probability-weighted, and shall incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. LHV uses both models and expert based individual assesments for calculating ECLs.

The ECL model has a three-stage approach based on changes in the credit risk. A 12-month ECL (Stage 1) applies to all items, unless there is a significant increase in credit risk since initial recognition. For items where there is a significant increase in credit risk (Stage 2) or in default (Stage 3), lifetime ECL applies.

**Significant increase in credit risk**

At the end of each reporting period the Group performs an assessment of whether credit risk has increased significantly since initial recognition. The assessment of whether there has been a significant change in credit risk is based on quantitative and qualitative indicators. Indicators include payments that are past due >30 days and <90 days and financial assets that have been classified as watch-list or with forbearance measures (loans whose contractual terms have been revised due to the customer's financial difficulties). A quantitative indicator is calculated based on the change in lifetime probability of default (PD) by comparing the scenario-weighted lifetime PD at the reporting date with the scenario-weighted lifetime PD at initial recognition. In case there has been a significant increase in credit risk since initial recognition, an allowance for lifetime ECL shall be recognised and the financial instrument is transferred to Stage 2. The approach is symmetrical, meaning that in subsequent reporting periods, if the credit quality of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the financial assets moves back to Stage 1.

**Definition of default**

Financial instruments in default are in Stage 3. LHV applies a definition of default for accounting purposes that is consistent with how it is defined in the capital requirements regulation, which includes financial assets past due more than 90 days. All financial assets in Stage 3 are considered credit-impaired.

**Modelling**

The ECL is calculated as a function of the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD), as well as the timing of the loss. The Group's IFRS 9 methodology for ECL measurement is based on existing internal scoring and rating models.

PD represents the likelihood that a loan will not be repaid and will go into default in either a 12-month or lifetime horizon. The expected PD for each individual instrument incorporates a consideration of past events, current market conditions and reasonable and supportable information about future economic conditions. LHV uses existing scoring and rating models that are adjusted according to specific IFRS 9 requirements. The models are calibrated based on a combination of assets class and product type.

EAD represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet amounts, EAD includes an estimate of any further amounts to be drawn at the time of default. LGD is the amount that may not be recovered in the event of default. LGD takes into consideration the amount and quality of any collateral held. LHV uses existing LGD models adjusted to meet IFRS 9 requirements. When measuring ECL, LHV uses the maximum contractual period during which LHV is exposed to risk.

**Forward-looking information**

The Group uses internally developed macroeconomic forecasts as the basis for the forward-looking information incorporated in the ECL measurement. In order to ensure an unbiased estimation of credit losses under IFRS 9, at least three scenarios shall be used. One of the scenarios shall be the base case scenario, representing the most likely outcome, which is also applied in the regular financial planning and budgeting process, while other case scenarios shall represent more optimistic or pessimistic outcomes.

Forecasts are developed internally in the Credit Management Department that consults with the experts from Risk Control Unit, business and finance. As available without undue cost, external experts and externally developed 'benchmark forecasts' should be consulted. The referred benchmark forecasts include but are not limited to World Economic Outlook by the IMF, European Economic Forecasts by the European Commission and Economic Forecasts by Bank of Estonia. The scenarios shall be approved by the Risk and Capital Committee.

Scenarios should be developed for a time horizon over which reliable projections can be made, typically for a time horizon of 3 years. At minimum, selected macro indicators have to be forecasted for a period of two years following the current year. In general, scenarios shall be reviewed on a quarterly basis. In case of significant changes in the macroeconomic environment and outlook, the scenarios shall be updated.

**Individual assesments and Management´s judgement**

The Group uses both models and expert based judgement in order to determine ECLs. The degree of judgement that is required to estimate ECL depends on the model outcome, materiality and the availability of detailed information. The model provides guidance and transparency as to how economic events could affect the impairment of financial assets. Expert based judgement may be applied to the modelled outcome to incorporate an estimated impact of factors not captured by the model. Such individual ECL assesments may be applied to significant exposures at a counterparty level. These assesments are decided by the Credit Committee. In addition there may be a need for adjustments at a portfolio level, which is decided by the Risk and Capital Committee.

**New and amended critical judgements for IFRS 9 and IFRS 15 from 2018**

**EXPECTED CREDIT LOSS MODEL**

When calculating expected credit loss (ECL) there are a number of key concepts that require a high level of judgement. Estimating expected credit loss is, by its very nature, uncertain and the accuracy of these estimates depends on many factors, e.g. macroeconomic forecasts and involves complex modelling and judgements. The assessment of significant increase in credit risk is a new concept under IFRS 9 Financial Instruments and will require significant judgement. At the end of each reporting period the Group shall perform an assessment of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument, using key risk indicators that are used in the Group's existing risk management processes. Another area requiring significant judgement is the incorporation of forward-looking information and macroeconomic scenarios. IFRS 9 requires an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. LHV uses internally developed macroeconomic forecasts as the basis for the forward-looking information in the ECL measurement. LHV uses both models and expert based judgement in order to determine ECLs. The objective of applying expert based judgement is to incorporate the estimated impact of factors not captured in the modelled ECL. The degree of judgement that is required to estimate expected credit losses depends on the outcome from calculations, materiality and the availability of detailed information. The models, assessment and assumptions are regularly reviewed by the risk organisation of the Group and approved by the Group Risk Committee.

**FEE AND COMMISSION INCOME**

In recognising fee and commission income LHV makes judgements to determine the amount and timing of revenue from contracts with customers.

When LHV performs e.g. custody, asset management or administration of clients investment policies the fees are based on the time period the service is provided and/or on the amounts of underlying assets. LHV's judgement is that the customer simultaneously receives and consumes the service and LHV's obligations are therefore satisfied over the time the service is provided.

When LHV performs e.g. brokerage, negotiations of transactions for third parties such as arrangement of acquisitions or purchase or sale of businesses or acts as an arranger in loan syndications LHV's judgement is that the customer obtains control of the asset and LHV's obligations are satisfied at the time of the completion of the transaction.

When fees are based on LHV's performance LHV recognise revenue based on judgements when it is highly probable that a significant reversal of recognised revenue will not occur, which is most often when the performance criteria are fulfilled.

**ASSETS RECOGNISED FROM THE COSTS TO OBTAIN OR FULFIL A CONTRACT, DEFERRED ACQUISITION COSTS**

LHV recognise as an asset, costs to obtain contracts that would not have incurred if the contract had not been obtained, mainly sales commissions to obtain investment contracts.

The amortisation period for the asset is based on assumptions about average lifetime of the contracts including assumptions about surrenders and lapses.

# NOTE 20 Events after the reporting period

The Supervisory Board of AS LHV Group has approved the offer made by AS Inbank to acquire 100% of UAB „Mokilizingas“ shares from its current shareholders for the amount of EUR 15 million.

AS LHV Group currently owns 50%+1 share of UAB „Mokilizingas“, however the offer has been also approved by UAB „Inovatyvūs prekybos sprendimai“, that holds the rest of UAB „Mokilizingas“ shares.

The value of the shares held by LHV amount to EUR 7.5 million.

The share purchase agreement was signed today (20 April 2018) and the transaction will be finalized before 31 May 2018. During a period of 12 months, AS LHV Pank will continue providing credit to UAB “Mokilizingas” and also will ensure the functioning of UAB “Mokilizingas” credit cards until the end of 2019 based on the current conditions. Otherwise, the contractual obligations correspond to the usual conditions regarding similar transactions.

The sales transaction will earn AS LHV Group an extraordinary profit of EUR 3 million.

# Shareholders of AS LHV Group

AS LHV Group has a total of 25 767 342 ordinary shares, with a nominal value of 1 euro.

**As at 31 March 2018, AS LHV Group has 5 465 shareholders:**

- 13 370 165 shares (51.9%) were held by members of the Supervisory Board and Management Board, and related parties.
- 12 397 177 shares (48.1%) were held by Estonian entrepreneurs and investors, and related parties.

**Top ten shareholders as at 31 March 2018:**

| Number of | Participation | Name of shareholder |
|---:|---:|---|
| 3 357 920 | 13.0% | AS Lõhmus Holdings |
| 2 538 367 | 9.9% | Rain Lõhmus |
| 2 079 344 | 8.1% | Viisemann Investments AG |
| 1 595 620 | 6.2% | Ambient Sound Investments OÜ |
| 1 210 215 | 4.7% | OÜ Krenno |
| 999 456 | 3.9% | AS Genteel |
| 951 978 | 3.7% | AS Amalfi |
| 722 297 | 2.8% | OÜ Kristobal |
| 653 165 | 2.5% | SIA Krugmans |
| 589 177 | 2.3% | OÜ Bonaares |

**Shares held by members of the Management Board and Supervisory Board**

Madis Toomsalu holds 19 488 shares.
Rain Lõhmus holds 2 538 367 shares, AS Lõhmus Holdings 3 357 920 shares and OÜ Merona Systems 581 718 shares.
Andres Viisemann does not hold shares. Viisemann Holdings OÜ holds 465 055 shares and Viisemann Investment AG holds 2 079 344 shares.
Tauno Tats does not hold shares. Ambient Sound Investments OÜ holds 1 595 620 shares.
Tiina Mõis does not hold shares. AS Genteel holds 999 456 shares.
Heldur Meerits does not hold shares. AS Amalfi holds 951 978 shares.
Raivo Hein does not hold shares. OÜ Kakssada Kakskümmend Volti holds 490 190 shares and Lame Maakera OÜ holds 3 670 shares.
Sten Tamkivi holds 355 shares. OÜ Seikatsu holds 1 825 shares.

# Supervisory Boards and Management Boards of AS LHV Group and its Subsidiaries

**AS LHV Group**
Supervisory board: Raivo Hein, Rain Lõhmus, Heldur Meerits, Tiina Mõis, Tauno Tats, Andres Viisemann, Sten Tamkivi
Management board: Madis Toomsalu

**AS LHV Varahaldus**
Supervisory board: Erki Kilu, Madis Toomsalu, Andres Viisemann
Management board: Mihkel Oja, Joel Kukemelk

**AS LHV Pank**
Supervisory board: Raivo Hein, Rain Lõhmus, Heldur Meerits, Tiina Mõis, Madis Toomsalu, Andres Viisemann
Management board: Jüri Heero, Erki Kilu, Andres Kitter, Meelis Paakspuu, Indrek Nuume, Martti Singi

**AS LHV Finance**
Supervisory board: Erki Kilu, Rain Lõhmus, Veiko Poolgas, Jaan Koppel
Management board: Nele Roostalu (until 04.02.2018), Kadri Kiisel (from 05.02.2018)

**OÜ Cuber Tehnology**
Management board: Jüri Laur

**UAB Mokilizingas**
Supervisory board: AS LHV Group, AS LHV Pank, UAB „K2Z", UAB Inovatyvūs prekybos sprendimai
Management board: Benas Pavlauskas, Jonė Virbickienė, Saulius Kuliešius (until 23.012018), Raimondas Štreimikis
CEO: Benas Pavlauskas

# Signatures of the Management Board to the Condensed Consolidated Interim Report

The Management Board has prepared the summary of results for January to March 2018 period the condensed consolidated interim financial statements of AS LHV Group for the 3-month period ended 31 March 2018.

The management board confirms that according to their best knowledge the interim report presents a fair view of LHV Group AS's assets, liabilities, financial position and profit or loss of the issuer and the entities involved in the consolidation as a whole according to the International Financial Reporting Standards as they are adopted by the European Union and contains a description of the main risks and doubts.

**23.04.2018**

**Madis Toomsalu**