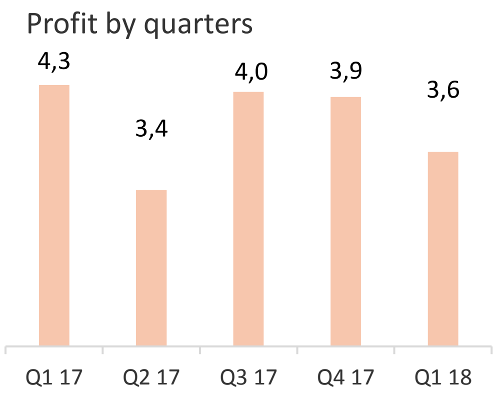
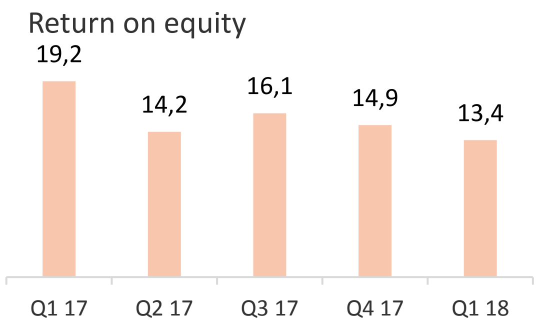
Interim Report January – March 2018
Summary of Results

Q1 2018 in comparison with Q4 2017

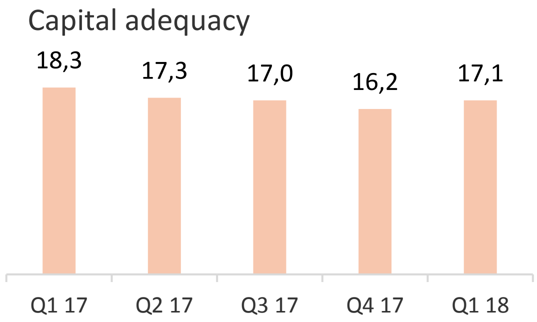
- Net profit EUR 3.6 m (3.9 mln eurot), of which EUR 3.4 m (EUR 3.5 m) is attributable to owners of the parent
- Earnings per share EUR 11.4 m (EUR 9.8 m)
- Net income EUR 6.1 m (EUR 5.4 m)
- Operating expenses EUR 0.9 m (EUR 8.5 m)
- Loan provisions EUR 0.9 m (EUR 0.5 m)
- Income tax expenses EUR 0.8 m (EUR 0 m)
- Return on equity 13.4% (14.9%)
- Capital adequacy 16.9% (16.2%)





Q1 2018 in comparison with Q1 2017

- Net profit EUR 3.6 m (EUR 4.3 m), of which EUR 3.4 m (EUR 3.8 m) is attributable to owners of the parent
- Net income EUR 11.4 m (EUR 9.2 m)
- Operating expenses EUR 6.1 m (EUR 4.9 m)
- Loan provisions EUR 0.9 m (EUR 0.07 m)
- Income tax expenses EUR 0.8 m (EUR 0 m)
- Return on equity 13.4% (19.2%)
- Capital adequacy 16.9% (18.3%)



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

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Business activites

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

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

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

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

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

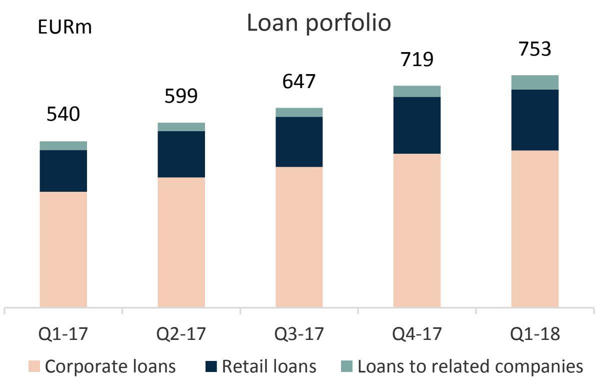
At the beginning of the year, the bank's private banking service received international recognition as Euromoney chose LHV Bank as the best private banking service provider in Estonia.

Financial Summary

Q1 was successful in terms of business volumes. LHV Bank generated EUR 9.2 million in net interest income and EUR 2.3 million in net fee and commission income. In total, the bank's net income amounted to EUR 11.4 million, expenditure to EUR 6.1 million and loan provisions to EUR 0.9 million. The net profit of LHV Bank amounted to EUR 3.6 million in Q1. This constitutes a 9% decrease from Q4 (3.9) and a 16% decrease from Q1 2017 (4.3).

Securities brokerage fees, transaction fees and fees from cards are greatest contributor to fee and commission income.

The increase in net interest income stems from the growth in business volumes. By the end of Q1, the total volume of the bank's loan portfolios amounted to EUR 753 million (Q4: EUR 719 million). The volume of portfolios grew 5% over the quarter. Retail loans portfolio grow 7% within quarter and has reached EUR 199 million (Q4 2018: EUR 186 million). Loan portfolio increased by EUR 34 million in Q2 (Q4 2017: EUR 72 million).



Banks deposits increased by 12% within quarter and reached EUR 1’733 million (Q4 2017: EUR 1’551 million). Demand deposits accounted for EUR 1’607 million and EUR 127 million were term deposits. Private individuals deposits reached EUR 352 million increasing 7% q-t-q. Outstanding bond portfolio was EUR 49 million, decreasing 2% comparing to end of Q4 2017.

Income statement EUR million	**Q1** **2018**	**Q4** **2017**	**Quarter** **over quarter**	**Q1** **2017**	**Year** **over year**
Net interest income	9,19	8,38	10%	7,17	28%
Net fee and commission income	2,25	1,93	17%	1,82	24%
Other financial income	-0,06	-0,48	-87%	0,25	-125%
Total net operating income	11,38	9,83	16%	9,24	23%
Other income	0,03	0,04	-34%	0,01	170%
Operating expenses	-6,10	-5,41	13%	-4,90	24%
Loan losses	-0,88	-0,53	65%	-0,07	-1 160%
Income tax expenses	-0,84	0,0	-	0,0	-
Net profit	3,59	3,93	-9%	4,28	-16%

Business volumes EUR million	**31.03.2018**	**31.12.2017**	**Change**
Loan portfolio	753,2	719,4	5%
Financial investments	49,0	50,0	-2%
Deposits of customers	1 733,0	1 551,0	12%
incl. deposits of financial intermediates	732,0	607,0	21%
Equity (including minority interest)	109,8	99,5	10%
Assets managed by bank	139 737	133 655	5%

Ratios EUR million	**Q1 2018**	**Q4 2017**	**Quarter over quarter**	**Q1 2017**	**Year over year**
Net profit	3,6	3,9	-0,3	4,3	-0,7
Net profit attributable to owners of the parent	3,4	3,5	-0,1	3,8	-0,4
Average equity	101,6	94,1	7,5	80,3	21,3
Return on equity (ROE), %	13,4	14,9	-1,5	19,2	-5,8
Return on assets (ROA), %	0,75	0,89	-0,14	1,67	-0,92
Net interest income	9,2	8,4	0,8	7,2	2,0
Interest-bearing assets, average	1 802,8	1 563,8	239,0	920,7	882,1
Net interest margin (NIM) %	2,04	2,14	-0,1	3,11	-1,07
Price spread (SPREAD) %	2,01	2,11	-0,1	3,07	-1,06
Cost/income ratio %	53,4	54,8	-1,4	53,0	0,4

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

The Group's Liquidity, Capitalisation and Asset Quality

The Group's liquidity coverage ratio (LCR), as defined by the Basel Committee, stood at 115.5% as at the end of March (31 December 2017: 121.1%). Banks liquidity situation remained same in Q1, change in LCR levels are related to significantly higher financial intermediates deposits what Bank covers 100% with liquid assets. Excluding the financial intermediates deposits the Groups LCR in 195%. The Group recognises cash and bond portfolios as liquidity buffers. These accounted for 59% of the balance sheet (31 December 2017: 58%). The ratio of loans to deposits stood at 43% as at the end of the first quarter (31 December 2017: 46%).

Bank runs every you internal liquidity assesment process (ILAAP), which is done both on statical and dynamical balance sheet modelling.

In assessment bank follows both regulative and internal liquidity ratios dynamics and fulfillment of limits. In dynamic assessment bank is following its own risk scenario.

Banks own funds at end of March were EUR 120.6 million (31.12.2017 EUR 113.9 million).

Bank is adequately capitalized at end of the reporting periood, capital adequacy was 16.94% (31.12.2017: 16.75%), calculated according to CRR IV directive. Banks capital adequacy exceeds internal capital targets, which is 15.06%.

Both AS LHV Pank and its subsidiary AS LHV Finance are included into capital adequacy calculation.

Bank uses standard methodology for calculating credit and market risk capital charges and basic indicator approach calculating operational risk capital requirement. Bank has fulfilled all capital requirement in current reporting periood.

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

Capital base *(EUR thousand)*	**31.03.2018**	**31.12.2017**
Paid-in share capital	69 500	59 500
Statutory reserves paid in from net profit	2 121	1 528
Accumulated profit/deficit	30 923	19 891
Intangible assets (subtracted)	-1 176	-951
Net profit for the reporting period	0	13 909
Other adjustments	-752	0
Total Tier 1 capital	**100 616**	**93 877**
Subordinated debt	20 000	20 000
Total Tier 2 capital	**20 000**	**20 000**
Net own funds for capital adequacy	**120 616**	**113 877**
Capital requirements		
Central governments and central bank under standard method	886	945
Credit institutions and investment companies under standard method	4 843	5 886
Companies under standard method	480 140	465 202
Retail claims under standard method	111 902	107 197
Public sector under standard method	359	185
Housing real estate under standard method	23 245	20 039
Overdue claims under standard methods	18 228	20 915
Other assets under standard method	11 493	10 169
Krediidiriski ja vastaspoole krediidirisk kokku	**651 096**	**630 539**
Capital requirement against foreign currency risk under standard method	489	409
Capital requirement against interest position risk under standard method	263	412
Capital requirement against equity portfolio risks under standard method	544	585
Capital requirement against credit valuation adjustment risks under standard method	52	15
Capital requirement for operational risk under base method	59 434	47 754
Total capital requirements for adequacy calculation	**711 878**	**679 714**
Capital adequacy (%)	**16,94**	**16,75**
Tier 1 capital ratio (%)	**14,13**	**13,81**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

(in thousands of euros)	Note	Q1 2018	3M 2018	Q1 2017	3 M 2017
Continuing operations					
Interest income		10 886	10 886	8 063	8 063
Interest expense		-1 692	-1 692	-895	-895
Net interest income	7	**9 194**	**9 194**	**7 168**	**7 168**
Fee and commission income		3 803	3 803	3 173	3 173
Fee and commission expense		-1 552	-1 552	-1 355	-1 355
Net fee and commission income	8	**2 251**	**2 251**	**1 818**	**1 818**
Net gains/losses from financial assets measured at fair value		-48	-48	190	190
Foreign exchange gains/losses		-15	-15	61	61
Net gains from financial assets		**-63**	**-63**	**251**	**251**
Other income/ Other expense		27	27	10	10
Total other income		**27**	**27**	**10**	**10**
Staff costs	9	-3 300	-3 300	-2 769	-2 769
Administrative and other operating expenses	9	-2 797	-2 797	-2 133	-2 133
Total expenses		**-6 097**	**-6 097**	**-4 902**	**-4 902**
Profit before impairment losses on loans and advances		**5 312**	**5 312**	**4 345**	**4 345**
Income tax expense		-838	-838	0	0
Impairment losses on loans and advances		-882	-882	-70	-70
Net profit for the reporting period		**3 592**	**3 592**	**4 275**	**4 275**
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Available-for-sale investments:					
Revaluation of available-for-sale financial assets		-106	-106	45	45
Total profit and other comprehensive income for the reporting period		**3 486**	**3 486**	**4 320**	**4 320**
Total profit of the reporting period attributable to:					
Owners of the parent		3 408	3 408	3 849	3 849
Non-controlling interest		184	184	426	426
Total profit for the reporting period		**3 592**	**3 592**	**4 275**	**4 275**
Total comprehensive income attributable to:					
Owners of the parent		3 302	3 302	3 894	3 894
Non-controlling interest		184	184	426	426
Total comprehensive income for the reporting period		**3 486**	**3 486**	**4 320**	**4 320**

Condensed Consolidated Interim Statement of Financial Position

(in thousands of euros)	Note	31.03.2018	31.12.2017
Assets			
Due from central bank	10	1 040 941	920 714
Due from credit institutions	10	19 472	20 991
Due from investment companies	10	8 352	14 186
Available-for-sale financial assets		775	775
Financial assets at fair value through profit or loss		48 232	49 239
Loans and advances to customers	5	753 169	719 390
Receivables from customers		9 602	7 357
Other financial assets		2 236	2 289
Other assets		788	836
Tangible assets		1 292	1 225
Intangible assets		1 176	952
Total assets		**1 886 035**	**1 737 954**
Liabilities			
Deposits of customers and loans received	11	1 739 297	1 556 573
Financial liabilities at fair value through profit or loss		4	2
Accounts payable and other liabilities		16 891	61 858
Subordinated debt		20 000	20 000
Total liabilities		**1 776 192**	**1 638 433**
Owner's equity			
Share capital		69 500	59 500
Statutory reserve capital		2 191	1 492
Other reserves		-70	36
Retained earnings / accumulated deficit		35 680	34 963
Total equity attributable to owners of the parent		**107 301**	**95 991**
Non-controlling interest		2 542	3 530
Total equity		**109 843**	**99 521**
Total liabilities and equity		**1 886 035**	**1 737 954**

Condensed Consolidated Interim Statement of Cash Flows

(in thousands of euros)	Note	Q1 2018	3M 2018	Q1 2017	3M 2017
Cash flow from operating activities					
Interest received		9 971	9 971	8 057	8 057
Interest paid		-851	-851	-1 024	-1 024
Fees and commissions received		3 803	3 803	3 173	3 173
Fees and commissions paid		-1 552	-1 552	-1 355	-1 355
Other income		26	26	10	10
Staff costs paid		-2 886	-2 886	-2 518	-2 518
Administrative and other operating expenses paid		-2 559	-2 559	-1 925	-1 925
Income tax		-838	-838	0	0
Cash flow from operating activities before change in operating assets and liabilities		**5 114**	**5 114**	**4 418**	**4 418**
Net increase/decrease in operating assets:					
Net acquisition/disposal of trading portfolio		-18	-18	4	4
Loans and advances to customers		-36 816	-36 816	-7 881	- 7881
Mandatory reserve at central bank		-1 685	-1 685	-260	-260
Security deposits		53	53	-108	-108
Other assets		79	79	-221	-221
Net increase/decrease in operating liabilities:					
Demand deposits of customers		183 214	183 214	48 649	48 649
Term deposits of customers		-508	-508	-22 492	-22 492
Repayments of loans received		0	0	-689	-689
Financial liabilities held for trading at fair value through profit and loss		2	2	-170	-170
Other liabilities		-45 224	-45 224	14 737	14 737
Net cash generated from/used in operating activities		**104 062**	**104 211**	**35 987**	**35 987**
Cash flow from investing activities					
Purchase of non-current assets		-528	-528	-246	-246
Proceeds from disposal of subsidiary		0	0	0	0
Proceeds from disposal and redemption of investment securities available for sale		-106	-106	-6	-6
Net change of investments at fair value through profit or loss		977	977	7 907	7 907
Net cash generated from/used in operating activities		**343**	**343**	**7 655**	**7 655**
Cash flow from investing activities					
Contribution in share capital		10 000	10 000	0	0
Dividends paid		-3 350	- 3350	0	0
Net cash from financing activities		**6 650**	**6 650**	**0**	**0**
Effect of exchange rate changes on cash and cash equivalents		**-15**	**-15**	**61**	**61**
Net decrease/increase in cash and cash equivalents		**111 040**	**111 189**	**43 703**	**43 703**
Cash and cash equivalents at the beginning of the period		940 516	940 516	292 635	292 635
Cash and cash equivalents at the end of the period	**10**	**1 051 556**	**1 051 705**	**336 338**	**336 338**

Condensed Consolidated Interim Statement of Changes in Equity

(in thousands of euros)	Share capital	Share premium	Other reserves	Accumulated deficit/ retained earnings	Total equity attributable to owners of LHV Pank	Non-controlling interest	Total equity
Balance as at 01.01.2017	**56 500**	**888**	**-40**	**20 902**	**78 250**	**1 918**	**80 168**
Transfer to statutory reserve capital	0	604	0	-604	0	0	**0**
Share options	0	0	0	143	143	0	**143**
Profit for the year	*0*	*0*	*0*	*3 849*	*3 849*	*426*	***4 275***
Other comprehensive loss	*0*	*0*	*45*	*0*	*45*	*0*	***45***
Total profit and other comprehensive income for the reporting period	0	0	45	3 849	3 894	426	**4 320**
Balance as at 31.03.2017	**56 500**	**1 492**	**5**	**24 290**	**82 287**	**2 344**	**84 631**
Balance as at 01.01.2018	**59 500**	**1 492**	**36**	**34 963**	**95 991**	**3 530**	**99 521**
Changes in accounting policies	10 000	0	0	0	10 000	0	**10 000**
Transfer to statutory reserve capital	0	699	0	-699	0	0	**0**
Dividends paid	0	0	0	-2 179	-2 179	-1 172	**-3 351**
Share options	0	0	0	187	187	0	**187**
Profit for the year	*0*	*0*	*0*	*3 408*	*3 408*	*184*	***3 592***
Other comprehensive loss	*0*	*0*	*-106*	*0*	*-106*	*0*	***-106***
Total profit and other comprehensive income for the reporting period	0	0	-106	3 408	3 302	184	**3 486**
Balance as at 31.03.2018	**69 500**	**2 191**	**-70**	**35 680**	**107 301**	**2 542**	**109 843**

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 14.

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 Pank and its subsidiaries AS LHV Finance (65% interest).

NOTE 2 Breakdown of Financial Assets and Liabilities by Countries

31.03.2018	**Estonia**	**Latvia**	**Lithuania**	**Finland**	**The Netherlands**	**Germany**	**Other EL**	**USA**	**Other**	**Total**
Due from banks and investment companies	1 049 815	0	0	0	0	0	8 530	8 352	2 068	**1 068 765**
Financial assets at fair value	866	781	17 134	0	0	29 185	1 039	2	0	**49 007**
Loans and advances to customers	674 035	142	47 423	1 125	91	39	26 446	43	3 825	**753 169**
Receivables from customers	9 596	1	5	0	0	0	0	0	0	**9 602**
Other financial assets	109	0	0	0	0	0	0	2 127	0	**2 236**
Total financial assets	**1 734 421**	**924**	**64 562**	**1 125**	**91**	**29 224**	**36 015**	**10 524**	**5 893**	**1 882 779**
Deposits of customers and loans received	922 599	8 923	1 177	4 199	175	845	779 492	2 327	19 560	**1 739 297**
Subordinated debt	20 000	0	0	0	0	0	0	0	0	**20 000**
Financial liabilities at fair value	4	0	0	0	0	0	0	0	0	**4**
Accounts payable and other financial liabilities	13 570	0	4	27	0	0	13	3	0	**13 617**
Total financial liabilities	**956 173**	**8 923**	**1 181**	**4 226**	**175**	**845**	**779 505**	**2 330**	**19 560**	**1 772 918**

Unused loan commitments in the amount of EUR 190 839 thousand are for the residents of Estonia and in the amount of EUR 12 800 thousand for the residents of Lithuania.

31.12.2017	**Estonia**	**Latvia**	**Lithuania**	**Finland**	**The Netherlands**	**Germany**	**Other EL**	**USA**	**Other**	**Total**
Due from banks and investment companies	916 853	0	0	0	0	0	3 051	28 152	7 835	**955 891**
Financial assets at fair value	846	779	17 456	0	0	29 867	1 064	2	0	**50 014**
Loans and advances to customers	650 871	42	37 218	998	91	42	26 580	45	3 503	**719 390**
Receivables from customers	7 351	1	5	0	0	0	0	0	0	**7 357**
Other financial assets	109	0	0	0	0	0	0	2 180	0	**2 289**
Total financial assets	**1 576 030**	**822**	**54 679**	**998**	**91**	**29 909**	**30 695**	**30 379**	**11 338**	**1 734 941**
Deposits of customers and loans received	862 286	5 024	825	2 717	12 505	632	639 608	2 855	30 121	**1 556 573**
Subordinated debt	20 000	0	0	0	0	0	0	0	0	**20 000**
Accounts payable and other financial liabilities	2	0	0	0	0	0	0	0	0	**2**
Financial liabilities at fair value	60 079	0	4	27	0	0	13	3	0	**60 126**

Total financial liabilities	**942 367**	**5 024**	**829**	**2 744**	**12 505**	**632**	**639 621**	**2 858**	**30 121**	**1 636 701**

Unused loan commitments in the amount of EUR 168 228 thousand are for the residents of Estonia and in the amount of EUR 3 300 thousand for the residents of Lithuania.

NOTE 3 Breakdown of Assets and Liabilities by Contractual Maturity Dates

31.03.2018	On demand	0-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities by contractual maturity dates						
Deposits from customers and loans received	1 606 532	44 033	82 773	3 438	2 864	**1 739 640**
Subordinated debt	0	340	1 024	5 455	23 134	**29 953**
Accounts payable and other financial liabilities	0	13 617	0	0	0	**13 617**
Unused loan commitments	0	203 639	0	0	0	**203 639**
Financial guarantees by contractual amounts	0	5 151	0	0	0	**5 151**
Foreign exchange derivatives (gross settled)	0	22 082	0	671	0	**22 753**
Financial liabilities at fair value	0	4	0	0	0	**4**
Total liabilities	**1 606 532**	**288 866**	**83 797**	**9 564**	**25 998**	**2 014 757**
Financial assets by contractual maturity dates						
Due from banks and investment companies	1 068 765	0	0	0	0	**1 068 765**
Financial assets at fair value (debt securities)	0	29 268	2 056	15 706	2 084	**49 114**
Loans and advances to customers	0	48 323	149 325	537 612	100 919	**836 179**
Receivables from customers	0	9 602	0	0	0	**9 602**
Other financial assets	2 236	0	0	0	0	**2 236**
Foreign exchange derivatives	0	22 082	0	671	0	**22 753**
Total financial assets	**1 071 001**	**109 275**	**151 381**	**553 989**	**103 003**	**1 988 649**
Maturity gap from financial assets and liabilities	**-535 531**	**-179 591**	**67 584**	**544 425**	**77 005**	**-26 108**

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	1 423 306	37 104	90 332	3 335	2 864	**1 556 941**
Subordinated debt	0	341	1 022	5 455	23 466	**30 284**
Accounts payable and other financial liabilities	0	60 126	0	0	0	**60 126**
Unused loan commitments	0	171 528	0	0	0	**171 528**
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	**1 423 306**	**286 925**	**91 354**	**9 451**	**26 330**	**1 837 366**
Financial assets by contractual maturity dates						
Due from banks and investment companies	955 891	0	0	0	0	**955 891**
Financial assets at fair value (debt securities)	0	180	30 952	17 005	2 084	**50 221**
Loans and advances to customers	0	45 720	149 634	505 058	95 517	**795 929**
Receivables from customers	0	7 357	0	0	0	**7 357**
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	**958 180**	**65 082**	**180 586**	**522 724**	**97 601**	**1 824 173**

Maturity gap from financial assets and liabilities	**-465 126**	**-221 843**	**89 232**	**513 273**	**71 271**	**-13 193**

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 4 Open Foreign Currency Positions

31.03.2018	**EUR**	**CHF**	**GBP**	**SEK**	**USD**	**Other**	**Total**
Assets bearing currency risk							
Due from banks and investment companies	1 051 438	2 452	5 087	2 668	1 045	6 075	**1 068 765**
Financial assets at fair value	15 360	0	17	1	33 626	3	**49 007**
Loans and advances to customers	751 256	0	7	4	1 885	17	**753 169**
Receivables from customers	8 945	8	383	21	91	155	**9 602**
Other financial assets	288	0	0	0	1 948	0	**2 236**
Total assets bearing currency risk	**1 827 287**	**2 460**	**5 494**	**2 694**	**38 595**	**6 250**	**1 882 779**
Liabilities bearing currency risk							
Deposits from customers and loans received	1 668 602	2 435	20 485	4 287	38 882	4 606	**1 739 297**
Financial liabilities at fair value	7 535	17	1 871	113	337	3 744	**13 617**
Accounts payable and other financial liabilities	0	0	0	0	4	0	**4**
Subordinated debt	20 000	0	0	0	0	0	**20 000**
Total liabilities bearing currency risk	**1 696 137**	**2 452**	**22 356**	**4 400**	**39 223**	**8 350**	**1 772 918**
Open gross position derivative assets at contractual value	671	0	16 671	1 945	1 392	2 074	22 753
Open gross position derivative liabilities at contractual value	22 082	0	0	0	671	0	22 753
Open foreign currency position	**109 738**	**8**	**-191**	**239**	**93**	**-26**	**109 861**

31.12.2017	**EUR**	**CHF**	**GBP**	**SEK**	**USD**	**Other**	**Total**
Assets bearing currency risk							
Due from banks and investment companies	917 110	2 587	28 237	892	1 359	5 707	**955 891**
Financial assets at fair value	15 378	0	0	4	34 603	28	**50 014**
Loans and advances to customers	717 512	0	4	14	1 832	28	**719 390**
Receivables from customers	6 914	7	204	11	145	76	**7 357**
Other financial assets	288	0	0	0	2 001	0	**2 289**
Total assets bearing currency risk	**1 657 202**	**2 594**	**28 445**	**921**	**39 940**	**5 839**	**1 734 941**
Liabilities bearing currency risk							
Deposits from customers and loans received	1 471 237	2 534	33 134	3 558	42 646	3 464	**1 556 573**
Accounts payable and other financial liabilities	56 909	66	260	82	54	2 775	**60 146**
Interest rate swaps	0	0	0	1	1	0	**2**
Subordinated debt	20 000	0	0	0	0	0	**20 000**
Total liabilities bearing currency risk	**1 548 146**	**2 600**	**33 394**	**3 641**	**42 701**	**6 239**	**1 636 721**
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	**97 968**	**-6**	**10**	**43**	**155**	**51**	**98 220**

NOTE 5 Breakdown of Loan Portfolio by Economic Sectors

	31.03.2018	%	31.12.2017	%
Individuals	146 931	19,3%	141 199	19,4%
Real estate activities	204 466	26,9%	197 695	27,2%
Financial activities	131 023	17,2%	114 888	15,8%
Manufacturing	70 369	9,2%	68 251	9,4%
Professional, scientific and technical activities	15 112	2,0%	13 948	1,9%
Wholesale and retail trade	19 847	2,6%	21 081	2,9%
Other service activities	14 396	1,9%	15 480	2,1%
Arts and entertainment	32 077	4,2%	29 289	4,0%
Transportation and storage	5 910	0,8%	5 869	0,8%
Agriculture	9 642	1,3%	8 717	1,2%
Administrative and support service activities	25 387	3,3%	33 941	4,7%
Construction	19 603	2,6%	19 414	2,7%
Education	2 229	0,3%	2 217	0,3%
Information and communication	8 017	1,1%	8 430	1,2%
Other sectors	55 812	7,3%	45 871	6,3%
Total	**760 821**	**100%**	**726 290**	**100%**
Provision	-7 652		-6 900	
Total loan portfolio	**753 169**	**100%**	**719 390**	**100%**

Loans to related parties were 31.03.2018 EUR 50'259 thousand (31.12.2017: 39 594), from which 47'295 (31.12.2017 36'775) thousand were given to other subsidiaries of parent company AS LHV Group. Loans have been given out on market terms.

NOTE 6 Fair Value of Financial Assets and Liabilities

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

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

	Level 1	Level 2	Level 3	31.03.2018	Level 1	Level 2	Level3	31.12.2017
Financial assets at fair value through profit and loss								
Shares and fund units	53	0	0	**53**	71	0	0	**71**
Available-for-sale bonds and shares	555	0	220	**775**	555	0	220	**775**
Bonds at fair value through profit and loss	48 113	0	0	**48 113**	49 138	0	0	**49 138**
Interest rate swaps and foreign exchange forwards	0	66	0	**66**	0	30	0	**30**
Total financial assets	**48 721**	**66**	**220**	**49 007**	**49 984**	**30**	**0**	**50 014**
Financial liabilities at fair value through profit and loss								
Interest rate swaps and foreign exchange forwards	0	4	0	**4**	0	2	0	**2**
Total financial liabilities	**0**	**4**	**0**	**4**	**0**	**2**	**0**	**2**

Hierarchy levels:

1. Level 1 – the price quoted on active market

2. Level 2 – a technique which uses market information as input (rates and interest curves of arms-length transactions)

3. Level 3 – other methods (e.g. discounted cash flow method) with estimations as input

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

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

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 are received in 2014-2016. From all the subordinated loans 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 7 Net Interest Income

Interest income	**Q1 2018**	**3M 2018**	**Q1 2017**	**3M 2017**
Business loans	5 577	5 577	4 742	4 742
including loans between related parties	6	6	7	7
Hire purchase	1 029	1 029	1 097	1 097
Leasing	565	565	464	464
including loans between related parties	1	1	2	2
Laenud to other Group entities	309	309	239	239
Leverage loans and lending of securities	132	132	86	86
Bonds	36	36	62	62
Creditcard loans	186	186	163	163
Consumer loans	1 195	1 195	860	860
Balances with credit institutions and investment companies	15	15	4	4
Other loans	1 842	1 842	346	346
including loans between related parties	6	6	6	6
Total	**10 886**	**10 886**	**8 063**	**8 063**

Interest expense				
Deposits of customers and loans received	-382	-382	-278	-278
Balances with the central bank	-970	-970	-274	-274
Subordinated liabilities	-340	-340	-343	-343
Total	**-1 692**	**-1 692**	**-895**	**-895**

Net interest income	**9 194**	**9 194**	**7 168**	**7 168**

Interest income on loans by customer location (interest on bank balances and bonds excluded):	**Q1 2018**	**3M 2018**	**Q1 2017**	**3M 2017**
Estonia	10 835	10 835	7 737	7 737
Latvia	0	0	0	0
Lithuania	0	0	260	260
Total	**10 835**	**10 835**	**7 997**	**7 997**

NOTE 8 Net Fee and Commission Income

Fee and commission income	**Q1 2018**	**3M 2018**	**Q1 2017**	**3M 2017**
Security brokerage and commissions paid	639	639	1 030	1 030
Asset management and similar fees	508	508	393	393
Currency conversion revenues	308	308	337	337
Fees from cards and payments	1 254	1 254	1 156	1 156
Other fee and commission income	1 094	1 094	257	257
Total	**3 803**	**3 803**	**3 173**	**3 173**
Fee and commission expense				
Security brokerage and commissions paid	-139	-139	-250	-250
Expenses related to cards	-562	-562	-444	-444
Expenses related to acquiring	-536	-536	-386	-386
Other fee and commission expense	-315	-315	-275	-275
Total	**-1 552**	**-1 552**	**-1 355**	**-1 355**
Net fee and commission income	**2 251**	**2 251**	**1 818**	**1 818**

Fee and commission income by customer location:	**Q1 2018**	**3M 2018**	**Q1 2017**	**3M 2017**
Estonia	3 803	3 803	3 096	3 096
Latvia	0	0	0	0
Lithuania	0	0	77	77
Total	**3 803**	**3 803**	**3 173**	**3 173**

NOTE 9 Operating Expenses

	Q1 2018	**3M 2018**	**Q1 2017**	**3M 2017**
Wages, salaries and bonuses	2 553	2 553	2 129	2 129
Social security and other taxes*	747	747	640	640
Total personnel expenses	**3 300**	**3 300**	**2 769**	**2 769**
IT expenses	426	426	309	309
Information services and bank services	132	132	127	127
Marketing expenses	381	381	299	299
Office expenses	134	134	123	123
Transportation and communication expenses	45	45	47	47
Staff training and business trip expenses	177	177	58	58
Other outsourced services	520	520	347	347
Other administrative expenses	423	423	340	340

Depreciation of non-current assets	236	236	207	207
Operational lease payments	265	265	235	235
Other operating expenses	58	58	41	41
Total other operating expenses	**2 797**	**2 797**	**2 133**	**2 133**
Total operating expenses	**6 097**	**6 097**	**4 902**	**4 902**

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

NOTE 10 Balances with the Central Bank, Credit Institutions and Investment Companies

	31.03.2018	**31.12.2017**
Term deposits with maturity less than 3 months*	27 824	35 177
Legal reserve with the central bank	17 209	15 375
Other receivables from central bank*	1 023 732	905 339
Total	**1 068 765**	**955 891**
*Cash and cash equivalents in the Statement of Cash Flows	1 051 556	940 516

The breakdown of receivables by countries has been presented in Note 2. Demand deposits include receivables from investment companies in the total amount of EUR 8 352 thousand (31 December 2017: EUR 14 186 thousand). All other demand and term deposits are held with credit institutions and the central bank.

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

NOTE 11 Deposits of Customers and Loans Received

Deposits/loans by type	**Individuals**	**Legal entities**	**Public sector**	**31.03.2018**
Demand deposits	301 864	1 299 199	5 376	1 606 439
Term deposits	50 202	70 867	5 534	126 603
Loans received	0	6 000	0	6 000
Accrued interest liability	153	93	9	255
Total	**352 219**	**1 376 159**	**10 919**	**1 739 297**

Deposits/loans by type	**Individuals**	**Legal entities**	**Public sector**	**31.12.2017**
Demand deposits	278 430	1 138 590	6 203	1 423 223
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**	**1 214 898**	**12 026**	**1 556 573**

LHV Pank signed an unsecured 10-year loan agreement with the European Investment Fund (EIF) in the amount of EUR 12.5 million to increase the borrowing possibilities of small and medium-sized enterprises. As at 31.12.2017, 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 12 Assets Under management

AS LHV Pank, operating as an account manager for its customers, has custody of or intermediates the following customer assets:	**31.03.2018**	**31.12.2017**
Cash balance of customers	10 742	10 266
Securities of customers	**1 221 516**	**1 277 535**

Incl. parent company	*94 300*	*84 300*
Incl. shareholders of the parent company and related entities	*180 935*	*168 637*
Total	**1 232 258**	**1 287 801**

NOTE 13 Contingent Liabilities

Irrevocable transactions	Performance guarantees	Financial guarantees	Letter of credit	Unused loan commitments	Total
Liability in the contractual amount as at 31 March 2018	11 422	5 151	0	203 639	**220 212**
Liability in the contractual amount as at 31 December 2017	10 129	5 999	51	171 528	**187 707**

NOTE 14 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

General information

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Management board	Erki Kilu, Jüri Heero, Andres Kitter, Indrek Nuume, Martti Singi, Meelis Paakspuu