

# Interim Report January – June 2019

## Summary of Results

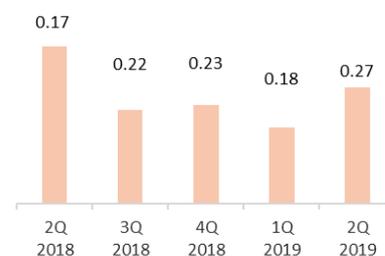
### Q2 2019 in comparison with Q1 2019

- Net profit EUR 7.7 m (EUR 5.0 m), of which EUR 7.1 m (EUR 4.7 m) is attributable to owners of the parent
- Earnings per share EUR 0.27 (EUR 0.18)
- Net income EUR 18.4 m (EUR 17.4 m)
- Operating expenses EUR 9.4 m (EUR 9.1 m)
- Loan provisions EUR 0.7 m (EUR 1.0 m)
- Income tax expenses EUR 0.7 m (EUR 2.3 m)
- Return on equity 18.1% (12.2%)
- Capital adequacy 19.2% (18.3%)

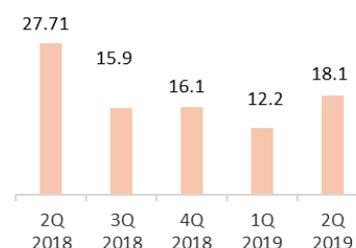
Profit by quarters



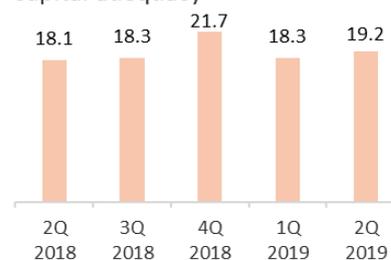
Basic earnings per share



Return on equity



Capital adequacy



### Q2 2019 in comparison with Q2 2018\*

- Net profit EUR 7.7 m (EUR 10.0 m), of which EUR 7.1 m (EUR 9.5 m) is attributable to owners of the parent
- Earnings per share EUR 0.27 (EUR 0.37)
- Net income EUR 18.4 m (EUR 17.0 m)
- Operating expenses EUR 9.4 m (EUR 7.8 m)
- Loan provisions EUR 0.7 m (EUR 1.6 m)
- Income tax expenses EUR 0.7 m (EUR 0.6 m)
- Return on equity 18.1% (27.7%)
- Capital adequacy 19.2% (18.1%)

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

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

## Managing Director's Statement

Dear investor in LHV,

For LHV, the second quarter was the most active quarter with all-time best results. On the basis of the performed activities we will be able to offer our customers better service and our investors a growth in value in the future as well.

During the quarter we announced the acquisition of the Danske private customers' portfolio; as at the moment of closing the deal in November, the size of the portfolio was ca EUR 450 million. To conduct the transaction and ensure the growth of the existing portfolio, we raised capital through subordinated loans and bonds qualifying as Tier I own funds, totalling EUR 40 million. At the same time, we redeemed the previous subordinated bonds. We also increased the volume of deposits involved from Germany through the deposit marketplace, to ensure smooth closure of the Danske deal.

During the quarter, we technically joined the real-time pound payment system of the United Kingdom. Legally, we can start offering payments to fintech companies from August. Together with the bank accounts, virtual IBAN, liquidity loans and currency exchange, the real-time pound payments ensure us complete service in the fintech companies' business line. In the Estonian customers business line, we announced the fivefold increase in the number of our ATMs, as LHV will become a new partner to Luminor in the common ATM network, replacing its former partner, Danske Bank. In addition to investments in Baltic equities, we now offer our investors a possibility to also invest in other foreign shares via mobile bank and to get an overview of alternative investments via internet bank. During the quarter, the new Chairman of the Management Board of LHV Varahaldus, Vahur Vallistu, also started to work, whose duty is to strengthen the capability of OTC investments. We also finished the app "My Pension", which enables one to notably better analyse the future of pension investments.

Not a bad result for one quarter. Especially as in terms of continued business activity, this was the best quarterly result ever. We were most definitely supported by the favourable business environment, yet I also believe that we have made the right choices and put in good work to achieve it. Our Estonian-wide strategy has proven its worth. Being able to issue home loans in all the bigger cities in Estonia, soon having ATMs in basically every corner of Estonia and at the same time offering the most favourable everyday banking service, we are accessible to a larger number of customers and this ensures us growth. We will keep our activities simple and efficient in the future as well.

The quarterly growth of our business volumes was fast and broad-based. In Q2, the number of bank customers increased by nearly 8,600. Several activity indicators, including salary receipts, the number of customers with assets and payments, use of cards, acceptance of card payments and number of new investment contracts reached record levels.

Loans grew by EUR 127 million during the quarter, now amounting to EUR 1.1 billion. Deposits demonstrated a record growth of EUR 516 million, out of which prefunding of Danske transaction through deposit platforms in amount of EUR 231 million. The volume of funds grew by EUR 36 million. LHV's profit for Q2 was EUR 7.7 million.

The total volume of investment funds managed by LHV Varahaldus exceeded EUR 1.29 billion by the end of Q2. LHV's actively managed pension funds still have the lowest price risk related to stock exchanges, as the focus is primarily on making OTC investments.

Touching the acquisition of Danske private persons' portfolio briefly, as a result of this, LHV's loan portfolio will grow by more than 40%, while ensuring the expected return on equity. The business plan does not assume any other services to be used by the customers. Yet, LHV will get 6 500 completely new customers. By including the existing home loan of LHV, the most favourable everyday banking in Estonia, the best service and domestic service provider in one formula, we hope to see a large number of them as our active future customers. In addition, the decrease of capital cost starting from 2022, assumed in the business plan, is important, which comes from changes in the regulations. Another important factor of the business plan concerns the effective life of loan agreements. As most of the rate of return of the given portfolio derives from the purchase allowance of EUR 39 million, we have accordingly recognised it in income due to the low interest rates of the portfolio over a longer period compared to the effective life of an average loan agreement at the market. This is a conservative assumption, since in the case of amendments in the agreement, the agreement-related allowance is immediately recognised in income. It is likely that recognising the allowance in revenues will therefore be notably less "linear" and with higher weight in the following years.

In connection with the Danske transaction, we will raise new capital within the share issue in the autumn. Raising the capital is also important for securing the growth of our previous business, as with this quarterly report we confirm that we are ahead of our volume forecast. Although the terms and conditions of involving the capital have to be approved by the LHV's general meeting of shareholders, we will most likely prefer the current shareholders in the share issue.

## Business environment

LHV's growth trends are supported by the Estonian business environment. The economic growth has been solid, depending largely on the economies of our neighbouring countries. Internal risks are managed by the balance budget, low public sector debt and positive foreign balance with the main source of tension being the availability of labour. Also, the credit market has remained strong. All of the main credit products, incl. corporate loans and home loans, are growing. The financial health of households is on the strong side, the loan-to-deposit ratio is improving.

Against the background of a stable economic environment and strong credit market, the sector is increasingly influenced by various regulatory issues, of which the intention to demolish II pillar is one of the most relevant. There is still a lack of clarity with regard to the plan, which has been growing in the minds of a couple of persons and completely without analysis so far. If the purpose is reasonable coping of Estonian people after retirement, together with a better pension, then the proposals made will not lead us closer to the goal.

The politicians have great interest in deciding over the accumulated 4 billion euros, but only owing to the fact that this 4 billion exists. It exists because it has been saved. It is ironic that in making the accusation of an insufficient rate of return, productivity is not being improved, but instead, the message that we need to save is destroyed and the development of Estonian capital and capital markets reversed.

When looking for a parallel regarding the voluntary saving argument, those who made this proposal do not recommend using it for unemployment insurance premiums. By the end of 2019, the Unemployment Insurance Fund has accumulated a reserve of EUR 850 million, which is saved through premiums amounting to 1.6% paid by the employee and 0.8% by the employer, calculated from the gross salary. Although these reserves are not invested and accordingly, these do not earn any return, this is an important part of the state budget. Probably it is namely why the nonexistent rate of return of the measure that effectively increases labour taxes was not remembered and we are not hearing any proposals about making it voluntary.

Wealth is a relative concept and asset-based measurement is applied to it. There is no wealthy country or person who has not achieved their wealth through investing or saving. In addition Estonia is one of the most banking-orientated countries in Europe and when demolishing the only institutional investor with sufficient scale regarding pension funds, the capability of funding large projects is reduced, which regrettably is already evident today.

In conclusion, when previously instead of today's consumption, the goal was to save for the future, according to the current unanalysed proposals, society is directed towards consuming more today on account of the future. This will be paid by the next generation together with tax increases. This cannot be a goal.

One should be able to make a difference between the input and goal.

## Financial results

The group's consolidated profit of Q2 of 2019 was EUR 7.7 million, increasing by EUR 2.7 million when compared to the previous quarter which was influenced by income tax payment on dividends, and decreasing by EUR 2.4 million when compared to Q2 of the previous year which was influenced by the sell of Mokilizingas.

The return on equity belonging to LHV's shareholders was 18.1% in Q2 of 2019, having increased compared to Q1 of 2019 (12.2%) by 5.9 percentage points; the reason being tax expense related to the dividends last quarter.

The group's consolidated net loan portfolio grew by EUR 127 million during the quarter (EUR 72 million in Q1 of 2019) and the consolidated deposits increased by EUR 516 million (compared to the growth of EUR 145 million in Q1 of 2019). At the same time, the deposits related to payment intermediaries increased by EUR 8 million (growth of EUR 33 million in Q1 of 2019).

The group's own funds increased by EUR 27.0 million when compared to the previous quarter and risk-weighted assets increased by EUR 95.7 million; the Tier 1 and total capital adequacy ratios at the end of the quarter were 14.0% and 19.2%, respectively. The change in own funds was affected by the involvement of capital from Q1 of 2019 in the group's own funds and the bond issue.

In Q2 the bank's profit on the consolidated level was EUR 5.9 million, which is EUR 1.7 million higher than the previous quarter (EUR 4.2 million in Q1 of 2019). Over the quarter, the number of customers increased by nearly 8,600 (in Q1 of 2019, by 9,500), causing the total number of the bank's customers to exceed the threshold of 179,000.

In Q2 the bank's loan portfolio grew by EUR 127 million (in Q1 of 2019, EUR 72 million), nearing EUR 1,118 million. Among the loans, entrepreneurship loans grew the most. The cost of the loan allowance amounted to EUR 0.7 million in Q1, which is EUR 0.3 million less than in the previous quarter.

The deposits of the bank's customers increased by EUR 481 million in Q2, of which the deposits of payment intermediaries grew by EUR 8 million and the deposits of the remaining customers by EUR 473 million. By the end of Q2, the total deposit volume reached EUR 2,065 million.

In Q2, Varahaldus earned a profit of EUR 2.1 million (in Q1 of 2019, EUR 1.2 million). The fee and commission income of Varahaldus increased by EUR 0.1 million when compared to the previous quarter, to EUR 3.6 million. The operating expenses of Varahaldus remained at the same level as the previous quarter.

The total volume of funds managed by LHV grew by EUR 36 million over the quarter (by EUR 43 million in Q1 of 2019). The

number of active clients of the 2nd pillar decreased by 72 over the quarter (by 457 in Q1 of 2019). By the end of the quarter, the number of active 2nd pillar customers exceeded 177 thousand.

Madis Toomsalu

## Table of contents

|   |           |
|---|-----------|
| <b>Financial Summary</b> .....  | <b>6</b>  |
| <b>Operating Environment</b> .....  | <b>7</b>  |
| <b>Financial Results of the Group</b> .....   | <b>9</b>  |
| <b>The Group's Liquidity, Capitalisation and Asset Quality</b> .....                            | <b>10</b> |
| <b>Overview of AS LHV Pank Consolidation Group</b> .....  | <b>12</b> |
| <b>Overview of AS LHV Varahaldus</b> .....  | <b>15</b> |
| <b>CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS</b> .....                                | <b>16</b> |
| Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income ..... | 16        |
| Condensed Consolidated Interim Statement of Financial Position.....                             | 17        |
| Condensed Consolidated Interim Statement of Cash Flows.....                                     | 18        |
| Condensed Consolidated Interim Statement of Changes in Equity.....                              | 19        |
| Notes to the Condensed Consolidated Interim Financial Statements .....                          | 20        |
| NOTE 1 Accounting Policies .....  | 20        |
| NOTE 2 Business Segments.....   | 21        |
| NOTE 3 Risk Management .....  | 24        |
| NOTE 4 Breakdown of Financial Assets and Liabilities by Countries.....                          | 24        |
| NOTE 5 Breakdown of Assets and Liabilities by Contractual Maturity Dates .....                  | 25        |
| NOTE 6 Open Foreign Currency Positions.....   | 26        |
| NOTE 7 Fair Value of Financial Assets and Liabilities.....                                      | 27        |
| NOTE 8 Breakdown of Loan Portfolio by Economic Sectors.....                                     | 28        |
| NOTE 9 Net Interest Income .....  | 29        |
| NOTE 10 Net Fee and Commission Income.....  | 29        |
| NOTE 11 Operating Expenses.....   | 30        |
| NOTE 12 Discontinued operations .....   | 30        |
| NOTE 13 Balances with the Central Bank, Credit Institutions and Investment Companies .....      | 30        |
| NOTE 14 Deposits of Customers and Loans Received .....  | 31        |
| NOTE 15 Accounts payable and other liabilities.....   | 31        |
| NOTE 16 Contingent Liabilities .....  | 32        |
| NOTE 17 Basic Earnings and Diluted Earnings Per Share.....                                      | 32        |
| NOTE 18 Capital Management .....  | 33        |
| NOTE 19 Transactions with related parties .....   | 34        |
| NOTE 20 Tangible and intangible assets .....  | 35        |
| NOTE 21 Subordinated debts .....  | 35        |
| NOTE 22 Loans and advances to customers .....   | 36        |
| <b>Shareholders of AS LHV Group</b> .....   | <b>37</b> |
| <b>Supervisory Boards and Management Boards of AS LHV Group and its Subsidiaries</b> .....      | <b>38</b> |
| <b>Signatures of the Management Board to the Condensed Consolidated Interim Report</b> .....    | <b>39</b> |

# Financial Summary

| <b>Business volumes</b><br>EUR million                | <b>Q2 2019</b> | <b>Q1 2019</b> | <b>Quarter<br/>over<br/>quarter</b> | <b>Q2 2018</b>  | <b>Year<br/>over<br/>year</b> |                |                 |                               |
|---|----------------|----------------|-------------------------------------|-----------------|-------------------------------|----------------|-----------------|-------------------------------|
| Loan portfolio  | 1 117.9        | 990.7          | 13%                                 | 776.5           | 44%                           |                |                 |                               |
| Financial investments                                 | 119.5          | 26.2           | 356%                                | 54.1            | 121%                          |                |                 |                               |
| Deposits of customers                                 | 2 083.4        | 1 567.0        | 33%                                 | 1 542.8         | 35%                           |                |                 |                               |
| incl. deposits of financial intermediates             | 235.1          | 226.8          | 4%                                  | 470.4           | -50%                          |                |                 |                               |
| Equity (including minority interest)                  | 164.5          | 156.4          | 5%                                  | 143.4           | 15%                           |                |                 |                               |
| Equity (owners' share)                                | 160.7          | 153.2          | 5%                                  | 140.4           | 14%                           |                |                 |                               |
| Volume of funds managed                               | 1 293.4        | 1 257.4        | 3%                                  | 1 166.6         | 11%                           |                |                 |                               |
| Assets managed by bank                                | 1 161.7        | 1 228.5        | -5%                                 | 1 375.1         | -16%                          |                |                 |                               |
| <b>Income statement</b><br>EUR million                | <b>Q2 2019</b> | <b>Q1 2019</b> | <b>Quarter<br/>over<br/>quarter</b> | <b>Q2 2018*</b> | <b>Year<br/>over<br/>year</b> | <b>6M 2019</b> | <b>6M 2018*</b> | <b>Year<br/>over<br/>year</b> |
| Net interest income                                   | 11.63          | 10.95          | 6%                                  | 9.41            | 24%                           | 22.58          | 18.41           | 23%                           |
| Net fee and commission income                         | 6.61           | 6.23           | 6%                                  | 7.22            | -8%                           | 12.84          | 12.81           | 0%                            |
| Other financial income                                | 0.20           | 0.18           | 11%                                 | 0.34            | -41%                          | 0.38           | 0.25            | 52%                           |
| Total net operating income                            | 18.44          | 17.36          | 6%                                  | 16.97           | 9%                            | 35.80          | 31.47           | 14%                           |
| Other income  | 0.02           | -0.02          | NA                                  | 0.00            | NA                            | 0.00           | 0.00            | NA                            |
| Operating expenses                                    | -9.40          | -9.11          | 3%                                  | -7.77           | 21%                           | -18.51         | -15.44          | 20%                           |
| Loan losses   | -0.70          | -0.95          | -26%                                | -1.60           | -56%                          | -1.65          | -2.48           | -33%                          |
| Income tax expenses                                   | -0.70          | -2.27          | -69%                                | -0.63           | 11%                           | -2.97          | -2.57           | 16%                           |
| Discontinued operations                               | 0.00           | 0.00           | NA                                  | 3.08            | -100%                         | 0.00           | 3.32            | NA                            |
| Net profit  | 7.66           | 5.01           | 53%                                 | 10.05           | -24%                          | 12.67          | 14.30           | -11%                          |
| Including attributable to owners of the parent        | 7.10           | 4.69           | 51%                                 | 9.53            | -25%                          | 11.79          | 13.48           | -13%                          |
| <b>Ratios</b><br>EUR million                          | <b>Q2 2019</b> | <b>Q1 2019</b> | <b>Quarter<br/>over<br/>quarter</b> | <b>Q2 2018*</b> | <b>Year<br/>over<br/>year</b> | <b>6M 2019</b> | <b>6M 2018*</b> | <b>Year<br/>over<br/>year</b> |
| Average equity (attributable to owners of the parent) | 157.0          | 153.4          | 3.5                                 | 137.6           | 19.4                          | 157.2          | 130.3           | 26.9                          |
| Return on equity (ROE), %                             | 18.1           | 12.2           | 5.9                                 | 27.7            | -9.6                          | 15.0           | 20.7            | -5.7                          |
| Return on assets (ROA), %                             | 1.5            | 1.1            | 0.4                                 | 2.2             | -0.7                          | 1.25           | 1.63            | 0.4                           |
| Interest-bearing assets, average                      | 2 059.8        | 1 715.3        | 344.5                               | 1 800.8         | 259.0                         | 1 993.0        | 1 728.7         | 264.0                         |
| Net interest margin (NIM) %                           | 2.26           | 2.55           | -0.29                               | 2.09            | 0.17                          | 2.23           | 2.13            | 0.1                           |
| Price spread (SPREAD) %                               | 2.22           | 2.51           | -0.29                               | 2.06            | 0.16                          | 2.23           | 1.86            | 0.4                           |
| Cost/income ratio %                                   | 50.9           | 52.6           | -1.7                                | 39.8            | 11.1                          | 51.7           | 46.3            | 5.4                           |
| Profit attributable to owners before income tax       | 7.8            | 6.7            | 1.1                                 | 10.2            | -2.4                          | 14.5           | 15.8            | -1.3                          |

## 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

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

## Operating Environment

The beginning of this year surprised with faster than expected growth in many economic regions. This way, the economic growth in the USA accelerated to 3.2% and in the Eurozone to 1.2%. The growth is based on domestic demand, as trading has slowed down everywhere due to the intense conflict in the trade relationships between the USA and the rest of the world. Looking forward, we still expect a slowdown in the global economic growth. At its summer session, the US Federal Reserve lowered the growth expectations for this year to 2.1%; the European Central Bank estimates average economic growth to remain at 1.2% in the Monetary Union. In China, the growth should remain slightly above 6%.

Also, the economy of trading partners relevant for Estonia continued to be strong in the first quarter, although it shows signs of cooling like the rest of the world. At the Swedish construction market, the signs of stagnation have been visible for a long time; now the growth of the building sector has also slowed down in Finland and Latvia. The economic growth is still supported by private consumption thanks to the fast salary growth; however, the economy of all our close neighbours is largely dependent on export and the insecurity of global trade will sooner or later have an impact on all countries with an open economy.

The economy of the Eurozone grew by 1.2% in Q1 of 2019 year-on-year. The growth remained at the same level as the end of last year. Weakening of the euro exchange rate at the beginning of the year reversed at the beginning of May, when the exchange rate started to rise again. On the one hand, this is a sign of a better than expected state of economy of the Eurozone. On the other hand, a more expensive currency causes more problems for companies who depend on export. The unemployment rate has dropped to 7.5% and similarly to Estonia, several sectors suffer from serious shortages of labour supply. Inflation slowed to 1.2% at the beginning of the summer, mainly due to the slower rise of energy prices. Core inflation has remained relatively unchanged at around 1%. At the same time, wage growth has somewhat accelerated, indicating a stronger price pressure in the future.

The European Central Bank will continue its supportive monetary policy for some time. The outgoing President of the European Central Bank, Mario Draghi, has expressed in his latest speeches that the ECB still has tools for stimulating the economy, if necessary. Christine Lagarde, who has been appointed as his successor, is also known for being rather supportive of lenient monetary policy. Accordingly, we may be quite sure that given the current nervous economic environment, the ECB will not start tightening the monetary policy in any way, but we can expect even more steps in the autumn towards a more lenient monetary policy. The Estonian economy grew by 4.5% in the first quarter, which was above the expectations. The greatest contribution came from

the processing industry, with investments increasing by nearly half year-on-year. The growth was broad-based, supported more than the others by information and communications, professional, research and technical activities and trade. Such rapid growth was really surprising as it was already known beforehand that the construction volumes in the first quarter did not grow. Export of goods and services grew at slightly less than 5%, while the entire growth came from the export of goods, which was unusual. Export of services decreased 0.4% year-on-year. The last time the export of services decreased was three years ago, in Q1 of 2016. It was also unusual (yet, truly positive) that the export of goods was very broad-based and was not entirely based on the export of fuel or electronics, as has been the case in recent years.

The price increase has been slower in the first half of 2019 compared to the last year. The main reasons are the lower oil price on global markets compared to last year and receding of the impact of the increase in alcohol excise tax. The price increase has been upheld by the rise in the prices of electricity and solid fuels, which pushes up the expenditures made by the consumers on housing. Also, the prices of fresh vegetables have had an upsurge. In the second half of the year, inflation should slow down even more. The contribution of food to the price increase will decrease, as the weather conditions have most definitely been more favourable for the farmers this year and the harvest accordingly better. The oil price will most likely remain lower year-on-year, and in addition, the price increase will definitely be inhibited by the recently adopted lower alcohol excise tax. According to the forecast of Eesti Pank published in June, the Estonian economy will grow by 3.3% this year. Further rapid economic growth is inhibited by the high conjuncture related supply-side restrictions (lack of available resources) but also the deceleration of external demand. The main growth engine is domestic demand, led by private consumption and investments. The positive contribution of investments is also restored, which was negatively influenced by a high comparison base last year. From the risks, we could consider the most important to be developments in the external environment, which could be negatively influenced above all by declined demand caused by trade restrictions and the related insecurity when making investments. Within Estonia, it is primarily necessary to deal with the improvement of competitiveness and favour the re-learning of employees and the movement to sectors offering higher added value. There are still a lot of industries with low production in Estonia, which will most likely disappear with the continual increase of labour costs in the next few years.

LHV expects the economic growth to slow down in the second half of the year, close to the long-term sustainable potential level. The shortage in available resources will continue to increase the

significance of the ability of businesses to adapt and be successful in raising productivity, which is why it is necessary to vigorously continue making smart investments. First and foremost it is important to achieve long-term sustainable economic growth that is in balance between the various sectors. In terms of economic sectors, the risks are above average in the building sector, accommodation and catering sector, and transport and storage. LHV is still conservative with regard to the real estate market, monitoring the local and Scandinavian market, with increased attention on developments in Sweden. Regarding rental cash flow projects, there is a risk that there will not be enough demand to absorb the volumes being developed in the near future, so that corrections will take place in rental prices or vacancy rates. A positive trend worth highlighting is the funding environment that is still favourable. The increase in the amount outstanding from credit institutions still remains rapid. The demand for loans of households is strong, led by home loans and car leasing. For new home loans, the average interest rate has

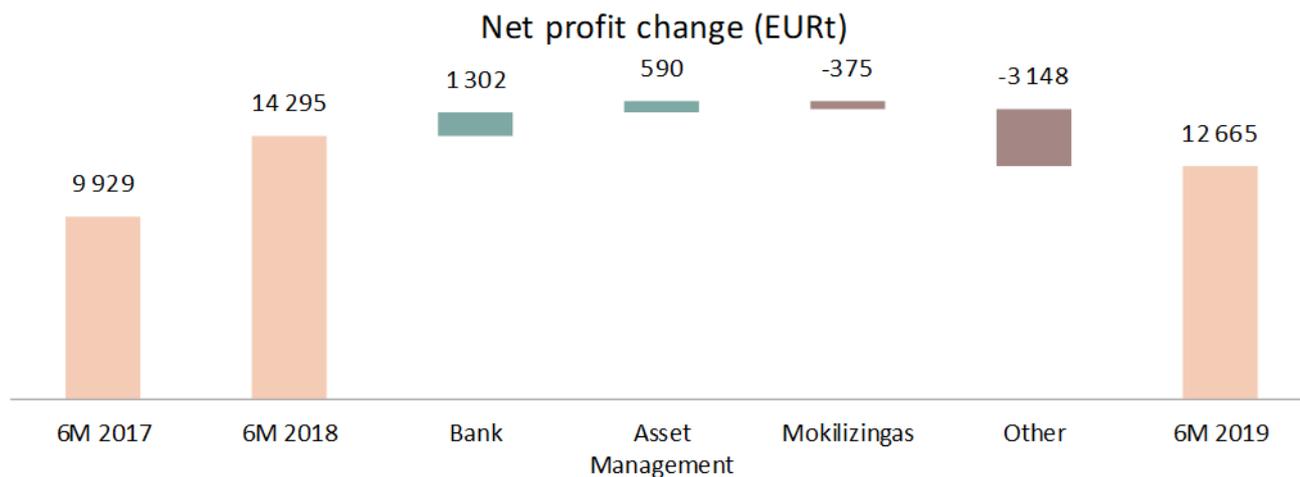
started to increase slowly. Due to the surrounding insecurity and relatively high own funds, the loans taken by corporate entities are more modest than those of households. The ratio of loans to deposits and the proportion of overdue loans in the loan portfolio are at post-crisis low levels. Historically low interest rates and strong competition between banks offer possibilities to local enterprises and they should be taking more advantage of them. LHV wishes to make a big and effective contribution to the finding and supporting of new growth sources, offering entrepreneurs long-term co-operation and thinking involving the creation of value.

## Financial Results of the Group

Compared to Q1 2019, the Group's net interest income increased in Q2 by 6%, standing at EUR 11.6 (Q1: 11.0) million. Net fee and commission income increased by 6% and stood at EUR 6.6 (Q1: 6.2) million. In total, the net income of the Group increased by 6% in Q2, compared to Q1, amounting to EUR 18.4 (Q1: 17.4) million, with expenses increasing by 3% and amounting to EUR 9.4 (Q1: 9.1) million. The Group's operating profit for Q2 amounted to EUR 8.4 (Q1: 7.3) million. The loss from loan impairments mounted to

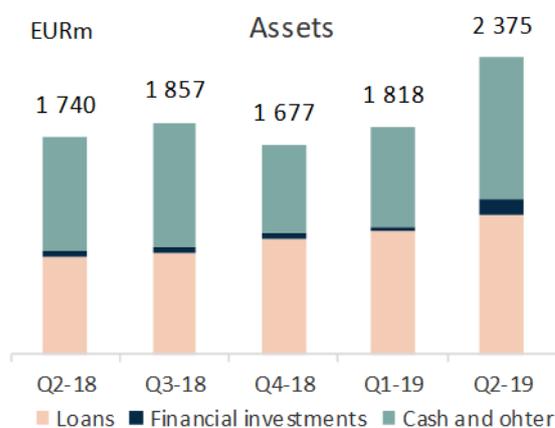
EUR 0.7 million in Q2 (Q1: 1.0). The Group's total profit for Q2 amounted to EUR 7.7 million (Q1: 5.0). Compared to Q2 2018, the Group's net interest income increased by 24% and net fee and commission income decreased by 8%.

In terms of business entities, AS LHV Pank posted in Q2 a consolidated profit of EUR 5.9 million and AS LHV Varahaldus a profit of EUR 2.1 million. The AS LHV Group on solo bases posted a profit of EUR 1.9 million due to dividends paid by LHV Pank.



The Group's volume of deposits as at the end of Q2 amounted to EUR 2 083 (Q1: 1 567) million, of which demand deposits formed EUR 1 672 (Q1: 1 423) million and term deposits EUR 411 (Q1: 144) million.

As at the end of Q2, the volume of loans granted by the Group amounted to EUR 1 118 (Q1: 991) million, increasing in Q2 by 13%. Compared to Q2 2018, the volume of the Group's deposits has increased by 35% and the volume of loans by 44%.



## The Group's Liquidity, Capitalisation and Asset Quality

As at 30 June 2019, the Group's own funds stood at EUR 204.1 million (31 December 2018: EUR 183.3 million). LHV Group own funds are calculated based on regulative requirements. In Q2 the level of own funds changed by including the Q1 profit to own funds and by issuing the subordinated bonds.

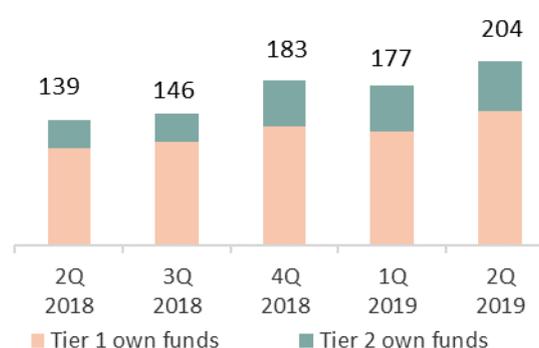
Compared to Group's internal capital adequacy ratio target 15.5%, the Group is well capitalised as at the end of the reporting period, with the capital adequacy ratio amounting to 19.2% (31 December 2018: 21.7%). In addition to total capital adequacy targets the Group has also set internal targets for the core Tier 1 capital adequacy ratio to 10.4% and Tier 1 capital adequacy ratio to 12.10%. Bank of Estonia informed on 17th of April 2018 that from 1st of January 2019 O-SII buffers for LHV Group will increase by 0.5%. LHV internal capital targets take it into account.

In the end of 2017 Estonian Financial Supervision Authority new prudential ratio - the minimum requirement for own funds and eligible liabilities (MREL), which is valid from 1st of January 2018. This ratio is included into resolution plan and LHV has to keep enough own funds and qualifying liabilities which can be used to cover losses in resolution planning. Minimum requirement was set at 5.79% and will be reviewed annually by Estonian Financial Supervision Authority. Group has set internal MREL minimal target at 6.08%. As of June 30 the MREL ratio was 9.64% (31st of December 2018 11.43%).

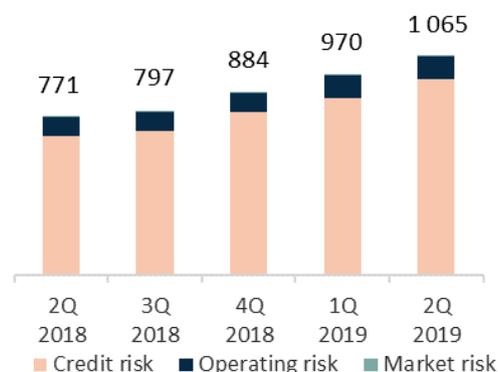
The Group's liquidity coverage ratio (LCR), as defined by the Basel Committee, stood at 201.8 % as at the end of June (31 December 2018: 148.5%). Banks liquidity situation changed in Q2 due to high deposit growth. Financial intermediates deposits in Bank are covered 100% with liquid assets. Excluding the financial intermediates deposits the Groups LCR is 343.0% (31.12.2018: 235.3%). The Group recognises cash and bond portfolios as liquidity buffers. These accounted for 51% of the balance sheet (31 December 2018: 43%). The ratio of loans to deposits stood at 51% as at the end of the second quarter (31 December 2018: 64%). Group's maturity structure is presented in Note 5.

The Group's credit quality was good. As at the end of June, provisions for estimated loan losses amounted to EUR 11.8 million in the balance sheet, i.e. approximately 1.0% of the loan portfolio (31 December 2018: EUR 10.3 million, 1.1%). Estimated loan losses make up 87.2% (31 December 2018: 66.5%) of the portfolio of loans overdue for more than 90 days. The increase in overdue loans is related to few clients.

### Own funds



### Risk-weighted assets

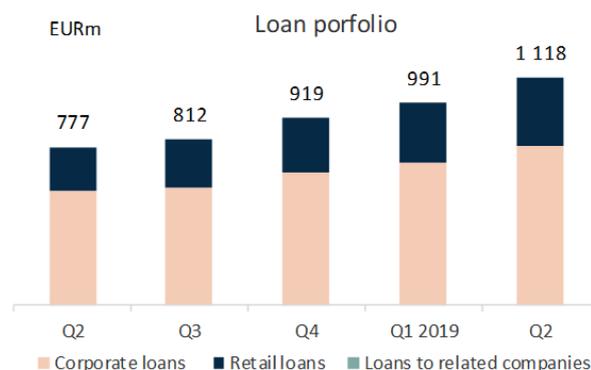


| EUR thousand  | 30.06.2019 | Proportion | 31.12.2018 | Proportion |
|---|------------|------------|------------|------------|
| Loans to customers                                  | 1 129 661  |            | 929 037    |            |
| including overdue loans:                            | 23 660     | 2.1%       | 22 483     | 2.4%       |
| 1-30 days   | 6 584      | 0.6%       | 6 142      | 0.7%       |
| 31-60 days  | 2 715      | 0.2%       | 709        | 0.1%       |
| 61-90 days  | 882        | 0.1%       | 177        | 0.0%       |
| 91 and more days                                    | 13 478     | 1.2%       | 15 454     | 1.7%       |
| Impairment of loans                                 | -11 757    | -1.0%      | -10 276    | -1.1%      |
| Impairment % of loans overdue for more than 90 days | 87.2%      |            | 66.5%      |            |

| <b>Capital base</b>   | <b>30.06.2019</b> | <b>31.12.2018</b> | <b>31.12.2017</b> |
|---|-------------------|-------------------|-------------------|
| Paid-in share capital   | 26 016            | 26 016            | 25 767            |
| Share premium   | 46 653            | 46 653            | 46 304            |
| Statutory reserves transferred from net profit  | 4 713             | 3 451             | 2 471             |
| Other reserves  | 78                | 78                | 36                |
| Retained earnings   | 68 705            | 50 193            | 24 468            |
| Intangible assets (subtracted)  | -19 030           | -19 084           | -7 940            |
| Net profit for the reporting period   | 2 618             | 25 237            | 19 603            |
| Other adjustments   | -688              | -194              | 0                 |
| <b>Tier 1 capital</b>   | <b>129 065</b>    | <b>132 350</b>    | <b>110 709</b>    |
| Additional Tier 1 capital   | 20 000            | 0                 | 0                 |
| <b>Total Tier 1 capital</b>   | <b>149 065</b>    | <b>132 350</b>    | <b>110 709</b>    |
| Subordinated debt   | 55 000            | 50 900            | 30 900            |
| <b>Total Tier 2 capital</b>   | <b>55 000</b>     | <b>50 900</b>     | <b>30 900</b>     |
| <b>Net own funds for capital adequacy</b>   | <b>204 065</b>    | <b>183 250</b>    | <b>141 609</b>    |
| <b>Capital requirements</b>   |                   |                   |                   |
| Central governments and central bank under standard method                                  | 929               | 938               | 945               |
| Credit institutions and investment companies under standard method                          | 6 869             | 5 376             | 6 950             |
| Companies under standard method   | 703 425           | 579 836           | 428 428           |
| Retail claims under standard method   | 146 510           | 133 250           | 144 237           |
| Public sector under standard method   | 147               | 125               | 185               |
| Housing real estate under standard method   | 56 535            | 39 903            | 20 039            |
| Overdue claims under standard methods   | 8 857             | 10 142            | 20 956            |
| Investment funds' shares under standard method  | 7 788             | 7 963             | 6 281             |
| Other assets under standard method  | 19 805            | 10 557            | 13 824            |
| <b>Total capital requirements for covering the credit risk and counterparty credit risk</b> | <b>950 865</b>    | <b>788 090</b>    | <b>641 845</b>    |
| Capital requirement against foreign currency risk under standard method                     | 3 955             | 3 957             | 3 551             |
| Capital requirement against interest position risk under standard method                    | 0                 | 32                | 412               |
| Capital requirement against equity portfolio risks under standard method                    | 951               | 704               | 585               |
| Capital requirement against credit valuation adjustment risks under standard method         | 14                | 41                | 15                |
| Capital requirement for operational risk under base method                                  | 109 545           | 91 575            | 75 999            |
| <b>Total capital requirements for adequacy calculation</b>                                  | <b>1 065 330</b>  | <b>884 399</b>    | <b>722 407</b>    |
| <b>Capital adequacy (%)</b>   | <b>19.16</b>      | <b>21.70</b>      | <b>19.60</b>      |
| <b>Tier 1 capital ratio (%)</b>   | <b>13.99</b>      | <b>15.67</b>      | <b>15.32</b>      |
| <b>Core Tier 1 capital ratio (%)</b>  | <b>12.12</b>      | <b>15.67</b>      | <b>15.32</b>      |

## Overview of AS LHV Pank Consolidation Group

- (Net) growth in loan volume EUR 127 million
- Net profit EUR 5.9 million
- (Net) growth in deposits EUR 507 million



| EUR million  | Q2 2019     | Q1 2019     | Change %   | Q2 2018     | Change %   | From the beginning of 2019 | From the beginning of 2018 | Change %   |
|--|-------------|-------------|------------|-------------|------------|----------------------------|----------------------------|------------|
| Net interest income  | 11.84       | 11.24       | 5%         | 9.60        | 23%        | 23.08                      | 18.79                      | 23%        |
| Net fee and commission income                                      | 3.01        | 2.70        | 11%        | 3.80        | -21%       | 5.71                       | 6.05                       | -6%        |
| Other financial income   | 0.13        | -0.01       | NA         | 0.25        | -48%       | 0.12                       | 0.18                       | -35%       |
| Total net operating income   | 14.98       | 13.93       | 8%         | 13.65       | 10%        | 28.91                      | 25.03                      | 16%        |
| Other income   | 0.05        | -0.01       | NA         | 0.03        | 55%        | 0.04                       | 0.06                       | -34%       |
| Operating expenses   | -7.74       | -7.51       | 3%         | -6.29       | 23%        | -15.25                     | -12.38                     | 23%        |
| Loan losses  | -0.70       | -0.95       | -27%       | -1.60       | -56%       | -1.65                      | -2.48                      | -33%       |
| Income tax expenses  | -0.70       | -1.29       | -46%       | -0.63       | 10%        | -1.99                      | -1.47                      | 35%        |
| <b>Net profit</b>  | <b>5.89</b> | <b>4.17</b> | <b>41%</b> | <b>5.16</b> | <b>14%</b> | <b>10.06</b>               | <b>8.79</b>                | <b>15%</b> |
| Loan portfolio   | 1 118       | 991         | 13%        | 777         | 44%        |                            |                            |            |
| Financial investments  | 112         | 19          | 504%       | 46          | 143%       |                            |                            |            |
| Deposits of customers<br>incl. deposits of financial intermediates | 2 090       | 1 583       | 32%        | 1 555       | 34%        |                            |                            |            |
| Subordinated liabilities   | 64          | 37          | 73%        | 20          | 220%       |                            |                            |            |
| Equity   | 143         | 129         | 11%        | 115         | 24%        |                            |                            |            |

Q2 was successful in terms of business volumes. LHV Bank generated EUR 11.8 million in net interest income and EUR 3.0 million in net fee and commission income. In total, the bank's net income amounted to EUR 15.0 million, expenditure to EUR 7.7 million and loan provisions to EUR 0.7 million. The net profit of LHV Pank amounted to EUR 5.9 million in Q2. This constitutes a 41% increase from Q1 (4.2) and a 14% increase from Q2 2018 (5.2). Net interest income increased 5% compared to previous quarter. Net fee and commission income increased 11% compared to Q1. Net operating income increased by 8% compared to previous quarter. In Q2 other financial income amounted to EUR 0.1 million (Q1: 0.01 million).

Securities brokerage fees, transaction fees and fees from cards are greatest contributor to fee and commission income. The quarterly profit before taxes was EUR 6.6 million and net profit

EUR 5.9 million. As at the end of the quarter, the net profit exceeded the financial plan by EUR 0.8 million.

The increase in net interest income stems from the growth in business volumes. By the end of Q2, the total volume of the bank's loan portfolios amounted to EUR 1 118 million (Q1: EUR 991 million). The volume of portfolios grew 13% over the quarter.

The corporate credit portfolio containing loans and guarantees grew by EUR 228.7 million (+39%) over the year and by EUR 81.6 million (+11%) in a quarterly comparison. The greatest source of growth was loans for real estate activities, which is traditionally the most financed field by commercial banks, having grown by EUR 86.3 million (+42%). Strong commercial real estate projects generating rental income were the main source of the growth. This was followed by loans issued to the processing industry, which

grew by EUR 35.6 million (+49%) year-on-year. The loans granted in the agriculture, forestry and fishing sectors grew by EUR 32.2 million (+297%) year-on-year.

Compared to the first quarter of 2019, the portfolio growth was driven most by loans and guarantees issued to the agriculture, forestry and fishing sectors (EUR 26.2 million; +156%), followed by the financial and insurance sector (EUR 26.2 million; +30%) and real estate sector (EUR 11.3 million; +4%).

The most corporate loans were granted in the real estate sector, which makes up 37% of the bank's corporate loan portfolio. The biggest part of real estate loans was granted to high-quality projects generating rental income; a significantly smaller part went to property development. Most of the financed development properties are in Tallinn, and in other bigger cities of Estonia, and projects in the vicinity of Tallinn make up 7% of all development projects. Upon funding the new developments in Tallinn, LHV's market share was nearly one fifth at the end of the 2nd quarter of 2019. LHV's property development portfolio is also well-positioned in the event of changing market trends – the financed developments are in good locations and the risk and planned price ratio for the projects remains at an average of 55%.

After the real estate sector, the most credit has been issued to companies in the financial and insurance activities sector (14% share) and the processing industry (14% share). Among sectors with higher than average credit risk, accommodation and catering comprise 3%, construction 2%, and transport and storage 1% of the total portfolio volume.

The bank's business volumes continued rapid growth in the second quarter. Over the quarter, the number of bank customers increased by 8,600, reaching 179,000. New record levels were achieved in customer activity. The volume of deposits and loans reached a record high level. The deposit volume grew by EUR 507 million and the loan volume by EUR 127 million. The deposit volume reached EUR 2.1 billion and the loan volume EUR 1.1 billion by the end of the quarter. The deposits of regular customers grew by EUR 268 million, those of the financial intermediaries by EUR 8 million and deposits involved through deposit marketplaces by EUR 231 million. The bank has launched cooperation with both of the bigger deposit marketplaces in Europe - Raisin and Deposit Solution, through which EUR 242 million of term deposits were involved as at the end of the quarter. The number of deposits involved during the quarter was higher than usual, to ensure the availability of sufficient funding for purchasing the Danske Bank private loan portfolio. As at the end of the quarter, the bank held funds exceeding EUR 1.0 billion with the European Central Bank. Corporate loans grew by EUR 78

million and retail loans by EUR 49 million. The quarterly profit before taxes was EUR 6.6 million and net profit EUR 5.9 million. At the end of the quarter, the bank prematurely redeemed the subordinated bonds in the amount of EUR 8 million and increased its share capital by EUR 10 million, issued bonds belonging to Tier I own funds (AT1) in the amount of EUR 14.5 million and subordinated bonds of EUR 20.5 million in order to strengthen the bank's capital base for the increase of business volumes and purchase of the private loan portfolio of Danske Bank.

In June, the bank and Danske Bank signed an agreement, under which the bank acquires the installation of Danske Bank related to Estonian private persons. In essence, the installation consists of the private loan portfolio amounting to approximately EUR 470 million. With the transaction, the bank will take over the servicing of nearly 10,800 private customers. Home loans comprise ca 97% of the loan portfolio volume to be purchased. According to the bank, it is a well secured and strong credit portfolio. Since the interest rates of the granted home loans were in essence close to the cost price, the transaction was only possible thanks to purchasing the portfolio at a discount. The bank and Danske Bank agreed on the transaction price, according to which a EUR 39 million discount is deducted from the portfolio volume as at the closure of the deal. Considering the continuing amortisation of the loan portfolio as well, the estimated price of transaction will be ca EUR 410 million. The transaction is to be completed this fall. As a result of the transaction, the bank's loan portfolio will increase by ca 40% and the importance of retail banking in the total lending business of the bank will rise notably. For the bank, the transaction means the involvement of a significant volume of deposits and raising additional capital through three different capital instruments. The latter is divided between bonds and share capital. Aimed at financing the future home loan portfolio of the bank with covered bonds, the bank started with the application process for an additional activity licence for covered bonds.

At the end of the quarter, the bank signed an agreement with Luminor Bank, Danske Bank and Worldline, according to which the bank will step in as the new partner of Luminor Bank in the common AMT network, replacing the former partner, Danske Bank. The common network will be served by the bank. This means, that for the customers of the bank, the ATM network will grow by a factor of five, to 125 ATMs, from the current 25. The expanded network will significantly improve the bank customers' access to cash withdrawal. Previously, the expansion of the ATM network brought new private as well as business customers to the bank. Reconfiguration works of the common network ATMs for connecting to the bank's network and updating of their appearance are to be performed in the third quarter.

This quarter saw the development of several new services for investing customers. An option of conducting transactions besides the Baltic shares, also with those of foreign stock

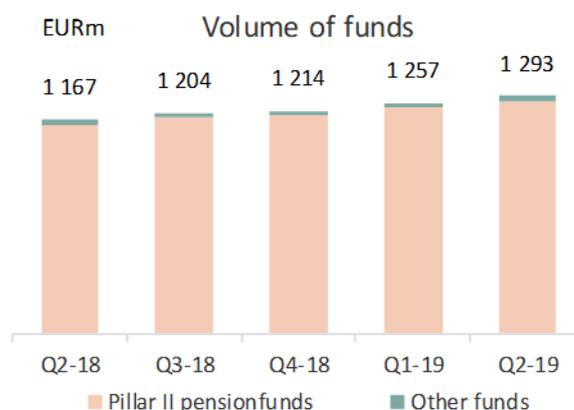
exchanges and ETFs, was added to the Mobile Bank. Convenience and speed are the benefits working in favour of the Mobile Bank, which are very important when it comes to trading. Besides, the customers can view graphs with price information in the Mobile Bank. More than half of the bank's investing customers hold foreign shares or index funds and therefore, development of the new service was important for a lot of customers. Another important innovation was displaying the information of alternative placements in the consolidated view of Internet Bank. First, the investment information of EstateGuru and Coinbase investments was displayed to customers. Adding alternative investments to the summary view, that is investments in crowdfunding and

cryptocurrencies, means that the customer is able to conveniently view their stock exchange and OTC transactions, while also having a quick and comprehensive overview of their investment portfolio. In addition, the customer is able to see their available cash balance on the platform. In the near future, the opportunity to view information about other bigger alternative investment platform accounts will also be added.

For the third time, the bank won the innovation award of the Banking Association, this time for the Entrepreneur Account. Also, Euromoney named the bank as the best bank in Estonia for the second year in a row.

## Overview of AS LHV Varahaldus

- The quarterly profit was EUR 2.1 million
- The volume of funds is EUR 1 293 million, growth of EUR 36 million
- Number of active customers at the end of June 177,402; -72 compared to Q1
- Premature redemption of Tier 2 bonds in June (issue volume EUR 550 thousand 5 years ago)



| EUR million                        | Q2 2019     | Q1 2019     | Change %   | Q2 2018     | Change %  | 6M 2019     | 6M 2018     | Change %   |
|------------------------------------|-------------|-------------|------------|-------------|-----------|-------------|-------------|------------|
| Net fee and commission income      | 3.61        | 3.52        | 3%         | 3.42        | 6%        | 7.13        | 6.76        | 5%         |
| Net financial income               | 0.03        | 0.15        | -80%       | 0.05        | -40%      | 0.18        | -0.01       | NA         |
| Operating expenses                 | -1.05       | -1.03       | 2%         | -0.95       | 11%       | -2.08       | -1.99       | 5%         |
| Depreciation of non-current assets | -0.46       | -0.45       | 2%         | -0.45       | 2%        | -0.91       | -0.9        | 1%         |
| <b>Profit</b>                      | <b>2.13</b> | <b>2.19</b> | <b>-3%</b> | <b>2.07</b> | <b>3%</b> | <b>4.32</b> | <b>3.86</b> | <b>12%</b> |
| Financial investments              | 7.8         | 7.7         | 1%         | 8.2         | -5%       |             |             |            |
| Subordinated liabilities           | 1.6         | 2.1         | -24%       | 2.1         | -24%      |             |             |            |
| Equity                             | 26.0        | 25.0        | 4%         | 24.0        | 8%        |             |             |            |
| Assets under management            | 1 293.4     | 1 257.4     | 3%         | 1 166.6     | 11%       |             |             |            |

In Q2, the operating income of LHV Varahaldus was EUR 3.6 million, a total of EUR 7.1 million in H1. Cost base remained at a similar level as Q1 - at EUR 1.5 million. As further additional cost, amortisation of the investment of the mobile app "My Pension" began in June – Estonia's first comprehensive pension app was launched on 3 June. Profit before income tax was EUR 2.1 million in Q2; total profit for 6 months was EUR 4.3 million, being +12% more compared to the first half of 2018.

In May, the new terms and conditions of pension funds, entering into force in September, were approved, which ease the investment restrictions and enable earning of the success fee; at the same time, the fixed management fee rates for LHV's bigger funds will be lowered to 0.72%, from 1.20%. Therefore, the actively managed funds of LHV Varahaldus plan to keep in focus, besides public market instruments, the investments in OTC-traded assets as well, above all in domestic assets, and concentrate on earning the long-term success fee.

Movement of stock markets was more volatile in Q2 compared to Q1. In May, the stock markets experienced a downward adjustment; yet, by the end of June, the main indexes regained

their record levels or were close to these. For example, LHV Pensionifond Indeks demonstrated the best result at the Estonian pension market with +15.2% growth in H1. The price risk related to stock exchanges is lower in actively managed LHV pension funds with the focus being on OTC-traded assets with a long-term stable rate of return.

At the end of June, LHV Varahaldus liquidated the Persian Gulf Fund; the volume of AUM of the fund at the moment of closure was EUR 4.5 million. The LHV's mobile app "My Pension" launched in June has been downloaded for more than 13 thousand times in the first month. From 6 June, Vahur Vallistu took up the duties of the CEO; on 19 June, Mihkel Oja left the organisation and from that date onwards, the Management Board of LHV Varahaldus continues with two members – Vahur Vallistu and Joel Kukemelk.

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

| <i>(in thousands of euros)</i>  | Note | Q2 2019       | 6M 2019        | Q2 2018       | 6M 2018        |
|---|------|---------------|----------------|---------------|----------------|
| <b>Continuing operations</b>  |      |               |                |               |                |
| Interest income   |      | 14 264        | 27 177         | 11 184        | 22 070         |
| Interest expense  |      | -2 637        | -4 605         | -1 776        | -3 663         |
| <b>Net interest income</b>  | 9    | <b>11 627</b> | <b>22 572</b>  | <b>9 408</b>  | <b>18 407</b>  |
| Fee and commission income   |      | 9 126         | 17 590         | 9 149         | 16 291         |
| Fee and commission expense  |      | -2 514        | -4 753         | -1 934        | -3 486         |
| <b>Net fee and commission income</b>  | 10   | <b>6 612</b>  | <b>12 837</b>  | <b>7 215</b>  | <b>12 805</b>  |
| Net gains from financial assets measured at fair value                      |      | 190           | 338            | 326           | 254            |
| Foreign exchange rate gains/losses  |      | 12            | -7             | 9             | -6             |
| <b>Net gains from financial assets</b>                                      |      | <b>202</b>    | <b>381</b>     | <b>335</b>    | <b>248</b>     |
| Other income  |      | 17            | 16             | 18            | 25             |
| Other expense   |      | 0             | -23            | -15           | -27            |
| <b>Total other income</b>   |      | <b>17</b>     | <b>-7</b>      | <b>3</b>      | <b>-2</b>      |
| Staff costs   | 11   | -4 882        | -9 435         | -3 938        | -7 684         |
| Administrative and other operating expenses                                 | 11   | -4 519        | -9 072         | -3 836        | -7 756         |
| <b>Total expenses</b>   |      | <b>-9 401</b> | <b>-18 507</b> | <b>-7 774</b> | <b>-15 440</b> |
| <b>Profit before impairment losses on loans and advances</b>                |      | <b>9 057</b>  | <b>17 276</b>  | <b>9 187</b>  | <b>16 018</b>  |
| Impairment losses on loans and advances                                     | 22   | -698          | -1 649         | -1 596        | -2 478         |
| <b>Profit before income tax</b>   |      | <b>8 359</b>  | <b>15 627</b>  | <b>7 591</b>  | <b>13 540</b>  |
| Income tax expense  |      | -697          | -2 962         | -631          | -2 569         |
| <b>Net profit for the reporting period from continued operations</b>        | 2    | <b>7 662</b>  | <b>12 665</b>  | <b>6 960</b>  | <b>10 971</b>  |
| <b>Profit from discontinued operations</b>                                  | 12   | <b>0</b>      | <b>0</b>       | <b>3 080</b>  | <b>3 324</b>   |
| <b>Net profit for the reporting period</b>                                  | 2    | <b>7 662</b>  | <b>12 665</b>  | <b>10 040</b> | <b>14 295</b>  |
| <b>Other comprehensive income/loss:</b>                                     |      |               |                |               |                |
| Items that may be reclassified subsequently to profit or loss:              |      |               |                |               |                |
| Changes in the fair value of debt instruments measured at FVOCI             |      |               |                |               |                |
|   |      | 0             | 0              | -6            | -112           |
| <b>Total profit and other comprehensive income for the reporting period</b> |      | <b>7 662</b>  | <b>12 665</b>  | <b>10 034</b> | <b>14 183</b>  |
| <b>Total profit of the reporting period attributable to:</b>                |      |               |                |               |                |
| Owners of the parent  |      | 7 097         | 11 788         | 9 525         | 13 474         |
| Non-controlling interest  |      | 565           | 877            | 515           | 821            |
| <b>Total profit for the reporting period</b>                                | 2    | <b>7 662</b>  | <b>12 665</b>  | <b>10 040</b> | <b>14 295</b>  |
| <b>Total profit and other comprehensive income attributable to:</b>         |      |               |                |               |                |
| Owners of the parent  |      | 7 097         | 11 788         | 9 519         | 13 362         |
| Non-controlling interest  |      | 565           | 877            | 515           | 821            |
| <b>Total profit and other comprehensive income for the reporting period</b> |      | <b>7 662</b>  | <b>12 665</b>  | <b>10 034</b> | <b>14 183</b>  |
| Basic earnings per share (in euros)   | 17   | 0.27          | 0.45           | 0.37          | 0.52           |
| Diluted earnings per share (in euros)                                       | 17   | 0.27          | 0.45           | 0.36          | 0.51           |

The Notes on pages 20 to 36 are an integral part of the condensed consolidated interim financial statements.

## Condensed Consolidated Interim Statement of Financial Position

| <i>(in thousands of euros)</i>                                      | Note        | 30.06.2019       | 31.12.2018       |
|---|-------------|------------------|------------------|
| <b>Assets</b>   |             |                  |                  |
| Due from central bank   | 4, 5, 6, 13 | 1 067 924        | 639 862          |
| Due from credit institutions  | 4, 5, 6, 13 | 21 981           | 25 791           |
| Due from investment companies                                       | 4, 6, 13    | 9 104            | 17 005           |
| Equity instruments at fair value through other comprehensive income | 4, 6, 7     | 298              | 298              |
| Financial assets at fair value through profit or loss               | 4, 6, 7     | 119 164          | 46 856           |
| Loans and advances to customers                                     | 4, 6, 8, 22 | 1 117 904        | 918 761          |
| Receivables from customers  |             | 9 504            | 3 721            |
| Other financial assets  |             | 2 850            | 2 936            |
| Other assets  |             | 1 820            | 1 651            |
| Tangible assets   | 20          | 5 135            | 1 135            |
| Intangible assets   | 20          | 15 416           | 15 470           |
| Goodwill  |             | 3 614            | 3 614            |
| <b>Total assets</b>   | <b>2</b>    | <b>2 374 714</b> | <b>1 677 100</b> |
| <b>Liabilities</b>  |             |                  |                  |
| Deposits of customers and loans received                            | 14          | 2 111 978        | 1 443 782        |
| Financial liabilities at fair value through profit or loss          | 6           | 9                | 11               |
| Accounts payable and other liabilities                              | 15          | 23 188           | 24 644           |
| Subordinated debt   | 6, 21       | 75 000           | 50 900           |
| <b>Total liabilities</b>  | <b>2</b>    | <b>2 210 175</b> | <b>1 519 337</b> |
| <b>Owner's equity</b>   |             |                  |                  |
| Share capital   |             | 26 016           | 26 016           |
| Share premium   |             | 46 653           | 46 653           |
| Statutory reserve capital   |             | 4 713            | 3 451            |
| Other reserves  |             | 2 865            | 2 090            |
| Retained earnings   |             | 80 493           | 75 430           |
| <b>Total equity attributable to owners of the parent</b>            |             | <b>160 740</b>   | <b>153 640</b>   |
| Non-controlling interest  |             | 3 799            | 4 123            |
| <b>Total equity</b>   |             | <b>164 539</b>   | <b>157 763</b>   |
| <b>Total liabilities and equity</b>                                 |             | <b>2 374 714</b> | <b>1 677 100</b> |

|   |
|---|
| <p style="margin: 0;"><b>Initsialiseeritud ainult identifitseerimiseks</b><br/> <b>Initialed for the purpose of identification only</b><br/>         Initsiaalid/initials <u>                    I.S.                    </u><br/>         Kuupäev/date <u>                    5.09.2019                    </u><br/>         PricewaterhouseCoopers, Tallinn</p> |
|---|

The Notes on pages 20 to 36 are an integral part of the condensed consolidated interim financial statements.

## Condensed Consolidated Interim Statement of Cash Flows

| <i>(in thousands of euros)</i>  | Note | Q2 2019          | 6M 2019          | Q2 2018         | 6M 2018        |
|---|------|------------------|------------------|-----------------|----------------|
| <b>Cash flows from operating activities</b>   |      |                  |                  |                 |                |
| Interest received   |      | 13 917           | 26 761           | 11 594          | 21 256         |
| Interest paid   |      | -2 333           | -4 154           | -1 981          | -2 718         |
| Fees and commissions received   |      | 9 127            | 17 590           | 9 149           | 16 291         |
| Fees and commissions paid   |      | -2 514           | -4 753           | -1 934          | -3 486         |
| Other income received   |      | 48               | -50              | 20              | 27             |
| Staff costs paid  |      | -4 368           | -8 463           | -3 508          | -6 757         |
| Administrative and other operating expenses paid  |      | -3 546           | -7 040           | -3 107          | -6 340         |
| Income tax  |      | -697             | -2 962           | 0               | -1 938         |
| <b>Cash flows from operating activities before change in operating assets and liabilities</b>                   |      | <b>9 634</b>     | <b>16 929</b>    | <b>10 233</b>   | <b>16 335</b>  |
| <b>Net increase/decrease in operating assets:</b>   |      |                  |                  |                 |                |
| Net increase/(decrease) in financial assets at fair value through profit or loss                                |      | 1                | 46               | -31             | -49            |
| Loans and advances to customers   |      | -129 814         | -206 197         | -21 003         | -57 819        |
| Mandatory reserve at central bank   |      | -4 199           | -5 584           | 748             | -1 086         |
| Security deposits   |      | 120              | 86               | -111            | -58            |
| Other assets  |      | 273              | -152             | -53             | -552           |
| <b>Net increase/decrease in operating liabilities:</b>  |      |                  |                  |                 |                |
| Demand deposits of customers  |      | 249 267          | 367 882          | -171 045        | 17 888         |
| Term deposits of customers  |      | 266 727          | 292 858          | -11 526         | -12 034        |
| Loans received  |      | 10 000           | 10 000           | 0               | 0              |
| Repayments of the loans received  |      | -2 943           | -2 943           | 0               | 0              |
| Financial liabilities held for trading at fair value through profit and loss                                    |      | -25              | -2               | -368            | 5              |
| Other liabilities   |      | 853              | -833             | -2 720          | -46 828        |
| Discontinued operations   |      | 0                | 0                | 244             | -270           |
| <b>Net cash generated from/used in operating activities</b>   |      | <b>399 894</b>   | <b>472 090</b>   | <b>-195 632</b> | <b>-84 468</b> |
| <b>Cash flows from investing activities</b>   |      |                  |                  |                 |                |
| Purchase of non-current assets  |      | -885             | -5 934           | -512            | -1 084         |
| Disposal of subsidiary, net of cash disposed  | 12   | 0                | 0                | 5 046           | 5 046          |
| Proceeds from disposal and redemption of investment securities at fair value through other comprehensive income |      | 0                | 0                | -6              | -112           |
| Net changes of investment securities at fair value through profit or loss                                       |      | -93 089          | -72 819          | 3 348           | 2 825          |
| <b>Net cash flows from/used in investing activities</b>   |      | <b>-93 974</b>   | <b>-78 753</b>   | <b>7 876</b>    | <b>6 675</b>   |
| <b>Cash flows from financing activities</b>   |      |                  |                  |                 |                |
| Dividends paid  |      | 0                | -6 664           | -4 123          | -5 295         |
| Subordinated loans received   |      | 40 000           | 40 000           | 0               | 0              |
| Repayments of the subordinated loans received   |      | -15 900          | -15 900          | 0               | 0              |
| <b>Net cash flows from/used in financing activities</b>   |      | <b>24 100</b>    | <b>17 436</b>    | <b>-4 123</b>   | <b>-5 295</b>  |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>   | 6    | <b>12</b>        | <b>-7</b>        | <b>9</b>        | <b>-6</b>      |
| <b>Net increase/decrease in cash and cash equivalents</b>   |      | <b>330 032</b>   | <b>410 766</b>   | <b>-191 870</b> | <b>-83 094</b> |
| Cash and cash equivalents at the beginning of the period  |      | 749 112          | 668 378          | 1 054 613       | 945 837        |
| <b>Cash and cash equivalents at the end of the period</b>   | 13   | <b>1 079 144</b> | <b>1 079 144</b> | <b>862 743</b>  | <b>862 743</b> |

The Notes on pages 20 to 36 are an integral part of the condensed consolidated interim financial statements

## Condensed Consolidated Interim Statement of Changes in Equity

| <i>(in thousands of euros)</i>                                       | Share capital | Share premium | Statutory reserve capital | Other reserves | Retained earnings | Total equity attributable to owners of LHV Group | Non-controlling interest | Total equity   |
|--|---------------|---------------|---------------------------|----------------|-------------------|--|--------------------------|----------------|
| <b>Balance as at 01.01.2018</b>                                      | <b>25 767</b> | <b>46 304</b> | <b>2 471</b>              | <b>1 449</b>   | <b>44 071</b>     | <b>120 062</b>                                   | <b>7 893</b>             | <b>127 955</b> |
| Changes in initial application of IFRS 15                            | 0             | 0             | 0                         | 0              | 10 617            | 10 617   | 0                        | 10 617         |
| <b>Adjusted balance as at 01.01.2018</b>                             | <b>25 767</b> | <b>46 304</b> | <b>2 471</b>              | <b>1 449</b>   | <b>54 688</b>     | <b>130 679</b>                                   | <b>7 893</b>             | <b>138 572</b> |
| Disposal of subsidiary   | 0             | 0             | 0                         | 0              | 0                 | 0  | -4 550                   | -4 550         |
| Transfer to statutory reserve capital                                | 0             | 0             | 980                       | 0              | -980              | 0  | 0                        | 0              |
| Dividends paid   | 0             | 0             | 0                         | 0              | -4 123            | -4 123   | -1 172                   | -5 295         |
| Share options  | 0             | 0             | 0                         | 530            | 0                 | 530  | 0                        | 530            |
| <i>Profit for the reporting period</i>                               | 0             | 0             | 0                         | 0              | 13 474            | 13 474   | 821                      | 14 295         |
| <i>Other comprehensive loss</i>                                      | 0             | 0             | 0                         | -112           | 0                 | -112   | 0                        | -112           |
| Total profit and other comprehensive income for the reporting period | 0             | 0             | 0                         | -112           | 13 474            | 13 362   | 821                      | 14 183         |
| <b>Balance as at 30.06.2018</b>                                      | <b>25 767</b> | <b>46 304</b> | <b>3 451</b>              | <b>1 867</b>   | <b>63 059</b>     | <b>140 448</b>                                   | <b>2 992</b>             | <b>143 440</b> |
| <b>Balance as at 01.01.2019</b>                                      | <b>26 016</b> | <b>46 653</b> | <b>3 451</b>              | <b>2 090</b>   | <b>75 430</b>     | <b>153 640</b>                                   | <b>4 123</b>             | <b>157 763</b> |
| Transfer to statutory reserve capital                                | 0             | 0             | 1 262                     | 0              | -1 262            | 0  | 0                        | 0              |
| Dividends paid   | 0             | 0             | 0                         | 0              | -5 463            | -5 463   | -1 201                   | -6 664         |
| Share options  | 0             | 0             | 0                         | 775            | 0                 | 775  | 0                        | 775            |
| <i>Profit for the reporting period</i>                               | 0             | 0             | 0                         | 0              | 11 788            | 11 788   | 877                      | 12 665         |
| <i>Other comprehensive income/loss</i>                               | 0             | 0             | 0                         | 0              | 0                 | 0  | 0                        | 0              |
| Total profit and other comprehensive income for the reporting period | 0             | 0             | 0                         | 0              | 11 788            | 11 788   | 877                      | 12 665         |
| <b>Balance as at 30.06.2019</b>                                      | <b>26 016</b> | <b>46 653</b> | <b>4 713</b>              | <b>2 865</b>   | <b>80 493</b>     | <b>160 740</b>                                   | <b>3 799</b>             | <b>164 539</b> |

Initsialiseeritud ainult identifitseerimiseks  
 Initialed for the purpose of identification only  
 Initsiaalid/initials 1. S.  
 Kuupäev/date 5.09.2019  
 PricewaterhouseCoopers, Tallinn

The Notes on pages 20 to 36 are an integral part of the condensed consolidated interim financial statements

# Notes to the Condensed Consolidated Interim Financial Statements

## NOTE 1 Accounting Policies

The condensed consolidated interim financial statements have been prepared in accordance with the international financial reporting standard IAS 34 "Interim Financial Reporting", as adopted by the European Union, and consists of condensed consolidated financial statements and selected explanatory notes. The accounting policies and methods of computation used in the preparation of the interim report are the same as the accounting policies and methods of computation used in the annual report for the year ended 31 December 2018, which comply with the International Financial Reporting Standards, as adopted by the European Union (IFRS EU), with the exception of accounting principles changed as of 1 January 2019 in related to newly enforced IFRS EU standards. The changes in accounting principles are disclosed in Note 1, subsection "Changes in accounting policies".

These condensed consolidated interim financial statements have been reviewed, not audited and do not contain the entire range of information required for the preparation of complete financial statements. The condensed consolidated interim financial statements should be read in conjunction with the Annual Report prepared for the year ended 31 December 2018, which has been prepared in accordance with the International Financial Reporting Standards (IFRS EU).

The financial figures of the condensed consolidated interim financial statements have been presented in thousands of euros, unless otherwise indicated. The interim financial statements have been consolidated and include the results of AS LHV Group and its subsidiaries AS LHV Varahaldus (100% interest), AS LHV Pank (100% interest), OÜ Cuber Tehnology (100% interest) and AS LHV Finance (65% interest). As of March 31 2018 the quarterly report included also the results of UAB Mokilizingas (50% interest+1 share).

### *Changes and amendments to already published financial statements*

When preparing these condensed consolidated interim financial statements, the Group introduced amendments to the financial information disclosed for the period ended 30 June 2019 presented in the condensed consolidated interim financial statements as compared to already published on 16th of July condensed consolidated interim financial statements for the period ended 30 June 2019. Therefore, these condensed consolidated interim financial statements replace the previously published version. The amendments did not affect profit for the reporting period, total assets, total liabilities or total equity. The key amendments relate to:

- correction of comparative period in the Condensed Consolidated Statement of Changes in Equity.
- inclusion of detailed description of new accounting standard IFRS 16 applied from 1 January 2019 (Note 1).
- inclusion of 6m 2019 and 6m 2018 period results in segment reporting (Note 2).
- inclusion of following notes:
  - Tangible and intangible assets (Note 20);
  - Subordinated debts (Note 21);
  - Loans and advances to customers (Note 22).

### *Changes in accounting policies*

The Group has adopted IFRS 16, Leases for the first time starting from 01.01.2019. The other new standards that became effective since 1 January 2019 have had no impact on the 6-month interim financial report of the Group. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model.

Lessees will be required to recognise:

- (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- (b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The group has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period as permitted under the specific transition provisions in the standard.

On adoption of IFRS 16, the group recognised tangible assets and lease liabilities in relation to leases, which had previously been classified as 'operating leases' under the principles of IAS 17 Leases.

The Group leases various properties. Rental contracts are typically made for fixed periods of up to 5 years but as a rule, include extension and termination options. Lease terms are negotiated on an individual basis and may contain a wide range of different terms and conditions.

The Group recognises leases as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

Lease liabilities were recognized as present value of lease payments. The right-of use assets were measured at the amount equal to the lease liability, as no adjustments to right of use assets were necessary. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life or the lease term on a straight-line basis.

Lease liabilities include the net present value of the following lease payments:

- fixed payments, less any lease incentives receivable.
- variable lease payment that are based on some kind an index (for example inflation, Euribor).
- amounts expected to be payable by the lessee under residual value guarantees.
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option.

The lease payments are discounted using the interest rate implicit in the lease, if it is readily determinable, or the Group's incremental borrowing rate. The alternative interest rate is the rate of interest that a lessee would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Short-term leases are leases with a lease term of 12 months or less. Low value assets comprise IT-equipment and small items of office furniture. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The management reviews the assessment if a significant event or a significant change in circumstances occurs which affects the probability of using options and that is within the control of the management. Alternatively, the extension period of the contract has changed (for example, Group has exercised an option, which initially was considered reasonably uncertain or has not exercised an option, which was initially considered reasonably certain).

According to the contracts, Group has not granted any residual value guarantees in the end of the contract.

On applying the standard as at 01.01.2019, the lease payments were discounted at the Group's incremental borrowing rate of 2.25% on average.

The Group has used the following practical expedients permitted by the standard:

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.
- lease agreements for low value assets are excluded.
- the exclusion of initial direct costs for the measurement of the rightof-use asset at the date of initial application.

The group has also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease. As the result of application, the Group's total assets in the statement of financial position as at 01.01.2019 increased 4 042 thousand euros and liabilities increased 4 042 thousand euros.

## NOTE 2 Business Segments

---

The Group divides its business activities into segments according to its legal structure, except LHV Pank divides its business activities by 3 main business segments: retail banking, private banking and corporate banking. The business segments form a part of the Group, with a separate access to financial data and which are subject to regular monitoring of operating profit by the Group's decision-maker. The Management Board of AS LHV Group has been designated as the decision-maker responsible for allocation of funds and assessment of the profitability of the business activities. The result posted by a segment includes revenue and expenditure directly related to the segment.

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

|  | Retail banking | Private banking | Corporate banking | Asset management | Hire-purchase and consumer finance in Estonia | Hire-purchase and consumer finance in Lithuania | Other activities | Intra-segment eliminations | Total         |
|--|----------------|-----------------|-------------------|------------------|---|---|------------------|----------------------------|---------------|
| <b>Q2 2019</b>   |                |                 |                   |                  |   |   |                  |                            |               |
| Interest income  | 3 868          | 276             | 8 547             | 0                | 2 681   | 0   | 1 427            | -2 535                     | 14 264        |
| Interest expense   | -702           | 0               | -1 531            | -41              | -425  | 0   | -2 473           | 2 535                      | -2 637        |
| <b>Net interest income</b>                               | <b>3 166</b>   | <b>276</b>      | <b>7 016</b>      | <b>-41</b>       | <b>2 256</b>                                  | <b>0</b>  | <b>-1 046</b>    | <b>0</b>                   | <b>11 627</b> |
| Fee and commission income                                | 4 673          | 390             | 315               | 3 605            | 143   | 0   | 0                | 0                          | 9 126         |
| Fee and commission expense                               | -2 343         | 0               | -8                | 0                | -162  | 0   | -1               | 0                          | -2 514        |
| <b>Net fee and commission income</b>                     | <b>2 330</b>   | <b>390</b>      | <b>307</b>        | <b>3 605</b>     | <b>-19</b>                                    | <b>0</b>  | <b>-1</b>        | <b>0</b>                   | <b>6 612</b>  |
| <b>Net income</b>  | <b>5 496</b>   | <b>666</b>      | <b>7 323</b>      | <b>3 564</b>     | <b>2 237</b>                                  | <b>0</b>  | <b>-1 047</b>    | <b>0</b>                   | <b>18 239</b> |
| Net gains from financial assets                          | 43             | 0               | 0                 | 73               | 0   | 0   | 86               | 0                          | 202           |
| Administrative and other operating expenses, staff costs | -4 499         | -274            | -1 828            | -1 510           | -557  | 0   | -716             | 0                          | -9 384        |
| <b>Operating profit</b>                                  | <b>1 040</b>   | <b>392</b>      | <b>5 495</b>      | <b>2 127</b>     | <b>1 680</b>                                  | <b>0</b>  | <b>-1 677</b>    | <b>0</b>                   | <b>9 057</b>  |
| Impairment losses on loans and advances                  | -200           | 0               | -431              | 0                | -67   | 0   | 0                | 0                          | -698          |
| Income tax   | -174           | -37             | -486              | 0                | 0   | 0   | 0                | 0                          | -697          |
| <b>Net profit</b>  | <b>666</b>     | <b>355</b>      | <b>4 578</b>      | <b>2 127</b>     | <b>1 613</b>                                  | <b>0</b>  | <b>-1 677</b>    | <b>0</b>                   | <b>7 662</b>  |

|  | Retail banking   | Private banking | Corporate banking | Asset management | Hire-purchase and consumer finance in Estonia | Hire-purchase and consumer finance in Lithuania | Other activities | Intra-segment eliminations | Total            |
|--|------------------|-----------------|-------------------|------------------|---|---|------------------|----------------------------|------------------|
| <b>6M 2019</b>   |                  |                 |                   |                  |   |   |                  |                            |                  |
| Interest income  | 7 380            | 574             | 16 158            | 0                | 5 251   | 0   | 2 617            | -4 803                     | 27 177           |
| Interest expense   | -1 292           | 0               | -2 931            | -83              | -750  | 0   | -4 352           | 4 803                      | -4 605           |
| <b>Net interest income</b>                               | <b>6 088</b>     | <b>574</b>      | <b>13 227</b>     | <b>-83</b>       | <b>4 501</b>                                  | <b>0</b>  | <b>-1 735</b>    | <b>0</b>                   | <b>22 572</b>    |
| Fee and commission income                                | 8 817            | 754             | 612               | 7 126            | 281   | 0   | 0                | 0                          | 17 590           |
| Fee and commission expense                               | -4 414           | 0               | -20               | 0                | -314  | 0   | -5               | 0                          | -4 753           |
| <b>Net fee and commission income</b>                     | <b>4 403</b>     | <b>754</b>      | <b>592</b>        | <b>7 126</b>     | <b>-33</b>                                    | <b>0</b>  | <b>-5</b>        | <b>0</b>                   | <b>12 837</b>    |
| <b>Net income</b>  | <b>10 491</b>    | <b>1 328</b>    | <b>13 819</b>     | <b>7 043</b>     | <b>4 468</b>                                  | <b>0</b>  | <b>-1 740</b>    | <b>0</b>                   | <b>35 409</b>    |
| Net gains from financial assets                          | 39               | 0               | 0                 | 265              | 0   | 0   | 4 477            | -4 400                     | 381              |
| Administrative and other operating expenses, staff costs | -8 890           | -554            | -3 775            | -2 993           | -985  | 0   | -1 317           | 0                          | -18 514          |
| <b>Operating profit</b>                                  | <b>1 640</b>     | <b>774</b>      | <b>10 044</b>     | <b>4 315</b>     | <b>3 483</b>                                  | <b>0</b>  | <b>1 420</b>     | <b>-4 400</b>              | <b>17 276</b>    |
| Impairment losses on loans and advances                  | -273             | 0               | -1 158            | 0                | -218  | 0   | 0                | 0                          | -1 649           |
| Income tax   | -323             | -71             | -836              | -972             | -760  | 0   | 0                | 0                          | -2 962           |
| <b>Net profit</b>  | <b>1 044</b>     | <b>703</b>      | <b>8 050</b>      | <b>3 343</b>     | <b>2 505</b>                                  | <b>0</b>  | <b>1 420</b>     | <b>-4 400</b>              | <b>12 665</b>    |
| <b>Total assets 30.06.2019</b>                           | <b>1 435 527</b> | <b>134 796</b>  | <b>765 034</b>    | <b>29 831</b>    | <b>57 213</b>                                 | <b>0</b>  | <b>153 026</b>   | <b>-200 713</b>            | <b>2 374 714</b> |
| <b>Total liabilities 30.06.2019</b>                      | <b>1 600 808</b> | <b>345 897</b>  | <b>256 400</b>    | <b>3 687</b>     | <b>46 322</b>                                 | <b>0</b>  | <b>75 453</b>    | <b>-118 392</b>            | <b>2 210 175</b> |

|  | Retail banking | Private banking | Corporate banking | Asset management | Hire-purchase and consumer finance in Estonia | Hire-purchase and consumer finance in Lithuania | Other activities | Intra-segment eliminations | Total         |
|--|----------------|-----------------|-------------------|------------------|---|---|------------------|----------------------------|---------------|
| <b>Q2 2018</b>   |                |                 |                   |                  |   |   |                  |                            |               |
| Interest income  | 2 548          | 331             | 6 145             | 0                | 2 246   | 0   | 1 692            | -1 778                     | 11 184        |
| Interest expense   | 0              | 0               | -1 059            | -42              | -305  | 0   | -2 148           | 1 778                      | -1 776        |
| <b>Net interest income</b>                               | <b>2 548</b>   | <b>331</b>      | <b>5 086</b>      | <b>-42</b>       | <b>1 941</b>                                  | <b>0</b>  | <b>-456</b>      | <b>0</b>                   | <b>9 408</b>  |
| Fee and commission income                                | 3 040          | 316             | 1 676             | 3 415            | 125   | 0   | 577              | 0                          | 9 149         |
| Fee and commission expense                               | -1 745         | 0               | -31               | 0                | -141  | 0   | -17              | 0                          | -1 934        |
| <b>Net fee and commission income</b>                     | <b>1 295</b>   | <b>316</b>      | <b>1 645</b>      | <b>3 415</b>     | <b>-16</b>                                    | <b>0</b>  | <b>560</b>       | <b>0</b>                   | <b>7 215</b>  |
| <b>Net income</b>  | <b>3 843</b>   | <b>647</b>      | <b>6 731</b>      | <b>3 373</b>     | <b>1 925</b>                                  | <b>0</b>  | <b>104</b>       | <b>0</b>                   | <b>16 623</b> |
| Net gains from financial assets                          | -3             | 0               | 0                 | 89               | 0   | 0   | 249              | 0                          | 335           |
| Administrative and other operating expenses, staff costs | -2 983         | -254            | -1 663            | -1 396           | -518  | 0   | -957             | 0                          | -7 771        |
| <b>Operating profit</b>                                  | <b>857</b>     | <b>393</b>      | <b>5 068</b>      | <b>2 066</b>     | <b>1 407</b>                                  | <b>0</b>  | <b>-604</b>      | <b>0</b>                   | <b>9 187</b>  |
| Impairment losses on loans and advances                  | 21             | 0               | -1 493            | 0                | -121  | 0   | -3               | 0                          | -1 596        |
| Income tax   | -169           | -41             | -365              | 0                | 0   | 0   | -56              | 0                          | -631          |
| Discontinued operations                                  | 0              | 0               | 0                 | 0                | 0   | 3 080   | 0                | 0                          | 3 080         |
| <b>Net profit</b>  | <b>709</b>     | <b>352</b>      | <b>3 210</b>      | <b>2 066</b>     | <b>1 286</b>                                  | <b>3 080</b>                                    | <b>-663</b>      | <b>0</b>                   | <b>10 040</b> |

|  | Retail banking | Private banking | Corporate banking | Asset management | Hire-purchase and consumer finance in Estonia | Hire-purchase and consumer finance in Lithuania | Other activities | Intra-segment eliminations | Total         |
|--|----------------|-----------------|-------------------|------------------|---|---|------------------|----------------------------|---------------|
| <b>6M 2018</b>   |                |                 |                   |                  |   |   |                  |                            |               |
| Interest income  | 5 044          | 625             | 11 710            | 0                | 4 469   | 0   | 4 145            | -3 923                     | 22 070        |
| Interest expense   | 0              | 0               | -1 985            | -84              | -583  | 0   | -4 934           | 3 923                      | -3 663        |
| <b>Net interest income</b>                               | <b>5 044</b>   | <b>625</b>      | <b>9 725</b>      | <b>-84</b>       | <b>3 886</b>                                  | <b>0</b>  | <b>-789</b>      | <b>0</b>                   | <b>18 407</b> |
| Fee and commission income                                | 5 864          | 639             | 1 695             | 6 754            | 251   | 0   | 1 088            | 0                          | 16 291        |
| Fee and commission expense                               | -3 139         | 0               | -58               | 0                | -249  | 0   | -40              | 0                          | -3 486        |
| <b>Net fee and commission income</b>                     | <b>2 725</b>   | <b>639</b>      | <b>1 637</b>      | <b>6 754</b>     | <b>2</b>                                      | <b>0</b>  | <b>1 048</b>     | <b>0</b>                   | <b>12 805</b> |
| <b>Net income</b>  | <b>7 769</b>   | <b>1 264</b>    | <b>11 362</b>     | <b>6 670</b>     | <b>3 888</b>                                  | <b>0</b>  | <b>259</b>       | <b>0</b>                   | <b>31 212</b> |
| Net gains from financial assets                          | -6             | 0               | 0                 | 65               | 0   | 0   | 2 367            | -2 178                     | 248           |
| Administrative and other operating expenses, staff costs | -5 918         | -518            | -3 126            | -2 882           | -1 049  | 0   | -1 949           | 0                          | -15 442       |
| <b>Operating profit</b>                                  | <b>1 845</b>   | <b>746</b>      | <b>8 236</b>      | <b>3 853</b>     | <b>2 839</b>                                  | <b>0</b>  | <b>677</b>       | <b>-2 178</b>              | <b>16 018</b> |
| Impairment losses on loans and advances                  | 453            | 0               | -2 709            | 0                | -190  | 0   | -32              | 0                          | -2 478        |
| Income tax   | -169           | -41             | -365              | -1 100           | -838  | 0   | -56              | 0                          | -2 569        |
| Discontinued operations                                  | 0              | 0               | 0                 | 0                | 0   | 3 324   | 0                | 0                          | 3 324         |
| <b>Net profit</b>  | <b>2 129</b>   | <b>705</b>      | <b>5 162</b>      | <b>2 753</b>     | <b>1 811</b>                                  | <b>3 324</b>                                    | <b>589</b>       | <b>-2 178</b>              | <b>14 295</b> |

|                                     |                  |                |                |               |               |          |                |                 |                  |
|-------------------------------------|------------------|----------------|----------------|---------------|---------------|----------|----------------|-----------------|------------------|
| <b>Total assets 30.06.2018</b>      | <b>1 046 276</b> | <b>98 245</b>  | <b>557 591</b> | <b>28 262</b> | <b>45 518</b> | <b>0</b> | <b>107 113</b> | <b>-143 225</b> | <b>1 739 780</b> |
| <b>Total liabilities 30.06.2018</b> | <b>1 159 023</b> | <b>250 438</b> | <b>185 640</b> | <b>3 853</b>  | <b>36 948</b> | <b>0</b> | <b>31 192</b>  | <b>-70 753</b>  | <b>1 596 340</b> |
| <b>Total assets 31.12.2018</b>      | <b>1 005 454</b> | <b>94 412</b>  | <b>535 836</b> | <b>31 193</b> | <b>51 383</b> | <b>0</b> | <b>127 748</b> | <b>-168 926</b> | <b>1 677 100</b> |
| <b>Total liabilities 31.12.2018</b> | <b>1 105 619</b> | <b>238 898</b> | <b>177 086</b> | <b>2 610</b>  | <b>39 577</b> | <b>0</b> | <b>51 380</b>  | <b>-95 834</b>  | <b>1 519 337</b> |

### NOTE 3 Risk Management

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the group's annual financial statements as at 31 December 2018.

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

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

| <b>30.06.2019</b>                                | <b>Estonia</b>   | <b>Latvia</b> | <b>Lit-<br/>uania</b> | <b>Finland</b> | <b>The<br/>Nether-<br/>lands</b> | <b>Ger-<br/>many</b> | <b>Other<br/>EU</b> | <b>USA</b>    | <b>UK</b>     | <b>Other</b>  | <b>Total</b>     |
|--|------------------|---------------|-----------------------|----------------|----------------------------------|----------------------|---------------------|---------------|---------------|---------------|------------------|
| Due from banks and investment companies          | 1 039 016        | 0             | 0                     | 0              | 0                                | 0                    | 11 058              | 8 616         | 38 501        | 1 818         | <b>1 099 009</b> |
| Financial assets at fair value                   | 88 228           | 770           | 17 243                | 0              | 0                                | 13 202               | 16                  | 3             | 0             | 0             | <b>119 462</b>   |
| Loans and advances to customers                  | 1 087 866        | 165           | 122                   | 1 439          | 1                                | 117                  | 26 736              | 245           | 0             | 1 213         | <b>1 117 904</b> |
| Receivables from customers                       | 9 495            | 1             | 5                     | 0              | 0                                | 0                    | 0                   | 0             | 0             | 3             | <b>9 504</b>     |
| Other financial assets                           | 109              | 0             | 0                     | 0              | 0                                | 0                    | 0                   | 2 741         | 0             | 0             | <b>2 850</b>     |
| <b>Total financial assets</b>                    | <b>2 224 714</b> | <b>936</b>    | <b>17 370</b>         | <b>1 439</b>   | <b>1</b>                         | <b>13 319</b>        | <b>37 810</b>       | <b>11 605</b> | <b>38 501</b> | <b>3 034</b>  | <b>2 348 729</b> |
| Deposits of customers and loans received         | 1 530 458        | 10 714        | 2 306                 | 3 512          | 282                              | 239 380              | 263 907             | 1 124         | 0             | 60 295        | <b>2 111 978</b> |
| Subordinated debt                                | 75 000           | 0             | 0                     | 0              | 0                                | 0                    | 0                   | 0             | 0             | 0             | <b>75 000</b>    |
| Accounts payable and other financial liabilities | 19 785           | 0             | 4                     | 27             | 0                                | 0                    | 13                  | 3             | 3             | 0             | <b>19 835</b>    |
| Financial liabilities at fair value              | 9                | 0             | 0                     | 0              | 0                                | 0                    | 0                   | 0             | 0             | 0             | <b>9</b>         |
| <b>Total financial liabilities</b>               | <b>1 625 252</b> | <b>10 714</b> | <b>2 310</b>          | <b>3 539</b>   | <b>282</b>                       | <b>239 380</b>       | <b>263 920</b>      | <b>1 127</b>  | <b>3</b>      | <b>60 295</b> | <b>2 206 822</b> |

Unused loan commitments in the amount of EUR 198 715 thousand are for the residents of Estonia.

Initsialiseeritud ainult identifitseerimiseks  
 Initialed for the purpose of identification only  
 Initsiaalid/initials   I.S.    
 Kuupäev/date   5.09.2019    
 PricewaterhouseCoopers, Tallinn

| 31.12.2018                                       | Estonia          | Latvia        | Lit-<br>huania | Finland      | The<br>Nether-<br>lands | Ger-<br>many  | Other<br>EU    | USA           | UK       | Other         | Total            |
|--|------------------|---------------|----------------|--------------|-------------------------|---------------|----------------|---------------|----------|---------------|------------------|
| Due from banks and investment companies          | 650 321          | 0             | 0              | 0            | 0                       | 0             | 13 599         | 16 541        | 0        | 2 197         | 682 658          |
| Financial assets at fair value                   | 8 392            | 772           | 17 242         | 0            | 0                       | 1             | 20 704         | 43            | 0        | 0             | 47 154           |
| Loans and advances to customers                  | 886 881          | 52            | 10 561         | 1 524        | 1                       | 6             | 18 432         | 175           | 0        | 1 129         | 918 761          |
| Receivables from customers                       | 3 706            | 1             | 5              | 0            | 0                       | 0             | 0              | 0             | 0        | 9             | 3 721            |
| Other financial assets                           | 111              | 0             | 0              | 0            | 0                       | 0             | 0              | 2 825         | 0        | 0             | 2 936            |
| <b>Total financial assets</b>                    | <b>1 549 411</b> | <b>825</b>    | <b>27 808</b>  | <b>1 524</b> | <b>1</b>                | <b>7</b>      | <b>52 735</b>  | <b>19 584</b> | <b>0</b> | <b>3 335</b>  | <b>1 655 230</b> |
| Deposits of customers and loans received         | 1 154 012        | 10 041        | 951            | 3 414        | 576                     | 13 274        | 220 173        | 3 085         | 0        | 38 256        | 1 443 782        |
| Subordinated debt                                | 50 900           | 0             | 0              | 0            | 0                       | 0             | 0              | 0             | 0        | 0             | 50 900           |
| Accounts payable and other financial liabilities | 21 381           | 0             | 4              | 27           | 0                       | 0             | 13             | 3             | 0        | 0             | 21 428           |
| Financial liabilities at fair value              | 11               | 0             | 0              | 0            | 0                       | 0             | 0              | 0             | 0        | 0             | 11               |
| <b>Total financial liabilities</b>               | <b>1 226 304</b> | <b>10 041</b> | <b>955</b>     | <b>3 441</b> | <b>576</b>              | <b>13 274</b> | <b>220 186</b> | <b>3 088</b>  | <b>0</b> | <b>38 256</b> | <b>1 516 121</b> |

Unused loan commitments in the amount of EUR 188 841 thousand are for the residents of Estonia.

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

| 30.06.2019  | On<br>demand     | 0-3<br>months   | 3-12<br>months | 1-5<br>years   | Over 5<br>years | Total            |
|---|------------------|-----------------|----------------|----------------|-----------------|------------------|
| <b>Liabilities by contractual maturity dates</b>          |                  |                 |                |                |                 |                  |
| Deposits from customers and loans received                | 1 672 159        | 53 659          | 365 185        | 20 711         | 3 637           | 2 115 350        |
| Subordinated debt   | 0                | 1 244           | 3 731          | 19 900         | 87 263          | 112 138          |
| Accounts payable and other financial liabilities          | 0                | 19 835          | 0              | 0              | 0               | 19 835           |
| Unused loan commitments                                   | 0                | 198 715         | 0              | 0              | 0               | 198 715          |
| Financial guarantees by contractual amounts               | 0                | 9 888           | 0              | 0              | 0               | 9 888            |
| Foreign exchange derivatives (gross settled)              | 0                | 15 764          | 0              | 611            | 0               | 16 375           |
| Financial liabilities at fair value                       | 0                | 9               | 0              | 0              | 0               | 9                |
| <b>Total liabilities</b>                                  | <b>1 672 159</b> | <b>299 113</b>  | <b>368 916</b> | <b>41 222</b>  | <b>90 899</b>   | <b>2 472 309</b> |
| <b>Financial assets by contractual maturity dates</b>     |                  |                 |                |                |                 |                  |
| Due from banks and investment companies                   | 1 099 009        | 0               | 0              | 0              | 0               | 1 099 009        |
| Financial assets at fair value (debt securities)          | 0                | 0               | 101 739        | 7 262          | 2 223           | 111 225          |
| Loans and advances to customers                           | 0                | 74 051          | 204 768        | 801 781        | 204 739         | 1 285 339        |
| Receivables from customers                                | 0                | 9 504           | 0              | 0              | 0               | 9 504            |
| Other financial assets                                    | 2 850            | 0               | 0              | 0              | 0               | 2 850            |
| Foreign exchange derivatives (gross settled)              | 0                | 15 764          | 0              | 611            | 0               | 16 375           |
| <b>Total financial assets</b>                             | <b>1 101 859</b> | <b>99 319</b>   | <b>306 508</b> | <b>809 654</b> | <b>206 962</b>  | <b>2 524 302</b> |
| <b>Maturity gap from financial assets and liabilities</b> | <b>-570 300</b>  | <b>-199 794</b> | <b>-62 408</b> | <b>768 432</b> | <b>116 063</b>  | <b>51 993</b>    |

Initsialiseeritud ainult identifitseerimiseks  
 Initialled for the purpose of identification only  
 Initsiaalid/initials                     I.S.                      
 Kuupäev/date                     5.09.2019                      
 PricewaterhouseCoopers, Tallinn

| 31.12.2018  | On demand        | 0-3 months      | 3-12 months    | 1-5 years      | Over 5 years   | Total            |
|---|------------------|-----------------|----------------|----------------|----------------|------------------|
| <b>Liabilities by contractual maturity dates</b>          |                  |                 |                |                |                |                  |
| Deposits from customers and loans received                | 1 304 239        | 24 949          | 94 113         | 16 780         | 4 390          | 1 444 471        |
| Subordinated debt   | 0                | 832             | 2 496          | 13 311         | 59 426         | 76 065           |
| Accounts payable and other financial liabilities          | 0                | 21 428          | 0              | 0              | 0              | 21 428           |
| 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               |
| <b>Total liabilities</b>                                  | <b>1 304 239</b> | <b>263 934</b>  | <b>96 609</b>  | <b>30 701</b>  | <b>63 816</b>  | <b>1 759 299</b> |
| <b>Financial assets by contractual maturity dates</b>     |                  |                 |                |                |                |                  |
| Due from banks and investment companies                   | 682 658          | 0               | 0              | 0              | 0              | 682 658          |
| 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                | 3 721           | 0              | 0              | 0              | 3 721            |
| Other financial assets                                    | 2 936            | 0               | 0              | 0              | 0              | 2 936            |
| Foreign exchange derivatives (gross settled)              | 0                | 18 559          | 0              | 610            | 0              | 19 169           |
| <b>Total financial assets</b>                             | <b>685 594</b>   | <b>106 554</b>  | <b>198 293</b> | <b>650 532</b> | <b>157 014</b> | <b>1 797 987</b> |
| <b>Maturity gap from financial assets and liabilities</b> | <b>-618 645</b>  | <b>-157 380</b> | <b>101 684</b> | <b>619 831</b> | <b>93 198</b>  | <b>38 688</b>    |

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

## NOTE 6 Open Foreign Currency Positions

| 30.06.2019  | EUR              | CHF          | GBP           | SEK          | USD           | Other        | Total            |
|---|------------------|--------------|---------------|--------------|---------------|--------------|------------------|
| <b>Assets bearing currency risk</b>                             |                  |              |               |              |               |              |                  |
| Due from banks and investment companies                         | 1 041 189        | 2 847        | 44 511        | 997          | 3 708         | 5 757        | 1 099 009        |
| Financial assets at fair value                                  | 101 606          | 0            | 0             | 1            | 17 853        | 2            | 119 462          |
| Loans and advances to customers                                 | 1 116 324        | 6            | 0             | 479          | 979           | 116          | 1 117 904        |
| Receivables from customers                                      | 7 732            | 3            | 1 286         | 26           | 0             | 457          | 9 504            |
| Other financial assets  | 741              | 0            | 0             | 0            | 2 109         | 0            | 2 850            |
| <b>Total assets bearing currency risk</b>                       | <b>2 267 592</b> | <b>2 856</b> | <b>45 797</b> | <b>1 503</b> | <b>24 649</b> | <b>6 331</b> | <b>2 348 729</b> |
| <b>Liabilities bearing currency risk</b>                        |                  |              |               |              |               |              |                  |
| Deposits from customers and loans received                      | 2 016 990        | 2 801        | 45 571        | 7 844        | 31 103        | 7 669        | 2 111 978        |
| Financial liabilities at fair value                             | 0                | 0            | 0             | 0            | 3             | 6            | 9                |
| Accounts payable and other financial liabilities                | 18 306           | 69           | 354           | 198          | 375           | 533          | 19 835           |
| Subordinated debt   | 75 000           | 0            | 0             | 0            | 0             | 0            | 75 000           |
| <b>Total liabilities bearing currency risk</b>                  | <b>2 110 296</b> | <b>2 870</b> | <b>45 925</b> | <b>8 042</b> | <b>31 481</b> | <b>8 209</b> | <b>2 206 823</b> |
| Open gross position derivative assets at contractual value      | 611              | 0            | 0             | 6 673        | 7 205         | 1 886        | 16 375           |
| Open gross position derivative liabilities at contractual value | 15 764           | 0            | 0             | 0            | 611           | 0            | 16 375           |
| <b>Open foreign currency position</b>                           | <b>142 143</b>   | <b>-14</b>   | <b>-127</b>   | <b>134</b>   | <b>-238</b>   | <b>8</b>     | <b>141 906</b>   |

| 31.12.2018  | EUR              | CHF          | GBP           | SEK          | USD           | Other         | Total            |
|---|------------------|--------------|---------------|--------------|---------------|---------------|------------------|
| <b>Assets bearing currency risk</b>                             |                  |              |               |              |               |               |                  |
| Due from banks and investment companies                         | 651 175          | 2 224        | 18 319        | 2 536        | 1 430         | 6 973         | <b>682 658</b>   |
| Financial assets at fair value                                  | 22 750           | 0            | 1 174         | 1            | 23 230        | 0             | <b>47 154</b>    |
| Loans and advances to customers                                 | 902 843          | 0            | 14 707        | 220          | 957           | 34            | <b>918 761</b>   |
| Receivables from customers                                      | 2 802            | 0            | 374           | 42           | 0             | 503           | <b>3 721</b>     |
| Other financial assets  | 840              | 0            | 0             | 0            | 2 096         | 0             | <b>2 936</b>     |
| <b>Total assets bearing currency risk</b>                       | <b>1 580 410</b> | <b>2 224</b> | <b>34 574</b> | <b>2 799</b> | <b>27 713</b> | <b>7 511</b>  | <b>1 655 230</b> |
| <b>Liabilities bearing currency risk</b>                        |                  |              |               |              |               |               |                  |
| Deposits from customers and loans received                      | 1 356 671        | 2 194        | 41 600        | 6 363        | 29 297        | 7 657         | <b>1 443 782</b> |
| Financial liabilities at fair value                             | 0                | 0            | 0             | 0            | 3             | 8             | <b>11</b>        |
| Accounts payable and other financial liabilities                | 15 299           | 50           | 2 238         | 410          | 120           | 3 311         | <b>21 428</b>    |
| Subordinated debt   | 50 900           | 0            | 0             | 0            | 0             | 0             | <b>50 900</b>    |
| <b>Total liabilities bearing currency risk</b>                  | <b>1 422 870</b> | <b>2 244</b> | <b>43 838</b> | <b>6 773</b> | <b>29 420</b> | <b>10 976</b> | <b>1 516 121</b> |
| Open gross position derivative assets at contractual value      | 610              | 0            | 9 166         | 3 973        | 2 186         | 3 234         | <b>19 169</b>    |
| Open gross position derivative liabilities at contractual value | 18 559           | 0            | 0             | 0            | 610           | 0             | <b>19 169</b>    |
| <b>Open foreign currency position</b>                           | <b>139 591</b>   | <b>-20</b>   | <b>-98</b>    | <b>-2</b>    | <b>-130</b>   | <b>-232</b>   | <b>139 108</b>   |

## NOTE 7 Fair Value of Financial Assets and Liabilities

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

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

|   | Level 1        | Level 2      | Level 3    | 30.06.2019     | Level 1       | Level 2      | Level 3    | 31.12.2018    |
|---|----------------|--------------|------------|----------------|---------------|--------------|------------|---------------|
| <b>Financial assets at fair value through profit and loss</b>       |                |              |            |                |               |              |            |               |
| Shares and fund units*  | 479            | 7 449        | 0          | <b>7 928</b>   | 510           | 7 590        | 0          | <b>8 100</b>  |
| Equity instruments at fair value through other comprehensive income | 0              | 0            | 298        | <b>298</b>     | 0             | 0            | 298        | <b>298</b>    |
| Bonds at fair value through profit and loss                         | 111 225        | 0            | 0          | <b>111 225</b> | 38 697        | 0            | 0          | <b>38 697</b> |
| Interest rate swaps and foreign exchange forwards                   | 0              | 11           | 0          | <b>11</b>      | 0             | 59           | 0          | <b>59</b>     |
| <b>Total financial assets</b>                                       | <b>111 704</b> | <b>7 460</b> | <b>298</b> | <b>119 462</b> | <b>39 207</b> | <b>7 649</b> | <b>298</b> | <b>47 154</b> |
| <b>Financial liabilities at fair value through profit and loss</b>  |                |              |            |                |               |              |            |               |
| Interest rate swaps and foreign exchange                            | 0              | 9            | 0          | <b>9</b>       | 0             | 11           | 0          | <b>11</b>     |
| <b>Total financial liabilities</b>                                  | <b>0</b>       | <b>9</b>     | <b>0</b>   | <b>9</b>       | <b>0</b>      | <b>11</b>    | <b>0</b>   | <b>11</b>     |

\*Shares and fund units include the Group companies' AS LHV Varahaldus investment into pension fund units in the amount of EUR 7 449 (31.12.2018: 7 590) thousand. Pursuant to the Investment Funds Act, the mandatory shares of LHV Varahaldus as the management company is 0.5% of the number of units in each of the mandatory pension fund managed by it.

Hierarchy levels:

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

Bid price has been used to assess the fair value of the bond portfolio and net asset value of the fund units has been used as

the basis for shares and fund units valuation. LHV Varahaldus pension fund units are considered as level 2, as there is no active market.

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

the presence of any risks or uncertainties. The NPV is discounted by using the risk-free profitability rate available on the market.

As at 30.06.2019 the fair value of corporate loans and overdraft is EUR 7 626 thousand (0.98%) higher than their carrying amount (31.12.2018: 319 thousand, 0.05% lower). Loans are issued in the bank's business segments on market conditions. Therefore, the fair value of retail loans does not materially differ from their carrying amount as at 30 June 2019 and 31 December 2018. In determining the fair value of loans, considerable management judgements are used (discounted cash flow method with current market interest is used for the valuation). Loans issued are thus categorised under hierarchy level 3.

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

hirepurchase, credit cards and consumer loans is 3 as significant judgmental assumptions are used for the valuation process.

Other receivables from customers, along with accrued expenses and other current receivables have been generated in the course of ordinary business and are subject to payment over a short period of time. Their fair value does not thus differ from the carrying amount. These receivables and payables do not bear any interest. The fair value of accounts payable, accrued expenses and other payables is determined based on hierarchy level 2.

Customer deposits with fixed interest rates are mostly short-term with the deposits priced pursuant to market conditions. The majority of the customer deposits include demand deposits. 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 2.

During the reporting period subordinated loans in the amount of EUR 40 000 thousand were received. From all the subordinated loans received EUR 20 000 thousand were received in November 2018 and EUR 15 000 thousand were received in October 2015. 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 carrying value. In determining the fair value of loans, considerable management judgements are used. Subordinated debt are thus categorised under hierarchy level 3.

## NOTE 8 Breakdown of Loan Portfolio by Economic Sectors

|   | 30.06.2019       | %           | 31.12.2018     | %           |
|---|------------------|-------------|----------------|-------------|
| Individuals                                       | 273 827          | 24.2%       | 214 702        | 23.1%       |
| Real estate activities                            | 295 766          | 26.2%       | 246 930        | 26.6%       |
| Manufacturing                                     | 113 561          | 10.1%       | 98 073         | 10.6%       |
| Arts and entertainment                            | 38 492           | 3.4%        | 34 582         | 3.7%        |
| Financial activities                              | 93 375           | 8.3%        | 95 697         | 10.3%       |
| Wholesale and retail trade                        | 44 199           | 3.9%        | 24 378         | 2.6%        |
| Administrative and support service activities     | 57 547           | 5.1%        | 39 808         | 4.3%        |
| Transportation and storage                        | 10 419           | 0.9%        | 11 076         | 1.2%        |
| Agriculture                                       | 49 804           | 4.4%        | 20 231         | 2.2%        |
| Other service activities                          | 7 261            | 0.6%        | 25 669         | 2.8%        |
| Construction                                      | 57 218           | 5.1%        | 35 808         | 3.9%        |
| Information and communication                     | 2 996            | 0.3%        | 4 115          | 0.4%        |
| Professional, scientific and technical activities | 37 890           | 3.4%        | 18 779         | 2.0%        |
| Education   | 2 107            | 0.2%        | 2 391          | 0.3%        |
| Other sectors                                     | 45 198           | 4.0%        | 56 798         | 6.1%        |
| <b>Total</b>                                      | <b>1 129 660</b> | <b>100%</b> | <b>929 037</b> | <b>100%</b> |
| Impairment  | -11 756          |             | -10 276        |             |
| <b>Total loan portfolio</b>                       | <b>1 117 904</b> | <b>100%</b> | <b>918 761</b> | <b>100%</b> |

## NOTE 9 Net Interest Income

| <b>Interest income</b>   | <b>Q2 2019</b> | <b>6M 2019</b> | <b>Q2 2018</b> | <b>6M 2018</b> |
|--|----------------|----------------|----------------|----------------|
| From balances with credit institutions and investment  | 97             | 152            | 43             | 58             |
| From debt securities   | 63             | 136            | 37             | 73             |
| Leasing  | 663            | 1 309          | 733            | 1 298          |
| Leverage loans and lending of securities   | 113            | 215            | 110            | 242            |
| Consumer loans   | 1 708          | 3 254          | 1 248          | 2 443          |
| Hire purchase  | 973            | 1 996          | 998            | 2 027          |
| Corporate loans  | 8 938          | 16 775         | 6 946          | 12 832         |
| Credit card loans  | 200            | 399            | 188            | 374            |
| Mortgage loans   | 901            | 1 637          | 386            | 699            |
| Other loans  | 608            | 1 304          | 495            | 2 024          |
| <b>Total</b>   | <b>14 264</b>  | <b>27 177</b>  | <b>11 184</b>  | <b>22 070</b>  |
| <b>Interest expense</b>  |                |                |                |                |
| Deposits of customers and loans received   | -953           | -1 503         | -418           | -802           |
| Balances with the central bank   | -821           | -1 407         | -826           | -1 796         |
| Subordinated liabilities   | -863           | -1 695         | -532           | -1 065         |
| including loans between related parties  | -104           | -193           | -88            | -176           |
| <b>Total</b>   | <b>-2 637</b>  | <b>-4 605</b>  | <b>-1 776</b>  | <b>-3 663</b>  |
| <b>Net interest income</b>   | <b>11 627</b>  | <b>22 572</b>  | <b>9 408</b>   | <b>18 407</b>  |
| <b>Interest income on loans by customer location<br/>(interest on bank balances and bonds excluded):</b> |                |                |                |                |
| Estonia  | 14 103         | 26 889         | 10 890         | 21 416         |
| Lithuania  | 0              | 0              | 214            | 523            |
| <b>Total</b>   | <b>14 103</b>  | <b>26 889</b>  | <b>11 104</b>  | <b>21 939</b>  |

## NOTE 10 Net Fee and Commission Income

| <b>Fee and commission income</b>                       | <b>Q2 2019</b> | <b>6M 2019</b> | <b>Q2 2018</b> | <b>6M 2018</b> |
|--|----------------|----------------|----------------|----------------|
| Security brokerage and commissions paid                | 779            | 1 307          | 1 916          | 2 555          |
| Asset management and similar fees                      | 4 323          | 8 498          | 4 158          | 8 005          |
| Currency exchange fees conversion revenues             | 349            | 843            | 354            | 662            |
| Fees from cards and payments                           | 2 906          | 5 418          | 2 157          | 3 948          |
| Other fee and commission income                        | 772            | 1 524          | 564            | 1 121          |
| <b>Total</b>   | <b>9 126</b>   | <b>17 590</b>  | <b>9 149</b>   | <b>16 291</b>  |
| <b>Fee and commission expense</b>                      |                |                |                |                |
| Security brokerage and commissions paid                | -123           | -244           | -136           | -275           |
| Expenses related to cards                              | -935           | -1 709         | -650           | -1 212         |
| Expenses related to acquiring                          | -952           | -1 769         | -719           | -1 255         |
| Other fee and commission expense                       | -504           | -1 031         | -429           | -744           |
| <b>Total</b>   | <b>-2 514</b>  | <b>-4 753</b>  | <b>-1 934</b>  | <b>-3 486</b>  |
| <b>Net fee and commission income</b>                   | <b>6 612</b>   | <b>12 837</b>  | <b>7 215</b>   | <b>12 805</b>  |
| <b>Fee and commission income by customer location:</b> |                |                |                |                |
| Estonia  | 9 109          | 17 542         | 9 102          | 16 199         |
| Luxembourg   | 17             | 48             | 47             | 92             |
| <b>Total</b>   | <b>9 126</b>   | <b>17 590</b>  | <b>9 149</b>   | <b>16 291</b>  |

## NOTE 11 Operating Expenses

|   | Q2 2019      | 6M 2019       | Q2 2018      | 6M 2018       |
|---|--------------|---------------|--------------|---------------|
| Wages, salaries and bonuses               | 3 811        | 7 340         | 3 056        | 5 962         |
| Social security and other taxes*          | 1 071        | 2 095         | 882          | 1 722         |
| <b>Total personnel expenses</b>           | <b>4 882</b> | <b>9 435</b>  | <b>3 938</b> | <b>7 684</b>  |
| IT expenses                               | 653          | 1 297         | 507          | 1 007         |
| Information services and bank services    | 198          | 418           | 165          | 311           |
| Marketing expenses                        | 468          | 1 176         | 385          | 902           |
| Office expenses                           | 158          | 301           | 140          | 288           |
| Transportation and communication expenses | 64           | 117           | 53           | 105           |
| Staff training and business trip expenses | 263          | 385           | 124          | 313           |
| Other outsourced services                 | 821          | 1 580         | 811          | 1 576         |
| Other administrative expenses             | 805          | 1 463         | 565          | 1 137         |
| Depreciation of non-current assets        | 964          | 1 989         | 737          | 1 422         |
| Operational lease payments                | 67           | 153           | 293          | 577           |
| Other operating expenses                  | 58           | 193           | 56           | 118           |
| <b>Total other operating expenses</b>     | <b>4 519</b> | <b>9 072</b>  | <b>3 836</b> | <b>7 756</b>  |
| <b>Total operating expenses</b>           | <b>9 401</b> | <b>18 507</b> | <b>7 774</b> | <b>15 440</b> |

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

## NOTE 12 Discontinued operations

|  | Q2 2019  | 6M 2019  | Q2 2018      | 6M 2018      |
|--|----------|----------|--------------|--------------|
| Other financial income                         | 0        | 0        | 2 949        | 2 949        |
| Net interest income                            | 0        | 0        | 424          | 1 619        |
| Net fee and commission income                  | 0        | 0        | 314          | 956          |
| Personnel expenses                             | 0        | 0        | -140         | -535         |
| Operating expenses                             | 0        | 0        | -313         | -1 131       |
| Impairment losses on loans                     | 0        | 0        | -86          | -390         |
| Income tax expenses                            | 0        | 0        | -68          | -144         |
| <b>Net profit from discontinued operations</b> | <b>0</b> | <b>0</b> | <b>3 080</b> | <b>3 324</b> |

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

|  | 30.06.2019       | 31.12.2018     |
|--|------------------|----------------|
| Demand and term deposits with maturity less than 3 months* | 31 085           | 42 796         |
| Statutory reserve capital with the central bank            | 19 865           | 14 280         |
| Demand deposit from central bank*                          | 1 048 059        | 625 582        |
| <b>Total</b>   | <b>1 099 009</b> | <b>682 658</b> |

\*Cash and cash equivalents in the Statement of Cash Flows

1 079 144 668 378

The breakdown of receivables by countries has been presented in Note 4. Demand deposits include receivables from investment companies in the total amount of EUR 9 104 thousand (31 December 2018: EUR 17 005 thousand). All other demand and

term deposits are held with credit institutions and the central bank. The minimum reserve requirement as at 30 June 2019 was 1% (31 December 2018: 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.

The material changes in the balances of term and demand deposits are described in more detail in management report.

## NOTE 14 Deposits of Customers and Loans Received

| Deposits/loans by type     | Financial      |                |                  |               | 30.06.2019       |
|----------------------------|----------------|----------------|------------------|---------------|------------------|
|                            | Individuals    | intermediates  | Legal entities   | Public sector |                  |
| Demand deposits            | 474 715        | 235 057        | 955 432          | 6 800         | 1 672 004        |
| Term deposits              | 287 996        | 0              | 120 423          | 2 235         | 410 654          |
| Loans received             | 0              | 0              | 28 586           | 0             | 28 586           |
| Accrued interest liability | 583            | 0              | 150              | 1             | 734              |
| <b>Total</b>               | <b>763 294</b> | <b>235 057</b> | <b>1 104 591</b> | <b>9 036</b>  | <b>2 111 978</b> |

| Deposits/loans by type     | Financial      |                |                |               | 31.12.2018       |
|----------------------------|----------------|----------------|----------------|---------------|------------------|
|                            | Individuals    | intermediates  | Legal entities | Public sector |                  |
| Demand deposits            | 374 491        | 193 893        | 727 803        | 7 935         | 1 304 122        |
| 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              |
| <b>Total</b>               | <b>432 293</b> | <b>193 893</b> | <b>803 918</b> | <b>13 678</b> | <b>1 443 782</b> |

LHV Pank signed an unsecured 10-year loan agreement with the European Investment Fund (EIF) in the amount of EUR 12.5 million to increase the borrowing possibilities of small and medium-sized enterprises. As at 30.06.2019, the Bank had utilized 12 250 thousand euros of the loan amount and repaid the principal in the amount of EUR 1 442 thousand euros. From

Nordic Investment Bank possible 20 000 thousand euro loan the Bank had utilized 20 000 thousand euros as of 30.06.2019 and repaid the principal in the amount of EUR 2 222 thousand euros. The nominal interest rate of the deposits of customers and loans granted equals to their effective interest rate, as no other significant fees have been implemented.

## NOTE 15 Accounts payable and other liabilities

| Financial liabilities                    | 30.06.2019    | 31.12.2018    |
|--|---------------|---------------|
| Trade payables and payables to merchants | 2 334         | 2 153         |
| Other short-term financial liabilities   | 3 200         | 1 925         |
| Lease liabilities                        | 3 553         | 0             |
| Accrued interest on subordinated loans   | 423           | 314           |
| Payments in transit                      | 10 034        | 16 800        |
| Financial guarantee contracts issued     | 291           | 236           |
| <b>Subtotal</b>                          | <b>19 835</b> | <b>21 428</b> |
| Performance guarantee contracts issued   | 263           | 243           |
| Tax liabilities                          | 1 066         | 1 218         |
| Payables to employees                    | 1 859         | 1 488         |
| Other short-term liabilities             | 165           | 276           |
| <b>Subtotal</b>                          | <b>3 353</b>  | <b>3 216</b>  |
| <b>Total</b>                             | <b>23 188</b> | <b>24 644</b> |

Payables to employees consist of unpaid salaries; bonus accruals and vacation pay accrual for the reporting period and the increase in liabilities is caused by the increase in the number of employees during the year. Payments in transit consist of foreign payments

and payables to customers related to intermediation of securities transactions. All liabilities, except for financial guarantees, are payable within 12 months and are therefore recognised as current liabilities.

## NOTE 16 Contingent Liabilities

| <b>Irrevocable transactions</b>                            | <b>Performance guarantees</b> | <b>Financial guarantees</b> | <b>Letter of credit</b> | <b>Unused loan commitments</b> | <b>Total</b>   |
|--|-------------------------------|-----------------------------|-------------------------|--------------------------------|----------------|
| Liability in the contractual amount as at 30 June 2019     | 14 606                        | 9 888                       | 4                       | 198 715                        | <b>223 213</b> |
| Liability in the contractual amount as at 31 December 2018 | 11 927                        | 9 314                       | 55                      | 188 841                        | <b>210 137</b> |

## NOTE 17 Basic Earnings and Diluted Earnings Per Share

In order to calculate basic earnings per share, net profit attributable to owners of the parent has been divided by the weighted average number of shares issued. The dilution effect when calculating the Diluted earnings per share comes from the share options granted to management and key employees.

|  | <b>Q2 2019</b> | <b>6M 2019</b> | <b>Q2 2018</b> | <b>6M 2018</b> |
|--|----------------|----------------|----------------|----------------|
| Total profit (incl. discontinued operations) attributable to owners of the parent (EUR thousand)               | 7 097          | 11 788         | 9 525          | 13 474         |
| Total profit attributable to owners of the parent from continuing operations (EUR thousand)                    | 7 097          | 11 788         | 6 445          | 10 150         |
| Weighted average number of shares (in thousands of units)  | 26 016         | 26 016         | 25 767         | 25 767         |
| <br>   |                |                |                |                |
| Basic earnings per share (EUR)   | 0.27           | 0.45           | 0.37           | 0.52           |
| Basic earnings per share from continuing operations (EUR)  | 0.27           | 0.45           | 0.25           | 0.39           |
| Basic earnings per share from discontinued operations (EUR)  | 0.00           | 0.00           | 0.12           | 0.13           |
| Weighted average number of shares used for calculating the diluted earnings per shares (in thousands of units) | 26 609         | 26 609         | 26 274         | 26 238         |
| Diluted earnings per share (EUR)   | 0.27           | 0.45           | 0.36           | 0.51           |
| Diluted earnings per share (EUR) from continuing operations  | 0.27           | 0.45           | 0.25           | 0.39           |
| Diluted earnings per share (EUR) from discontinued operations  | 0.00           | 0.00           | 0.11           | 0.12           |

## NOTE 18 Capital Management

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

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

The amount of capital that the Group managed as of 30.06.2019 was 204 065 thousand euros (31.12.2018: 183 250 thousand euros). The goals of the Group's capital management are set based on both the regulative requirements and additional internal buffer.

The Group follows the general principles in its capital management:

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

| <b>Capital base</b>              | <b>30.06.2019</b> | <b>31.12.2018</b> |
|----------------------------------|-------------------|-------------------|
| Paid-in share capital            | 26 016            | 26 016            |
| Share premium                    | 46 653            | 46 653            |
| Reserves                         | 4 713             | 3 451             |
| Other reserves                   | 78                | 78                |
| Accumulated loss                 | 68 705            | 50 193            |
| Intangible assets (subtracted)   | -19 030           | -19 084           |
| Profit for the reporting period  | 2 618             | 25 237            |
| Other adjustments                | -688              | -194              |
| <b>Total Core Tier 1 capital</b> | <b>129 065</b>    | <b>132 350</b>    |
| Additional Tier 1 capital        | 20 000            | 0                 |
| <b>Total Tier 1 capital</b>      | <b>149 065</b>    | <b>0</b>          |
| Subordinated liabilities         | 55 000            | 50 900            |
| <b>Total Tier 2 capital</b>      | <b>55 000</b>     | <b>50 900</b>     |
| <b>Total net own funds</b>       | <b>204 065</b>    | <b>183 250</b>    |

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

Initsialiseeritud ainult identifitseerimiseks  
 Initialed for the purpose of identification only  
 Initsiaalid/initials                     I.S.                      
 Kuupäev/date                     5.09.2019                      
 PricewaterhouseCoopers, Tallinn

## NOTE 19 Transactions with related parties

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

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

| Transactions                                       | Q2 2019    | 6M 2019    | Q2 2018   | 6M 2018    |
|--|------------|------------|-----------|------------|
| <b>Interest income</b>                             | <b>17</b>  | <b>34</b>  | <b>16</b> | <b>30</b>  |
| incl. management                                   | 9          | 18         | 8         | 16         |
| incl. shareholders that have significant influence | 8          | 16         | 8         | 14         |
| <b>Fee and commission income</b>                   | <b>10</b>  | <b>10</b>  | <b>2</b>  | <b>4</b>   |
| Incl. management                                   | 0          | 0          | 0         | 0          |
| incl. shareholders that have significant influence | 10         | 10         | 2         | 4          |
| <b>Interest expenses from deposits</b>             | <b>20</b>  | <b>20</b>  | <b>10</b> | <b>18</b>  |
| incl. management                                   | 0          | 0          | 2         | 2          |
| incl. shareholders that have significant influence | 20         | 20         | 8         | 16         |
| <b>Interest expenses from subordinated loans</b>   | <b>104</b> | <b>193</b> | <b>88</b> | <b>176</b> |
| incl. management                                   | 2          | 4          | 2         | 4          |
| incl. shareholders that have significant influence | 102        | 189        | 86        | 172        |

| Balances   | 30.06.2019    | 31.12.2018    |
|--|---------------|---------------|
| <b>Loans and receivables as at the year-end</b>    | <b>3 283</b>  | <b>3 328</b>  |
| incl. management                                   | 2 457         | 2 079         |
| incl. shareholders that have significant influence | 826           | 1 250         |
| <b>Deposits as at the year-end</b>                 | <b>13 473</b> | <b>33 509</b> |
| incl. management                                   | 480           | 222           |
| incl. shareholders that have significant influence | 12 993        | 33 287        |
| <b>Subordinated loans as at the year-end</b>       | <b>8 741</b>  | <b>5 904</b>  |
| incl. management                                   | 168           | 135           |
| incl. shareholders that have significant influence | 8 573         | 5 769         |

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

Loans granted to related parties are issued at market conditions.

In Q2, salaries and other compensations paid to the management of the parent AS LHV Group and its subsidiaries totalled EUR 386 thousand (Q2 2018: EUR 342 thousand), including all taxes. As at 30.06.2019, remuneration for June and accrued holiday pay in the amount of EUR 95 thousand (31.12.2018: EUR 91 thousand) is reported as a payable to management. The Group did not have

any long-term payables or commitments to the members of the Management Board and the Supervisory Board as at 30.06.2019 and 31.12.2018 (pension liabilities, termination benefits, etc.). In Q2 2019, the remuneration paid to the members of the Group's Supervisory Board totalled EUR 27 thousand (Q2 2018: EUR 7 thousand).

Management is related to the share-based compensation plan. In Q2 2019 the share-based compensation to management amounted to EUR 185 thousand (Q2 2018: EUR 136 thousand). The Group has signed contracts with the members of the Management Board, which do not provide for severance benefits upon termination of the contract. In any matters not regulated by the contract, the parties adhere to the procedure specified in the legislation of the Republic of Estonia.

## NOTE 20 Tangible and intangible assets

| <i>(in thousands of euros)</i>            | Tangible assets | Right of use assets | Total tangible assets | Intangible assets | Costs incurred for the acquisition of customer contracts | Total intangible assets |
|---|-----------------|---------------------|-----------------------|-------------------|--|-------------------------|
| <b>Balance as at 31.12.2017</b>           |                 |                     |                       |                   |  |                         |
| Cost                                      | 4 078           | 0                   | 4 078                 | 8 058             | 10 618   | 18 676                  |
| Accumulated depreciation and amortisation | -2 657          | 0                   | -2657                 | -3 731            | 0  | -3 731                  |
| <b>Carrying amount 31.12.2017</b>         | <b>1 421</b>    | <b>0</b>            | <b>1 421</b>          | <b>4 327</b>      | <b>10 618</b>  | <b>14 945</b>           |
| Purchase of non-current assets            | 396             | 0                   | 396                   | 1 236             | 0  | 1 236                   |
| Capitalized selling costs                 | 0               | 0                   | 0                     | 0                 | 1 818  | 1 818                   |
| Write-off of non-current assets           | -5              | 0                   | -5                    | 0                 | 0  | 0                       |
| Depreciation/amortisation charge          | -510            | 0                   | -510                  | -1 031            | -1 431   | -2 462                  |
| Assets of discontinued operations         | 340             | 0                   | 340                   | 371               | 0  | 371                     |
| Amortisation of discontinued operations   | -168            | 0                   | -168                  | -304              | 0  | -304                    |
| <b>Balance as at 31.12.2018</b>           |                 |                     |                       |                   |  |                         |
| Cost                                      | 4 129           | 0                   | 4 129                 | 15 324            | 12 436   | 27 760                  |
| Accumulated depreciation and amortisation | -2 994          | 0                   | -2 994                | -10 859           | -1 431   | 12 290                  |
| <b>Carrying amount 31.12.2018</b>         | <b>1 135</b>    | <b>0</b>            | <b>1 135</b>          | <b>4 465</b>      | <b>11 005</b>  | <b>15 470</b>           |
| Changes in accounting policies            | 0               | 4 042               | 4 042                 | 0                 | 0  | 4 042                   |
| Purchase of non-current assets            | 651             | 0                   | 651                   | 447               | 795  | 1 242                   |
| Depreciation/amortisation charge          | -264            | -429                | -693                  | -569              | -727   | -1 296                  |
| <b>Balance as at 30.06.2019</b>           |                 |                     |                       |                   |  |                         |
| Cost                                      | 4 781           | 4 042               | 8 823                 | 15 771            | 13 231   | 29 002                  |
| Accumulated depreciation and amortisation | -3 259          | -429                | -3 688                | -11 428           | -2 158   | -13 586                 |
| <b>Carrying amount 30.06.2019</b>         | <b>1 522</b>    | <b>3 613</b>        | <b>5 135</b>          | <b>4 343</b>      | <b>11 073</b>  | <b>15 416</b>           |

## NOTE 21 Subordinated debts

Subordinated debts (in thousands of euros)

|                                    | Year of issue | Amount | Interest rate | Maturity date     |
|------------------------------------|---------------|--------|---------------|-------------------|
|                                    | 2015          | 15 000 | 6.5%          | October 29, 2025  |
|                                    | 2018          | 20 000 | 6.0%          | November 28, 2028 |
|                                    | 2019          | 20 000 | 6.0%          | November 28, 2028 |
|                                    | 2019          | 20 000 | 8.0%          | Perpetual         |
| Subordinated debt as at 30.06.2018 |               | 30 900 |               |                   |
| Subordinated debt as at 31.12.2018 |               | 50 900 |               |                   |
| Subordinated debt as at 30.06.2019 |               | 75 000 |               |                   |

During the reporting period subordinated loans in the amount of EUR 40 000 thousand were received and subordinated loans in the amount of EUR 15 900 thousand (maturity date June 20, 2024) were redeemed.

## NOTE 22 Loans and advances to customers

| <i>(in thousands of euros)</i> | <b>30.06.2019</b> | <b>31.12.2018</b> |
|--------------------------------|-------------------|-------------------|
| <b>Loans to legal entities</b> | <b>855 833</b>    | <b>714 335</b>    |
| incl. corporate loans          | 717 110           | 624 425           |
| incl. retail loans             | 21 606            | 16 200            |
| incl. leasing                  | 53 948            | 44 277            |
| incl. overdraft                | 54 749            | 23 846            |
| incl. leveraged loans          | 2 974             | 1 997             |
| incl. hire-purchase            | 292               | 249               |
| incl. credit card loans        | 354               | 274               |
| incl. credit letters           | 4 800             | 3 067             |
| <b>Loans to individuals</b>    | <b>273 827</b>    | <b>214 702</b>    |
| incl. hire-purchase            | 15 743            | 17 501            |
| incl. mortgage loans           | 149 084           | 101 009           |
| incl. consumer loans           | 41 601            | 33 989            |
| incl. private loans            | 39 472            | 37 884            |
| incl. leasing                  | 18 655            | 15 888            |
| incl. leveraged loans          | 2 365             | 1 733             |
| incl. credit card loans        | 6 725             | 6 579             |
| incl. overdraft                | 28                | 43                |
| incl. study loan               | 154               | 76                |
| <b>Total</b>                   | <b>1 129 660</b>  | <b>929 037</b>    |
| Impairment provisions          | -11 756           | -10 276           |
| <b>Total</b>                   | <b>1 117 904</b>  | <b>918 761</b>    |

| Changes in impairments in 6M 2019                      | Corporate loans |             | Retail loans | Consumer loans | Credit cards | Hire-purchase |           | Leveraged loans | Other loans incl. mortgage |                | Credit letters | Total |
|--|-----------------|-------------|--------------|----------------|--------------|---------------|-----------|-----------------|----------------------------|----------------|----------------|-------|
|  | incl. overdraft |             |              |                |              |               | Leasing   |                 |                            |                |                |       |
| Balance as at 1 January                                | -8 751          | -184        | -568         | -27            | -140         | -467          | -3        | -36             | -100                       | -10 276        |                |       |
| Impairment provisions/reversals set up during the year | -1 146          | -42         | -115         | -28            | 21           | -129          | -2        | -19             | -20                        | -1 480         |                |       |
| Written off during the reporting period                | 0               | 0           | 0            | 0              | 0            | 0             | 0         | 0               | 0                          | 0              |                |       |
| <b>Balance as at June 30 2019</b>                      | <b>-9 765</b>   | <b>-357</b> | <b>-683</b>  | <b>-56</b>     | <b>-119</b>  | <b>-596</b>   | <b>-5</b> | <b>-54</b>      | <b>-120</b>                | <b>-11 756</b> |                |       |

The impairment losses on loans and advances have decreased in 6m 2019 compared to 6m 2018 mainly due to the significant decrease of individual provisions for corporate loan portfolio. ECL on comparative basis has increased due to the fact that we have had significant growth of loan portfolios. There have not been major changes in ECL stagings of the loans as at 30 June 2019 compared to 31 December 2018. The overall credit quality of loan portfolios have not changed significantly.

**Initsialiseeritud ainult identifitseerimiseks**  
**Initialed for the purpose of identification only**  
 Initsiaalid/initials           I. S.            
 Kuupäev/date           5.09.2019            
 PricewaterhouseCoopers, Tallinn

## Shareholders of AS LHV Group

AS LHV Group has a total of 26 016 485 ordinary shares, with a nominal value of 1 euro.

**As at 30 June 2019, AS LHV Group has 6 045 shareholders:**

- 13 104 340 shares (50.37%) were held by members of the Supervisory Board and Management Board, and related parties.
- 12 912 145 shares (49.63%) were held by Estonian entrepreneurs and investors, and related parties.

**Top ten shareholders as at 30 June 2019:**

| Number of | Participation | Name of shareholder          |
|-----------|---------------|------------------------------|
| 3 357 920 | 12.9%         | AS Lõhmus Holdings           |
| 2 538 367 | 9.8%          | Rain Lõhmus                  |
| 2 111 344 | 8.1%          | Viisemann Investments AG     |
| 1 595 620 | 6.1%          | Ambient Sound Investments OÜ |
| 1 210 215 | 4.7%          | OÜ Krenno                    |
| 999 456   | 3.8%          | AS Genteel                   |
| 951 978   | 3.7%          | AS Amalfi                    |
| 722 297   | 2.8%          | OÜ Kristobal                 |
| 636 260   | 2.5%          | SIA Krugmans                 |
| 589 177   | 2.3%          | OÜ Bonaares                  |

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

Madis Toomsalu holds 24 397 shares.

Rain Lõhmus holds 2 538 367 shares, AS Lõhmus Holdings 3 357 920 shares and OÜ Merona Systems 581 718 shares.

Andres Viisemann holds 4 909 shares. Viisemann Holdings OÜ holds 433 055 shares and Viisemann Investment AG holds 2 111 344 shares.

Tauno Tats does not hold shares. Ambient Sound Investments OÜ holds 1 595 620 shares.

Tiina Mõis does not hold shares. AS Genteel holds 999 456 shares.

Heldur Meerits does not hold shares. AS Amalfi holds 951 978 shares.

Raivo Hein does not hold shares. OÜ Kakssada Kakskümmend Volti holds 490 190 shares, Astrum OÜ holds 250 shares and Lame Maakera OÜ holds 3 670 shares.

Sten Tamkivi holds 355 shares. OÜ Seikatsu holds 10 825 shares.

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

### AS LHV Group

Supervisory board: Raivo Hein, Rain Lõhmus, Heldur Meerits, Tiina Mõis, Tauno Tats, Andres Viisemann, Sten Tamkivi

Management board: Madis Toomsalu

### AS LHV Varahaldus

Supervisory board: Erki Kilu, Madis Toomsalu, Andres Viisemann

Management board: Vahur Vallistu (since 6 June 2019), Joel Kukemelk, Mihkel Oja (until 19 June 2019)

### AS LHV Pank

Supervisory board: Raivo Hein, Rain Lõhmus, Heldur Meerits, Tiina Mõis, Madis Toomsalu, Andres Viisemann

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

### AS LHV Finance

Supervisory board: Erki Kilu, Rain Lõhmus, Veiko Poolgas, Jaan Koppel

Management board: Kadri Kiisel

### OÜ Cuber Tehnology

Management board: Jüri Laur

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

The Management Board has prepared the summary of results for January to June 2019 period the condensed consolidated interim financial statements of AS LHV Group for the 6-month period ended 30 June 2019.

The management board confirms that according to their best knowledge the interim report presents a fair view of LHV Group AS's assets, liabilities, financial position and profit or loss of the issuer and the entities involved in the consolidation as a whole and contains a description of the main risks and doubts. The Condensed Consolidated Interim Financial Statements have been prepared according to the principles of the International Accounting Standard IAS 34 "Interim Financial Reporting".

5.09.2019



**Madis Toomsalu**



## **INDEPENDENT AUDITOR'S REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

To the Shareholders of AS LHV Group

### **Introduction**

We have reviewed the accompanying condensed consolidated interim statement of financial position of AS LHV Group and its subsidiaries (together – the “Group”) as at 30 June 2019 and the related condensed consolidated interim statements of profit or loss and other comprehensive income and cash flows for the three-month and six-month periods then ended, and condensed consolidated interim statement of changes in equity for the six-month period then ended, and the related explanatory notes. Management Board is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (ISRE) (Estonia) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting' as adopted by the European Union.

AS PricewaterhouseCoopers

Ago Vilu  
Auditor's certificate no.325

Verner Uibo  
Auditor's certificate no.568

5 September 2019



## SÕLTUMATU VANDEAUDIITORI ÜLEVAATUSE ARUANNE LÜHENDATUD KONSOLIDEERITUD VAHEARUANDELE

(tõlge ingliskeelsest originaalist)\*

LHV Group AS aktsionäridele

Oleme üle vaadanud kaasneva LHV Group AS ja tema tütaretevõtete (koos kontsern) lühendatud konsolideeritud vahe-finantsseisundi aruande seisuga 30. juuni 2019, lühendatud konsolideeritud kasumiaruande ja muu koondkasumiaruande ning rahavoogude aruande eeltoodud kuupäeval lõppenud kolme- ja kuuekuuliste vaheperioodide kohta, lühendatud konsolideeritud omakapitali muutuste aruande eeltoodud kuupäeval lõppenud kuuekuulise vaheperioodi kohta ning nendega seotud selgitavad lisad. Juhatus vastutab lühendatud konsolideeritud vahearuaande koostamise ja esitamise eest kooskõlas rahvusvahelise raamatupidamisstandardiga 34 „Vahefinantsaruandlus“, nagu see on vastu võetud Euroopa Liidu poolt. Meie kohustuseks on avaldada kokkuvõtte selle lühendatud konsolideeritud vahearuaande kohta, tuginedes meiepoolsele ülevaatusesele.

### Ülevaatusese ulatus

Viisime ülevaatusese läbi kooskõlas rahvusvahelise ülevaatusese töövõtude standardiga (ISRE) (Eesti) 2410 „Majandusüksuse sõltumatu audiitori poolt teostatud vahefinantsinformatsiooni ülevaatusese“. Lühendatud konsolideeritud vahearuaande ülevaatusese koosneb järelepäringute tegemisest peamiselt isikutelt, kes vastutavad finants- ja arvestusküsimuste eest, ja analüütiliste ning muude ülevaatusese protseduuride rakendamise eest. Ülevaatusese ulatus on tuntuvalt väiksem kui rahvusvaheliste auditeerimisstandarditega kooskõlas läbi viidud auditi ulatus ja järelikult ei võimalda meil omandada kindlust selles, et meile saavad teatavaks kõik märkimisväärsed asjaolud, mis võidakse identifitseerida auditis. Seega ei avalda me auditiarvamust.

### Kokkuvõtte

Ülevaatusese põhjal ei ole meile teatavaks saanud midagi, mis paneks meid uskuma, et kaasnev lühendatud konsolideeritud vahearuaanne ei ole koostatud kõigis olulistest osades kooskõlas rahvusvahelise raamatupidamisstandardiga 34 „Vahefinantsaruandlus“, nagu see on vastu võetud Euroopa Liidu poolt.

AS PricewaterhouseCoopers

/allkiri/

Ago Vilu  
Vandeaudiitor, litsents nr 325

5. september 2019

/allkiri/

Verner Uibo  
Vandeaudiitor, litsents nr 568

*\* Käesolev versioon meie aruandest on tõlge originaalist, mis koostati inglise keeles. Oleme teinud kõik võimaliku tagamaks, et tõlge esindaks originaali täpselt. Sellest hoolimata on kõikides informatsiooni, vaadete või arvamuste tõlgendamise küsimustes originaalkeelne versioon meie aruandest ülimuslikum käesolevast tõlkest.*

*Käesolev sõltumatu vandeaudiitori ülevaatusese aruanne (tõlge ingliskeelsest originaalist) on mõeldud kasutamiseks koos AS-i PricewaterhouseCoopers poolt identifitseerimise eesmärgil initsialiseeritud vahearuaandega.*