Interim Report January – December 2019 Summary of Results

Q4 2019 in comparison with Q3 2019

- Net profit EUR 6.4 m (EUR 8.0 m), of which EUR 5.7 m (EUR 7.3 m) is attributable to owners of the parent
- Earnings per share EUR 0.20 (EUR 0.27)
- Net income EUR 19.9 m (EUR 18.1 m)
- Operating expenses EUR 11.4 m (EUR 9.4 m)
- Loan provisions EUR 1.55 m (EUR 0.02 m)
- Income tax expenses EUR 0.6 m (EUR 0.7 m)
- Return on equity 11.6% (16.4%)
- Capital adequacy 18.0% (20.0%)

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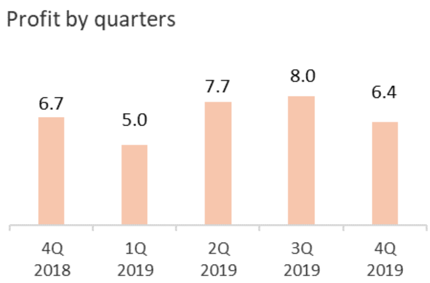

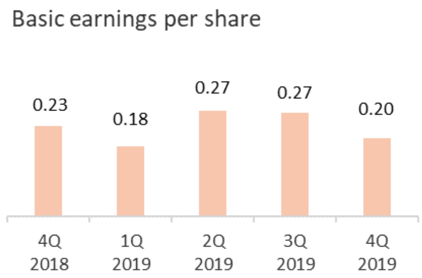

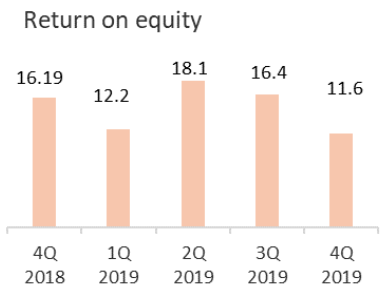

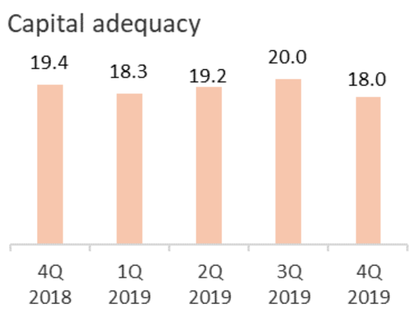

Earnings per share and return on equity ratios are based on the profit attributed to the shareholders and equity of AS LHV Group and do not include non-controlling interest.

Managing Director's Statement

Dear investor in LHV,

LHV has had a strong fourth quarter. Our business is growing. Customer numbers grew by nearly 13,100 in Q4. Loans grew by EUR 456 million, deposits by EUR 166 million and fund volumes by EUR 46 million. Various activity indicators reached record levels, including wage receipts, number of asset-holding customers and payments, card use, card payment acceptance and number of new investment agreements.

LHV posted a profit of EUR 6.4 million in Q4. The profit for the quarter was negatively affected by the write-downs associated with the purchase of the Danske private customer loan portfolio, as well as one-off state fees and notary fees related to the transaction. In the last week of November, the bank started generating interest income from the Danske portfolio. Contributors to the quarter's profit included the revenue generated by institutional banking.

A year of double growth

The year 2019 was characterised by a quick growth in assets and customer base, as well as various new products and recognitions. Once again, LHV was declared the bank with the best service in Estonia. LHV was also declared the best bank by the international financial magazine Euromoney and, in Q4, the Banker.

Our customer numbers reached 202,000 by the end of the year, growing by nearly 41,000. Asset volumes doubled, amounting to a total of EUR 3 billion. Rapid growth has boosted the bank's market share to 10%, making LHV the third largest bank in Estonia, with regard to daily banking. The growth in customer numbers and activity was facilitated by the quintupling of LHV's ATMs to 125 in Q3.

The highlight of the year was the purchase of the Danske private customer loan portfolio in Q4, which doubled the bank's loan volume. By the end of the year, LHV's loan portfolio amounted to EUR 1.7 billion. Even though the Danske transaction was completed and started generating interest income only at the end of November, we made a previous effort to assure financing early on. The previous large-scale engagement of deposits incurred greater expenses, affecting the costs of the transaction already from the spring of 2019. The expenses on deposits engaged within the framework of the transaction will remain high until the middle of 2020 when we intend to replace the deposits with covered bonds, which have a lower cost.

Technology is the cornerstone of our services. It serves as a link between the relatively different business areas pursued in Estonia and the United Kingdom. From a strategic point of view, both businesses are characterised by our ability to build technological solutions, regardless of the customer or location. This is the reason why we concentrated on building the best Mobile Bank during the year. As a result of our efforts, the application now allows, in addition to becoming a customer, investing in securities, applying for loans, entering into loan agreements and ordering bank cards.

In the United Kingdom, we technically connected to the GBP payment system already in the middle of the year, but could not actually open payments to customers before January 2020. By providing the GBP payment option, we offer our financial intermediation customers real-time EUR and GBP payments via the application program interface LHV Connect. LHV Connect is the bank's first API, which provides such options. Furthermore, customers can exploit the API for using services such as the bank account, virtual IBAN, currency exchange and liquidity services. All in all, we offer banking infrastructure and services to more than a hundred of our payment intermediation customers, including TransferWise, Coinbase, Paysafe and Trustly.

The year was also characterised by amendment of the regulations on pension funds. In September, the fixed management fees for pension funds were lowered. Nonetheless, we can still earn performance pay, if we generate a strong yield from the funds. We did not earn performance pay in 2019. Nonetheless, against the backdrop of the growth in our expectations with regard to the return on investment and the fluctuating nature of the benchmark of the social tax designated for pensions, we believe we will earn performance pay over a longer period of time. Any shorter-term forecasts prove difficult.

LHV posted record-breaking results in all business areas in 2019. Loan volumes grew by EUR 0.8 million to EUR 1.7 billion and deposit volumes by EUR 1.3 billion to 2.7 billion. Pension funds grew by EUR 160 million, amounting to EUR 1.4 billion as at the end of the year. We also achieved record levels of customer activity in payments, card transactions and conclusion of new investment agreements.

We financed the growth in business volumes through capital engagement. We engaged a total of EUR 65 million from three different instruments during the year. The successful outcome and over-subscription of all issues attests to our trustworthiness in the eyes of investors. All these transactions also contributed to the rise in LHV's investor numbers. As at the end of the year, nearly 7,000 shareholders and 3,000 bond investors had invested in LHV.

LHV posted a net profit of EUR 27.1 million in 2019. This is EUR 0.1 million less than in the previous period, but the comparison base is compromised by the single transaction which had a positive effect (disposal of the Lithuanian business unit), as well as the expenses related to the Danske transaction (previous engagement of deposits, transaction costs, portfolio write-downs, capital engagements) and the lowering of the pension fund management fee. We exceeded the financial target for July by EUR 1.5 million, mainly due to lower-than-planned write-downs, lower costs of the Danske transaction and higher income from the organisation of securities issues for customers.

Business environment

LHV's trends of growth are also supported by the Estonian economic environment. The economy has shown good growth, depending largely on the economies of our neighbouring countries. Domestic risks are hedged by a balanced budget, low public sector debt and positive external balance. Tensions revolve mainly around availability of labour. The credit market has remained strong. All major credit products, including corporate loans and housing loans, are growing. The financial health of households remains strong, with the loan-to-deposit ratio improving.

The financial sector and capital markets in general are subject to the monetary policy of the European Central Bank, along with the negative interest rates. Central banks aim at trimming down the value of idle money at a controlled pace. If this cannot be accomplished through inflation, a similar result may be achieved through interest rates. Nonetheless, this requires the interest rates to trickle down to final depositors, on whose accounts the money is actually held. The first few banks in Europe have already transferred the negative interest rates to certain customer groups. LHV has priced the costs on funds kept with the European Central Bank only to our UK customers who engage in financial intermediation and have a very high deposit balance. No such changes are currently planned for standard Estonian customers.

Against the backdrop of a stable economic environment and a strong credit market, the sector is subject to various regulatory trends, of which the demolition of the 2nd pillar stands out as one of the most significant. There are still too many loose ends for a final assessment of the situation. Nonetheless, market participants are already changing their investment strategies and decreasing less liquid investments in Estonia. LHV is making an effort to find a good balance which would allow to continue making higher-yield investments in Estonia, while ensuring the liquidity required against the somewhat unpredictable fluctuations in fund volumes.

Financial results

The consolidated profit posted by the Group in Q4 of 2019 in the amount of EUR 6.4 million constitutes a EUR 1.6 million decrease, compared to Q3, and a EUR 0.3 million decrease, compared to Q4 of 2018. The profit attributable to the Group's shareholders in Q4 of 2019 shrank by EUR 0.3 million, compared to last year.

The return on equity attributable to LHV's shareholders amounted to 11.6% in Q4 of 2019, decreasing by 4.8 percentage points, compared to Q3 of 2019 (16.4%).

The group's consolidated net loan portfolio grew by EUR 465 million during the quarter (EUR 104 million in Q3 of 2019), while consolidated deposits grew by EUR 166 million (EUR 451 million growth in Q3 of 2019). Deposits of financial institutions shrank by EUR 43 million (EUR 184 million growth in Q3 of 2019).

The Group's own funds increased by EUR 5.5 million, compared to the previous quarter, and risk-weighted assets by EUR 167.0 million, raising the Tier 1 and total capital adequacy ratio to 13.9% and 18.0%. The increase in own funds was conditioned by the incorporation of the profit for Q3 of 2019 in the Group's own funds.

The bank's consolidated profit for Q4 amounted to EUR 5.7 million, i.e. a EUR 0.7 million decrease from the previous quarter (EUR 6.4 million in Q3 of 2019). Customer numbers grew by nearly 13,100 (9,600 in Q3 of 2019), with the total number of customers amounting to more than 202,000.

The bank's loan portfolio grew by EUR 465 million in Q4 (EUR 104 million in Q3 of 2019), approaching EUR 1,687 million. Home loans showed the biggest growth among loan portfolios. Loan losses amounted to EUR 1.5 million in Q4, i.e. EUR 1.5 million more than in Q3. This was conditioned by the takeover of the Danske loan portfolio.

Customer deposits grew by EUR 166 million in Q4, with the deposits of payment intermediaries shrinking by EUR 43 million. The deposits of other customers showed a strong growth of EUR 212 million. The total volume of deposits amounted to EUR 2,713 million as at the end of Q4.

Asset Management posted a profit of EUR 0.9 million in Q4 (EUR 1.9 million in Q3 of 2019). Asset Management's net fee and commission income decreased by EUR 0.9 million to EUR 2.4 million. Asset Management's operating expenses grew by EUR 0.2 million, compared to the previous quarter.

The total volume of funds managed by LHV grew by EUR 46 million during the quarter (EUR 34 million in Q3 of 2019). The number of active 2nd-pillar customers grew by 328 (a decrease of 1134 in Q3 of 2019).

Madis Toomsalu

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Financial Summary

Business volumes EUR million	**Q4 2019**	**Q3 2019**	**Quarter over quarter**	**Q4 2018**	**Year over year**
Loan portfolio	1 687.0	1 222.1	38%	918.8	84%
Financial investments	41.0	124.0	-67%	47.2	-13%
Deposits of customers	2 700.9	2 534.7	7%	1 422.2	90%
incl. deposits of financial intermediates	376.1	419.0	-10%	193.9	94%
Equity (including minority interest)	206.0	199.0	4%	157.8	31%
Equity (owners' share)	200.8	194.5	3%	153.6	31%
Volume of funds managed	1 374.0	1 327.7	3%	1 214.4	13%
Assets managed by bank	1 395.7	1 334.1	5%	1 392.9	0%

Income statement EUR million	**Q4 2019**	**Q3 2019**	**Quarter over quarter**	**Q4 2018**	**Year over year**	**12M 2019**	**12M 2018***	**Year over year**
Net interest income	13.27	11.55	15%	10.29	29%	47.40	38.15	24%
Net fee and commission income	6.43	6.41	0%	6.09	6%	25.68	25.05	3%
Other financial income	0.17	0.12	42%	0.10	55%	0.67	0.45	49%
Total net operating income	19.87	18.08	10%	16.48	20%	73.75	63.65	16%
Other income	0.06	0.03	100%	0.11	-33%	0.09	0.86	-90%
Operating expenses	-11.36	-9.40	21%	-8.78	30%	-39.27	-32.14	22%
Loan losses	-1.55	-0.02	NA	-0.54	186%	-3.22	-4.88	-34%
Income tax expenses	-0.59	-0.70	-16%	-0.54	9%	-4.26	-3.61	18%
Discontinued operations	0.00	0.00	NA	0.00	NA	0.00	3.32	-100%
Net profit	6.43	7.99	-20%	6.72	-4%	27.09	27.20	0%
Including attributable to owners of the parent	5.72	7.29	-22%	6.05	-5%	24.80	25.25	-2%

Ratios EUR million	**Q4 2019**	**Q3 2019**	**Quarter over quarter**	**Q4 2018**	**Year over year**	**12M 2019**	**12M 2018***	**Year over year**
Average equity (attributable to owners of the parent)	197.6	177.6	20.0	150.4	47.2	177.2	136.9	40.4
Return on equity (ROE), %	11.6	16.4	-4.8	16.09	-4.49	14.0	14.02	-0.02
Return on assets (ROA), %	0.9	1.2	-0.3	1.5	-0.6	1.15	2.1	-0.97
Interest-bearing assets, average	2 903.9	2 576.0	327.9	1 737.4	1 166.5	2 320.6	1 700.3	620.30
Net interest margin (NIM) %	1.83	1.80	0.03	2.37	-0.54	2.00	2.24	-0.24
Price spread (SPREAD) %	1.78	1.75	0.03	2.34	-0.56	2.00	2.15	0.15
Cost/income ratio %	57.0	52.0	5.0	52.9	4.1	53.2	49.8	3.4
Profit attributable to owners before income tax	6.31	7.99	-1.68	6.6	0.29	28.8	28.9	-0.1

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

Similarly to the beginning of the year, the year end was a pleasant surprise in most of the world's regions. In many places, economic output outperformed the analyst expectations; there were fewer unpleasant surprises. Both in the US and Europe, private consumption was the driver behind the economic growth, with trade remaining in a slump. Of the major economic regions, only China's growth fell short of expectations, and even there it was only marginally subpar. Economic growth in China was curtailed by the trade war and the months of unrest in Hong Kong.

At the end of the year, the growth rate slowed, at least in Europe. The main brakes on growth continue to be the decline in industrial output in Germany and the battle of wills between China and US on protective tariffs and the resulting uncertainty in shaping decisions regarding the future. December's preliminary agreement on the agricultural purchases and use of technology and intellectual property led to the US slightly easing the existing tariffs and holding off on implementing new ones. That sent an immediate positive signal to the markets, but next year will show whether the truce holds and what the actual consequences will be.

The dark clouds surrounding the departure of the United Kingdom from the European Union have not been dispelled, either. The Conservatives' victory in the December general elections is highly likely to mean that Brexit will become a reality by the end of January, however. A minimum of 1-2 years of negotiations on new trade agreements and other understandings will follow. The UK will also have to devote more attention to Scotland and Northern Ireland's strengthening bids for independence. For businesses, it will mean more chaos and a more complicated environment for development.

Economic growth in the Eurozone has remained at the same level for the whole year (1.2% y-o-y growth in Q3). The powerhouse of the European economy, Germany, surprised in Q3 with 1% economic growth, at a time when many analysts expected it to slip into technical recession. In Germany, which has historically relied on exports, the economy has been kept afloat by consumer spending been stimulated by various government subsidies and tax incentives. Looking ahead, there is nevertheless little reason for optimism – survey data show that order books (particularly for export orders) are deteriorating and that the lack of confidence in the industrial sector is now spreading to the services sector. In the longer perspective, a determining factor will be how Europe's car industry embraces new trends in the sector (electric cars, self-driving cars), trends in which it has been in more of an onlooker's role so far.

Although wage growth remained quite brisk in the Eurozone compared to years past (2.5-3%), it was not able to generate enough pressure on inflation. Inflation in the Eurozone fell to 0.7% in the early part of the Q4, but bounced back to 1% in November. The price rise has been quite varied from one country to the next – the price growth has hovered around 3% in Slovakia and the Netherlands, around 2% in the Baltics and lower elsewhere. The main brake on inflation is the low oil price on the world market.

In early November, former IMF director Christine Lagarde became the new head of the European Central Bank. In the first months of her tenure, Lagarde has stuck to the same monetary policy course as her predecessor. On several occasions, she has mentioned the need to overhaul the ECB's whole monetary policy strategy and this should start early in 2020. On the basis of her previous statements, Lagarde is not expected to opt for a major shift in direction, as she tends to support a dovish monetary policy.

Economic growth in Estonia's main trading partners1 was significantly faster than the EU average. In Sweden and Finland, growth in economic output accelerated to 2%; in Latvia, to near 3%. The growth of industrial output increased in Q3 significantly in Latvia, Finland and Sweden. Similarly to the rest of the world, consumer spending has remained strong and stable in Estonia's neighbourhood, including in Q3. Private consumption has remained stronger everywhere and any surprises that Q3 brought in this area tended to be positive. Growth is expected to slow to around 1–1.5% in Finland and Sweden. In Latvia and Lithuania, economic growth will remain faster than in Finland, but there, too, growth will slow to a rate that is sustainable in the long term.

The Estonian economy grew by 4.2% in Q3, which clearly exceeded expectations. Growth was driven by the services sector (information and communications, retail and business services) and the influence of the agriculture and industry sectors was also noteworthy. In spite of the weakening external environment, Estonia's export sector has stood up well and export volumes were up 7% in Q3. True, some of the growth can be attributed to last year's relatively low comparison base. Approximately one-quarter of the economic growth came from net taxes on products, which is directly the outcome of government tax policy. The lowering of the alcohol excise duty in July made businesses postpone replenishing their warehouse stocks until the last minute and thus excise duty receipts in July and all through Q3 were very high. The actual growth in value-added generated in the economy was 3%, and slower compared to previous quarters, which is a logical trend considering the backdrop of uncertainty and lower confidence.

[1] Finland, Sweden, Latvia, Lithuania, Germany and Russia

The growth of industrial output slowed in the beginning of the year and even reached the zero mark in April. This was caused mainly by the concentration of production in the energy sector, which is grappling with high CO2 allowance prices. Until the end of the summer, the processing industry was able to gradually increase its output, but it nevertheless fell to near zero in the end of Q3. The drop in machinery and equipment production output played a major role. The clothing and paper industry and the production of metal products also stood out on the negative side. The chemical and oil industry fared better.

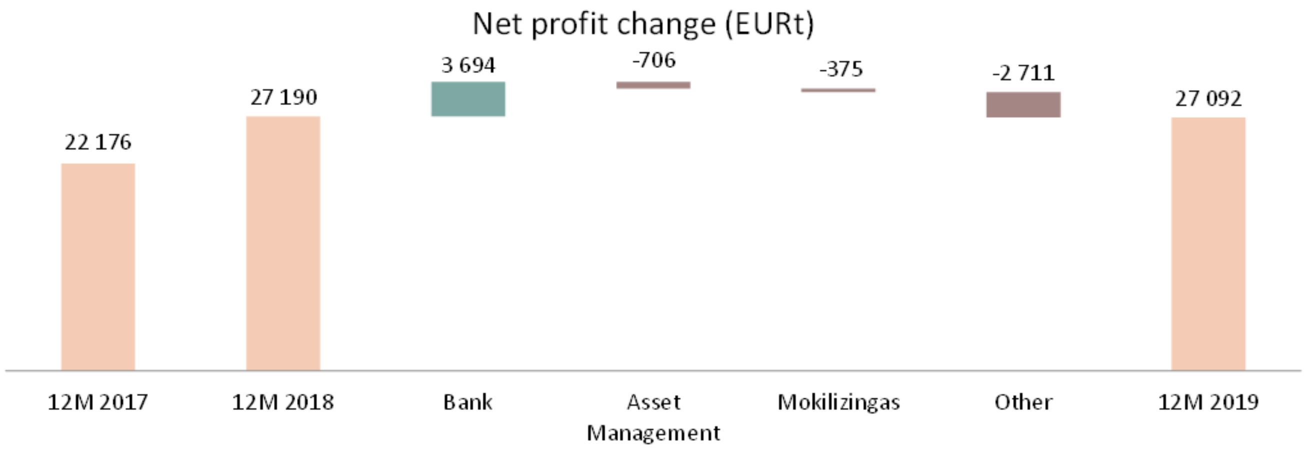
Export of goods and services grew 7% in Q3. Compared to previous years, the percentage of services in the structure of export growth has decreased. From the trade balance perspective, the export of services is extremely important for Estonia, because it is the source of the trade surplus and a contributor to economic growth.

Overall for the year, economic growth in Estonia should be around 3.5%. In the years ahead, growth will slow, because external demand is softening and the economy is already performing at the maximum level with its existing resources and has little capacity for additional rapid growth. The shortage of available resources means that businesses' ability to adapt and success in increasing productivity are increasingly important, so there will have to be an energetic commitment to continuing smart investments. Above all, it will be important to achieve long-term sustainable economic growth balanced between different sectors. By economic sector, the risks are higher than average in the construction sector, where the market will be saturated for some time, and in low-productivity branches of the processing industry, where businesses find it increasingly hard to keep up with rapidly growing wages. LHV maintains a conservative outlook on the real estate market, keeping an eye on the local and Scandinavian market and devoting increased attention to developments in Sweden. As to rental cash flow projects, there is a danger that there may not be enough demand for absorbing the volume being developed and that there may be corrections in rent prices or vacancy rates. A positive that can be highlighted is that the financing environment remains favourable, allowing loan balances to enjoy reasonable growth. Household demand for loans remains strong, driven by housing loans and car leasing. The average interest rate on new home loans issued has started rising, which is a sign of lower confidence in society but also of low competition on the loan market. Due to both the surrounding uncertainty and the fact that business sector is quite well endowed with their own money, businesses have been less active than households in borrowing. The ratio of loans to deposits and the share of past-due loans is the lowest it has been since the recession. Interest rates are at historic lows, which for local businesses represent opportunities that they should seize more actively in thinking about the future. LHV is looking to be actively involved in finding and supporting new sources of growth, offering businesses a long-term partnership and value-generating advisory services.

Financial Results of the Group

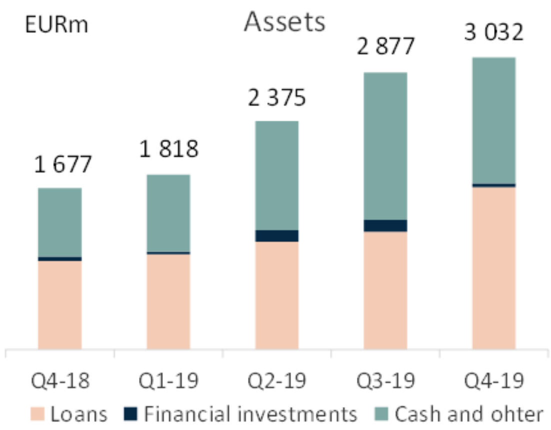
Compared to Q3 2019, the Group's net interest income increased in Q4 by 15%, standing at EUR 13.3 (Q3: 11.6) million. Net fee and commission income remained at the same level and stood at EUR 6.4 (Q3: 6.4) million. In total, the net income of the Group increased by 10% in Q4, compared to Q3, amounting to EUR 19.9 (Q3: 18.1) million, with expenses increasing 21% and amounting to EUR 11.4 (Q3: 9.4) million. The Group's operating profit for Q4 amounted to EUR 7.0 (Q3: 8.7) million. The loss from loan impairments mounted to EUR 1.55 million in Q4 (Q3: 0.02). The Group's total profit for Q4 amounted to EUR 6.4 million (Q3: 8.0). Compared to Q4 2018, the Group's net interest income increased by 29% and net fee and commission income increased by 6%.

In terms of business entities, AS LHV Pank posted in Q4 a consolidated profit of EUR 5.7 million and AS LHV Varahaldus a profit of EUR 0.9 million. The AS LHV Group on solo bases posted a loss of EUR 0.1 million.



The Group's volume of deposits as at the end of Q4 amounted to EUR 2 701 (Q3: 2 535) million, of which demand deposits formed EUR 2 189 (Q3: 2 006) million and term deposits EUR 512 (Q3: 529) million.

As at the end of Q4, the volume of loans granted by the Group amounted to EUR 1 687 (Q3: 1 222) million, increasing in Q4 by 38%. Compared to Q4 2018, the volume of the Group's deposits has increased by 90% and the volume of loans by 84%.



The Group's Liquidity, Capitalisation and Asset Quality

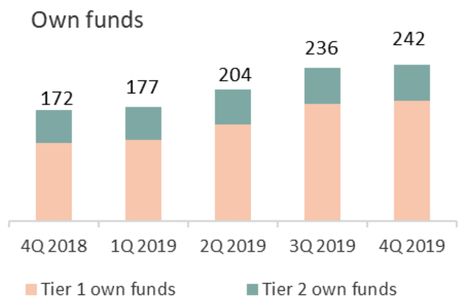
As at 31 December 2019, the Group's own funds stood at EUR 241.8 million (31 December 2018: EUR 171.6 million). LHV Group own funds are calculated based on regulative requirements. In Q4 the level of own funds changed by including the Q3 profit to own funds.

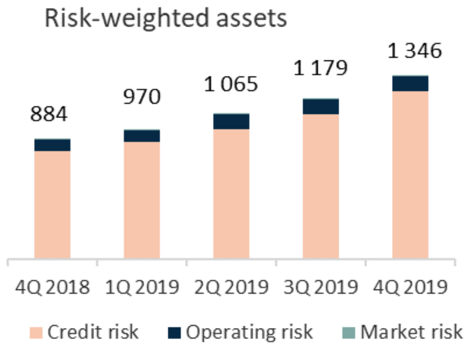
Compared to Group's internal capital adequacy ratio target 15.5%, the Group is well capitalised as at the end of the reporting period, with the capital adequacy ratio amounting to 18.0% (31 December 2018: 21.7%). In addition to total capital adequacy targets the Group has also set internal targets for the core Tier 1 capital adequacy ratio to 10,4% and Tier 1 capital adequacy ratio to 12.10%.

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 December 31 the MREL ratio was 8.72% (31st of December 2018 11.43%). Estonian FSA informed LHV in January 2020 that MREL requirement will change from end of Q2 2021 to the level of 10.15%, as LHV is treated as systematic bank and will and bank has to keep sizable amount of suitable liabilities which could be converted to own funds in case of resolution process.

The Group's liquidity coverage ratio (LCR), as defined by the Basel Committee, stood at 144.8 % as at the end of December (31 December 2018: 148.5%). Banks liquidity situation changed in Q4 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 223.7% (31.12.2018: 235.3%). The Group recognises cash and bond portfolios as liquidity buffers. These accounted for 43% of the balance sheet (31 December 2018: 43%). The ratio of loans to deposits stood at 62% as at the end of the forth 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 December, provisions for estimated loan losses amounted to EUR 6.1 million in the balance sheet, i.e. approximately 0.4% of the loan portfolio (31 December 2018: EUR 10.3 million, 1.1%). Estimated loan losses make up 149.8% (31 December 2018: 66.5%) of the portfolio of loans overdue for more than 90 days.





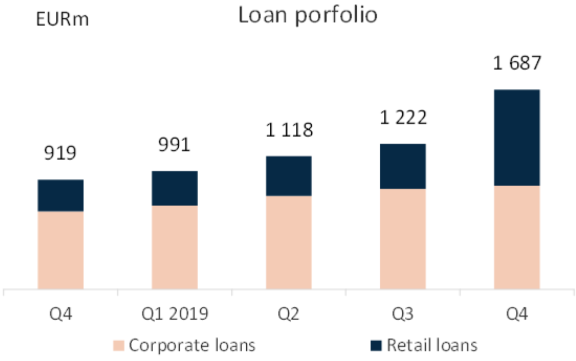
EUR thousand	31.12.2019	Proportion	31.12.2018	Proportion
Loans to customers	1 693 138		929 037	
including overdue loans:	39 145	2.3%	22 483	2.4%
1-30 days	26 273	1.6%	6 142	0.7%
31-60 days	7 142	0.4%	709	0.1%
61-90 days	1 655	0.1%	177	0.0%
91 and more days	4 074	0.2%	15 454	1.7%
Impairment of loans	-6 104	-0.4%	-10 276	-1.1%
Impairment % of loans overdue for more than 90 days	149.8%		66.5%	

Capital base	31.12.2019	31.12.2018	31.12.2017
Paid-in share capital	28 454	26 016	25 767
Share premium	70 136	46 653	46 304
Statutory reserves transferred from net profit	4 713	3 451	2 471
Other reserves	212	78	36
Retained earnings	69 452	50 193	24 468
Intangible assets (subtracted)	-18 319	-19 084	-7 940
Net profit for the reporting period (COREP)	12 186	13 605	10 175
Other adjustments	-33	-194	0
Tier 1 capital	**166 801**	**120 718**	**100 534**
Additional Tier 1 capital	20 000	0	0
Total Tier 1 capital	**186 801**	**120 718**	**100 534**
Subordinated debt	55 000	50 900	30 900
Total Tier 2 capital	**55 000**	**50 900**	**30 900**
Net own funds for capital adequacy	**241 801**	**171 618**	**131 434**
Capital requirements			
Central governments and central bank under standard method	920	938	945
Credit institutions and investment companies under standard method	4 183	5 376	6 950
Companies under standard method	818 918	579 836	428 428
Retail claims under standard method	167 276	133 250	144 237
Public sector under standard method	2	125	185
Housing real estate under standard method	208 693	39 903	20 039
Overdue claims under standard methods	5 242	10 142	20 956
Investment funds’ shares under standard method	8 052	7 963	6 281
Other assets under standard method	17 875	10 557	13 824
Total capital requirements for covering the credit risk and counterparty credit risk	**1 231 161**	**788 090**	**641 845**
Capital requirement against foreign currency risk under standard method	4 211	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	959	704	585
Capital requirement against credit valuation adjustment risks under standard method	22	41	15
Capital requirement for operational risk under base method	109 546	91 575	75 999
Total capital requirements for adequacy calculation	**1 345 899**	**884 399**	**722 407**

Capital adequacy (%)	**17.97**	**19.41**	**18.30**
Tier 1 capital ratio (%)	**13.88**	**13.65**	**14.02**
Core Tier 1 capital ratio (%)	**12.39**	**13.65**	**14.02**

Overview of AS LHV Pank Consolidation Group

- (Net) growth in loan volume EUR 465 million
- Net profit EUR 5.7 million
- (Net) growth in deposits EUR 169 million



EUR million	Q4 2019	Q3 2019	Change %	Q4 2018	Change %	From the beginning of 2019	From the beginning of 2018	Change %
Net interest income	13.23	11.60	14%	10.58	25%	47.91	39.02	23%
Net fee and commission income	3.99	3.11	28%	2.47	62%	12.81	11.10	15%
Other financial income	0.06	0.03	114%	0.23	-74%	0.21	0.47	-56%
Total net operating income	17.28	14.74	17%	13.28	30%	60.93	50.59	20%
Other income	0.08	0.06	43%	0.12	-35%	0.18	0.95	-81%
Operating expenses	-9.58	-7.69	25%	-7.04	36%	-32.52	-25.74	26%
Loan losses	-1.55	-0.02	NA	-0.54	184%	-3.20	-4.88	-34%
Income tax expenses	-0.59	-0.70	-16%	-0.54	8%	-3.28	-2.51	30%
Net profit	5.65	6.39	-12%	5.27	7%	22.11	18.41	20%
Loan portfolio	1 687	1 222	38%	919	84%			
Financial investments	33	116	-72%	39	-16%			
Deposits of customers	2 713	2 544	7%	1 448	87%			
incl. deposits of financial intermediates	376	419	-10%	194	94%			
Subordinated liabilities	71	64	11%	30	136%			
Equity	172	150	15%	126	37%			

Q4 was successful in terms of business volumes. LHV Bank generated EUR 13.2 million in net interest income and EUR 4.0 million in net fee and commission income. In total, the bank's net income amounted to EUR 17.3 million, expenditure to EUR 9.6 million and loan provisions to EUR 1.55 million. The net profit of LHV Pank amounted to EUR 5.7 million in Q4. This constitutes a 12% decrease from Q3 (6.4) and a 7% increase from Q4 2018 (5.3). Net interest income increased 14% compared to previous quarter. Net fee and commission income increased 28% compared to Q3. Net operating income increased by 17% compared to previous quarter, which was related to the expenses regarding the takeover of Dankse loanportfolio. In Q4 other financial income amounted to EUR 0.06 million (Q3: 0.03 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 6.2 million and net profit EUR 5.7 million. As at the end of the quarter, the net profit exceeded the financial plan by EUR 1.8 million.

The increase in net interest income stems from the growth in business volumes. By the end of Q4, the total volume of the bank's loan portfolios amounted to EUR 1 687 million (Q3: EUR 1 222 million). The volume of portfolios grew 38% over the quarter. The corporate credit portfolio that contains loans and guarantees grew by EUR 220.5 million on an annualised basis (+32%) and EUR 26.8 million on a quarterly basis (+3%). The main source of growth was real estate management, which has traditionally been well-financed by commercial banks, growing by EUR 72.4 million (+26%). Commercial real estate projects with a strong rental flow were the greatest contributor to growth, followed by loans issued to the agricultural, forestry and fishing sector, which grew by EUR 42.3 million (+272%). Loans issued in the wholesale and retail sector as well as the motor vehicles repair sector grew by EUR 38.6 million, year-over-year (+145%).

The greatest contributors to portfolio growth, compared to Q3 2019, included loans and guarantees issued for real estate management (EUR 40.8 million; +13%), followed by the agricultural, forestry and fishing sector (EUR 13.1 million; +29%), wholesale and retail, as well as motor vehicles sales and repair (EUR 8.7 million; +15%).

The largest amount of corporate loans was granted to the real estate sector, which accounts for 39% of the bank's total portfolio of corporate loans. A bulk of the real estate loans have been issued for projects with a high-quality rent flow. Real estate development ranks second, significantly behind. A majority of the real estate developments financed are located in Tallinn, with the projects located in other major Estonian cities and the vicinity of Tallinn contributing 14%. LHV's market share in the financing of new developments in Tallinn was approximately a third at the end of 2019. LHV's real estate development portfolio is well-positioned for potential changes in market trends –the financed projects have a good location, with the average risk to estimated price ratio standing at 50%, at an average.

Alongside the real estate sector, the biggest volume of loans has been issued to the processing industry (proportion: 12%) and financial and insurance activities (11%). As regards sectors with a higher-than-average risk, accommodation and catering contributes 2%, construction 2% and transport and warehousing 1% of the total portfolio volume.

The bank's rapid growth continued in the last quarter. By the end of the year, the bank achieved a near 10% market share in Estonia, with regard to daily banking, deposits and corporate loans. With regard to daily banking and deposits, the bank is now the third largest bank in Estonia.

The bank's customer numbers grew by more than 13,100 during the quarter. By the end of the year, customer numbers reached 202,000, having grown by 25%, year-over-year. The year saw a record-breaking growth in customer activity and business volumes. The number of customers actively using the daily banking services grew by nearly a third.

Deposits grew by EUR 169 million and loans by EUR 465 million during the quarter. Standard customer deposits grew by EUR 217 million. Deposits of financial intermediators decreased by EUR -43 million and deposits engaged through deposit platforms by EUR -6 million. Corporate loans grew by EUR 30 million and retail loans by EUR 435 million. The purchase of the Danske Bank private customer loan portfolio and its assimilation into the bank's systems was completed in the second half of November. The loan portfolio acquired amounts to EUR 393 million, write-downs included. Deposits grew by 87% to EUR 2,713 million and loans by 84% to EUR 1,687 million.

Net profit for the quarter amounted to EUR 5.7 million. Net profit grew significantly after the takeover of the Danske Bank private customer loan portfolio. The bank previously incurred higher interest expenses on deposits engaged from deposit platforms and funds kept with the European Central Bank to prepare for the assimilation of the loan portfolio. Net profit of the quarter was negatively affected by additional loan write-downs made during the takeover of the loan portfolio, as well as the notary fees and state fees related to re-registration of the collateral. Contributors to the net profit for the quarter included commission fees generated by institutional banking from the engagement of capital for Coop Bank, Auga Group and Novaturas Group. The bank participated in the IPO of Coop Bank as a financial consultant, with a half of the subscribers originating from LHV Bank.

In Q4, the bank decided to continue pursuing the internal ratings-based (IRB) approach to credit risk, a project which was suspended two years ago. The decision was conditioned by the fact that the new Capital Requirements Regulation (CRR), which entered into force in the middle of the year, has not taken into account the latest Basel guidelines regarding amendment of the capital requirements for the standard approach to credit risk.

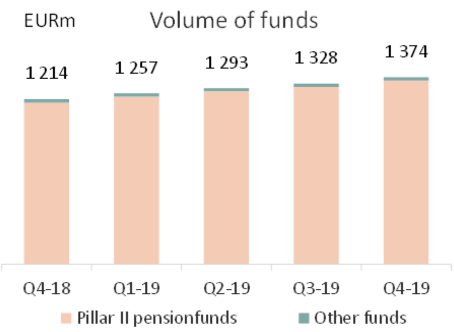
The Risk and Capital Committee and the Nomination Committee were established on the level of the bank's Supervisory Board. The purpose of the Risk and Capital Committee is to advise and support the Supervisory Board with regard to supervision of the general, actual and future risk appetite and strategy, considering all types of risk and ensuring their compliance with the business strategy, objectives, business practice and values. The purpose of the Nomination Committee is to support the Supervisory Board in issues concerning the selection process and fit-and-proper requirements. The Risk and Capital Committee established on the Management Board level was renamed Assets and Liabilities Management Committee.

The bank also received the golden award of the Family-friendly Employer, issued by the Ministry of Social Affairs. The project lasted a total of nearly two years and covered various changes in the bank's human resource policy and operations.

At the end of the year, the Banker magazine of the Financial Times elected LHV Bank the best bank in Estonia.

Overview of AS LHV Varahaldus

- The quarterly profit before income tax was EUR 0.9 million
- The volume of second pillar pension assets is EUR 1 349 million, quarterly growth of EUR 45 million
- As at the end of December, there were more than 177 000 active clients; customer numbers have dropped by nearly 1 300 during the year.



EUR million	Q4 2019	Q3 2019	Change %	Q4 2018	Change %	12M 2019	12M 2018	Change %
Net fee and commission income	2.44	3.30	-26%	3.63	-33%	12.87	13.95	-8%
Net financial income	0.08	0.06	33%	-0.17	NA	0.32	-0.2	NA
Operating expenses	-1.15	-0.99	15%	-1.08	6%	-4.23	-4.02	5%
Depreciation of non-current assets	-0.48	-0.48	0%	-0.45	7%	-1.87	-1.8	4%
Profit	0.89	1.89	-53%	1.93	-54%	7.09	7.93	-11%
Financial investments	8.0	7.9	1%	7.9	1%			
Subordinated liabilities	1.6	1.6	0%	2.1	-24%			
Equity	29.0	28.0	4%	29.0	0%			
Assets under management	1 374.0	1 327.7	3%	1 214.4	13%			

LHV Asset Management generated EUR 2.4 million in operating income in Q4, a total of EUR 13.2 million in 2019. Operating income decreased by EUR 0.9 million, compared to Q3. This can be attributed to the lowering of the management fee in the largest actively managed funds M, L and XL, by 40%. Operating expenses increased by EUR 164 thousand, compared to Q3. Net profit for Q4 amounted to EUR 0.9 million; a total of EUR 6.1 million for 2019. ROE from earnings before taxes amounted to 24.6% in 2019.

The lowering of the management fees will be balanced out by the possibility to earn a performance fee in the upcoming periods. To earn a performance fee, actively managed funds need to produce a yield which exceeds social tax collection. Social tax collection grew by nearly 9% in 2019. The yield of LHV's pension funds M, L and XL fell short of the target, with no performance fee earned in 2019. The long-term forecast for the growth in social tax collection is an annual 5%, providing a possibility to earn a performance fee in the upcoming periods.

Stock market dynamics were excellent in Q4 as well as in 2019 in general. Major market indices showed very good results, with S&P 500 rising by 31.4% and Euro Stoxx 50 by 28.2%, measured in euros. Consequently, the best yield among Estonian pension funds was generated by index funds focusing on shares. LHV Pension Fund Index produced a yield of 25.7% in 2019. In actively managed pension funds, the stock-market-related price risk is lower, with the focus mainly on OTC assets with a stable yield. The largest pension fund – Pension Fund L – produced a yield of 5.8% in 2019.

In December, the upcoming pension reform passed the first reading in the Parliament. In all likelihood, the bill, which is bound to transform the pension system, will be adopted by the Parliament by the end of January. The first dynamics – either transfers of money out of the second pillar or from funds to the pension investment account – can be estimated to take place at the beginning of September 2021.

Since it is nearly impossible to forecast the number of customers exiting the system, the reform prompts a much more delicate approach to local investments with a long-term time horizon. Consequently, we have filed an application to merge Pension Fund Estonia with Pension Fund L. Pension Fund Estonia focuses exclusively on local market investments that are inevitably less liquid and require a longer-term assurance of fund volumes. Even though the NAV of Pension Fund Estonia makes up less than 0.5% of the NAV of Pension Fund L, the effect of the merger for customers of L will be marginal. For the customers of Pension Fund Estonia, Pension Fund L provides an alternative with the most similar strategy.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

(in thousands of euros)	Note	Q4 2019	12M 2019	Q4 2018	12M 2018
Continuing operations					
Interest income		18 208	61 414	12 197	45 622
Interest expense		-4 938	-14 026	-1 907	-7 471
Net interest income	9	**13 270**	**47 388**	**10 290**	**38 151**
Fee and commission income		9 991	37 026	8 378	32 844
Fee and commission expense		-3 564	-11 349	-2 285	-7 799
Net fee and commission income	10	**6 427**	**25 677**	**6 093**	**25 045**
Net gains from financial assets measured at fair value		97	591	112	379
Foreign exchange rate gains/losses		73	79	-7	64
Net gains from financial assets		**170**	**670**	**105**	**443**
Other income		58	93	97	905
Other expense		0	-9	-3	-43
Total other income		**58**	**84**	**94**	**862**
Staff costs	11	-5 235	-19 265	-4 293	-15 756
Administrative and other operating expenses	11	-6 126	-20 003	-4 479	-16 387
Total expenses		**-11 361**	**-39 268**	**-8 772**	**-32 143**
Profit before impairment losses on loans and advances		**8 564**	**34 551**	**7 810**	**32 358**
Impairment losses on loans and advances	22	-1 546	-3 210	-542	-4 879
Profit before income tax		**7 018**	**31 341**	**7 268**	**27 479**
Income tax expense		-586	-4 249	-544	-3 614
Net profit for the reporting period from continued operations	2	**6 432**	**27 092**	**6 724**	**23 865**
Profit from discontinued operations	12	**0**	**0**	**0**	**3 324**
Net profit for the reporting period	2	**6 432**	**27 092**	**6 724**	**27 189**
Other comprehensive income/loss:					
Items that may be reclassified subsequently to profit or loss:					
Changes in the fair value of debt instruments measured at FVOCI		134	134	78	42
Total profit and other comprehensive income for the reporting period		**6 566**	**27 226**	**6 802**	**27 231**
Total profit of the reporting period attributable to:					
Owners of the parent		5 719	24 797	6 048	25 237
Non-controlling interest		713	2 295	676	1 952
Total profit for the reporting period	2	**6 432**	**27 092**	**6 724**	**27 189**
Total profit and other comprehensive income attributable to:					
Owners of the parent		5 853	24 931	6 126	25 279
Non-controlling interest		713	2 295	676	1 952
Total profit and other comprehensive income for the reporting period		**6 566**	**27 226**	**6 802**	**27 231**
Basic earnings per share (in euros)	17	0.20	0.91	0.23	0.97
Diluted earnings per share (in euros)	17	0.20	0.89	0.23	0.96

The Notes on pages 18 to 34 are an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Financial Position

(in thousands of euros)	Note	31.12.2019	31.12.2018
Assets			
Due from central bank	4, 5, 6, 13	1 232 733	639 862
Due from credit institutions	4, 5, 6, 13	32 947	25 791
Due from investment companies	4, 6, 13	5 473	17 005
Equity instruments at fair value through other comprehensive income	4, 6, 7	432	298
Financial assets at fair value through profit or loss	4, 6, 7	40 530	46 856
Loans and advances to customers	4, 6, 8, 22	1 687 034	918 761
Receivables from customers		3 551	3 721
Other financial assets		2 246	2 936
Other assets		1 961	1 651
Tangible assets	20	6 686	1 135
Intangible assets	20	14 705	15 470
Goodwill		3 614	3 614
Total assets	2	**3 031 912**	**1 677 100**
Liabilities			
Deposits of customers and loans received	14	2 726 562	1 443 782
Financial liabilities at fair value through profit or loss	6	8	11
Accounts payable and other liabilities	15	24 314	24 644
Subordinated debt	6, 21	75 000	50 900
Total liabilities	2	**2 825 884**	**1 519 337**
Owner's equity			
Share capital		28 454	26 016
Share premium		70 136	46 653
Statutory reserve capital		4 713	3 451
Other reserves		3 280	2 090
Retained earnings		94 228	75 430
Total equity attributable to owners of the parent		**200 811**	**153 640**
Non-controlling interest		5 217	4 123
Total equity		**206 028**	**157 763**
Total liabilities and equity		**3 031 912**	**1 677 100**

The Notes on pages 18 to 34 are an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Cash Flows

(in thousands of euros)	Note	Q4 2019	12M 2019	Q4 2018	12M 2018
Cash flows from operating activities					
Interest received		17 269	59 768	12 379	45 146
Interest paid		-3 647	-11 005	-2 181	-7 062
Fees and commissions received		9 991	37 026	8 378	32 844
Fees and commissions paid		-3 564	-11 349	-2 285	-7 799
Other income received		76	82	94	891
Staff costs paid		-4 919	-17 877	-3 681	-14 647
Administrative and other operating expenses paid		-4 059	-14 876	-3 707	-13 415
Income tax		-702	-4 208	-501	-3 070
Cash flows from operating activities before change in operating assets and liabilities		**10 445**	**37 561**	**8 496**	**32 888**
Net increase/decrease in operating assets:					
Net increase/(decrease) in financial assets at fair value through profit or loss		11	49	-30	-115
Loans and advances to customers		-461 195	-770 388	-103 471	-199 259
Mandatory reserve at central bank		0	0	2 088	1 094
Security deposits		-932	-12 146	-249	-647
Other assets		253	690	465	-597
Net increase/decrease in operating liabilities:					
Demand deposits of customers		184 252	885 356	-204 341	-105 458
Term deposits of customers		-19 111	390 754	-11 084	-9 316
Loans received		0	10 000	9 278	15 528
Repayments of the loans received		-2 943	-5 886	0	0
Financial liabilities held for trading at fair value through profit and loss		-13	-3	9	8
Other liabilities		-20 371	-6 295	-1 641	-38 271
Discontinued operations		0	0	0	-270
Net cash generated from/used in operating activities		**-311 278**	**529 719**	**-300 480**	**-304 415**
Cash flows from investing activities					
Purchase of non-current assets		-2 212	-3 772	-2 161	-3 450
Disposal of non-current assets		5	5	0	0
Disposal of subsidiary, net of cash disposed	12	0	0	0	5 046
Proceeds from disposal and redemption of investment securities at fair value through other comprehensive income		0	0	1	520
Net changes of investment securities at fair value through profit or loss		89 823	6 869	1 899	9 473
Net cash flows from/used in investing activities		**87 616**	**3 102**	**-261**	**11 589**
Cash flows from financing activities					
Paid in share capital		25 300	26 013	0	598
Dividends paid		0	-6 664	0	-5 295
Subordinated loans received		0	40 000	20 000	20 000
Repayments of the subordinated loans received		0	-15 900	0	0
Net cash flows from/used in financing activities		**25 300**	**43 449**	**20 000**	**15 303**
Effect of exchange rate changes on cash and cash equivalents	6	**73**	**79**	**-7**	**64**
Net increase/decrease in cash and cash equivalents		**-198 362**	**576 349**	**-280 748**	**-277 459**
Cash and cash equivalents at the beginning of the period		1 443 016	668 378	949 126	945 837
Cash and cash equivalents at the end of the period	13	**1 244 727**	**1 244 727**	**668 378**	**668 378**

The Notes on pages 18 to 34 are an integral part of the condensed consolidated interim financial statements

Condensed Consolidated Interim Statement of Changes in Equity

(in thousands of euros)	Share capital	Share premium	Statutory reserve capital	Other reserves	Retained earnings	**Total equity attributable to owners of LHV Group**	Non-controlling interest	**Total equity**
Balance as at 01.01.2018	**25 767**	**46 304**	**2 471**	**1 449**	**54 688**	**130 679**	**7 893**	**138 572**
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	599	608	1 207	0	**1 207**
Paid in share capital	249	349	0	0	0	598	0	**598**
Profit for the reporting period	0	0	0	*0*	25 237	25 237	1 952	**27 189**
Other comprehensive loss	0	0	0	42	*0*	42	*0*	**42**
Total profit and other comprehensive income for the reporting period	0	0	0	42	25 237	25 279	1 952	27 231
Balance as at 31.12.2018	**26 016**	**46 653**	**3 451**	**2 090**	**75 430**	**153 640**	**4 123**	**157 763**
Balance as at 01.01.2019	**26 016**	**46 653**	**3 451**	**2 090**	**75 430**	**153 640**	**4 123**	**157 763**
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	1 056	726	1 782	0	**1 782**
Paid in share capital	2 438	23 483	0	0	0	25 921	0	**25 921**
Profit for the reporting period	*0*	*0*	*0*	*0*	24 797	*24 797*	*2 295*	***27 092***
Other comprehensive income/loss	*0*	*0*	*0*	134	*0*	*134*	*0*	134
Total profit and other comprehensive income for the reporting period	0	0	0	134	24 797	24 931	2 295	**27 226**
Balance as at 31.12.2019	**28 454**	**70 136**	**4 713**	**3 280**	**94 228**	**200 811**	**5 217**	**206 028**

The Notes on pages 18 to 34 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 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 guaratees 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, corporate banking and financial intermediates. 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.

Q4 2019	**Retail banking**	**Corporate banking**	**Asset manage-ment**	**Hire-purchase and consumer finance in Estonia**	**Financial intermediates**	**Other activities**	**Intra-segment elimi-nations**	**Total**
Interest income	6 280	9 879	0	3 070	256	3 677	-4 954	18 208
Interest expense	-1 619	-1 544	-31	-489	0	-6 209	4 954	-4 938
Net interest income	**4 661**	**8 335**	**-31**	**2 581**	**256**	**-2 532**	**0**	**13 270**
Fee and commission income	1 751	1 378	2 440	166	4 256	0	0	9 991
Fee and commission expense	-141	-308	0	-188	-2 924	-3	0	-3 564
Net fee and commission income	**1 610**	**1 070**	**2 440**	**-22**	**1 332**	**-3**	**0**	**6 427**
Net income	**6 271**	**9 405**	**2 409**	**2 559**	**1 588**	**-2 535**	**0**	**19 697**
Net gains from financial assets	0	0	109	0	61	0	0	170
Administrative and other operating expenses, staff costs	-3 354	-2 102	-1 635	-456	-2 716	-1 040	0	-11 303
Operating profit	**2 917**	**7 303**	**883**	**2 103**	**-1 067**	**-3 575**	**0**	**8 564**
Impairment losses on loans and advances	-856	-617	0	-66	-7	0	0	-1 546
Income tax	-199	-372	0	0	0	-15	0	-586
Net profit	**1 862**	**6 314**	**883**	**2 037**	**-1 074**	**-3 590**	**0**	**6 432**

12M 2019	**Retail banking**	**Corporate banking**	**Asset manage-ment**	**Hire-purchase and consumer finance in Estonia**	**Financial intermediates**	**Other activities**	**Intra-segment elimi-nations**	**Total**
Interest income	18 907	35 107	0	11 209	752	10 626	-15 187	61 414
Interest expense	-3 723	-6 071	-145	-1 691	-10	-17 573	15 187	-14 026
Net interest income	**15 184**	**29 036**	**-145**	**9 518**	**742**	**-6 947**	**0**	**47 388**
Fee and commission income	6 754	2 147	12 869	602	14 654	0	0	37 026
Fee and commission expense	-502	-363	0	-674	-9 797	-13	0	-11 349
Dividend income	0	0	0	0	0	6 630	-6 630	0

Net fee and commission income	**6 252**	**1 784**	**12 869**	**-72**	**4 857**	**6 617**	**- 6 630**	**25 677**
Net income	**21 436**	**30 820**	**12 724**	**9 446**	**5 599**	**-330**	**-6 630**	**73 065**
Net gains from financial assets	-10	-4	465	0	46	173	0	670
Administrative and other operating expenses, staff costs	-10 895	-7 661	-6 097	-1 881	-9 114	-3 536	0	-39 184
Operating profit	**10 531**	**23 155**	**7 092**	**7 565**	**-3 469**	**-3 693**	**-6 630**	**34 551**
Impairment losses on loans and advances	-1 194	-1 736	0	-247	-33	0	0	-3 210
Income tax	-803	-1 640	-972	-760	-74	0	0	-4 249
Net profit	**8 534**	**19 779**	**6 120**	**6 558**	**-3 576**	**-3 693**	**-6 630**	**27 092**
Total assets 31.12.2019	**1 075 705**	**1 613 557**	**31 221**	**65 506**	**298 806**	**179 686**	**-232 569**	**3 031 912**
Total liabilities 31.12.2019	**1 992 547**	**450 089**	**2 100**	**50 548**	**388 317**	**75 577**	**-133 294**	**2 825 884**

Q4 2018	**Retail banking**	**Corporate banking**	**Asset manage-ment**	**Hire-purchase and consumer finance in Estonia**	**Financial intermediates**	**Other activities**	**Intra-segment elimi-nations**	**Total**
Interest income	2 613	263	7 158	0	176	1 079	-1 627	12 197
Interest expense	0	0	-1 283	-42	-11	-1 866	1 627	-1 907
Net interest income	**2 613**	**263**	**5 875**	**-42**	**165**	**-787**	**0**	**10 290**
Fee and commission income	3 523	363	167	3 628	513	49	0	8 378
Fee and commission expense	-2 001	0	-14	0	-120	-8	0	-2 285
Net fee and commission income	**1 522**	**363**	**153**	**3 628**	**393**	**41**	**0**	**6 093**
Net income	**4 135**	**626**	**6 028**	**3 586**	**558**	**-746**	**0**	**16 383**
Net gains from financial assets	-2	0	0	-126	0	233	0	105
Administrative and other operating expenses, staff costs	-3 537	-303	-1 602	-1 529	-389	-794	0	-8 678
Operating profit	**596**	**323**	**4 426**	**1 931**	**169**	**-1 307**	**0**	**7 810**
Impairment losses on loans and advances	-76	0	-725	0	0	0	0	-542
Income tax	-158	-34	-338	0	-14	0	0	-544
Discontinued operations	0	0	0	0	0	0	0	0
Net profit	**362**	**289**	**3 363**	**1 931**	**155**	**-1 307**	**0**	**6 724**

12M 2018	**Retail banking**	**Corporate banking**	**Asset manage-ment**	**Hire-purchase and consumer finance in Estonia**	**Financial intermediates**	**Other activities**	**Intra-segment elimi-nations**	**Total**
Interest income	10 944	25 359	0	9 380	1 211	5 634	-6 906	45 622
Interest expense	0	-4 401	-168	-1 234	0	-8 574	6 906	-7 471
Net interest income	**10 944**	**20 958**	**-168**	**8 146**	**1 211**	**-2 940**	**0**	**38 151**
Fee and commission income	14 256	1 910	13 942	517	2 132	87	0	32 844

Fee and commission expense	-6 953	-65	0	-553	-200	-28	0	-7 799
Dividend income	0	0	0	0	0	6 578	-6 578	0
Net fee and commission income	**7 303**	**1 845**	**13 942**	**-36**	**1 932**	**6 637**	**-6 578**	**25 045**
Net income	**18 247**	**22 803**	**13 774**	**8 110**	**3 143**	**3 697**	**-6 578**	**63 196**
Net gains from financial assets	-15	0	-25	0	0	483	0	443
Administrative and other operating expenses, staff costs	-13 481	-5 503	-5 823	-2 058	-1 298	-3 118	0	-31 281
Operating profit	**4 751**	**17 300**	**7 926**	**6 052**	**1 845**	**1 062**	**-6 578**	**32 358**
Impairment losses on loans and advances	351	-5 027	0	-171	0	-32	0	-4 879
Income tax	-563	-987	-1 100	-838	-106	-20	0	-3 614
Net profit from continued operations	**4 539**	**11 286**	**6 826**	**5 043**	**1 739**	**1 010**	**-6 578**	**23 865**
Total assets 31.12.2018	**989 879**	**535 836**	**31 193**	**51 383**	**109 987**	**127 748**	**-168 926**	**1 677 100**
Total liabilities 31.12.2018	**1 210 066**	**177 086**	**2 610**	**39 577**	**134 452**	**51 380**	**-95 834**	**1 519 337**

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

31.12.2019	Estonia	Latvia	Lit-huania	Finland	Ger-many	Other EU	USA	UK	Other	Total
Due from banks and investment companies	1 229 169	0	0	0	0	10 972	4 929	23 041	3 042	**1 271 153**
Financial assets at fair value	8 484	760	19 951	0	9 840	1 907	4	0	16	**40 962**
Loans and advances to customers	1 656 373	445	287	5 574	840	19 951	379	0	3 185	**1 687 034**
Receivables from customers	3 551	0	0	0	0	0	0	0	0	**3 551**
Other financial assets	110	0	0	0	0	0	2 136	0	0	**2 246**
Total financial assets	**2 897 687**	**1 205**	**20 238**	**5 574**	**10 680**	**32 830**	**7 448**	**23 041**	**6 243**	**3 004 946**
Deposits of customers and loans received	1 870 475	12 725	1 503	19 564	372 390	394 310	1 241	0	54 354	**2 726 562**
Subordinated debt	75 000	0	0	0	0	0	0	0	0	**75 000**
Accounts payable and other financial liabilities	20 739	0	4	27	0	13	3	3	0	**20 789**
Financial liabilities at fair value	8	0	0	0	0	0	0	0	0	**8**
Total financial liabilities	**1 966 222**	**12 725**	**1 507**	**19 591**	**372 390**	**394 323**	**1 244**	**3**	**54 354**	**2 822 359**

Unused loan commitments in the amount of EUR 359 230 thousand are for the residents of Estonia.

31.12.2018	Estonia	Latvia	Lit-huania	Finland	Ger-many	Other EU	USA	UK	Other	Total
Due from banks and investment companies	650 321	0	0	0	0	13 599	16 541	0	2 197	**682 658**
Financial assets at fair value	8 392	772	17 242	0	1	20 704	43	0	0	**47 154**
Loans and advances to customers	886 881	52	10 561	1 524	6	18 432	175	0	1 129	**918 761**
Receivables from customers	3 706	1	5	0	0	0	0	0	9	**3 721**
Other financial assets	111	0	0	0	0	0	2 825	0	0	**2 936**
Total financial assets	**1 549 411**	**825**	**27 808**	**1 524**	**7**	**52 736**	**19 584**	**0**	**3 335**	**1 655 230**
Deposits of customers and loans received	1 154 012	10 041	951	3 414	13 274	220 749	3 085	0	38 256	**1 443 782**
Subordinated debt	50 900	0	0	0	0	0	0	0	0	**50 900**
Accounts payable and other financial liabilities	21 381	0	4	27	0	13	3	0	0	**21 428**
Financial liabilities at fair value	11	0	0	0	0	0	0	0	0	**11**
Total financial liabilities	**1 226 304**	**10 041**	**955**	**3 441**	**13 274**	**220 762**	**3 088**	**0**	**38 256**	**1 516 121**

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

31.12.2019	On demand	0-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities by contractual maturity dates						
Deposits from customers and loans received	2 189 665	41 522	476 248	18 721	2 906	**2 729 062**
Subordinated debt	0	1 244	3 731	19 500	85 575	**112 138**
Accounts payable and other financial liabilities	0	20 789	0	0	0	**20 789**
Unused loan commitments	0	359 230	0	0	0	**359 230**
Financial guarantees by contractual amounts	0	14 139	0	0	0	**14 139**
Foreign exchange derivatives (gross settled)	0	14 942	0	615	0	**15 557**
Financial liabilities at fair value	0	8	0	0	0	**8**
Total liabilities	**2 189 665**	**451 874**	**479 979**	**38 836**	**88 481**	**3 250 923**
Financial assets by contractual maturity dates						
Due from banks and investment companies	1 271 153	0	0	0	0	**1 271 153**
Financial assets at fair value (debt securities)	0	10 883	13 018	8 429	0	**32 330**
Loans and advances to customers	0	113 590	251 806	1 029 520	582 889	**1 977 805**
Receivables from customers	0	3 551	0	0	0	**3 551**
Other financial assets	2 246	0	0	0	0	**2 246**
Foreign exchange derivatives (gross settled)	0	14 942	0	615	0	**15 557**
Total financial assets	**1 273 399**	**142 966**	**264 824**	**1 038 564**	**582 889**	**3 302 642**
Maturity gap from financial assets and liabilities	**-916 266**	**-308 908**	**-215 155**	**999 728**	**494 408**	**51 720**

31.12.2018	On demand	0-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities by contractual maturity dates						
Deposits from customers and loans received	1 304 239	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**
Total liabilities	**1 304 239**	**263 934**	**96 609**	**30 701**	**63 816**	**1 759 299**
Financial assets by contractual maturity dates						
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**
Total financial assets	**685 594**	**106 554**	**198 293**	**650 532**	**157 014**	**1 797 987**
Maturity gap from financial assets and liabilities	**-618 645**	**-157 380**	**101 684**	**619 831**	**93 198**	**38 688**

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

NOTE 6 Open Foreign Currency Positions

31.12.2019	EUR	CHF	GBP	SEK	USD	Other	Total
Assets bearing currency risk							
Due from banks and investment companies	1 231 788	514	27 690	1 053	1 362	8 745	**1 271 153**
Financial assets at fair value	24 714	0	0	1	16 241	5	**40 962**
Loans and advances to customers	1 685 519	4	62	584	788	77	**1 687 034**
Receivables from customers	2 548	10	601	56	0	335	**3 551**
Other financial assets	110	0	0	0	2 136	0	**2 246**
Total assets bearing currency risk	**2 944 679**	**528**	**28 353**	**1 695**	**20 528**	**9 163**	**3 004 946**
Liabilities bearing currency risk							
Deposits from customers and loans received	2 655 331	4 538	27 138	8 139	20 356	11 061	**2 726 562**
Financial liabilities at fair value	5	0	0	1	1	1	**8**
Accounts payable and other financial liabilities	17 110	62	1 201	345	245	1 826	**20 789**
Subordinated debt	75 000	0	0	0	0	0	**75 000**
Total liabilities bearing currency risk	**2 747 446**	**4 600**	**28 339**	**8 485**	**20 602**	**12 888**	**2 822 359**
Open gross position derivative assets at contractual value	615	4 054	0	6 816	713	3 359	**15 557**
Open gross position derivative liabilities at contractual value	14 942	0	0	0	615	0	**15 557**
Open foreign currency position	**182 906**	**-18**	**14**	**26**	**25**	**-366**	**182 587**

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

NOTE 7 Fair Value of Financial Assets and Liabilities

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

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

	Level 1	Level 2	Level 3	31.12.2019	Level 1	Level 2	Level 3	31.12.2018
Financial assets at fair value through profit and loss								
Shares and fund units*	500	7 695	0	**8 195**	510	7 590	0	**8 100**
Equity instruments at fair value through other comprehensive income	0	0	432	**432**	0	0	298	**298**
Bonds at fair value through profit and loss	32 331	0	0	**32 331**	38 697	0	0	**38 697**
Interest rate swaps and foreign exchange forwards	0	4	0	**4**	0	59	0	**59**
Total financial assets	**32 831**	**7 699**	**432**	**40 962**	**39 207**	**7 649**	**298**	**47 154**
Financial liabilities at fair value through profit and loss								
Interest rate swaps and foreign exchange	0	8	0	**8**	0	11	0	**11**
Total financial liabilities	**0**	**8**	**0**	**8**	**0**	**11**	**0**	**11**

*Shares and fund units include the Group companies' AS LHV Varahaldus investment into pension fund units in the amount of EUR 7 695 (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 31.12.2019 the fair value of corporate loans and overdraft is EUR 8 478 thousand (0,97%) 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 31 December 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 year 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

	31.12.2019	**%**	**31.12.2018**	**%**
Individuals	738 152	43.6%	214 702	23.1%
Real estate activities	353 405	20.9%	246 930	26.6%
Manufacturing	114 104	6.7%	98 073	10.6%
Arts and entertainment	42 638	2.5%	34 582	3.7%
Financial activities	71 690	4.2%	95 697	10.3%
Wholesale and retail trade	80 767	4.8%	24 378	2.6%
Administrative and support service activities	67 064	4.0%	39 808	4.3%
Transportation and storage	15 337	0.9%	11 076	1.2%
Agriculture	59 657	3.5%	20 231	2.2%
Other service activities	7 290	0.4%	25 669	2.8%
Construction	38 951	2.3%	35 808	3.9%
Information and communication	7 017	0.4%	4 115	0.4%
Professional, scientific and technical activities	47 368	2.8%	18 779	2.0%
Education	1 976	0.1%	2 391	0.3%
Other sectors	47 722	2.8%	56 798	6.1%
Total	**1 693 138**	**100%**	**929 037**	**100%**
Impairment	-6 104		-10 276	
Total loan portfolio	**1 687 034**	**100%**	**918 761**	**100%**

NOTE 9 Net Interest Income

Interest income	Q4 2019	12M 2019	Q4 2018	12M 2018
From balances with credit institutions and investment	34	270	38	141
From debt securities	94	356	31	136
Leasing	843	3 253	598	2 439
Leverage loans and lending of securities	173	500	103	456
Consumer loans	2 070	7 240	1 493	5 313
Hire purchase	1 000	3 968	1 029	4 055
Corporate loans	10 821	37 129	7 796	27 701
Credit card loans	209	813	202	770
Mortgage loans	2 493	5 248	585	1 765
Other loans	471	2 637	322	2 846
Total	**18 208**	**61 414**	**12 197**	**45 622**
Interest expense				
Deposits of customers and loans received	-2 083	- 5 579	-595	-1 880
Balances with the central bank	-1 612	-4 264	-678	-3 360
Subordinated liabilities	-1 243	-4 183	-634	-2 231
including loans between related parties	-90	-373	-93	-357
Total	**-4 938**	**-14 026**	**-1 907**	**- 7 471**
Net interest income	**13 270**	**47 388**	**10 290**	**38 151**

Interest income on loans by customer location (interest on bank balances and bonds excluded):	Q4 2019	12M 2019	Q4 2018	12M 2018
Estonia	18 080	60 788	12 128	44 822
Lithuania	0	0	0	523
Total	**18 080**	**60 788**	**12 128**	**45 345**

NOTE 10 Net Fee and Commission Income

Fee and commission income	Q4 2019	12M 2019	Q4 2018	12M 2018
Security brokerage and commissions paid	1 747	3 658	535	3 687
Asset management and similar fees	3 253	15 831	4 231	16 371
Currency exchange fees conversion revenues	438	1 867	528	1 639
Fees from cards and payments	3 670	12 485	2 412	8 766
Other fee and commission income	883	3 185	672	2 381
Total	**9 991**	**37 026**	**8 378**	**32 844**
Fee and commission expense				
Security brokerage and commissions paid	-157	-546	-127	-544
Expenses related to cards	-1 227	-3 979	-854	-2 765
Expenses related to acquiring	-1 060	-3 967	-820	-2 834
Other fee and commission expense	-1 120	-2 857	-484	-1 656
Total	**-3 564**	**-11 349**	**-2 285**	**-7 799**
Net fee and commission income	**6 247**	**25 677**	**6 093**	**25 045**

Fee and commission income by customer location:	Q4 2019	12M 2019	Q4 2018	12M 2018
Estonia	9 991	36 978	8 340	32 677
Luxembourg	0	48	38	167
Total	**9 991**	**37 026**	**8 378**	**32 844**

NOTE 11 Operating Expenses

	Q4 2019	12M 2019	Q4 2018	12M 2018
Wages, salaries and bonuses	4 071	14 883	3 363	12 190
Social security and other taxes*	1 164	4 382	930	3 566
Total personnel expenses	**5 235**	**19 265**	**4 293**	**15 756**
IT expenses	877	2 829	750	2 322
Information services and bank services	245	868	173	625
Marketing expenses	442	2 089	599	2 023
Office expenses	184	633	255	677
Transportation and communication expenses	73	276	66	225
Staff training and business trip expenses	179	690	162	626
Other outsourced services	909	3 324	780	3 136
Other administrative expenses	1 308	3 807	514	2 304
Depreciation of non-current assets	1 634	4 674	773	2 972
Operational lease payments	93	327	281	1 153
Other operating expenses	182	486	126	324
Total other operating expenses	**6 126**	**20 003**	**4 479**	**16 387**
Total operating expenses	**11 361**	**39 268**	**8 772**	**32 143**

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

NOTE 12 Discontinued operations

	Q4 2019	12M 2019	Q4 2018	12M 2018
Other financial income	0	0	0	2 949
Net interest income	0	0	0	1 619
Net fee and commission income	0	0	0	956
Personnel expenses	0	0	0	-535
Operating expenses	0	0	0	-1 131
Impairment losses on loans	0	0	0	-390
Income tax expenses	0	0	0	-144
Net profit from discontinued operations	**0**	**0**	**0**	**3 324**

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

	31.12.2019	31.12.2018
Demand and term deposits with maturity less than 3 months*	38 420	42 796
Statutory reserve capital with the central bank	29 426	14 280
Demand deposit from central bank*	1 206 307	625 582
Total	**1 271 153**	**682 658**
*Cash and cash equivalents in the Statement of Cash Flows	1 244 727	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 5 473 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 31 December 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.

NOTE 14 Deposits of Customers and Loans Received

Deposits/loans by type	Individuals	Financial intermediates	Legal entities	Public sector	31.12.2019
Demand deposits	525 938	376 068	1 267 180	20 293	2 189 479
Term deposits	415 349	0	90 100	3 100	508 549
Loans received	0	0	25 643	0	25 643
Accrued interest liability	2 692	0	196	3	2 891
Total	**943 979**	**376 068**	**1 383 119**	**23 396**	**2 726 562**

Deposits/loans by type	Individuals	Financial intermediates	Legal entities	Public sector	31.12.2018
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
Total	**432 293**	**193 893**	**803 918**	**13 678**	**1 443 782**

LHV Pank signed an unsecured 10-year loan agreement with the European Investment Fund (EIF) in the amount of EUR 12.5 million to increase the borrowing possibilities of small and medium-sized enterprises. As at 31.12.2019, the Bank had utilized 12 250 thousand euros of the loan amount and repaid the principal in the amount of EUR 2 163 thousand euros. From Nordic Investment Bank possible 20 000 thousand euro loan the Bank had utilized 20 000 thousand euros as of 31.12.2019 and repaid the principal in the amount of EUR 4 444 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	31.12.2019	31.12.2018
Trade payables and payables to merchants	5 033	2 153
Other short-term financial liabilities	7 739	1 925
Accrued interest on subordinated loans	444	314
Payments in transit	7 395	16 800
Financial guarantee contracts issued	178	236
Subtotal	**20 789**	**21 428**
Performance guarantee contracts issued	266	243
Tax liabilities	1 230	1 218
Payables to employees	1 705	1 488
Other short-term liabilities	324	276
Subtotal	**3 525**	**3 216**
Total	**24 314**	**24 644**

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

NOTE 16 Contingent Liabilities

Irrevocable transactions	Performance guarantees	Financial guarantees	Letter of credit	Unused loan commitments	Total
Liability in the contractual amount as at 31 December 2019	11 078	14 139	10	359 230	**384 457**
Liability in the contractual amount as at 31 December 2018	11 927	9 314	55	188 841	**210 137**

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.

	Q4 2019	12M 2019	Q4 2018	12M 2018
Total profit (incl. discontinued operations) attributable to owners of the parent (EUR thousand)	5 719	24 797	6 048	25 237
Total profit attributable to owners of the parent from continuing operations (EUR thousand)	5 719	24 797	6 048	21 913
Weighted average number of shares (in thousands of units)	28 454	27 235	26 016	25 892
Basic earnings per share (EUR)	0.20	0.91	0.23	0.97
Basic earnings per share from continuing operations (EUR)	0.20	0.91	0.23	0.84
Basic earnings per share from discontinued operations (EUR)	0.00	0.00	0.00	0.13
Weighted average number of shares used for calculating the diluted earnings per shares (in thousands of units)	29 047	27 828	26 472	26 373
Diluted earnings per share (EUR)	0.20	0.89	0.23	0.96
Diluted earnings per share (EUR) from continuing operations	0.20	0.89	0.23	0.84
Diluted earnings per share (EUR) from discontinued operations	0.00	0.00	0.00	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 31.12.2019 was 241 801 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 minimumcapital (through minimizing risks and high transparency). On the other hand, the Group must strive towards sufficient and conservative capital reserve, which will ensure economic preservation even in the event of severe negative risk scenario;
- The risk appetite set by the Group is an important input to capital management planning and capital goal setting. Higher risk appetite requires marinating higher capital buffer.

Capital base	**31.12.2019**	**31.12.2018**
Paid-in share capital	28 454	26 016
Share premium	70 136	46 653
Reserves	4 713	3 451
Other reserves	212	78
Accumulated loss	69 452	50 193
Intangible assets (subtracted)	-18 319	-19 084
Profit for the reporting period (COREP)	12 186	13 605
Other adjustments	-33	-194
Total Core Tier 1 capital	**166 801**	**120 718**
Additional Tier 1 capital	20 000	0
Total Tier 1 capital	**186 801**	**120 718**
Subordinated liabilities	55 000	50 900
Total Tier 2 capital	**55 000**	**50 900**
Total net own funds	**241 801**	**171 618**

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

NOTE 19 Transactions with related parties

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

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

Transactions	**Q4 2019**	**12M 2019**	**Q4 2018**	**12M 2018**
Interest income	**15**	**65**	**20**	**67**
incl. management	5	33	7	29
incl. shareholders that have significant influence	10	32	13	38
Fee and commission income	**10**	**30**	**7**	**11**
Incl. management	0	0	0	2
incl. shareholders that have significant influence	10	30	7	9
Interest expenses from deposits	**10**	**40**	**13**	**42**
incl. management	0	0	0	2
incl. shareholders that have significant influence	10	10	13	40
Interest expenses from subordinated loans	**90**	**373**	**93**	**357**
incl. management	2	8	2	7
incl. shareholders that have significant influence	88	365	91	350

Balances	31.12.2019	31.12.2018
Loans and receivables as at the year-end	**3 290**	**3 328**
incl. management	2 399	2 079
incl. shareholders that have significant influence	892	1 250
Deposits as at the year-end	**16 063**	**33 509**
incl. management	283	222
incl. shareholders that have significant influence	15 780	33 287
Subordinated loans as at the year-end	**5 054**	**5 904**
incl. management	118	135
incl. shareholders that have significant influence	4 936	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 Q4, salaries and other compensations paid to the management of the parent AS LHV Group and its subsidiaries totalled EUR 291 thousand (Q4 2018: EUR 362 thousand), including all taxes. As at 31.12.2019, remuneration for December and accrued holiday pay in the amount of EUR 73 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 31.12.2019 and 31.12.2018 (pension liabilities, termination benefits, etc.). In Q4 2019, the remuneration paid to the members of the Group's Supervisory Board totalled EUR 27 thousand (Q4 2018: EUR 10 thousand).

Management is related to the share-based compensation plan. In Q4 2019 the share-based compensation to management amounted to EUR 168 thousand (Q4 2018: EUR 141 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

(in thousands of euros)	Tangible assets	Right of use assets	Total tangible assets	Intangible assets	Costs incurred for the acquisition of customer contracts	Total intangible assets
Balance as at 31.12.2017						
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
Carrying amount 31.12.2017	**1 421**	**0**	**1 421**	**4 327**	**10 618**	**14 945**
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	- 1431	-2 462
Assets of discontinued operations	340	0	340	371	0	371
Amortisation of discontinued operations	-168	0	-168	-304	0	-304
Balance as at 31.12.2018						
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
Carrying amount 31.12.2018	**1 135**	**0**	**1 135**	**4 465**	**11 005**	**15 470**

Changes in accounting policies	0	5 676	5 676	0	0	5 676
Purchase of non-current assets	1 336	0	1 336	864	0	864
Disposal of non-current assets	-15	0	-15	0	0	0
Write-off of on-current assets	-338	0	-338	-1 435	0	-1 435
Depreciation/amortisation charge	-562	-899	-1 461	-1 751	- 1461	-3 213
Balance as at 31.12.2019						
Cost	5 112	5 676	10 788	8 352	14 020	22 372
Accumulated depreciation and amortisation	-3 203	-899	-4 102	-4 775	-2 892	-7 667
Carrying amount 31.12.2019	**1 909**	**4 777**	**6 686**	**3 577**	**11 128**	**14 705**

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 31.12.2018		50 900		
Subordinated debt as at 30.06.2019		75 000		
Subordinated debt as at 31.12.2019		75 000		

NOTE 22 Loans and advances to customers

(in thousands of euros)	**31.12.2019**	**31.12.2018**
Loans to legal entities	**795 986**	**714 335**
incl. corporate loans	795 924	624 425
incl. retail loans	40 967	16 200
incl. leasing	66 078	44 277
incl. overdraft	42 801	23 846
incl. leveraged loans	3 148	1 997
incl. hire-purchase	277	249
incl. credit card loans	402	274
incl. credit letters	5 389	3 067
Loans to individuals	**738 152**	**214 702**
incl. hire-purchase	16 133	17 501
incl. mortgage loans	587 855	101 009
incl. consumer loans	49 412	33 989
incl. private loans	44 776	37 884
incl. leasing	23 410	15 888
incl. leveraged loans	2 840	1 733
incl. credit card loans	7 263	6 579
incl. overdraft	34	43
incl. study loan	750	76
incl. real estate leasing	5 679	0
Total	**1 693 138**	**929 037**
Impairment provisions	-6 104	-10 276
Total	**1 687 034**	**918 761**

Changes in impairments in 12M 2019	Corporate loans incl. overdraft	Retail loans	Consumer loans	Credit cards	Hire-purchase	Leasing	Leveraged loans	Other loans incl. mortgage	Credit letters	Total
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	3 261	-11	-746	-98	-234	-233	-4	-834	100	1 201
Written off during the reporting period	1 824	42	690	72	262	61	1	19	0	2 971
Balance as at December 31 2019	**-3 666**	**-153**	**-624**	**-53**	**-112**	**-639**	**-6**	**-851**	**0**	**-6 104**

Shareholders of AS LHV Group

AS LHV Group has a total of 28 454 079 ordinary shares, with a nominal value of 1 euro.

As at 31 December 2019, AS LHV Group has 6 950 shareholders:

- 13 942 232 shares (49%) were held by members of the Supervisory Board and Management Board, and related parties.
- 14 511 847 shares (51%) were held by Estonian entrepreneurs and investors, and related parties.

Top ten shareholders as at 31 December 2019:

Number of	Participation	Name of shareholder
3 618 920	12.7%	AS Lõhmus Holdings
2 538 367	8.9%	Rain Lõhmus
2 186 432	7.7%	Viisemann Investments AG
1 728 589	6.1%	Ambient Sound Investments OÜ
1 210 215	4.3%	OÜ Krenno
1 082 744	3.8%	AS Genteel
1 031 310	3.6%	AS Amalfi
782 488	2.8%	OÜ Kristobal
688 199	2.4%	SIA Krugmans
638 276	2.2%	OÜ Bonaares

Shares held by members of the Management Board and Supervisory Board

Madis Toomsalu holds 34 940 shares.
Rain Lõhmus holds 2 538 367 shares, AS Lõhmus Holdings 3 618 920 shares and OÜ Merona Systems 581 718 shares.
Andres Viisemann holds 18 082 shares. Viisemann Holdings OÜ holds 570 000 shares and Viisemann Investment AG holds 2 186 432 shares.
Tauno Tats does not hold shares. Ambient Sound Investments OÜ holds 1 728 589 shares.
Tiina Mõis does not hold shares. AS Genteel holds 1 082 744 shares.
Heldur Meerits does not hold shares. AS Amalfi holds 1 031 310 shares.
Raivo Hein does not hold shares. OÜ Kakssada Kakskümmend Volti holds 501 709 shares, Astrum OÜ holds 271 shares, Lame Maakera OÜ holds 13 976 shares, Kuu on Päike OÜ holds 7 130, Higgsi Boson OÜ holds 2 260 shares, Kõver Aegruum holds 3 100 shares and Desoksüribonukleiinhape DNA OÜ holds 6 840 shares.
Sten Tamkivi holds 391 shares. OÜ Seikatsu holds 15 143 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, Joel Kukemelk
AS LHV Pank
Supervisory board: Raivo Hein, Rain Lõhmus, Heldur Meerits, Tiina Mõis, Madis Toomsalu, Andres Viisemann
Management board: Jüri Heero, Erki Kilu, Andres Kitter, Meelis Paakspuu, Indrek Nuume, Martti Singi, 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 December 2019 period the condensed consolidated interim financial statements of AS LHV Group for the 12-month period ended 31 December 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".

04.02.2020

Madis Toomsalu