Interim Report January – June 2018
Summary of Results

Q2 2018 in comparison with Q1 2018

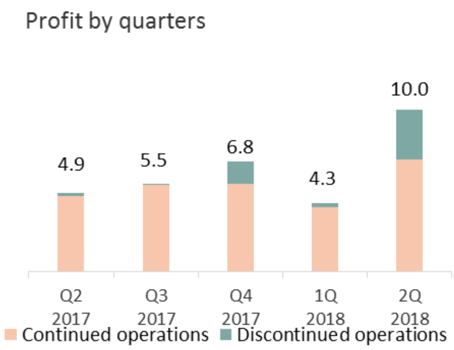
- Net profit EUR 10.0 m (EUR 4.3 m), of which EUR 9.5 m (EUR 3.9 m) is attributable to owners of the parent
- Earnings per share EUR 0.37 (EUR 0.15)
- Net income EUR 17.0 m (EUR 14.5 m)
- Operating expenses EUR 7.8 m (EUR 7.7 m)
- Loan provisions EUR 1.6 m (EUR 0.9 m)
- Income tax expenses EUR 0.6 m (EUR 1.9 m)
- Return on equity 27.7% (12.4%)
- Capital adequacy 18.1% (17.3%)

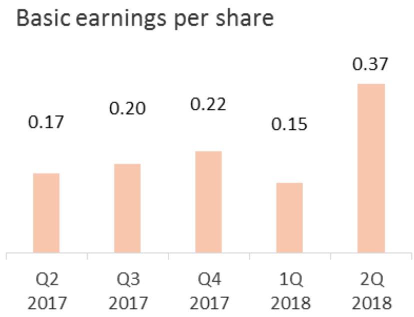
Q2 2018 in comparison with Q2 2017

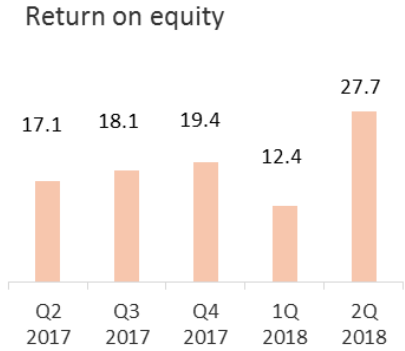
- Net profit EUR 10.0 m (EUR 4.8 m), of which EUR 9.5 m (EUR 4.4 m) is attributable to owners of the parent
- Earnings per share EUR 0.37 (EUR 0.17)
- Net income EUR 17.0 m (EUR 13.4 m)
- Operating expenses EUR 7.8 m (EUR 6.7 m)
- Loan provisions EUR 1.6 m (EUR 1.9 m)
- Income tax expenses EUR 0.6 m (EUR 0 m)
- Return on equity 27.7% (16.4%)
- Capital adequacy 18.1% (19.4%)

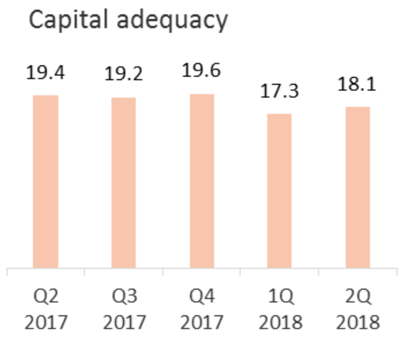
Earnings per share and return on equity ratios are based on the profit attributed to the shareholders and equity of AS LHV Group and do not include non-controlling interest.

*In accordance with IFRS, the proceeds and expenses of the discontinued operations have been separated from the corresponding income and expense items of the current and previous periods of the income statement and shown in a separate line on the income statement. The data with discontinued operations are presented in the LHV Factsheet









Managing Director's Statement

Dear investor in LHV,

The most important keywords of the second quarter were the record-breaking growth of the bank's client base, the sale of Mokilizingas, the significant revenue of institutional banking and the updated financial plan for 2018. At the beginning of July, Euromoney named LHV Pank the best bank in Estonia. We have focused on our customer service, but first and foremost the substance of our services and products as well as innovation and design, and we are pleased that it has gained wider recognition.

During the second quarter, the number of the bank's clients increased by almost 6 800, celebrating the highest pace of growth ever. We are satisfied that increasing the prevalence of Estonian capital in the local financial service market is important for more and more people. To be more specific, more than 3 700 investment agreements were concluded during the quarter and another significant milestone was the reaching of 1 million card transactions per month.

Our business is growing. The loan portfolio, which increased by EUR 11 million during the quarter, was also largely in line with the expectations, given the decrease in the Lithuanian loan portfolio due to the sale of Mokilizingas. While the deposits decreased by EUR 183 million, if the expected decline in the deposits of financial intermediaries is disregarded, deposits grew by EUR 83 million. The volume of funds increased by EUR 40 million.

Due to the growth of our client base, we added two new ATMs to Mustamäe Keskus and Laagri Selver. With the two new ATMs added, LHV now has 20 ATMs all over Estonia. In addition to Tallinn there are ATMs in Tartu, Pärnu, Rakvere and Viljandi. As for our new products, in May we were ready to start with factoring, which was received well by our clients, serving as a supplement to the corporate banking services offered by LHV.

In the direction of financial intermediaries in the United Kingdom, we are engaged in finding the right people. Until then, we can fulfil some of the functions from Estonia and the clients are very actively interested. Revenues related to the field are divided between fees related to payments, currency exchange, intermediation of card payments, credit services and management. In the case of a very high deposit balance, we make a special case of applying a negative interest rate to the deposits of financial intermediaries. A noteworthy fact is that given that there are less than 30 fintech unicorns – enterprises with a market value of more than 1 billion – LHV is already providing services to three of them. In conclusion it can be said that our efforts in growing the export of financial services are yielding their first good results.

During the quarter, the sales transaction of the Lithuanian consumer credit company Mokilizingas was finalised, where the value of LHV's shares in the transaction was EUR 7.5 million and the profit earnt from the transaction EUR 2,9 million. The sales transaction also decreased the loan portfolio by EUR 28 million, but we have compensated for it with the growth of other portfolios.

According to the financial plan updated following the transaction, the consolidated net profit of LHV Group this year is EUR 1.8 million higher than initially planned and the net profit belonging to the shareholders is EUR 2.7 million higher. Consequently, by the end of Q2 we surpassed the financial plan published in May by EUR 0.7 million. The credit portfolio remains strong, with just a few clients under special supervision.

As for other important events of the quarter, the loan agreement concluded between LHV Pank and the Nordic Investment Bank in the sum of 20 million euros may be highlighted, the aim of which is to increase the loan options of small and medium-sized enterprises.

We have also started preparations for the bonds programme at the group level in order to use bonds issued within its framework to finance growth and, if needed, the redemption of the bonds issued. The bonds will be listed on the NASDAQ Tallinn Stock Exchange.

In April, the 14-percent advance income tax was first applied to the bank's revenue, which will be directly accounted under expenses on a monthly basis. Also, LHV's shareholders' meeting was held in April, and the decision to pay dividends to shareholders in the sum of 16 cent per share has by now been executed.

LHV's strong base trends are also supported by the Estonian business environment. The economic growth has been solid and the internal policy risks are managed by the balance budget, the low public sector debt and positive foreign balance. The main risks that can be pointed out are significant dependence on the external environment and the high development volume of the domestic real estate sector. The offering of residential developments has increased significantly during the past few quarters, and as for commercial real estate, the threat of excessive supply has been present for a long time.

The credit market has remained strong. All the main credit products, incl. corporate loans and home loans, are growing. The financial health of households is on the strong side, the deposit to loan ratio is improving. The share of overdue loans on the market has fallen below 1%, being largely covered by discounts.

Financial results

The group's consolidated profit of Q2 of 2018 was EUR 10.0 million, growing by EUR 5.8 million when compared to Q1 of 2018, and by EUR 5.2 million when compared to Q2 of the previous year. The results were influenced by the sale of Mokilizingas and the revenue from institutional banking resulting from important events on the stock markets. A new factor influencing the profit was the advance income tax, with a total impact of EUR 0.6 million in the second quarter.

The return on equity belonging to LHV's shareholders was 27.7% in Q2 of 2018, surpassing Q1 of 2018 (12.4%) by more than 15 percentage points.

The Group's consolidated net loan portfolio grew by EUR 11 million during the quarter (EUR 34 million in Q1 of 2018) and the consolidated deposits decreased by EUR 183 million (compared to the growth of EUR 188 million in Q1 of 2018). At the same time, the deposits related to payment intermediaries decreased by EUR 262 million (growth of EUR 126 million in Q1 of 2018).

The Group's own funds increased by EUR 8.1 million when compared to the previous quarter and risk-weighted assets increased by EUR 13.4 million, raising the Tier 1 and total capital adequacy ratios to 14.1% and 18.1%. The increase in own funds is due to the involvement of the profits of Q4 of 2017 and Q1 of 2018 in the Group's own funds.

In Q2 the bank's profit on the consolidated level was EUR 5.2 million, which is EUR 1.6 million higher than the previous quarter (EUR 3.6 million in Q1 of 2018). During the quarter, the number of new clients increased by almost 6 800 (in Q1 of 2018, by 6,000) and the total number of bankclients was nearing 147 000.

In Q2 the bank's loan portfolio grew by EUR 23 million (in Q1 of 2018, EUR 34 million), nearing EUR 777 million. Among the loans, entrepreneurship loans grew the most. The cost of the discount of loans amounted to EUR 1.6 million in Q2, which is EUR 0.7 million more than in the previous quarter.

The deposits of the bank's clients decreased by EUR 179 million in Q2, being largely related to the decrease in the deposit balances of payment intermediaries. The total volume of deposits reached EUR 1 555 million by the end of Q2, whereas when disregarding the impacts related to payment intermediaries, demand deposits increased by EUR 95 million, while fixed-term deposits decreased by EUR 12 million.

In Q2, Varahaldus earnt a profit of EUR 2.1 million (in Q1 of 2018, EUR 0.7 million). The fee and commission income of Varahaldus increased by EUR 0.1 million when compared to the previous quarter, to EUR 3.4 million. The business costs of Varahaldus were EUR 0.1 million less than in the previous period. In April the share capital of LHV Varahaldus was decreased from EUR 2.7 million to EUR 1.5 million due to the more efficient management of capital at the level of the consolidation group.

The total volume of funds managed by LHV grew by EUR 40 million over the quarter (by EUR 24 million in Q1 of 2018). The number of active clients of the 2nd pillar decreased by 400 over the quarter (grew by 1,200 in Q1 of 2018). Fewer new clients were added, as new sales are seasonal and there were no active sales periods in Q2. However, client loyalty also improved, meaning that the number of clients that left was lower than expected.

In recent times we have been focusing on the growth of loan portfolios and launching products targeting young people. Regarding the business direction of financial intermediaries, we are continuing the growth of our client base and searching for the people we need.

And finally. As of the end of Q2, LHV has more than 5 500 shareholders, of whom 3 000 are keeping their LHV shares at LHV Pank. As a shareholder, one can contribute actively to the growth of the company's value by using LHV's services, which is why I would be happy to see the remaining 2 500 shareholders moving their shares to LHV Pank. Together we can go further.

Madis Toomsalu

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Financial Summary

Income statement EUR million	**Q2 2018**	**Q2 2017***	**Year over year**	**6M 2018**	**6M 2017***	**Year over year**
Net interest income	9.41	7.47	26%	18.41	14.45	27%
Net fee and commission income	7.22	5.02	44%	12.81	10.14	26%
Other financial income	0.34	0.93	-63%	0.25	1.33	-81%
Total net operating income	16.97	13.42	26%	31.47	25.91	21%
Other income	-0.01	-0.09	-100%	0.00	-0.12	-100%
Operating expenses	-7.77	-6.74	15%	-15.44	-13.44	15%
Loan losses	-1.60	-1.88	-15%	-2.48	-1.95	27%
Income tax expenses	-0.63	0.00	-	-2.57	-0.95	171%
Discontinued operations	3.08	0.17	1 712%	3.32	0.48	592%
Net profit	10.04	4.88	106%	14.30	9.93	44%
including attributable to owners of the parent	9.53	4.42	116%	13.48	8.89	52%

Business volumes EUR million	**Q2 2018**	**Q1 2018**	**Quarter over quarter**	**Q2 2017**	**Year over year**
Loan portfolio	776.5	765.6	1%	606.1	28%
Financial investments	54.1	57.1	-5%	60.7	-11%
Deposits of customers	1 542.8	1 725.4	-11%	1 008.2	53%
incl. deposits of financial intermediates	470.4	732.3	-36%	195.2	141%
Equity (including minority interest)	143.4	141.8	1%	115.0	25%
Equity (owners' share)	140.4	134.7	4%	108.6	29%
Volume of funds managed	1 166.6	1 126.7	4%	1 034.6	13%
Assets managed by bank	1 375.1	1 137.9	21%	1 075.3	28%

Ratios EUR million	**Q2 2018**	**Q2 2017***	**Year over year**	**6M 2018**	**6M 2017***	**Year over year**
Average equity (attributable to owners of the parent)	137.6	107.6	30.0	130.3	105.5	24.8
Return on equity (ROE), %	27.7	16.4	11.3	20.7	16.9	3.8
Return on assets (ROA), %	2.2	1.8	0.4	1.63	0.9	0.73
Interest-bearing assets, average	1 803.5	1 054.3	749.20	1 730.3	1 034.3	696.0
Net interest margin (NIM) %	2.09	2.83	-0.74	2.13	2.91	-0.78
Price spread (SPREAD) %	2.06	2.78	-0.72	1.86	2.85	-0.99
Cost/income ratio %	39.8	54.0	-14.2	46.3	54.8	-8.5
Profit attributable to owners before income tax	10.2	4.4	5.8	15.8	9.8	6.0

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

*From the reference data the revenue and expenses of discontinued operations are separated

Operating Environment

The world economy has been growing rapidly since 2011 and this year, the cyclic growth is expected to rise to 3.9%. Recovery is supported by noticeable revival of trading and increase in investments and industrial production that positively influence commodities markets and the labour market. Although previously there has been no pressure on the basic inflation, which has allowed to continue cultivating supportive monetary policy, the central banks of developed countries are slowly changing their direction under the leadership of the USA. The values of increased assets illustrate the current expansive monetary policy, in which the investors have accepted increasingly lower expected long-term rate of return. At the same time, slowly some signs are appearing, indicating the turn of liquidity offer of the central banks – the volatility of equity markets and the interest rate differential of bonds with different risk level have increased, the currencies of developing countries are under pressure. In the April overview issued by IMF, the focus is also on the increase of risks that negatively affect the world economy, including the escalation of protectionist economic policy and trade war and the worsening of related geopolitical tensions.

The economic growth of the Eurozone slowed down in the first quarter, decreasing to 2.5%, which was lower than the expectations. Consumer behaviour is still strong, but the strengthening of the Euro and extraordinary weather conditions had a negative impact. The bigger economic picture is still good and this is also reflected by most countries and sectors. The positive tone enables the European Central Bank to exit the current expansive monetary policy – at the June meeting, a resolution was made to decrease the existing bond purchasing programme in the future and then terminate it in the end of the year; the interest rates shall not be increased before the autumn next year. According to the first estimate, consumer prices increased in June by 2.0%. The inflationary pressure has increased but it is expected to stay under the long-term average level of 2.0%, set by the European Central Bank. According to the consensus expectations, the economic growth of the Eurozone shall drop to 2.2% in 2018. Consuming is supported positively by an increase in the labour force participation rate and the continuing decrease in the unemployment rate, which should sooner or later entail the long awaited quicker wage growth. The usage of production capacity has increased and the order volumes should stimulate the growth of investments. At the same time, a looser budget policy is expected from the governments. The strengthening of the Euro is somewhat troublesome, so far it has been balanced by the external demand that has been improved due to the faster growth of the world economy. Moreover, the uncertainty is increased by the USA's protectionist economic policy.

The economic confidence indexes of Estonia's most important European trading partners remain strong and are even close to the highest level of the 19 Eurozone countries within the last two decades.

Swedish economy grew by 3.3% in the first quarter, which was expected. Strong investment growth with domestic household consumption growth had a positive effect. The housing market continues to see the correction which was initiated in the beginning of last year – in the annual comparison, the prices are decreasing, but the monthly housing index (HOX), published by Valveguard, reached its lowest point in December 2017. The transaction activity is lower than the average of recent years, slowing down the price increase together with continuously strong supply. Reasonable price correction in the Swedish housing market is welcome and the market participants are currently not worried. The sentiment indicators are rather strong, but consumer confidence has decreased slightly. It is believed that real estate prices will stabilise this year, while the cooling down of the housing sector is also anticipated. In September, Sweden will hold its parliament elections and as even results are expected, it is likely that the budget policy becomes somewhat more expansive. According to the consensus expectations, the economic growth of Sweden shall decrease in 2018 marginally to 2.6%. For Estonia, the most important trend is the continued growth of Sweden's import volumes, the outlooks of which are good, and the investment-favouring attitude of the banks there.

In the first quarter, the economic growth of Finland was higher than expected, reaching 3.1%. The main factor was domestic demand, led by investments and private consumption. In the next quarters, the pace should slow down a bit. According to the consensus expectations, the economic growth of Finland in 2018 shall be similar to the previous year, 2.7%, and the economic picture is overall good. Strong external demand stimulates export and investment growth and the continuous improvement of the labour market situation has a positive effect on private consumption. Moreover, the GDP should exceed the pre-crisis level. From the Estonian point of view, similar to that of Sweden, the continued growth of Finnish import volumes is important, the outlooks of which are good.

In the first quarter of 2018, Estonia's economic growth dropped to 3.6%, which was expected. The economic growth continues to be broad-based, negative effect mainly came from last year's exceptionally high comparison basis for private sector investments and negative net export contribution due to strong domestic demand. Construction, transport, information and communications, and the manufacturing industry were the sectors with biggest contributions. The upsurge of minimum wages that came into force in the beginning of the year has not yet significantly stimulated private consumption. The less than expected modest impact is partially explained by increased excise duties, which has decreased foreign purchases in Estonia and increased the purchases of Estonians abroad. In addition, consumers are pressurised by inflation which increased abruptly last year. In June, consumer prices increased by 4.0%, mainly due to increased excise duties, but also due to increased energy prices and housing-related expenses. Overall, the situation is good and this is due to many concurrent favourable factors. The lenient monetary policy of Europe supports the economic growth of main trading partners and domestic investments. The government has increased budget expenditures. The confidence indexes that reflect different sectors are also strong, showing continuing positive sentiment and consumer confidence. In addition to the hot construction sector, the role of business services with higher additional value has increased in economy.

According to the estimates of the Bank of Estonia published in June, the economic growth of Estonia shall slow down this year, dropping to 3.5%, and increase in 2019 to 3.6%. The growth shall be supported by private consumption and investments, net export is also expected to be positive next year. From the mid-point of this year, the growth in private consumption should increase due to continuously strong wage growth and the upsurge of income tax free minimum wages as well as the marginal reduction of inflation rate. This year, investments shall be influenced by the more active usage of the EU Structural Fund instruments of the public sector. Despite strong external demand, the investment volumes of enterprises shall not increase as a whole in 2018 due to the impact of ship purchases on the comparison basis. However, the investments are expected to grow rapidly in the second half of the year and shall have a significant contribution to the economic growth next year, due to the high application of existing equipment. On the negative side, the Bank of Estonia estimates that the probability of sharp growth slowdown or recession due to unexpected events has increased. Foreign demand can be negatively affected by trading war and protectionist economic policy and tensions on financial markets, induced by the growth of populism. The greatest domestic risk for Estonia is the loss of competitiveness, which mainly affects sectors with low productivity. It is increasingly harder for the enterprises to find employees, the unemployment rate is low and the labour force participation rate high, while there are less unexploited equipment than usual.

Over the next twelve months, LHV is expecting the continuation of positive trends in the Estonian economy. The economic growth will slow down, but remain fast and exceed the long-term sustainable potential level. The shortage in available resources will continue to increase the significance of the ability of businesses to adapt and be successful in raising productivity, which is why it is necessary to vigorously continue making additional investments. First and foremost it is important to achieve long-term sustainable economic growth that is in balance between the various sectors.

in terms of economic sectors, the risks are above average and might overheat in the building sector, accommodation and catering sector, and transport and storage. LHV is still conservative in regards to the housing market, monitoring the local and Scandinavian market, with increased attention on developments in Sweden. Regarding rental cash flow projects, there is a danger that there will not be enough demand to absorb the volumes being developed in the near future, so that corrections will take place in rental prices or vacancy rates.

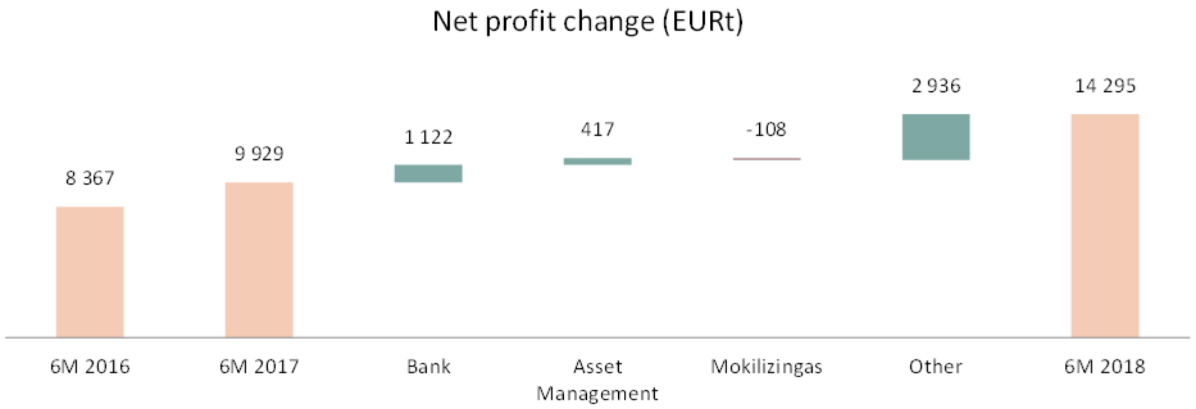
A positive trend worth highlighting is the favourable funding environment. The loan balance growth rate for credit institutions has slightly increased compared to the beginning of the year. The loan demand of households is headed by car leases and consumer loans, but the loan balances of housing loans have also increased steadily. Due to the modest investment activity, the corporate loan growth is lower than that of households and this is mainly influenced by the housing and building sector. The ratio of loans to deposits and the volume of loans not repaid in due time continue to remain at the post-crisis low levels. Historically low interest rates and strong competition between banks are positively affecting local enterprises and they should be taking advantage of them more. LHV also wishes to make a big and effective contribution to the finding and supporting of new growth sources, offering entrepreneurs long-term co-operation and value-creating involved thinking.

Financial Results of the Group

Compared to Q1 2018, the Group's net interest income increased in Q2 by 5%, standing at EUR 9.4 (Q1: 9.0) million. Net fee and commission income increased by 29% and stood at EUR 7.2 (Q1: 5.6) million. In total, the net income of the Group increased by 17% in Q2, compared to Q1, amounting to EUR 17.0 (Q1: 14.5) million, with expenses increasing by 1% and amounting to EUR 7.8 (Q1: 7.7) million. The Group's operating profit for Q2 amounted to EUR 10.7 (Q1: 6.3) million. The loss from loan impairments mounted to EUR 1.6 million in Q2 (Q1: 0.9). The Group's total profit for Q2 amounted to EUR 10.0 million (Q1: 4.2).

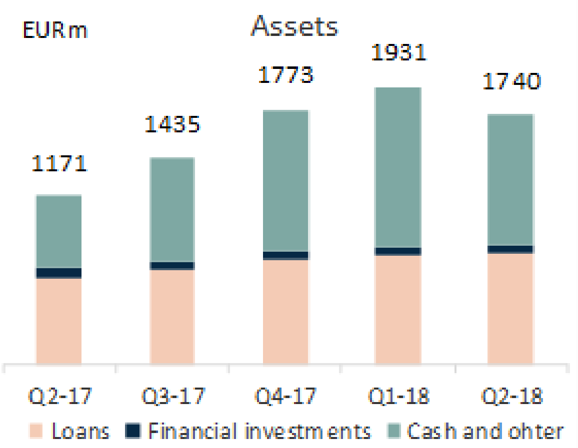
Compared to Q2 2017, the Group's net interest income increased by 26% and net fee and commission income by 6%.

In terms of business entities, AS LHV Pank posted in Q2 a consolidated profit of EUR 5.2 million and AS LHV Varahaldus a profit of EUR 2.1 million. The AS LHV Group on solo bases posted a profit of EUR 6.1 million due to sale of one subsidiaries. In May, the sales transaction of the Mokilizingas UAB was finalised. The value of LHV's shares in the transaction was EUR 7.5 million and the profit earnt from the transaction EUR 2.9 million.



The Group's volume of deposits as at the end of Q2 amounted to EUR 1 543 (Q1: 1 725) million, of which demand deposits formed EUR 1 428 (Q1: 1 598) million and term deposits EUR 115 (Q1: 127) million.

As at the end of Q2, the volume of loans granted by the Group amounted to EUR 777 (Q1: 766) million, increasing in Q2 by 1%. Compared to Q2 2017, the volume of the Group's deposits has increased by 53% and the volume of loans by 28%.



The Group's Liquidity, Capitalisation and Asset Quality

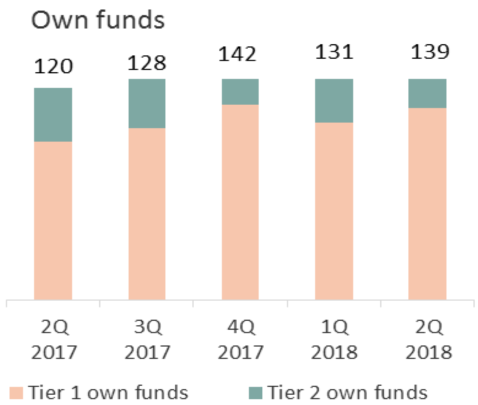
As at 30 June 2018, the Group's own funds stood at EUR 139.4 million (31 December 2017: EUR 141.6 million). LHV Group own funds are calculated based on regulative requirements.). In Q2 the level of own funds increased by including the Q4 and Q1 profit to own funds.

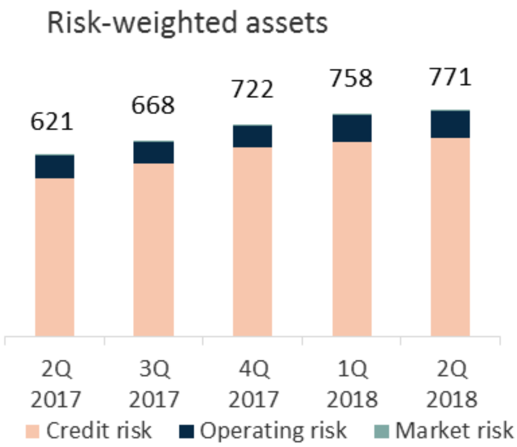
Compared to Group's internal capital adequacy ratio target 15.06%, the Group is well capitalised as at the end of the reporting period, with the capital adequacy ratio amounting to 18.1% (31 December 2017: 19.6%). In addition to total capital adequacy targets the Group has also set internal targets for 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 June 30 the MREL ratio was 8.4% (31st of December 2017 8.41%).

The Group's liquidity coverage ratio (LCR), as defined by the Basel Committee, stood at 126.8% as at the end of June (31 December 2017: 121.3%). Banks liquidity situation remained same in Q2, 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 218.2%. The Group recognises cash and bond portfolios as liquidity buffers. These accounted for 53% of the balance sheet (31 December 2017: 57%). The ratio of loans to deposits stood at 51% as at the end of the second 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 June, 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 58.4% (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



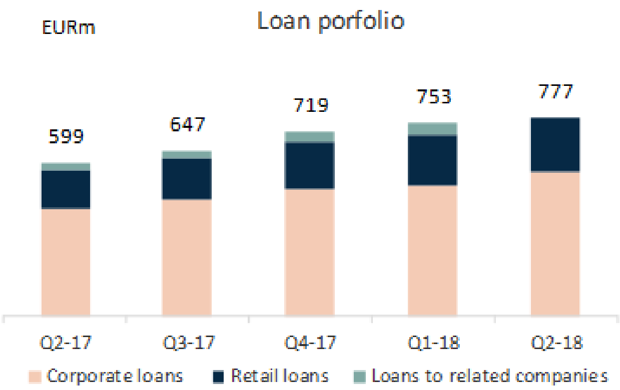


EUR thousand	30.06.2018	Proportion	31.12.2017	Proportion
Loans to customers	785 663		740 169	
including overdue loans:	26 072	3.3%	32 736	4.4%
1-30 days	6 031	0.8%	7 938	1.1%
31-60 days	3 539	0.5%	6 633	0.9%
61-90 days	907	0.1%	752	0.1%
91 and more days	15 596	2.0%	17 413	2.4%
Impairment of loans	-9 115	-1.2%	-8 125	-1.1%
Impairment % of loans overdue for more than 90 days	58.4%		46.7%	

Capital base	30.06.2018	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	-76	36	-40
Accumulated deficit	49 584	24 468	10 517
Intangible assets (subtracted)	-19 022	-7 940	-8 114
Net profit for the reporting period	2 458	19 603	17 816
Other adjustments	-4	0	0
Total Tier 1 capital	**108 462**	**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	**139 362**	**141 609**	**123 907**
Capital requirements			
Central governments and central bank under standard method	939	945	1 498
Credit institutions and investment companies under standard method	6 652	6 950	7 415
Companies under standard method	481 526	428 428	334 314
Retail claims under standard method	120 499	144 237	114 689
Public sector under standard method	295	185	216
Housing real estate under standard method	28 062	20 039	7 079
Overdue claims under standard methods	8 176	20 956	2 313
Investment funds' shares under standard method	17 436	6 281	10 886
Other assets under standard method	10 906	13 824	7 610
Total capital requirements for covering the credit risk and counterparty credit risk	**674 491**	**641 845**	**486 020**
Capital requirement against foreign currency risk under standard method	4 149	3 551	5 032
Capital requirement against interest position risk under standard method	235	412	1 709
Capital requirement against equity portfolio risks under standard method	557	585	601
Capital requirement against credit valuation adjustment risks under standard method	26	15	24
Capital requirement for operational risk under base method	91 575	75 999	61 812
Total capital requirements for adequacy calculation	**771 033**	**722 407**	**555 198**
Capital adequacy (%)	**18.07**	**19.60**	**22.32**
Tier 1 capital ratio (%)	**14.07**	**15.32**	**16.75**

Overview of AS LHV Pank Consolidation Group

- (Net) growth in loan volume EUR 24 million
- Clients activity at record level



EUR million	Q2 2018	Q1 2018	Change %	Q2 2017	Change %	From the beginning of 2018	From the beginning of 2017	Change %
Net interest income	9.60	9.19	4%	7.66	25%	18.79	14.83	27%
Net fee and commission income	3.80	2.25	69%	1.81	110%	6.05	3.63	67%
Other financial income	0.25	-0.06	-490%	0.88	-72%	0.18	1.14	-84%
Total net operating income	13.65	11.38	20%	10.35	32%	25.03	19.59	28%
Other income	0.03	0.03	15%	-0.05	-167%	0.06	-0.04	-261%
Operating expenses	-6.29	-6.10	3%	-5.06	24%	-12.38	-9.97	24%
Loan losses	-0.63	-0.88	-25%	0.0	-	-1.47	0.0	-
Income tax expenses	-1.60	-0.84	81%	-1.88	-15%	-2.48	-1.95	27%
Net profit	5.16	3.59	44%	3.36	54%	8.76	7.64	15%
Loan portfolio	777	753	3%	599	30%			
Financial investments	46	49	-6%	54	-15%			
Deposits of customers	1 555	1 733	-10%	1 022	52%			
incl. deposits of financial intermediates	470	732	-36%	195	141%			
Subordinated liabilities	20	20	0%	20	0%			
Equity	115	110	5%	88	31%			

Q2 was successful in terms of business volumes. LHV Bank generated EUR 9.6 million in net interest income and EUR 3,8 million in net fee and commission income. In total, the bank's net income amounted to EUR 13.7 million, expenditure to EUR 6.3 million and loan provisions to EUR 1.6 million. The net profit of LHV Pank amounted to EUR 5.2 million in Q2. This constitutes a 44% increase from Q1 (3.6) and a 54% increase from Q2 2017 (3.4). Net interest income increased 4% compared to previous quarter. Net fee and commission income increased 69% compared to Q1. Net operating income increased by 20% compared to previous quarter. In Q2 other financial income amounted to EUR 0.3 million (Q1: financial expenses 0.1 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 Q2, the total volume of the bank's loan portfolios amounted to EUR 777 million (Q1: EUR 753 million). The volume of portfolios grew 3% over the quarter.

The corporate credit portfolio containing loans and guarantees grew by EUR 141.9 million (+32%) over the year and by EUR 55.6 (+10%) in a quarterly comparison. The greatest source of growth was loans for immovable property related activities, which is traditionally the most financed field by commercial banks, growing by EUR 48.3 million (+31%). Strong commercial real estate projects earning rental income were the main source of the growth. These were followed by loans issued for the administration and support activities, which increased EUR 26.7 million (+335%) per year. Loans issued for financial and insurance activities, often including the activities of holding companies related to the funding of business purchases, grew by mEUR 13.5 (+17%) compared with the previous year.

Compared to Q1 of this year, the growth of the portfolio was affected mostly by loans and guarantees issued in the administration and support activities sector (EUR 14.7 million; +74%), loans issued for financial and insurance activities (EUR 10.6 million; +13%), and loans issued in the wholesale and retailing sector and car and motorbike repair sector (EUR 9.9 million; +74%).

The most business loans were granted in the real estate sector, which makes up 36% of the bank's corporate loan portfolio. The biggest part of real estate loans was granted to high-quality projects earning rental income; a significantly smaller part went to real estate developments. Most of the funded real estate developments are located in Tallinn; a few are also in other bigger cities of Estonia. Upon funding the new developments in Tallinn, LHV's market share was approximately one fifth at the end of the first quarter of 2018. LHV's real estate development portfolio is also well-positioned in the event of changing market trends – the financed developments are in good locations and the risk and planned price ratio for the projects remains at an average of 50%.

After the real estate sector, the most credit has been issued to companies in the financial and insurance activities sector (16% share) and the processing industry (12% share). Among sectors with higher than average credit risk, accommodation and catering comprise 2%, construction 3%, and transport and storage 1% of the portfolio.

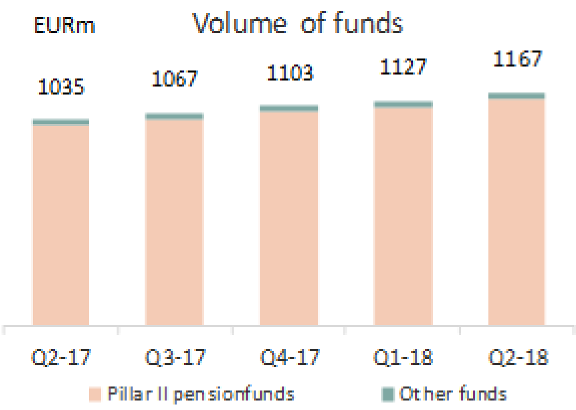
In the second quarter the number of the bank's new clients grew even more when compared to the first quarter. In the second quarter the number of the bank's clients grew by more than 6,700 and record levels were reached in client activity. The increase in the number and activity of the clients was influenced by the first public offer of the shares of Tallinna Sadam. Half of the subscriptions for the shares of Tallinna Sadam came from LHV Pank.

During the quarter, the bank's deposit volume decreased by EUR 179 million and the loan volume grew by EUR 24 million. The growth of the deposit and loan base was very strong. The deposits of regular clients grew by EUR 83 million and the deposits of financial intermediaries decreased, as estimated, by EUR 262 million. Corporate loans grew by EUR 27 million and retail loans by EUR 19 million, and the financing of Mokilizingas decreased by EUR 22 million. Owing to the larger fee and commission income due to the realisation of institutional banking transactions, the quarterly profit before income tax amounted to EUR 5.8 million and the net profit to EUR 5.2 million. In May the net profit surpassed the updated financial plans by EUR 0.3 million, which was mainly the result of increased fee and commission income, bigger loan portfolio and the larger deposit balance of financial intermediaries. Starting from April, advance income tax payments were applied to the bank, which will be recorded directly under costs.

As for new products, factoring was launched on the market during the quarter. In the beginning of July, Euromoney selected LHV Pank as the best bank in Estonia.

Overview of AS LHV Varahaldus

- The quarterly profit was EUR 2.1 million
- The volume of funds is EUR 1 167 million, growth of EUR 40 million
- Share capital reduced by EUR 1.2 million



EUR million	Q2 2018	Q1 2018	Change %	Q2 2017	Change %	From the beginning of 2018	From the beginning of 2017	Change %
Net fee and commission income	3.42	3.34	2%	3.21	7%	6.76	6.51	4%
Net financial income	0.05	-0.06	-183%	0.00	-	-0.01	0.11	-109%
Operating expenses	-0.95	-1.04	-9%	-1.60	-41%	-1.99	-3.33	-38%
Depreciation of non-current assets	-0.45	-0.45	0%	0.00	-	-0.9	-0.1	800%
Profit	2.07	1.79	16%	1.61	29%	3.86	3.29	17%
Financial investments	7.8	7.7	16%	6.2	26%			
Subordinated liabilities	2.1	2.1	1%	2.1	0%			
Equity	24.0	23.5	0%	13.0	85%			
Assets under management	1 166.6	1 126.7	4%	1 034.6	13%			

In Q2, the business revenue of LHV Varahaldus was EUR 3.42 million (EUR 3.34 million in Q1). Business revenues grew along with the volume of funds. Business expenses in Q2 amounted to EUR 1.40 million (in Q1, 1.49 million), including the amortisation of fixed assets in the amount of EUR 0.45 million (same as the last quarter). The costs were mainly reduced due to the decrease in advertising and marketing costs. In addition to this, sales expenses were capitalised in the amount of EUR 0.28 million (EUR 0.64 million in Q1). The profit of Q2 amounted to EUR 2.07 million (in Q1, the net profit of EUR 0.69 million was smaller, mainly due to the income tax on dividends).

On 17 April, the share capital of LHV Varahaldus was reduced from EUR 2.7 million to EUR 1.5 million, i.e. by EUR 1.2 million. The reason for decreasing the share capital was the more efficient management of capital on the level of the consolidation group. The Management Board of the Financial Supervision Authority gave LHV Varahaldus approval for reducing the share capital on 5 April.

The total volume of funds managed by LHV grew by EUR 40 million over the quarter (by EUR 24 million in Q1). LHV's 2nd pillar yields were positive in Q2 (from +0.5 to +4.6%), except for the pension fund Eesti that had just started operating (-0.2%). The better yields also impacted the growth of total volume when compared to Q1. When compared to their competing funds, LHV's actively managed funds have achieved their results in a more stable manner.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

(in thousands of euros)	Note	Q2 2018	6M 2018	Q2 2017	6M 2017
Continuing operations					
Interest income		11 184	22 070	8 569	16 631
Interest expense		-1 776	-3 663	-1 101	-2 188
Net interest income	9	**9 408**	**18 407**	**7 468**	**14 443**
Fee and commission income		9 149	16 291	6 279	12 750
Fee and commission expense		-1 934	-3 486	-1 264	-2 619
Net fee and commission income	10	**7 215**	**12 805**	**5 015**	**10 131**
Net gains/losses from financial assets measured at fair value		326	254	203	538
Foreign exchange gains/losses		9	-6	727	788
Net gains from financial assets		**335**	**248**	**930**	**1 326**
Other income		18	25	0	17
Other expense		-15	-27	-89	-128
Total other income		**3**	**-2**	**-89**	**-111**
Staff costs	11	-3 938	-7 684	-3 237	-6 421
Administrative and other operating expenses	11	-3 836	-7 756	-3 499	-7 019
Total expenses		**-7 774**	**-15 440**	**-6 763**	**-13 440**
Profit before impairment losses on loans and advances		**9 187**	**16 018**	**6 588**	**12 349**
Impairment losses on loans and advances		-1 596	-2 478	-1 882	-1 952
Profit before tax		**7 591**	**13 540**	**4 706**	**10 397**
Income tax expense		-631	-2 569	0	-951
Net profit for the reporting period from continued operations	2	**6 960**	**10 971**	**4 706**	**9 446**
Profit from discontinued operations	12	**3 080**	**3 324**	**173**	**483**
Net profit for the reporting period	2	**10 040**	**14 295**	**4 879**	**9 929**
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Available-for-sale investments:					
Revaluation of available-for-sale financial assets		-6	-112	18	63
Total profit and other comprehensive income for the reporting period		**10 034**	**14 183**	**4 897**	**9 992**
Total profit of the reporting period attributable to:					
Owners of the parent		9 525	13 474	4 421	8 890
Non-controlling interest		515	821	458	1 039
Total profit for the reporting period	2	**10 040**	**14 295**	**4 879**	**9 929**
Total comprehensive income attributable to:					
Owners of the parent		9 519	13 362	4 439	8 953
Non-controlling interest		515	821	458	1 039
Total comprehensive income for the reporting period		**10 034**	**14 183**	**4 897**	**9 992**
Basic earnings per share (in euros)	17	0.37	0.52	0.17	0.35
Diluted earnings per share (in euros)	17	0.36	0.51	0.17	0.34

The Notes on pages 18 to 33 are an integral part of the consolidated interim financial statements.

Condensed Consolidated Interim Statement of Financial Position

(in thousands of euros)	Note	30.06.2018	31.12.2017
Assets			
Due from central bank	4, 5, 6, 13	841 622	920 714
Due from credit institutions	4, 5, 6, 13	25 249	26 312
Due from investment companies	4, 6, 13	12 333	14 186
Available-for-sale financial assets	4, 6, 7	775	775
Financial assets at fair value through profit or loss	4, 6, 7	53 309	55 859
Loans and advances to customers	4, 6, 8	776 547	732 043
Receivables from customers		6 495	9 800
Other financial assets		2 347	2 289
Other assets		775	1 516
Tangible assets		1 306	1 421
Intangible assets		15 408	4 327
Goodwill		3 614	3 614
Total assets	2	**1 739 780**	**1 772 856**
Liabilities			
Deposits of customers and loans received	14	1 548 781	1 542 929
Financial liabilities at fair value through profit or loss	6	7	2
Accounts payable and other liabilities	15	16 652	71 070
Subordinated debt	6	30 900	30 900
Total liabilities	2	**1 596 340**	**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		1 867	2 507
Retained earnings / accumulated deficit		63 059	44 071
Total equity attributable to owners of the parent		**140 448**	**120 062**
Non-controlling interest		2 992	7 893
Total equity		**143 440**	**127 955**
Total liabilities and equity		**1 739 780**	**1 772 856**

The Notes on pages 18 to 33 are an integral part of the consolidated interim financial statements.

Condensed Consolidated Interim Statement of Cash Flows

(in thousands of euros)	Note	Q2 2018	6M 2018	Q2 2017	6M 2017
Cash flow from operating activities					
Interest received		11 594	21 256	8 193	16 011
Interest paid		-1 981	-2 718	-1 027	-2 005
Fees and commissions received		9 149	16 291	6 278	12 749
Fees and commissions paid		-1 934	-3 486	-1 264	-2 619
Other income		20	27	-89	-112
Staff costs paid		-3 508	-6 757	-2 971	-5 868
Administrative and other operating expenses paid		-3 107	-6 340	-3 176	-6 376
Income tax		0	-1 938	0	-951
Cash flow from operating activities before change in operating assets and liabilities		**10 233**	**16 335**	**5 944**	**10 829**
Net increase/decrease in operating assets:					
Net acquisition/disposal of trading portfolio		-31	-49	-507	-503
Loans and advances to customers		-21 003	-57 819	-63 477	-74 171
Mandatory reserve at central bank		748	-1 086	-2 110	-2 370
Security deposits		-111	-58	87	-21
Other assets		-53	-552	462	538
Net increase/decrease in operating liabilities:					
Demand deposits of customers		-171 045	17 888	194 995	239 160
Term deposits of customers		-11 526	-12 034	15 035	-7 457
Repayments of loans received		0	0	-90	-779
Financial liabilities held for trading at fair value through profit and loss		-368	5	-39	-209
Other liabilities		-2 720	-46 828	-18 330	-2 438
Discontinued operations		244	-270	61	3 444
Net cash generated from/used in operating activities		**-195 632**	**-84 468**	**132 031**	**166 023**
Cash flow from investing activities					
Purchase of non-current assets		-512	-1 084	-226	-472
Proceeds from disposal of subsidiary		5 046	5 046	0	0
Proceeds from disposal and redemption of investment securities available for sale		-6	-112	24	18
Net change of investments at fair value through profit or loss		3 348	2 825	8 664	16 578
Net cash flow from investing activities		**7 876**	**6 675**	**8 462**	**16 124**
Cash flows from financing activities					
Contribution in share capital		0	0	628	628
Dividends paid		-4 123	-5 295	-3 803	-3 803
Net cash from financing activities		**-4 123**	**-5 295**	**-3 175**	**-3 175**
Effect of exchange rate changes on cash and cash equivalents	6	**9**	**-6**	**727**	**788**
Net decrease/increase in cash and cash equivalents		**-191 870**	**-83 094**	**138 045**	**179 760**
Cash and cash equivalents at the beginning of the period		1 054 613	945 837	340 479	298 764
Cash and cash equivalents at the end of the period	13	**862 743**	**862 743**	**478 524**	**478 524**

The Notes on pages 18 to 33 are an integral part of the consolidated interim financial statements

Condensed Consolidated Interim Statement of Changes in Equity

(in thousands of euros)	Share capital	Unregistered 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	0	891	0	-891	0	0	**0**
Share options	0	0	0	0	454	0	454	0	**454**
Dividends paid	0	0	0	0	0	-3 804	-3 804	0	**-3 804**
Paid in share capital	0	628	0	0	0	0	628	0	**628**
Profit for the year	0	0	0	0	0	8 890	8 890	1 039	**9 929**
Other comprehensive loss	0	0	0	0	63	0	63	0	**63**
Total profit and other comprehensive income for the reporting period	0	0	0	0	63	8 890	8 953	1 039	**9 992**
Balance as at 30.06.2017	**25 356**	**628**	**45 892**	**2 471**	**1 761**	**32 530**	**108 638**	**6 358**	**114 996**
Balance as at 01.01.2018	**25 767**	**0**	**46 304**	**2 471**	**1 449**	**44 071**	**120 062**	**7 893**	**127 955**
Changes in accounting policies	0	0	0	0	0	10 617	10 617	0	**10 617**
Disposal of tubsidiary	0	0	0	0	0	0	0	- 4 550	**-4 550**
Transfer to statutory reserve capital	0	0	0	980	0	-980	0	0	**0**
Dividends paid	0	0	0	0	0	-4 123	-4 123	-1 172	**-5 295**
Share options	0	0	0	0	530	0	530	0	**530**
Profit for the year	0	0	0	0	*0*	13 474	13 474	821	**14 295**
Other comprehensive loss	0	0	0	0	-112	*0*	-112	*0*	**-112**
Total profit and other comprehensive income for the reporting period	0	0	0	0	-112	13 474	13 362	821	14 183
Balance as at 30.06.2018	**25 767**	**0**	**46 304**	**3 451**	**1 867**	**63 059**	**140 448**	**2 992**	**143 440**

The Notes on pages 18 to 33 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) and AS LHV Finance (65% interest). As of March 31 the quarterly report included also the results of UAB Mokilizingas (50% interest+1 share) which in current report is presented as discontinued operations as UAB Mokilizinas was sold in Q2.

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.

Q2 2018	Retail banking	Private banking	Corporate banking	Asset management	Hire-purchase and consumer finance in Estonia	Hire-purchase and consumer finance in Lithuania	Treasury activities	Intra-segment eliminations	Total
Interest income	2 548	331	6 145	0	2 246	0	1 692	-1 778	11 184
Interest expense	0	0	-1 059	-42	-305	0	-2 148	1 778	-1 776
Net interest income	**2 548**	**331**	**5 086**	**-42**	**1 941**	**0**	**-456**	**0**	**9 408**
Fee and commission income	3 040	316	1 676	3 415	125	0	577	0	9 149
Fee and commission expense	-1 745	0	-31	0	-141	0	-17	0	-1 934
Net fee and commission income	**1 295**	**316**	**1 645**	**3 415**	**-16**	**0**	**560**	**0**	**7 215**
Net income	**3 843**	**647**	**6 731**	**3 373**	**1 925**	**0**	**104**	**0**	**16 623**

Net gains from financial assets	-3	0	0	89	0	0	249	0	335
Administrative and other operating expenses, staff costs	-2 983	-254	-1 663	-1 396	-518	0	-957	0	-7 771
Operating profit	**857**	**393**	**5 068**	**2 066**	**1 407**	**0**	**-2 782**	**2 178**	**9 187**
Impairment losses on loans and advances	21	0	-1 493	0	-121	0	-3	0	-1 596
Income tax	-169	-41	-365	0	0	0	-56	0	-631
Discontinued operations	0	0	0	0	0	3 080	0	0	3 080
Net profit	**709**	**352**	**3 210**	**2 066**	**1 286**	**3 080**	**-2 841**	**2 178**	**10 040**
Total assets	**1 046 276**	**98 245**	**557 591**	**28 262**	**45 518**	**0**	**107 113**	**-143 225**	**1 739 780**
Total liabilities	**1 159 023**	**250 438**	**185 640**	**3 853**	**36 948**	**0**	**31 192**	**-70 753**	**1 596 340**

Q2 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	1 805	223	4 870	0	1 985	0	822	-1 355	8 350
Interest expense	0	0	-973	-41	-265	0	-958	1 355	-882
Net interest income	**1 805**	**223**	**3 897**	**-41**	**1 720**	**0**	**-136**	**0**	**7 468**
Fee and commission income	2 186	266	537	3 205	118	0	-33	0	6 279
Fee and commission expense	-870	0	-215	0	-173	0	-6	0	-1 264
Net fee and commission income	**1 316**	**266**	**322**	**3 205**	**-55**	**0**	**-39**	**0**	**5 015**
Net income	**3 121**	**489**	**4 219**	**3 164**	**1 665**	**0**	**-175**	**0**	**12 483**
Net gains from financial assets	5	0	1	46	0	0	878	0	930
Administrative and other operating expenses, staff costs	-2 510	-266	-1 222	-1 598	-415	0	-814	0	-6 825
Operating profit	**616**	**223**	**2 998**	**1 612**	**1 250**	**0**	**-111**	**0**	**6 588**
Impairment losses on loans and advances	-586	0	-1 108	0	-188	0	0	0	-1 882
Income tax	0	0	0	0	0	0	0	0	0
Discontinued operations	0	0	0	0	0	173	0	0	173
Net profit	**30**	**223**	**1 890**	**1 612**	**1 062**	**173**	**-111**	**0**	**4 879**
Total assets	**385 397**	**125 143**	**624 759**	**22 204**	**37 646**	**36 368**	**98 114**	**-158 370**	**1 171 261**
Total liabilities	**583 892**	**274 644**	**195 999**	**9 217**	**29 866**	**29 085**	**31 184**	**-97 622**	**1 056 265**

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

30.06.2018	Estonia	Latvia	Lit-huania	Finland	The Nether-lands	Ger-many	Other EU	USA	Other	Total
Due from banks and investment companies	853 296	0	0	0	0	0	11 935	12 254	1 719	**879 204**
Financial assets at fair value	9 049	777	17 399	0	0	1	22 579	4 279	0	**54 084**
Loans and advances to customers	718 472	345	23 072	982	1	2	32 238	70	1 365	**776 547**
Receivables from customers	6 489	1	5	0	0	0	0	0	0	**6 495**
Other financial assets	110	0	0	0	0	0	0	2 237	0	**2 347**
Total financial assets	**1 587 416**	**1 123**	**40 476**	**982**	**1**	**3**	**66 752**	**18 840**	**3 084**	**1 718 677**
Deposits of customers and loans received	983 543	11 865	9 924	6 824	245	920	499 721	974	34 765	**1 548 781**
Subordinated debt	30 900	0	0	0	0	0	0	0	0	**30 900**
Accounts payable and other financial liabilities	13 401	0	4	27	0	0	13	3	0	**13 448**
Financial liabilities at fair value	7	0	0	0	0	0	0	0	0	**7**
Total financial liabilities	**1 027 851**	**11 865**	**9 928**	**6 851**	**245**	**920**	**499 734**	**977**	**34 765**	**1 593 136**

Unused loan commitments in the amount of EUR 196 286 thousand are for the residents of Estonia.

31.12.2017	Estonia	Latvia	Lit-huania	Finland	The Nether-lands	Ger-many	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

30.06.2018	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	1 427 569	33 967	79 714	5 333	2 518	**1 549 101**
Subordinated debt	0	532	1 596	8 511	34 490	**45 129**
Accounts payable and other financial liabilities	0	13 448	0	0	0	**13 448**
Unused loan commitments	0	196 286	0	0	0	**196 286**
Financial guarantees by contractual amounts	0	8 084	0	0	0	**8 084**
Foreign exchange derivatives (gross settled)	0	26 778	0	671	0	**27 449**
Financial liabilities at fair value	0	7	0	0	0	**7**
Total liabilities	**1 427 569**	**279 102**	**81 310**	**14 515**	**37 008**	**1 839 504**
Financial assets by contractual maturity dates						
Due from banks and investment companies	879 204	0	0	0	0	**879 204**
Financial assets at fair value (debt securities)	0	5 347	22 960	15 910	2 084	**46 301**
Loans and advances to customers	0	46 937	169 437	537 177	115 148	**868 699**
Receivables from customers	0	6 495	0	0	0	**6 495**
Other financial assets	2 347	0	0	0	0	**2 347**
Foreign exchange derivatives (gross settled)	0	26 749	0	700	0	**27 449**
Total financial assets	**881 551**	**85 528**	**192 397**	**553 787**	**117 232**	**1 830 495**
Maturity gap from financial assets and liabilities	**-546 018**	**-193 574**	**111 087**	**539 272**	**80 224**	**-9 009**

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

30.06.2018	EUR	CHF	GBP	SEK	USD	Other	Total
Assets bearing currency risk							
Due from banks and investment companies	857 905	2 800	8 215	5 366	1 196	3 722	**879 204**
Financial assets at fair value	23 558	0	0	1	30 524	1	**54 084**
Loans and advances to customers	775 754	0	8	113	645	27	**776 547**
Receivables from customers	5 781	3	441	13	139	118	**6 495**
Other financial assets	288	0	0	0	2 059	0	**2 347**
Total assets bearing currency risk	**1 663 286**	**2 802**	**8 664**	**5 494**	**34 563**	**3 868**	**1 718 677**
Liabilities bearing currency risk							
Deposits from customers and loans received	1 469 826	2 762	24 963	6 262	39 302	5 666	**1 548 781**
Financial liabilities at fair value	0	0	0	0	4	3	**7**
Accounts payable and other financial liabilities	9 328	27	584	142	112	3 255	**13 448**
Subordinated debt	30 900	0	0	0	0	0	**30 900**
Total liabilities bearing currency risk	**1 510 054**	**2 789**	**25 547**	**6 404**	**39 418**	**8 924**	**1 593 136**
Open gross position derivative assets at contractual value	700	0	16 816	823	5 606	3 504	**27 449**
Open gross position derivative liabilities at contractual value	26 749	0	0	0	700	0	**27 449**
Open foreign currency position	**127 183**	**13**	**-67**	**-87**	**51**	**-1 552**	**125 541**

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	30.06.2018	Level 1	Level 2	Level 3	31.12.2017
Financial assets at fair value through profit and loss								
Shares and fund units*	482	7 816	0	**8 298**	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	45 002	0	0	**45 002**	49 138	0	0	**49 138**
Interest rate swaps and foreign exchange forwards	0	9	0	**9**	0	30	0	**30**
Total financial assets	**46 039**	**7 825**	**220**	**54 084**	**50 123**	**6 291**	**220**	**56 634**
Financial liabilities at fair value through profit and loss								
Interest rate swaps and foreign exchange	0	7	0	**7**	0	2	0	**2**
Total financial liabilities	**0**	**7**	**0**	**7**	**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 7 816 (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 30.06.2018 the fair value of corporate loans and overdraft is EUR 9 312 thousand (1.84%) 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 30 June 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

	30.06.2018	%	31.12.2017	%
Individuals	170 723	21.7%	191 744	25.9%
Real estate activities	203 817	25.9%	197 697	26.7%
Manufacturing	66 939	8.5%	68 252	9.2%
Arts and entertainment	30 700	3.9%	29 292	4.0%
Financial activities	98 818	12.6%	78 113	10.6%
Wholesale and retail trade	37 952	4.8%	21 112	2.9%
Administrative and support service activities	42 331	5.4%	33 947	4.6%
Transportation and storage	6 242	0.8%	5 876	0.8%
Agriculture	14 627	1.9%	8 717	1.2%
Other service activities	14 158	1.8%	15 485	2.1%
Construction	16 156	2.1%	19 421	2.6%
Information and communication	8 086	1.0%	8 439	1.1%
Professional, scientific and technical activities	15 938	2.0%	13 958	1.9%
Education	2 213	0.3%	2 218	0.3%
Other sectors	56 963	7.3%	45 897	6.2%
Total	**785 663**	**100%**	**740 168**	**100%**
Provision	-9 116		-8 125	
Total loan portfolio	**776 547**	**100%**	**732 043**	**100%**

NOTE 9 Net Interest Income

Interest income	**Q2 2018**	**6M 2018**	**Q2 2017**	**6M 2017**
Balances with credit institutions and investment companies	43	58	6	10
Bonds	37	73	55	117
Leasing	733	1 298	501	965
Leverage loans and lending of securities	110	242	-27	59
Consumer loans	1 248	2 443	935	1 795
Hire purchase	998	2 027	1 049	2 146
Business loans	6 946	12 832	5 454	10 435
Creditcard loans	188	374	168	331
Other loans	881	2 723	428	773
Total	**11 184**	**22 070**	**8 569**	**16 631**
Interest expense				
Deposits of customers and loans received	-418	-802	-300	-580
Balances with the central bank	-826	-1 796	-270	-544
Subordinated liabilities	-532	-1 065	-531	-1 064
including loans between related parties	-88	-176	-85	-169
Total	**-1 776**	**-3 663**	**-1 101**	**-2 188**
Net interest income	**9 408**	**18 407**	**7 468**	**14 443**

Interest income on loans by customer location (interest on bank balances and bonds excluded):	**Q2 2018**	**6M 2018**	**Q2 2017**	**6M 2017**
Estonia	10 890	21 416	8 288	16 025
Lithuania	214	523	219	479
Total	**11 104**	**21 939**	**8 507**	**16 504**

NOTE 10 Net Fee and Commission Income

Fee and commission income	Q2 2018	6M 2018	Q2 2017	6M 2017
Security brokerage and commissions paid	1 916	2 555	880	1 910
Asset management and similar fees	4 158	8 005	3 591	7 282
Currency conversion revenues	354	662	165	502
Fees from cards and payments	2 157	3 948	1 372	2 528
Other fee and commission income	564	1 121	271	528
Total	**9 149**	**16 291**	**6 279**	**12 750**
Fee and commission expense				
Security brokerage and commissions paid	-136	-275	201	-49
Expenses related to cards	-650	-1 212	-494	-938
Expenses related to acquiring	-719	-1 255	-491	-877
Other fee and commission expense	-429	-744	-480	-755
Total	**-1 934**	**-3 486**	**-1 264**	**-2 619**
Net fee and commission income	**7 215**	**12 805**	**5 015**	**10 131**

Fee and commission income by customer location:	Q2 2018	6M 2018	Q2 2017	6M 2017
Estonia	9 102	16 199	6 227	12 569
Lithuania	0	0	0	71
Luxembourg	47	92	52	104
Total	**9 149**	**16 291**	**6 279**	**12 750**

NOTE 11 Operating Expenses

	Q2 2018	6M 2018	Q2 2017	6M 2017
Wages, salaries and bonuses	3 056	5 962	2 459	4 929
Social security and other taxes*	882	1 722	778	1 492
Total personnel expenses	**3 938**	**7 684**	**3 237**	**6 421**
IT expenses	507	1 007	401	788
Information services and bank services	165	311	156	297
Marketing expenses	385	902	724	1 603
Office expenses	140	288	101	236
Transportation and communication expenses	53	105	44	113
Staff training and business trip expenses	124	313	74	141
Other outsourced services	811	1 576	793	1 530
Other administrative expenses	565	1 137	630	1 120
Depreciation of non-current assets	737	1 422	322	640
Operational lease payments	293	577	222	476
Other operating expenses	56	118	32	75
Total other operating expenses	**3 836**	**7 756**	**3 499**	**7 019**
Total operating expenses	**7 774**	**15 440**	**6 736**	**13 440**

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

NOTE 12 Discontinued operations

	Q2 2018	6M 2018	Q2 2018	6M 2017
Other financial income	2 949	2 949	0	0
Net interest income	424	1 619	1 139	2 328
Net fee and commission income	314	956	199	367
Personnel expenses	-140	-535	-383	-790
Operating expenses	-313	-1 131	-803	-1 388
Impairment losses on loans	-86	-390	42	19
Income tax expenses	-68	-144	-21	-53
Net profit from discontinued operations	**3 080**	**3 324**	**173**	**483**

NOTE 13 Balances with the Central Bank, Credit Institutions and Investment Companies

	30.06.2018	31.12.2017
Term deposits with maturity less than 3 months*	37 582	40 498
Legal reserve with the central bank	16 461	15 375
Other receivables from central bank*	825 161	905 339
Total	**879 204**	**961 212**
*Cash and cash equivalents in the Statement of Cash Flows	862 743	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 12 333 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 30 June 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 14 Deposits of Customers and Loans Received

Deposits/loans by type	Individuals	Legal entities	Public sector	30.06.2018
Demand deposits	327 502	1 093 251	6 716	1 427 469
Term deposits	48 584	60 837	5 656	115 077
Loans received	0	6 000	0	6 000
Accrued interest liability	163	69	3	235
Total	**376 249**	**1 160 157**	**12 375**	**1 548 781**

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 30.06.2018, 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 15 Accounts payable and other liabilities

Financial liabilities	30.06.2018	31.12.2017
Trade payables and payables to merchants	2 447	8 946
Other short-term financial liabilities	2 124	1 878
Accrued interest on subordinated loans	222	210
Payments in transit	8 488	55 661
Financial guarantee contracts issued	167	137
Subtotal	**13 448**	**66 832**
Performance guarantee contracts issued	188	159
Tax liabilities	849	700
Payables to employees	1 482	1 238
Other short-term liabilities	685	2 141
Subtotal	**3 204**	**4 238**
Total	**16 652**	**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 16 Contingent Liabilities

Irrevocable transactions	Performance guarantees	Financial guarantees	Letter of credit	Unused loan commitments	Total
Liability in the contractual amount as at 30 June 2018	10 635	8 084	2	196 286	**215 007**
Liability in the contractual amount as at 31 December 2017	10 129	5 999	51	179 572	**195 751**

NOTE 17 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.

	Q2 2018	6M 2018	Q2 2017	6M 2017
Total profit attributable to owners of the parent (EUR thousand)	9 525	13 474	4 421	8 890
Weighted average number of shares (in thousands of units)	25 767	25 767	25 356	25 356
Basic earnings per share (EUR)	0.37	0.52	0.17	0.35
Weighted average number of shares used for calculating the diluted earnings per shares (in thousands of units)	26 274	26 238	25 836	25 836
Diluted earnings per share (EUR)	0.36	0.51	0.17	0.24

NOTE 18 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 30.06.2018 was 139 362 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	**30.06.2018**	**31.12.2017**
Paid-in share capital	25 767	25 767
Share premium	46 304	46 304
Reserves	3 451	2 471
Other reserves	-76	36
Accumulated loss	49 584	24 468
Intangible assets (subtracted)	-19 022	-7 940
Profit for the reporting period	2 458	19 603
Other adjustments	-4	0
Total Tier 1 capital	**108 462**	**110 709**
Subordinated liabilities	30 900	30 900
Total Tier 2 capital	**30 900**	**30 900**
Total net own funds	**139 362**	**141 609**

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

NOTE 19 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	6M 2018	6M 2017
Interest income	**30**	**36**
incl. management	16	14
incl. shareholders that have significant influence	14	22
Fee and commission income	**4**	**2**
Incl. management	0	0
incl. shareholders that have significant influence	4	2
Interest expenses from deposits	**18**	**20**
incl. management	2	0
incl. shareholders that have significant influence	16	20
Interest expenses from subordinated loans	**176**	**169**
incl. management	4	4
incl. shareholders that have significant influence	172	165

Balances	30.06.2018	31.12.2017
Loans and receivables as at the year-end	**2 913**	**2 820**
incl. management	1 631	1 736
incl. shareholders that have significant influence	1 282	1 084
Deposits as at the year-end	**20 817**	**22 995**
incl. management	460	283
incl. shareholders that have significant influence	20 357	22 712
Subordinated loans as at the year-end	**4 999**	**4 999**
incl. management	104	104
incl. shareholders 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. The management and shareholders with significant influence include also their related entities and persons.

Loans granted to related parties are issued at market conditions.

In Q2, salaries and other compensations paid to the management of the parent AS LHV Group and its subsidiaries totalled EUR 342 thousand (Q2 2017: EUR 374 thousand), including all taxes. As at 30.06.2018, remuneration for June and accrued holiday pay in the amount of EUR 86 thousand (31.12.2017: EUR 84 thousand) is reported as a payable to management (Note 15). The Group did not have any long-term payables or commitments to the members of the Management Board and the Supervisory Board as at 30.06.2018 and 31.12.2017 (pension liabilities, termination benefits, etc.). In Q2 2018, the remuneration paid to the members of the Group's Supervisory Board totalled EUR 7 thousand (Q2 2017: EUR 14 thousand).

Management is related to the share-based compensation plan. In Q2 2018 the share-based compensation to management amounted to EUR 136 thousand (Q2 2017: EUR 119 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 20 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.

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 30 June 2018, AS LHV Group has 5 510 shareholders:

- 13 365 326 shares (51.9%) were held by members of the Supervisory Board and Management Board, and related parties.
- 12 402 016 shares (48.1%) were held by Estonian entrepreneurs and investors, and related parties.

Top ten shareholders as at 30 June 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 10 825 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: Kadri Kiisel

OÜ Cuber Tehnology
Management board: Jüri Laur

Signatures of the Management Board to the Condensed Consolidated Interim Report

The Management Board has prepared the summary of results for January to June 2018 period the condensed consolidated interim financial statements of AS LHV Group for the 6-month period ended 30 June 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.

23.07.2018

Madis Toomsalu