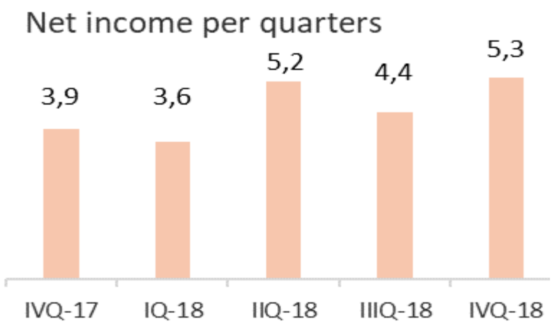
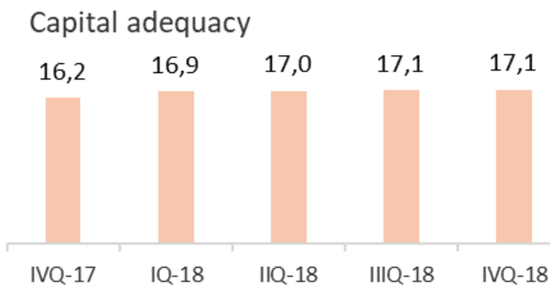
Interim Report January – December 2018
Summary of Results

Q4 2018 in comparison with Q3 2018

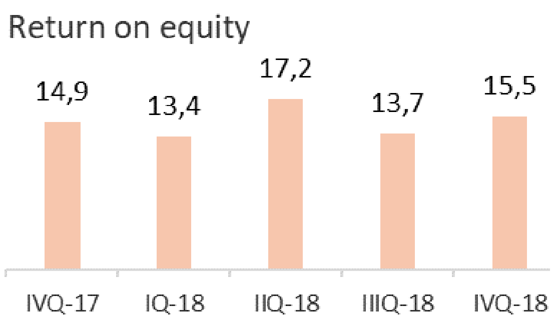
- Net profit EUR 5.3 m (EUR 4.4 m), of which EUR 4.6 m (EUR 3.9 m) is attributable to owners of the parent
- Net income EUR 13.4 m (EUR 13.1 m)
- Operating expenses EUR 7.0 m (EUR 6.3 m)
- Loan provisions EUR 0.5 m (EUR 1.9 m)
- Income tax expenses EUR 0.5 m (EUR 0.5 m)
- Return on equity 15.5% (13.7%)
- Capital adequacy 17.14% (17.06%)





Q4 2018 in comparison with Q4 2017

- Net profit EUR 5.3 m (EUR 3.9 m), of which EUR 4.6 m (EUR 3.5 m) is attributable to owners of the parent
- Net income EUR 13.4 m (EUR 9.8 m)
- Operating expenses EUR 7.0 m (EUR 5.4 m)
- Loan provisions EUR 0.5 m (EUR 0.5 m)
- Income tax expenses EUR 0.5 m (EUR 0 m)
- Return on equity 15.5% (14.9%)
- Capital adequacy 17.14% (16.75%)



Return on equity ratios is 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

Growth in the number of new customers accelerated in Q4, compared to previous quarters. Customer numbers grew by 7,500 during the quarter, with record-breaking levels of customer activity. The bank's deposit volume shrank by EUR -204 million during the quarter, with the loan stock growing by EUR 107 million. The deposit and loan base continued its strong growth. Standard customer deposits grew by EUR 114 million, with the deposits of financial institutions shrinking by EUR -318 million. Corporate loans grew by EUR 75 million and retail loans by EUR 31 million. Profit for the quarter amounted to EUR 5.8 million before taxes, with the net profit amounting to EUR 5.3 million.

At the beginning of the quarter, the Financial Supervision Authority submitted its annual supervisory assessment and the additional own funds requirement in the capital adequacy calculations. Changes were introduced in both the composition of and the requirements for additional own funds, compared to last year. Considering the larger systemic risk buffer imposed on the bank as of 1 January 2019, the Supervisory Board decided to set the minimum total capital ratio at 15.50%. At the end of the quarter, the bank issued new subordinated bonds of AS LHV Group in the total amount of EUR 10 million, with the aim of strengthening the bank's capital base for expanding business volumes.

The LHV car insurance was launched during the quarter in cooperation with Compensa, consisting of the following: LHV motor third party liability insurance, LHV casco insurance and LHV super casco insurance. During the quarter, the bank joined the EBA Clearing Instant Payments real-time euro payment system, adopting the transcript payments system and real-time incoming euro payments. Real-time outgoing euro payments will be adopted at the beginning of next year. The Baltic shares purchase and sales transactions were opened in the mobile bank.

At the beginning of the quarter, the bank's organisational structure was changed, especially with regard to retail banking and financial institutions. Four major product management areas were created: customers and channels, investment, financing, and payment services.

The aim of creating the product management areas was to centralise the management of similar products at a level lower than the management, and to improve the cooperation between product management and development in specific product groups.

Moody’s Investors Service gave the bank an investment grade rating, with a stable outlook. It was the first time ever for the bank to receive a credit rating from an international rating agency. In establishing the rating, Moody's took account of the bank's strong capitalisation and profitability, which balances the bank's aggressive growth and the relatively recent loan portfolio. The credit rating is bound to support international business pursuits, facilitating correspondent relations with other banks, cooperation with international institutions in the provision of financing solutions or guarantees to customers, and enhancing the options of trade financing.

At the end of the quarter, the bank and AS Versobank (under liquidation) entered into a contract, pursuant to which the bank will acquire EUR 18.4 million worth of AS Versobank's loan stock. The exact price will be determined as of 1 January 2019. The price will be paid in lump sum upon completion of the transaction. The loan portfolio will be acquired as a loan stock company, consisting of loan and collateral agreements and two employees associated with the portfolio. The claims arising from the loan portfolio against Estonian corporate customers amount to nearly EUR 17 million, and the claims against Estonian-resident private customers to nearly EUR 3 million. Pursuant to the contract, the acquisition transaction is scheduled to be completed on 28 January 2019, with the satisfactory results of the audit of the loan portfolio serving as the precondition for completion of the transaction.

Financial Summary

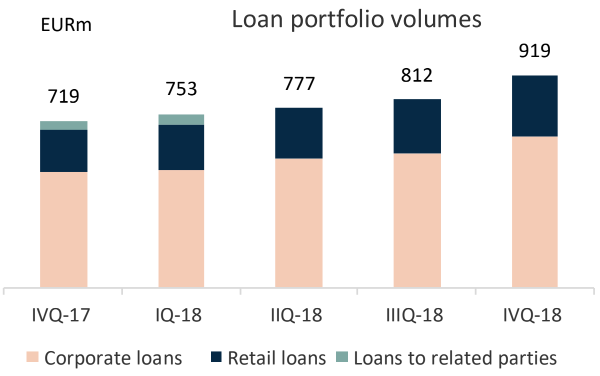
Q4 was successful in terms of business volumes. LHV Pank generated EUR 10.6 million in net interest income and EUR 2.5 million in net fee and commission income. In total, the bank's net income amounted to EUR 13.4 million, expenditure to EUR 7.0 million and loan provisions to EUR 0.5 million. Financial income was 0.2 million in Q4. LHV Pank is accounting from Q2 14% advance income tax, which generated corporate income tax in amount of 0.5 million euro

The net profit of LHV Pank amounted to EUR 5.3 million in Q4. This constitutes a 20% increase from Q3 (4.4) and a 34% increase from Q4 2017 (3.9).

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 Q4, the total volume of the bank's loan portfolios amounted to EUR 919 million (Q3: EUR 812 million). The volume of portfolios grew 13% over the quarter. Retail loans portfolio grow 13% within quarter and has reached EUR 268 million (Q3 2018: EUR 237 million). Loan portfolio increased by EUR 107 million in Q4 (Q3 2018: EUR 35 million).

Banks deposits decreased 12% within a quarter and reached EUR 1 448 million by end of December (Q3 EUR 1 652 million). Financial intermediates deposits decreased by EUR 317 million. EUR 1 330 million were demand deposits and EUR 118 million were term deposits. Private individuals deposits reached EUR 423 million increasing 4% q-t-q. Outstanding bond portfolio was EUR 39 million, decreasing 5% comparing to end of Q3.



Income statement

EUR million	Q4 2018	Q3 2018	Quarter over quarter	Q4 2017	Year over year
Net interest income	10,58	9,65	10%	8,38	26%
Net fee and commission income	2,47	2,59	-5%	1,93	28%
Other financial income	0,23	0,05	360%	-0,48	-149%
Total net operating income	13,28	12,29	8%	9,83	35%
Other income	0,12	0,77	-84%	0,04	200%
Operating expenses	-7,04	-6,32	11%	-5,41	30%
Loan losses	-0,54	-1,86	-71%	-0,53	2%
Income tax expenses	-0,54	-0,50	8%	0,00	-
Net profit	5,27	4,38	20%	3,93	34%

Business volumes

EUR million	31.12.2018	31.12.2017	Change
Loan portfolio	918,8	719,4	28%
Financial investments	39,0	50,0	-22%
Deposits of customers	1 448,0	1 550,6	-7%

incl. deposits of financial intermediates	193,9	606,6	-68%
Equity (including minority interest)	125,6	99,5	26%
Assets managed by bank	161 357	133 655	21%

Ratios EUR million	**Q4 2018**	**Q3 2018**	**Quarter over quarter**	**Q4 2017**	**Year over year**
Net profit	5,3	4,4	0,9	3,9	1,4
Net profit attributable to owners of the parent	4,6	3,9	0,7	3,5	1,1
Average equity	119,0	114,4	4,6	94,1	24,9
Return on equity (ROE), %	15,5	13,7	1,8	14,9	0,6
Return on assets (ROA), %	1,21	0,99	0,22	1,00	0,21
Net interest income	10,6	9,6	1,0	8,4	2,2
Interest-bearing assets, average	1 736,0	1 766,2	-30,2	1 536,6	172,4
Net interest margin (NIM) %	2,44	2,18	0,26	2,14	0,3
Price spread (SPREAD) %	2,42	2,120	0,20	2,13	0,29
Cost/income ratio %	52,5	48,4	4,1	54,8	--2,3

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

Liquidity and capitalisation

The Bank's liquidity coverage ratio (LCR), as defined by the Basel Committee, stood at 143.9% as at the end of December (31 December 2017: 121.1%). Banks liquidity situation remained same in Q3, 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 223.9%. The Bank recognises cash and bond portfolios as liquidity buffers. These accounted for 44% of the balance sheet (31 December 2017: 58%). The ratio of loans to deposits stood at 49% as at the end of the third 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 December were EUR 143.8 million (31.12.2017 EUR 113.9 million).

Bank is adequately capitalized at end of the reporting periood, capital adequacy was 17.14% (31.12.2017: 16.75%), calculated according to CRR IV directive. Banks capital adequacy exceeds internal capital targets, which is 15.50%.

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 *(in thousands of euros)*	**31.12.2018**	**31.12.2017**
Paid-in share capital	69 500	59 500
Statutory reserves paid in from net profit	2 269	1 528
Accumulated profit/deficit	31 442	19 891
Intangible assets (subtracted)	-1 286	-951
Net profit for the reporting period	12 046	13 909
Other adjustments	-193	0
Total Tier 1 capital	**113 778**	**93 877**
Subordinated debt	30 000	20 000
Total Tier 2 capital	**30 000**	**20 000**
Net own funds for capital adequacy	**143 778**	**113 877**
Capital requirements		
Central governments and central bank under standard method	939	945
Credit institutions and investment companies under standard method	5 213	5 886
Companies under standard method	579 886	465 202
Retail claims under standard method	133 053	107 197
Public sector under standard method	125	185
Housing real estate under standard method	39 903	20 039
Overdue claims under standard methods	10 381	20 915

Other assets under standard method	9 055	10 169
Total capital requirements for covering the credit risk and counterparty credit risk	**778 555**	**630 539**
Capital requirement against foreign currency risk under standard method	305	409
Capital requirement against interest position risk under standard method	32	412
Capital requirement against equity portfolio risks under standard method	704	585
Capital requirement against credit valuation adjustment risks under standard method	41	15
Capital requirement for operational risk under base method	59 434	47 754
Total capital requirements for adequacy calculation	**839 071**	**679 714**
Capital adequacy (%)	**17,14**	**16,75**
Tier 1 capital ratio (%)	**13,56**	**13,81**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

(in thousands of euros)	Note	Q4 2018	12M 2018	Q4 2017	12 M2017
Interest income		12 197	45 622	9 764	35 492
Interest expense		-1 616	-6 601	-1 383	-4 358
Net interest income	7	**10 581**	**39 021**	**8 381**	**31 134**
Fee and commission income		4 750	18 902	3 581	13 096
Fee and commission expense		-2 285	-7 799	-1 656	-5 401
Net fee and commission income	8	**2 465**	**11 103**	**1 925**	**7 695**
Net gains/losses from financial assets measured at fair value		238	404	31	420
Foreign exchange gains/losses		-7	64	-506	265
Net gains from financial assets		**231**	**468**	**-475**	**685**
Other income/(expense)		123	951	41	6
Total other income		**123**	**951**	**41**	**6**
Staff costs	9	-3 810	-13 878	-3 079	-11 287
Administrative and other operating expenses	9	-3 232	-11 865	-2 331	-9 128
Total expenses		**-7 042**	**-25 743**	**-5 410**	**-20 415**
Profit before impairment losses on loans and advances		**6 358**	**25 800**	**4 462**	**19 105**
Income tax expense		-544	-2 514	0	0
Impairment losses on loans and advances		-542	-4 879	-534	-3 584
Net profit for the reporting period		**5 272**	**18 407**	**3 928**	**15 521**
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Available-for-sale investments:					
Revaluation of available-for-sale financial assets		78	42	-6	76
Total profit and other comprehensive income for the reporting period		**5 350**	**18 449**	**3 922**	**15 597**
Total profit of the reporting period attributable to:					

Owners of the parent	4 596	16 642	3 504	13 909
Non-controlling interest	676	1 765	424	1 612
Total profit for the reporting period	**5 272**	**18 407**	**3 928**	**15 521**
Total comprehensive income attributable to:				
Owners of the parent	4 674	16 684	3 498	13 985
Non-controlling interest	676	1 765	424	1 612
Total comprehensive income for the reporting period	**5 350**	**18 449**	**3 922**	**15 597**

Condensed Consolidated Interim Statement of Financial Position

(in thousands of euros)	Note	31.12.2018	31.12.2017
Assets			
Due from central bank	10	639 862	920 714
Due from credit institutions	10	24 979	20 991
Due from investment companies	10	17 005	14 186
Available-for-sale financial assets		298	775
Financial assets at fair value through profit or loss		38 913	49 239
Loans and advances to customers	5	918 761	719 390
Receivables from customers		2 509	7 357
Other financial assets		2 936	2 289
Other assets		1 341	836
Tangible assets		1 122	1 225
Intangible assets		1 286	952
Total assets		**1 649 012**	**1 737 954**
Liabilities			
Deposits of customers and loans received	11	1 469 561	1 556 573
Financial liabilities at fair value through profit or loss		11	2
Accounts payable and other liabilities		23 861	61 858
Subordinated debt		30 000	20 000
Total liabilities		**1 523 433**	**1 638 433**
Owner's equity			
Share capital		69 500	59 500
Statutory reserve capital		2 191	1 492
Other reserves		78	36
Retained earnings		49 686	34 963
Total equity attributable to owners of the parent		**121 456**	**95 991**
Non-controlling interest		4 123	3 530
Total equity		**125 579**	**99 521**

Total liabilities and equity	**1 649 012**	**1 737 954**

Condensed Consolidated Interim Statement of Cash Flows

(in thousands of euros)	Note	Q4 2018	12M 2018	Q4 2017	12M 2017
Cash flow from operating activities					
Interest received		12 379	45 574	9 253	35 133
Interest paid		-1 890	-6 621	-1 384	-4 642
Fees and commissions received		4 750	18 902	3 585	13 107
Fees and commissions paid		-2 285	-7 799	-1 660	-5 412
Other income		123	950	41	6
Staff costs paid		-3 370	-13 077	-2 789	-10 386
Administrative and other operating expenses paid		-2 910	-10 700	-2 100	-8 254
Income tax		-501	-1 970	0	0
Cash flow from operating activities before change in operating assets and liabilities		**6 296**	**25 259**	**4 946**	**19 552**
Net increase/decrease in operating assets:					
Net acquisition/disposal of trading portfolio		-30	-115	47	278
Loans and advances to customers		-103 471	-199 259	-72 587	-196 515
Mandatory reserve at central bank		2 088	1 094	-2 689	-7 639
Security deposits		-249	-647	32	-1 348
Other assets		-700	-449	1 206	-92
Net increase/decrease in operating liabilities:					
Demand deposits of customers		-192 612	-93 323	266 962	791 270
Term deposits of customers		-11 084	-9 316	3 242	-25 052
Loans received		9 278	15 528	6 000	6 000
Repayments of loans received		0	0	0	-779
Financial liabilities held for trading at fair value through profit and loss		9	8	2	-207
Other liabilities		-1 595	-38 414	52 045	45 226
Net cash generated from/used in operating activities		**-292 070**	**-299 634**	**259 206**	**630 694**
Cash flow from investing activities					
Purchase of non-current assets		-224	-1 395	-541	-1 277

Proceeds from disposal of subsidiary		0	0	0	0
Proceeds from disposal and redemption of investment securities available for sale		1	520	-6	100
Net change of investments at fair value through profit or loss		2 116	10 845	3 663	15 099
Net cash flow from investing activities		**1 893**	**9 970**	**3 116**	**13 922**
Cash flows from financing activities					
Contribution in share capital		0	10 000	0	3 000
Subordinated loan received		10 000	10 000	0	0
Dividends paid		0	- 3 350	0	0
Net cash from financing activities		**10 000**	**16 650**	**0**	**3 000**
Effect of exchange rate changes on cash and cash equivalents		**-7**	**64**	**-506**	**265**
Net decrease/increase in cash and cash equivalents		**-280 184**	**-272 950**	**261 816**	**647 881**
Cash and cash equivalents at the beginning of the period		947 750	940 516	678 700	292 635
Cash and cash equivalents at the end of the period	**10**	**667 566**	**667 566**	**940 516**	**940 516**

Condensed Consolidated Interim Statement of Changes in Equity

(in thousands of euros)	**Share capital**	**Statutory reserve capital**	**Other reserves**	**Accumulated deficit/ retained earnings**	**Total**	**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	3 000	0	0	0	3 000	0	**3 000**
Share options	0	604	0	-604	0	0	**0**
Paid in share capital	0	0	0	756	756	0	**756**
Profit for the year	*0*	*0*	*0*	*13 909*	*13 909*	*1 612*	***15 521***
Other comprehensive loss	*0*	*0*	*76*	*0*	*76*	*0*	***76***
Total profit and other comprehensive income for the reporting period	0	0	76	13 909	13 985	1 612	**15 597**
Balance as at 31.12.2017	**59 500**	**1 492**	**36**	**34 963**	**95 991**	**3 530**	**99 521**
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	960	960	0	**960**
Profit for the year	*0*	*0*	0	16 642	16 642	1 765	**18 407**
Other comprehensive loss	*0*	*0*	42	0	42	0	**42**
Total profit and other comprehensive income for the reporting period	0	0	42	16 642	16 684	1 765	**18 449**
Balance as at 31.12.2018	**69 500**	**2 191**	**78**	**49 687**	**121 456**	**4 123**	**125 579**

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

31.12.2018	Estonia	Latvia	Lit-huania	Finland	The Nether-lands	Ger-many	Other EU	USA	Other	Total
Due from banks and investment companies	649 509	0	0	0	0	0	13 599	16 541	2 197	**681 846**
Financial assets at fair value	449	772	17 242	0	0	1	20 704	43	0	**39 211**
Loans and advances to customers	886 881	52	10 561	1 524	1	6	18 432	175	1 129	**918 761**
Receivables from customers	2 494	1	5	0	0	0	0	0	9	**2 509**
Other financial assets	111	0	0	0	0	0	0	2 825	0	**2 936**
Total financial assets	**1 539 444**	**825**	**27 808**	**1 524**	**1**	**7**	**52 735**	**19 584**	**3 335**	**1 645 263**
Deposits of customers and loans received	1 179 791	10 041	951	3 414	576	13 274	220 173	3 085	38 256	**1 469 561**
Subordinated debt	30 000	0	0	0	0	0	0	0	0	**30 000**
Accounts payable and other financial liabilities	11	0	0	0	0	0	0	0	0	**11**
Other financial assets	20 901	0	4	27	0	0	13	3	0	**20 948**
Total financial liabilities	**1 230 703**	**10 041**	**955**	**3 441**	**576**	**13 274**	**220 186**	**3 088**	**38 256**	**1 520 520**

Unused loan commitments in the amount of EUR 188 841 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	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

31.12.2018	**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	1 330 018	24 949	94 113	16 780	4 390	**1 470 250**
Subordinated debt	0	504	1 510	8 055	35 333	**45 402**
Accounts payable and other financial liabilities	0	20 948	0	0	0	**20 948**
Unused loan commitments	0	188 841	0	0	0	**188 841**
Financial guarantees by contractual amounts	0	9 314	0	0	0	**9 314**
Foreign exchange derivatives (gross settled)	0	18 559	0	610	0	**19 169**
Financial liabilities at fair value	0	11	0	0	0	**11**
Total liabilities	**1 330 018**	**263 126**	**95 623**	**25 445**	**39 723**	**1 753 935**
Financial assets by contractual maturity dates						
Due from banks and investment companies	681 846	0	0	0	0	**681 846**
Financial assets at fair value (debt securities)	0	20 690	0	15 845	2 161	**38 696**
Loans and advances to customers	0	63 584	198 293	634 077	154 853	**1 050 807**
Receivables from customers	0	2 509	0	0	0	**2 509**

Other financial assets	0	18 559	0	610	0	**19 169**
Foreign exchange derivatives (gross settled)	2 936	0	0	0	0	**2 936**
Total financial assets	**684 782**	**105 342**	**198 293**	**650 532**	**157 014**	**1 795 963**
Maturity gap from financial assets and liabilities	**-645 236**	**-157 784**	**102 670**	**625 087**	**117 291**	**42 028**

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

31.12.2018	**EUR**	**CHF**	**GBP**	**SEK**	**USD**	**Other**	**Total**

Assets bearing currency risk							
Due from banks and investment companies	650 363	2 224	18 319	2 536	1 430	6 973	**681 846**
Financial assets at fair value	14 807	0	1 174	1	23 230	0	**39 211**
Loans and advances to customers	902 843	0	14 707	220	957	34	**918 761**
Receivables from customers	1 590	0	374	42	0	503	**2 509**
Other financial assets	840	0	0	0	2 096	0	**2 936**
Total assets bearing currency risk	**1 570 443**	**2 224**	**34 574**	**2 799**	**27 713**	**7 511**	**1 645 263**
Liabilities bearing currency risk							
Deposits from customers and loans received	1 382 450	2 194	41 600	6 363	29 297	7 657	**1 469 561**
Accounts payable and other financial liabilities	14 819	50	2 238	410	120	3 311	**20 948**
Interest rate swaps	0	0	0	0	3	8	**11**
Subordinated debt	30 000	0	0	0	0	0	**30 000**
Total liabilities bearing currency risk	**1 427 269**	**2 244**	**43 838**	**6 773**	**29 420**	**10 976**	**1 520 520**
Open gross position derivative assets at contractual value	610	0	9 166	3 973	2 186	3 234	19 169
Open gross position derivative liabilities at contractual value	18 559	0	0	0	610	0	19 169
Open foreign currency position	**125 225**	**-20**	**-98**	**-2**	**-130**	**-232**	**124 743**

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**
Financial liabilities at fair value	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

	31.12.2018	**%**	**31.12.2017**	**%**
Individuals	214 702	23,1%	141 199	19,4%
Real estate activities	246 930	26,6%	197 695	27,2%

Financial activities	95 697	10,3%	114 888	15,8%
Manufacturing	98 073	10,6%	68 251	9,4%
Professional, scientific and technical activities	18 779	2,0%	13 948	1,9%
Wholesale and retail trade	24 378	2,6%	21 081	2,9%
Other service activities	25 669	2,8%	15 480	2,1%
Arts and entertainment	34 582	3,7%	29 289	4,0%
Transportation and storage	11 076	1,2%	5 869	0,8%
Agriculture	20 231	2,2%	8 717	1,2%
Administrative and support service activities	39 808	4,3%	33 941	4,7%
Construction	35 808	3,9%	19 414	2,7%
Education	2 391	0,3%	2 217	0,3%
Information and communication	4 115	0,4%	8 430	1,2%
Other sectors	56 798	6,1%	45 871	6,3%
Total	**929 037**	**100%**	**726 290**	**100%**
Provision	-10 276		-6 900	
Total loan portfolio	**918 761**	**100%**	**719 390**	**100%**

Loans to related parties were 31.12.2018 EUR 3 328 thousand (31.12.2017: 39 594). At 31.12.2017 outstanding balance of loans given to related parties was EUR 36 775 thousand 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	31.12.2018	Level 1	Level 2	Level 3	31.12.2017
Financial assets at fair value through profit and loss								
Shares and fund units	157	0	0	**157**	71	0	0	**71**
Available-for-sale bonds and shares	0	0	298	**298**	555	0	220	**775**
Bonds at fair value through profit and loss	38 697	0	0	**38 697**	49 138	0	0	**49 138**
Interest rate swaps and foreign exchange forwards	0	59	0	**59**	0	30	0	**30**
Total financial assets	**38 854**	**59**	**298**	**39 211**	**49 984**	**30**	**0**	**50 014**

Financial liabilities at fair value through profit and loss								
Interest rate swaps and foreign exchange forwards	0	11	0	**11**	0	2	0	**2**
Total financial liabilities	**0**	**11**	**0**	**11**	**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.

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 12 December 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 2014-2018. 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	**Q4 2018**	**12M 2018**	**Q4 2017**	**12M 2017**
Business loans	7 796	27 701	5 304	20 784
including loans between related parties	8	30	6	27
Hire purchase	1 029	4 055	1 021	4 182
Leasing	598	2 439	443	1 845
including loans between related parties	1	4	2	6
Leverage loans and lending of securities	103	456	100	147
Bonds	31	136	42	206
Creditcard loans	202	770	183	694
Consumer loans	1 493	5 313	1 160	4 018
Balances with credit institutions and investment companies	38	141	21	39
Other loans	907	4 611	1 246	2 658
including loans between related parties	9	30	11	30
Total	**12 197**	**45 622**	**9 764**	**35 492**

Interest expense				
Deposits of customers and loans received	-598	-1 881	-328	-1 218
Balances with the central bank	-678	-3 360	-715	-1 773
Subordinated liabilities	-340	-1 360	-340	-1 367
Total	**-1 616**	**-6 601**	**-1 383**	**-4 358**
Net interest income	**10 581**	**39 021**	**8 381**	**31 134**

Interest income on loans by customer location (interest on bank balances and bonds excluded):	**Q4 2018**	**12M 2018**	**Q4 2017**	**12M 2017**
Estonia	11 278	32 694	9 457	34 307
Lithuania	0	523	244	940
Total	**11 278**	**33 217**	**9 701**	**35 247**

NOTE 8 Net Fee and Commission Income

Fee and commission income	**Q4 2018**	**12M 2018**	**Q4 2017**	**12M 2017**
Security brokerage and commissions paid	535	3 687	600	3 072
Asset management and similar fees	602	2 429	487	1 690
Currency conversion revenues	528	1 639	312	977
Fees from cards and payments	2 412	8 766	1 631	5 875
Other fee and commission income	673	2 381	551	1 482
Total	**4 750**	**18 902**	**3 581**	**13 096**
Fee and commission expense				
Security brokerage and commissions paid	-127	-544	-124	45
Expenses related to cards	-854	-2 765	-601	-2 026
Expenses related to acquiring	-820	-2 834	-567	-1 982
Other fee and commission expense	-484	-1 656	-364	-1 438
Total	**-2 285**	**-7 799**	**-1 656**	**-5 401**
Net fee and commission income	**2 465**	**11 103**	**1 925**	**7 695**

Fee and commission income by customer location:	**Q4 2018**	**12M 2018**	**Q4 2017**	**12M 2017**
Estonia	4 750	18 902	3 581	13 019
Latvia	0	0	0	0
Lihuania	0	0	0	77
Total	**4 750**	**18 902**	**3 581**	**13 096**

NOTE 9 Operating Expenses

	Q4 2018	**12M 2018**	**Q4 2017**	**12M 2017**
Wages, salaries and bonuses	2 975	10 687	2 382	8 715
Social security and other taxes*	835	3 191	697	2 572
Total personnel expenses	**3 810**	**13 878**	**3 079**	**11 287**

IT expenses	659	2 011	459	1 458
Infoteenused ja pangateenused	160	573	129	513
Marketing expenses	453	1 609	328	1 368
Office expenses	245	634	105	414
Transportation and communication expenses	63	204	52	185
Staff training and business trip expenses	154	585	200	437
Other outsourced services	458	1 988	330	1 481
Other administrative expenses	337	1 715	150	1 251
Depreciation of non-current assets	322	1 164	233	874
Operational lease payments	261	1 074	278	949
Other operating expenses	120	308	67	198
Total other operating expenses	**3 232**	**11 865**	**2 331**	**9 128**
Total operating expenses	**7 042**	**25 743**	**5 410**	**20 415**

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

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

	31.12.2018	**31.12.2017**
Term deposits with maturity less than 3 months*	41 984	35 177
Legal reserve with the central bank	14 280	15 375
Other receivables from central bank*	625 582	905 339
Total	**681 846**	**955 891**
*Cash and cash equivalents in the Statement of Cash Flows	667 566	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 17 005 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 December 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**	**Financial intermediates**	**Legal entities**	**Public sector**	**31.12.2018**
Demand deposits	374 491	193 893	753 582	7 935	1 329 901
Term deposits	57 605	0	54 456	5 734	117 795
Loans received	0	0	21 528	0	21 528
Accrued interest liability	197	0	131	9	337

Total	**432 293**	**193 893**	**829 697**	**13 678**	**1 469 561**

	Individuals	Financial intermediates	Legal entities	Public sector	31.12.2017
Demand deposits	278 430	606 600	531 990	6 203	1 423 223
Term deposits	51 075	0	70 221	5 816	127 112
Loans received	0	0	6 000	0	6 000
Accrued interest liability	144	0	87	7	238
Total	**329 649**	**606 600**	**608 298**	**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 31.12.2018, the Bank had utilized 12 250 thousand euros of the loan amount and repaid the principal in the amount of EUR 722 thousand euros. From Nordic Investment Bank possible 20 000 thousand euro loan the Bank had utilized 10 000 thousand euros as of 31.12.2018.

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:	31.12.2018	31.12.2017
Cash balance of customers	9 773	10 266
Securities of customers	**1 476 257**	**1 277 535**
Incl. parent company	*93 100*	*84 300*
Incl. shareholders of the parent company and related entities	*156 961*	*168 637*
Total	**1 486 030**	**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 30 September 2018	11 927	9 314	55	188 841	**210 137**
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, Kadri Kiisel