Interim Report January – June 2020 Summary of Results

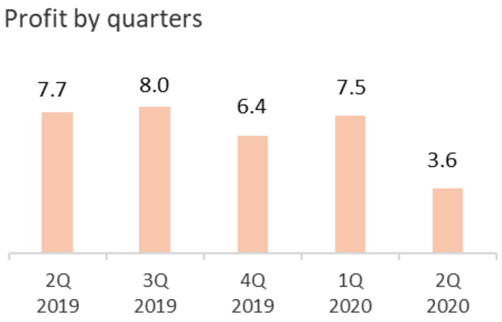
Q2 2020 in comparison with Q1 2020

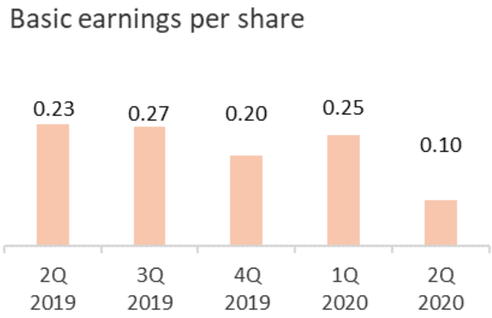
- Net profit EUR 3.6 m (EUR 7.5 m), of which EUR 2.9 m (EUR 7.1 m) is attributable to owners of the parent
- Earnings per share EUR 0.10 (EUR 0.25)
- Net income EUR 22.1 m (EUR 22.4 m)
- Operating expenses EUR 10.7 m (EUR 11.2 m)
- Loan provisions EUR 7.7 m (EUR 1.01 m)
- Income tax expenses EUR 0.16 m (EUR 2.81 m)
- Return on equity 5.7% (14.0%)
- Capital adequacy 18.6% (18.0%)

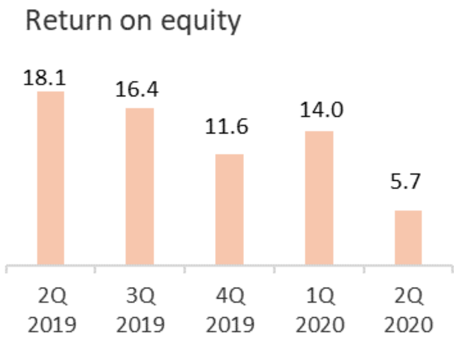
Q2 2020 in comparison with Q2 2019

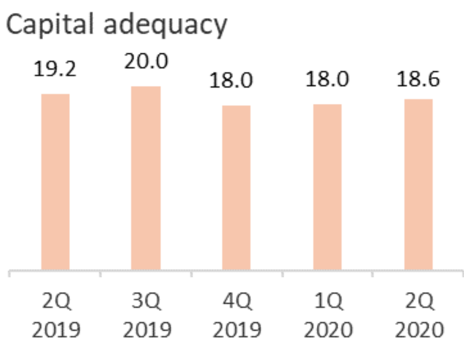
- Net profit EUR 3.6 m (EUR 7.7 m), of which EUR 2.9 m (EUR 7.1 m) is attributable to owners of the parent
- Earnings per share EUR 0.10 (EUR 0.27)
- Net income EUR 22.1 m (EUR 18.4 m)
- Operating expenses EUR 10.7 m (EUR 9.4 m)
- Loan provisions EUR 7.7 m (EUR 0.7 m)
- Income tax expenses EUR 0.16 m (EUR 0.7 m)
- Return on equity 5.7% (18.1%)
- Capital adequacy 18.6% (19.2%)

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,

The health and economic crisis of varying severity in different parts of the world is a good reminder that the globally intertwined economic system can be overwhelmed by seemingly negligible factors. The Estonian economy is expected to shrink by nearly 10% by the end of the year. For a number of companies, the actual sustainability cannot be discerned until spring, when Estonian banks will review their decisions regarding the grant of grace periods to loans totalling billions of euros. Nonetheless, we always have the opportunity to shape the end result. Above all, it is the pursuit of a long-term vision that counts, rather than suspension of operations, giving in to anxiety. LHV is making an effort to serve as a role model for this rationale.

While keeping a keen eye on the impact of the economic decline, we have been governed by our long-term growth ambitions, even during the crisis. Considering the circumstances, we reckon Q2 to be a strong quarter. Even though the growth in business volumes remained moderate and loan losses were higher, as was expected, the acquisition of the Danske corporate and local government portfolio, the successful issue of covered bonds, engagement of capital, submission of the application for authorisation of LHV Insurance, facilitation of USD payments and introduction of the green LHV action plan constitute activities which are bound to take us beyond the horizon in a profitable and sustainable manner. This is also evident in the growth in our customer base, with an impressive 8,000 new bank customers added during the quarter.

We have continued pursuing our open and local credit policy, reviewing all loan applications on a customer-by-customer basis. Our loan portfolio has therefore continued to grow, by EUR 65 million in Q2. At the same time, we have granted grace periods to our existing customers in the total amount of EUR 350 million. The grace periods will expire between September 2020 and April 2021. Predominantly, the grace periods have been used as a precautionary measure for ensuring liquidity. We therefore expect the scheduled repayments to resume after expiry of the grace periods.

To secure a growth in business volumes, we announced our intention to purchase the Danske corporate loan and public sector loan portfolio. Even though negotiations were delayed by the emergency situation, we reached an agreement on favourable terms in May. As at the moment of the conclusion of the contract, the portfolio amounts to EUR 312 million. The portfolio volume will somewhat decrease by October, when the transaction is scheduled to be completed. Nonetheless, the agreed discount of EUR 19 million will be retained. Thus, the proportion of the discount against the total portfolio volume is bound to rise. 54% of the portfolio consists of local governments' loans, 42% of corporate loans, 3% of apartment associations' loans and 1% of non-profit associations' loans. The permission of the Competition Authority is required for the completion of the transaction. In addition to the discount, we have the option of pledging the local governments' loans to the Bank of Estonia against a negative-interest-rate loan of -1%. This will render the entire transaction even more attractive for LHV.

The Danske transaction was immediately preceded by LHV's first issue of covered bonds in the amount of EUR 250 million, for a period of 5 years and at an annual interest rate of 0.12%. This was a massive project which took a long time to complete and involved drafting of documents, development of information systems, auditing of bonds, negotiations with investors and, finally, the listing of the bonds on the Dublin stock exchange. 31 institutional investors from 13 European countries participated in the issue. The interest was greatest among central banks and supranational investors, as well as German and Scandinavian institutional investors. The covered bonds received a rating of Aa1. Covered bonds provide alternative means for engaging financing alongside deposits and deposit platforms, and a good tool for ensuring the bank's quick growth and efficiency in interest expenses.

Prior to the issue of covered bonds, we engaged a further EUR 15 million from investors via bonds included in own funds. Additional capital engagements of the year will depend on the rate of growth of the loan portfolio and the need for further write-down of loans. The decisions regarding capital engagements must be made within the next few months.

We also filed the application for authorisation of LHV Insurance with the Financial Supervision Authority during the quarter. We look forward to receiving the reply by the end of the year. We also resumed the provision of USD payments to our customers. We have partnered with Citi for the processing of USD payments. The recognition of LHV as a strong organisation after a comprehensive background study and audit by a leading financial institution in the United States is especially significant, considering that correspondent services have plummeted in recent years, due to the negative dynamics affecting the banking market.

While Q1 was characterised by a sharp drop in stock markets, the markets showed a strong recovery in Q2. All pension funds managed by LHV Asset Management showed a positive yield in Q2, while the funds with the greatest stock market risk also generated the highest yield. The quarter was characterised, above all, by active monitoring and management of investments made hitherto. With regard to real assets and transactions, the local market seems to have taken a standby mode - transactions are few, prices stand still.

We disclosed LHV's green projects and activities in the middle of May. All of our actions have now been mapped and specified on the lhv.ee/roheline website. We have joined the United Nations' Principles for Responsible Banking and support Estonia's targets for climate-neutral economy. We have set our sights on ensuring climate-neutrality of LHV's offices by 2022, and have launched green loans and green pension fund on the market. To pursue wider goals, we have joined the Green Tiger project and we are leading the sustainability working party of the Estonian Banking Association. We are also supporting Finance Estonia in organising a conference focusing on these matters.

We disclosed our revised financial plan in April. Compared to the plan disclosed in February, we curtailed the growth in business volumes and significantly raised the volume of write-downs, consequently scaling down our profit forecast. It is quite obvious that extraordinary times are setting limitations to our foresight. We have written down EUR 7.7 million worth of loans in Q2 and have reckoned with the possibility that the quality of the credit portfolio, the strength of which is currently maintained by grace periods, is liable to drop at the end of the grace periods. Nonetheless, the revised financial plan has not considered the impact of the portfolio purchased from Danske, as the transaction was concluded after disclosure of the plan. On a positive note, a month-by-month breakdown of Q2 reveals that customer activity has already risen significantly in June, with the trends improving.

LHV is used to navigating storms. The company was established as an investment firm in 1999, on a market with an average wage of EUR 200. We built our pension funds from scratch in 2002. Without strong original brands, we have grown to become the second largest pension fund manager. LHV Bank was launched in 2009, at the height of the global financial crisis. By today, we rank third among universal banks in Estonia. We entered United Kingdom despite Brexit, with the profit generated in the business area representing the best possible justification for the decisions taken. When it comes to change, it is the speed of adaptation that counts. We expect to also do well this time around.

Madis Toomsalu

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Financial Summary

The consolidated profit posted by the Group in Q2 of 2020 in the amount of EUR 3.6 million constitutes a EUR 3.9 million decrease, compared to Q1 of 2020, and a EUR 4.1 million decrease, compared to Q2 of 2019. The key factor behind the decrease in profit was the write-down of loans in the amount of EUR 7.7 million during the quarter. The profit attributable to the Group's shareholders in Q2 of 2020 shrank by EUR 4.1 million, compared to last year.

The return on equity attributable to LHV's shareholders amounted to 5.7% in Q2 of 2020, shrinking by 8.3 percentage points, compared to Q1 of 2020 (14.0%).

The Group's consolidated net loan portfolio grew by EUR 65 million during the quarter (EUR 52 million in Q1 of 2020), while consolidated deposits grew by EUR 134 million (a growth of EUR 252 million in Q1 of 2020). Deposits of financial intermediaries grew by EUR 34 million (EUR 129 million increase in Q1 of 2020).

The group met all the targets set in the financial plan published in April. Customer deposits exceed the plan by 137 million euros, the loan portfolio by 19 million euros and the profit by 3.2 million euros. The group is confident that it will comply with the financial plan announced in April.

The Group's own funds increased by EUR 16.6 million, compared to the previous quarter, and risk-weighted assets by EUR 43.5 million, with the Tier 1 and total capital adequacy ratio somewhat rising to a level of 14.8% and 18.6%, respectively. The increase in own funds was conditioned by the incorporation of the profit for Q1 of 2020 and the issue of new AT1 bonds in the Group's own funds.

The bank's consolidated profit for Q2 amounted to EUR 2.8 million, i.e. a EUR 5.3 million decrease from the previous quarter (EUR 8.1 million in Q1 of 2020). Customer numbers grew by nearly 8,000 (14,400 in Q1 of 2020), with the total number of customers amounting to more than 224,600.

The bank's loan portfolio grew by EUR 65 million in Q2 (EUR 52 million in Q1 of 2020), amounting to EUR 1 804 million. Business loans and home loans showed the biggest growth among loan portfolios. Loan losses amounted to EUR 7.7 million in Q2, i.e. EUR 6.7 million more than in Q1.

The bank's customer deposits grew by EUR 146 million in Q2, with the deposits of financial intermediaries increasing by EUR 34 million and deposits of other customers by EUR 111 million. The total volume of deposits amounted to EUR 3 104 million as at the end of Q2.

LHV Pank exceeds the net profit of the current financial plan by 2.9 million euros. EUR 2.0 million of this success comes from lower credit impairements, but in addition EUR 1.0 million higher profit before credt impairements. The bank will continue its cost-effective approach in 2020.

The quality of the loan portfolio has been negatively affected by the proliferation of COVID-19 and the imposition of emergency situations around the world. Realization of credit losses will take place over a longer period of time and can be significantly reduced through the implementation of various mitigation measures by customers by the state or the bank itself. At the end of June, the share of overdue loans was very small, which is why the write-downs so far have been model-based and forward-looking, not customer-specific. Credit impairements will remain the most difficult to predict in the income statement in 2020.

Asset Management posted a profit of EUR 1.0 million in Q2 (EUR -0.6 million in Q1 of 2020). Asset Management's net fee and commission income decreased by EUR 0.1 million, compared to the previous quarter, amounting to EUR 2.1 million. Asset Management's operating expenses remained on par with the previous quarter.

The total volume of funds managed by LHV grew by EUR 96 million during the quarter (a decrease of EUR 30 million in Q1 of 2020). The number of active second-pillar customers grew by 1,219 during the quarter (a growth of 1,168 in Q1 of 2020).

Asset management outperforms the current financial forecast by 0.3 million euros in terms of profit and 53 million euros in terms of the total volume of funds.

Business volumes EUR million	**Q2 2020**	**Q1 2020**	**Quarter over quarter**	**Q2 2019**	**Year over year**
Loan portfolio	1 804.0	1 738.9	4%	1 117.9	61%
Financial investments	423.1	231.3	83%	119.5	254%
Deposits of customers	3 086.9	2 953.4	5%	2 083.4	48%

incl. deposits of financial intermediates	539.8	505.4	7%	235,1	130%
Equity (including minority interest)	213.3	207.2	3%	164.5	30%
Equity (owners' share)	208.1	203.0	3%	160.7	29%
Volume of funds managed	1 440.0	1 344.2	7%	1 293.4	11%
Assets managed by bank	1 486.6	1 232.1	21%	1 161.7	28%

Income statement EUR million	**Q2 2020**	**Q1 2020**	**Quarter over quarter**	**Q2 2019**	**Year over year**	**6M 2020**	**6M 2019**	**Year over year**
Net interest income	15.55	16.32	-5%	11.63	34%	31.87	22.58	41%
Net fee and commission income	6.19	6.51	-5%	6.61	-6%	12.70	12.84	-1%
Other financial income	0.32	-0.39	NA	0.20	60%	-0.07	0.38	NA
Total net operating income	22.06	22.44	-2%	18.44	20%	44.50	35.80	24%
Other income	-0.02	0.04	NA	0.02	-200%	0.02	0.00	NA
Operating expenses	-10.66	-11.18	-5%	-9.40	13%	-21.84	-18.51	18%
Loan losses	-7.67	-1.01	659%	-0.70	996%	-8.68	-1.65	426%
Income tax expenses	-0.16	-2.81	-94%	-0.70	-77%	-2.97	-2.97	0%
Net profit	3.55	7.48	-53%	7.66	-54%	11.03	12.67	-13%
Including attributable to owners of the parent	2.94	7.08	-58%	7.10	-59%	10.02	11.79	-15%

Ratios EUR million	**Q2 2020**	**Q1 2020**	**Quarter over quarter**	**Q2 2019**	**Year over year**	**6M 2020**	**6M 2019**	**Year over year**
Average equity (attributable to owners of the parent)	205.5	201.9	3.6	157.0	48.5	209.7	157.2	52.5
Return on equity (ROE), %	5.7	14.0	-8.3	18.1	-12.4	9.8	15.0	-5.2
Return on assets (ROA), %	0.4	1.0	-0.6	1.5	-1.1	0.7	1.25	-0.55
Interest-bearing assets, average	3 458.2	3 121.1	337.1	2 059.8	1 398.4	3 330.0	1 993.0	1 337.0
Net interest margin (NIM) %	1.80	2.09	-0.29	2.26	-0.46	2.10	2.23	-0.13
Price spread (SPREAD) %	1.80	2.05	-0.25	2.22	-0.42	1.90	2.23	-0.33
Cost/income ratio %	49.7	49.7	0.0	50.1	-0.40	49.0	51.7	-2.7
Profit attributable to owners before income tax	3.06	9.60	6.54	7.8	-4.74	12.7	14.5	-1.8

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

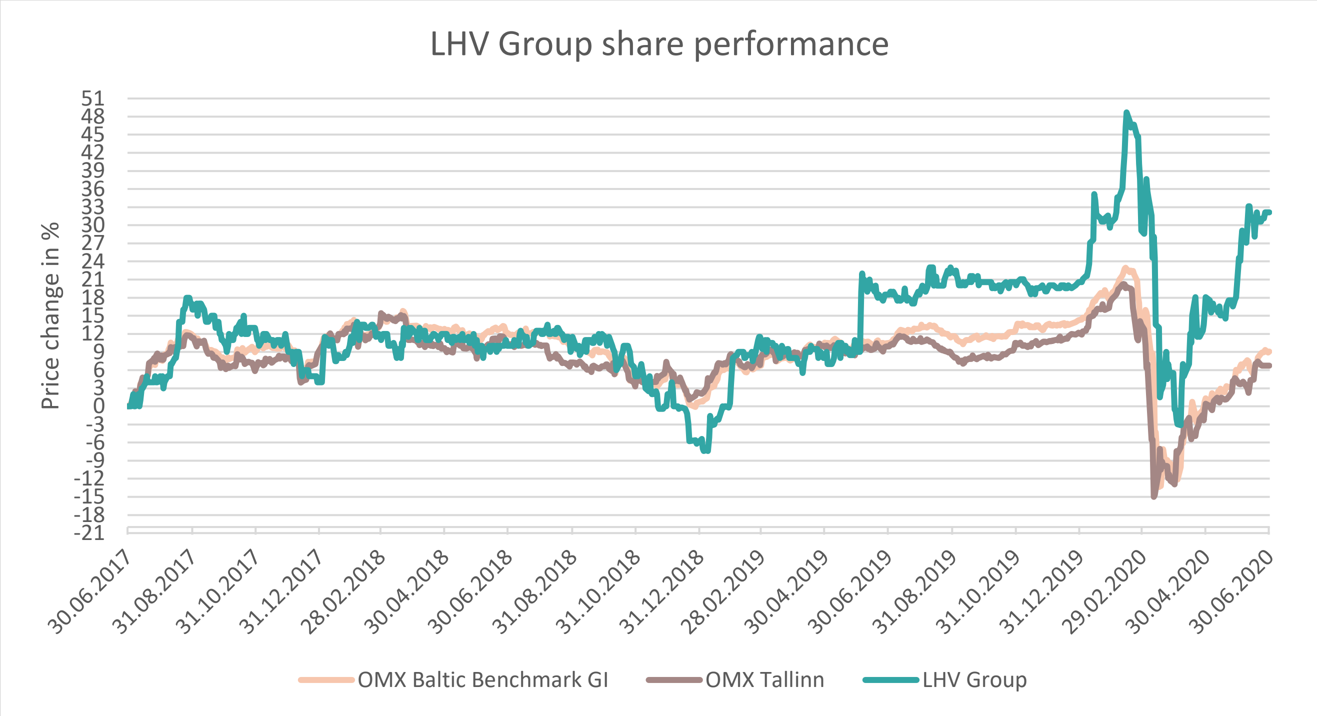
Net interest margin (NIM) = net interest income / interest-bearing assets, average * 100

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



There is only one class of shares issued by LHV, each share gives 1 voting right. The shares of LHV Group is traded on NASDAQ Tallinn main list since May 2016. Graph below presents LHV Group share performance against OMX Tallinn index and OMX Baltics banchmark index. LHV Group share has outperformed both indexes and has raised 32%, when comparison indexes have increased by 6 and 9% respectively. LHV Group share price has been 13.15 euros in the end of Q2 and based on the stock price, LHV's market value was EUR 379 million.

Operating Environment

In the first quarter of the year, the global economy changed beyond recognition. Against the outbreak of the coronavirus, countries around the world restricted movement and entrepreneurship, with a bulk of the daily economy halted. The gross product of G20 countries dropped by an unprecedented 3.4 % in Q1, compared to the previous period (-1.5 % a/a)1. It is now evident that Q2 will see an even sharper drop, with restrictions reaching their apex in developed nations in April and May.

In the European Union, Italy and France suffered the hardest blow in Q1 (approximately -5 %), with Spain doing not much better (approximately -4 %)2. Estonia's key trade partners did quite well in the initial stages of the crisis, with Lithuania and Sweden even succeeding in showing some growth. Still, comparative analysis of the countries in Q1 is quite futile, as much depended on when the virus spread within the country and how the government responded thereto. In Italy, some regions were shut down already at the beginning of March, while a majority of Estonian companies could do business for a further few weeks. Obviously, the tourism and transport sector felt the impact of the pandemic early on.

Price increase, which remained at a relatively stable level of 1.2-1.4 % in the euro area in the first months of the year, stagnated after the outbreak. Energy price depression was the greatest contributor to the deceleration. The price of oil collapsed on the global market in April, with the United States even forced, at one point, to pay buyers in order to terminate oil futures. In Europe, prices remained positive. Nonetheless, the Brent barrel price has dropped since March, being a third to a half lower than in the same period last year. While the initial drop in the price of oil was triggered by Russia and OPEC who failed to agree on production cuts, the demand for oil essentially ceased during the pandemic. The barrel price stood at 40$ in June and is expected to remain at this level for a longer period of time.

Unemployment rates dropped in the entire euro area throughout the previous year, standing at 7.1 % in March, but retreating by dozens of base points over the next months. Monthly statistics reveal that almost half a million people have lost their jobs in Europe over a period of two months (April-May). Similarly to Estonia, unemployment is expected to grow in the upcoming months, against termination of the remuneration compensation measures of national governments.

In March, the European Central Bank took aggressive steps to mitigate the impact of the pandemic, designing new targeted refinancing operations (TLTRO) to offer liquidity to banks, easing collateral requirements and lowering the interest rates of loans issued within the TLTRO framework. Furthermore, the ongoing asset purchase programme was expanded by 120 billion euros for the year, while a new, 750-billion-euro Pandemic Emergency Purchase Programme (PEPP) was announced to mitigate the impact of the pandemic.

In June, the central bank specified the time scale for the PEPP asset purchase programme. Purchasing will continue at least until the end of June of 2021, while reinvesting of the principal repayments of matured securities will continue at least until the end of 2022. With the pandemic having a devastating impact on inflation in the euro area, restricting financing conditions, the PEPP volume was enhanced by 600 billion euros to 1.5 trillion euros. The key interest rates have remained unchanged, partially replaced by the lowering of the interest rates of TLTRO loans.

With the outbreak of the virus, banks became more risk averse and started showing more appreciation to availability of liquidity. The Euribor rate thus rose threefold within a month, from -0.45 % to -0.15 %. Against the backdrop of central banks and governments consistently communicating the message of stimulus packages, the Euribor rate has gradually retreated to -0.4 %, which can be deemed an optimal level, considering the key interest rates of the central bank. In light of the events of recent months, the time scale for the recovery from negative interest rates is becoming increasingly obscured and has been moved even further back into the future.

In Estonia, the economy shrank by 0.7 % in Q1. The decrease in the gross product had a major impact on the collection of tax revenue. The collection of excise duties decreased by 40 % and the collection of value added tax by 9 %. The decrease in the collection of tax revenue can partially be attributed to the measures effected for controlling the pandemic (especially with regard to value added tax), but the predominant reason lies in the fuel stocking of the previous quarter and the consequent shifting of the excise duty between quarters. Net product taxes decreased by a total of 19 %, triggering a drop in GDP.

The added value generated by companies increased by 2 % in Q1, continuing the deceleration trend of the previous year. The growth in added value can be attributed to the ICT and construction sectors, which showed a growth of 25 % and 16 %, respectively. With the winter being so mild and competitiveness decreasing, the added value of the energy sector dropped by 25 %, negatively affected by the processing industry which showed obvious signs of cooling already in the second half of 2019. Export dropped by 2.6 % in Q1, with an even greater drop

[1] OECD. https://www.oecd.org/economy/g20-gdp-growth-first-quarter-2020-oecd.htm

[2] Quarterly National Accounts. Eurostat. https://ec.europa.eu/eurostat/data/database

evident in the volume of purchased goods and services. All in all, net export contributed positively to the growth in GDP.

With a few exceptions, industrial output has continued to decrease for nearly a year now. While the energy sector has had the greatest negative impact on the annual output volume thus far, the processing industry is now also showing signs of obvious damage by the emergency situation. Consequently, export volumes have decreased over the last months, and are expected to take some time to recover. The situation in domestic consumption is better - even though retail sales decreased by 15 % in April, people found their way back into departments stores when they finally reopened, with revenues bouncing back to last year's levels.

Price increase decelerated in Q1, year-over-year, and was reversed in April. The decrease gained momentum in May, with the price index retreating by 1.7 %, year-over-year. In Estonia, consumer prices have dropped more than average in Europe in the last few months. On the one hand, this can be attributed to the fact that fuel prices have a greater impact on the Estonian CPI than at average in Europe. Nonetheless, the government's role in cutting various excise duties cannot be neglected.

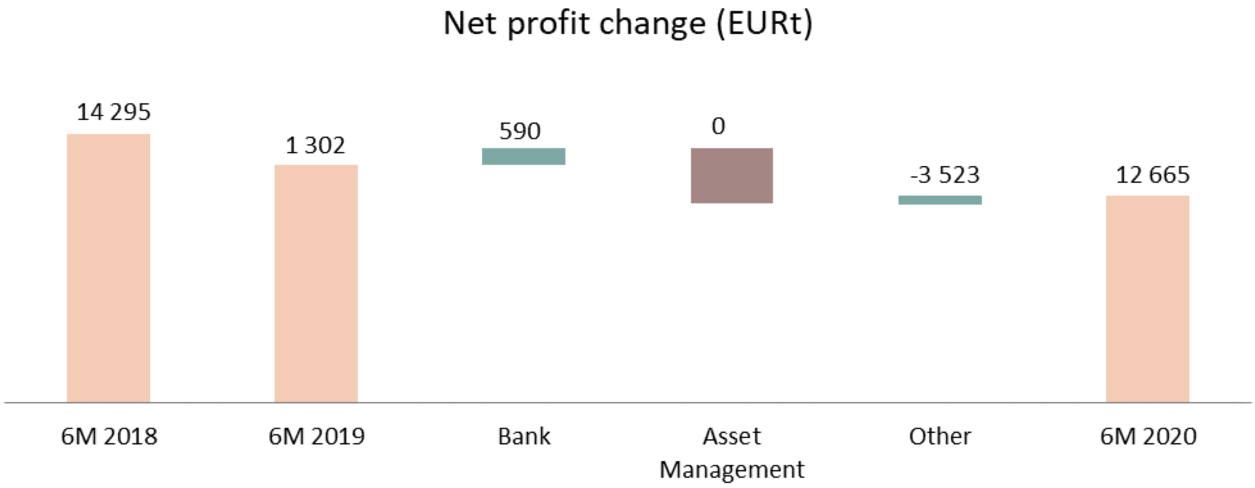
In foresight, the economic decline for the year can be estimated at around 7-10%. There is still a lot of uncertainty within the forecasts, as no-one is able to predict the virus dynamics in the autumn. The tourism and transport sectors can be expected to suffer the most, with their business models focusing on the movement of people. In the processing industry, a lot will depend on the recovery of confidence and demand by Estonia's trade partners, with a bulk of the sector's output exported. The construction and real estate sectors are considerably better off, compared to the financial crisis ten years ago, with the pre-crisis dynamics being much more balanced this time around. Despite the number of real estate transactions clearly dropping in the last few months, the price level has showed no indication of decline. Even though we cannot rule out the possibility of a decline in real estate prices as the year advances, any such decline can be expected to remain much more limited than during the previous crisis.

Financial Results of the Group

Compared to Q1, the Group's net interest income decreased in Q2 2020 by 5%, standing at EUR 15.6 (Q1: 16.3) million. This decrease was mainly due to higher interest expenses, as due to the crisis Group could not be sure that the debut issue of mortgage bonds would be successful, and therefore we extended expensive platform deposits for a short time before issuing the planned covered bonds. In the coming months, the volume of platform deposits will decrease significantly.

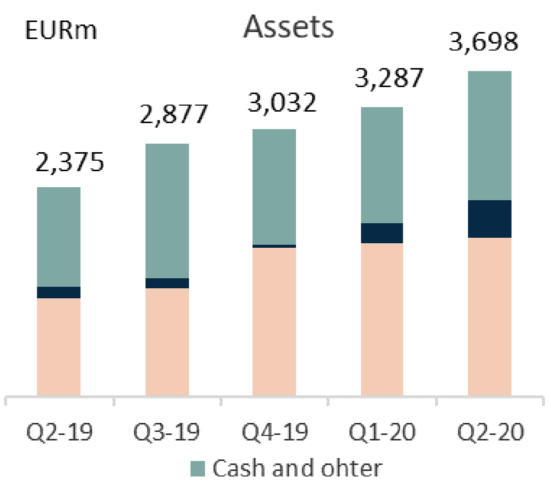
Net fee and commission income decreased in Q2 by 5% and stood at EUR 6.2 (Q1: 6.5) million. In total, the net income of the Group decreased by 2% in Q2, compared to Q1, amounting to EUR 22.1 (Q1: 22.4) million, with expenses decreasing 5% and amounting to EUR 10.7 (Q1: 11.2) million. The Group's operating profit for Q2 amounted to EUR 3.7 (Q1: 10.3) million. The loss from loan impairments mounted to EUR 7.7 million in Q2 (Q1: 1.01). The Group's total profit for Q2 amounted to EUR 3.6 million (Q1: 7.5). Compared to Q2 2019, the Group's net interest income increased by 34% and net fee and commission income decreased by 6%.

In terms of business entities, AS LHV Pank posted in Q2 a consolidated profit of EUR 2.8 million and AS LHV Varahaldus a profit of EUR 0.99 million. LHV Kindlustus posted a loss of EUR 0.09 million. The AS LHV Group on solo bases posted a loss of EUR 0.15 million.



The Group's volume of deposits as at the end of Q2 amounted to EUR 3 087 (Q1: 2 953) million, of which demand deposits formed EUR 2 512 (Q1: 2 358) million and term deposits EUR 575 (Q1: 595) million.

As at the end of Q2, the volume of loans granted by the Group amounted to EUR 1 804 (Q1: 1 739) million, increasing in Q2 by 4%. Compared to Q2 2019, the volume of the Group's deposits has increased by 48% and the volume of loans by 61%.



The Group's Liquidity, Capitalisation and Asset Quality

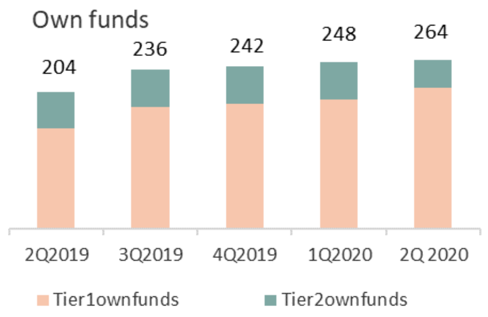
As at 30 June 2020, the Group's own funds stood at EUR 264.2 million (31 December 2019: EUR 241.8 million). LHV Group own funds are calculated based on regulative requirements. In Q2 the level of own funds changed by including the Q1 profit to own funds and a EUR 15 million subordinated bond issue in May.

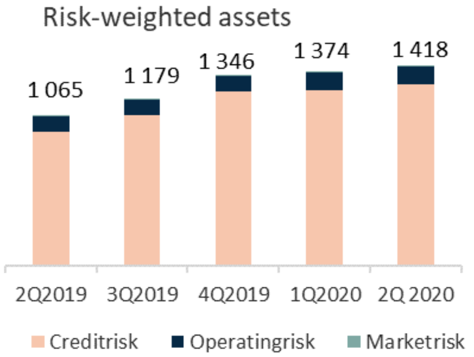
Compared to Group's internal capital adequacy ratio target 16.0%, the Group is well capitalised as at the end of the reporting period, with the capital adequacy ratio amounting to 18.0% (31 December 2019: 18.0%). In addition to total capital adequacy targets the Group has also set internal targets for the core Tier 1 capital adequacy ratio to 10.63% and Tier 1 capital adequacy ratio to 12.46%.

The minimum requirement for own funds and eligible liabilities (MREL) is valid from 1st of January 2018. This ratio is included into resolution plan and LHV has to keep enough own funds and qualifying liabilities which can be used to cover losses in resolution planning. Minimum requirement was set at 5.79% and will be reviewed annually by Estonian Financial Supervision Authority. Group has set internal MREL minimal target at 6.08%. As of June 30 the MREL ratio was 8,42% (31st of December 2019 8.94%). 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 179.9 % as at the end of June (31 December 2019: 144.8%). Banks liquidity situation changed in Q2 due to issuing covered bonds. LHV increased the volume of liquid assets in order to be better prepared for a possible increase in volatility in the conditions of the crisis and partially prefinancing the purchase of the Danske portfolio in October 2020. Financial intermediates deposits in Bank are covered 100% with liquid assets. Excluding the financial intermediates deposits the Groups LCR is 320.1% (31.12.2019: 223.7%). The Group recognises cash and bond portfolios as liquidity buffers. These accounted for 50% of the balance sheet (31 December 2019: 43%). The ratio of loans to deposits stood at 54% as at the end of the first quarter (31 December 2019: 62%). Group's maturity structure is presented in Note 5.

The Group's credit quality was good. As at the end of June, provisions for estimated loan losses amounted to EUR 14.6 million in the balance sheet, i.e. approximately 0.8% of the loan portfolio (31 December 2019: EUR 6.1 million, 0.4%). Estimated loan losses make up 471.2% (31 December 2019: 149.8%) of the portfolio of loans overdue for more than 90 days.





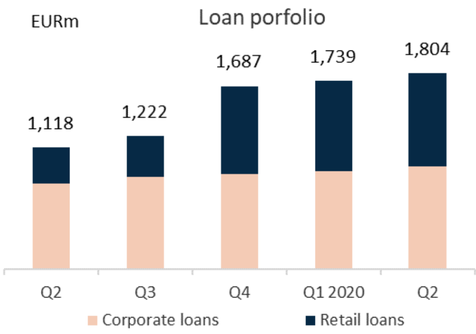
EUR thousand	30.06.2020	Proportion	31.12.2019	Proportion
Loans to customers	1 818 644		1 693 138	
including overdue loans:	30 165	1.7%	39 145	2.3%
1-30 days	23 320	1.3%	26 273	1.6%
31-60 days	2 923	0.2%	7 142	0.4%
61-90 days	822	0.0%	1 655	0.1%
91 and more days	3 100	0.2%	4 074	0.2%
Impairment of loans	-14 608	-0.8%	-6 104	-0.4%
Impairment % of loans overdue for more than 90 days	471.2%		149.8%	

Capital base	30.06.2020	31.12.2019	31.12.2018
Paid-in share capital	28 819	28 454	26 016
Share premium	71 468	70 136	46 653
Statutory reserves transferred from net profit	212	4 713	3 451
Other reserves	4 713	212	78
Retained earnings	90 434	69 452	50 193
Intangible assets (subtracted)	-17 996	-18 319	-19 084
Net profit for the reporting period (COREP)	4 607	12 186	13 605
Other adjustments	-8 054	-33	-194
Tier 1 capital	**174 203**	**166 801**	**120 718**
Additional Tier 1 capital	35 000	20 000	0
Total Tier 1 capital	**209 203**	**186 801**	**120 718**
Subordinated debt	55 000	55 000	50 900
Total Tier 2 capital	**55 000**	**55 000**	**50 900**
Net own funds for capital adequacy	**264 203**	**241 801**	**171 618**
Capital requirements			
Central governments and central bank under standard method	363	920	938
Credit institutions and investment companies under standard method	4 449	4 183	5 376
Companies under standard method	849 889	818 918	579 836
Retail claims under standard method	172 034	167 276	133 250
Public sector under standard method	2 646	2	125
Housing real estate under standard method	222 818	208 693	39 903
Overdue claims under standard methods	8 788	5 242	10 142
Investment funds' shares under standard method	8 768	8 052	7 963
Other assets under standard method	17 222	17 875	10 557
Total capital requirements for covering the credit risk and counterparty credit risk	**1 286 977**	**1 231 161**	**788 090**
Capital requirement against foreign currency risk under standard method	4 459	4 211	3 957
Capital requirement against interest position risk under standard method	0	0	32
Capital requirement against equity portfolio risks under standard method	1 678	959	704
Capital requirement against credit valuation adjustment risks under standard method	118	22	41
Capital requirement for operational risk under base method	124 638	109 546	91 575
Total capital requirements for adequacy calculation	**1 417 870**	**1 345 899**	**884 399**

Capital adequacy (%)	**18.63**	**17.97**	**19.41**
Tier 1 capital ratio (%)	**14.75**	**13.88**	**13.65**
Core Tier 1 capital ratio (%)	**12.29**	**12.39**	**13.65**

Overview of AS LHV Pank Consolidation Group

- (Net) growth in loan volume EUR 65 million
- Net profit EUR 2.8 million
- (Net) growth in deposits EUR 136 million



EUR million	Q2 2020	Q1 2020	Change %	Q1 2019	Change %	From the beginning of 2020	From the beginning of 2019	Change %
Net interest income	15.54	16.25	-4%	11.84	31%	31.79	23.08	38%
Net fee and commission income	4.09	4.33	-6%	3.01	36%	8.42	5.71	47%
Other financial income	-0.19	-0.09	111%	0.13	-247%	-0.28	0.12	NA
Total net operating income	19.44	20.49	-5%	14.98	30%	39.93	28.91	38%
Other income	0.01	0.06	-90%	0.05	-88%	0.08	0.04	100%
Operating expenses	-8.81	-9.43	-7%	-7.74	14%	-18.24	-15.25	20%
Loan losses	-7.67	-1.01	660%	-0.70	999%	-8.68	-1.65	427%
Income tax expenses	-0.16	-1.97	-92%	-0.70	-78%	-2.13	-1.99	7%
Net profit	2.81	8.14	-66%	5.89	-52%	10.96	10.06	9%
Loan portfolio	1 804	1 739	4%	1 118	61%			
Financial investments	414	223	86%	112	271%			
Deposits of customers	3 104	2 958	5%	2 090	48%			
incl. deposits of financial intermediates	540	505	7%	235	130%			
Subordinated liabilities	76	71	7%	64	19%			
Equity	184	181	2%	143	29%			

Q2 was successful in terms of business volumes. LHV Bank generated EUR 15.5 million in net interest income and EUR 4.1 million in net fee and commission income. In total, the bank's net income amounted to EUR 19.8 million, expenditure to EUR 8.8 million and loan provisions to EUR 7.7 million of which more than two-thirds are forward looking model-based macro indicators provision. The net profit of LHV Pank amounted to EUR 2.8 million in Q2. This constitutes a 66% decrease from Q1 (8.1) and a 52% decrease from Q2 2019 (5.9). Net interest income decreased 4% compared to previous quarter. Net fee and commission income decreased 6% compared to Q1. Net operating income decreased by 5% compared to previous quarter. In Q2 other financial expenses amounted to EUR 0.2 million (Q1: 0.09 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 2.96 million and net profit EUR 2.8 million. As at the end of the quarter, the net profit exceeded the financial plan by EUR 3.2 million.

The increase in net interest income stems from the growth in business volumes. By the end of Q1, the total volume of the bank's loan portfolios amounted to EUR 1 804 million (Q1: EUR 1 739 million). The volume of portfolios grew 4% over the quarter.

The corporate credit portfolio that contains loans and guarantees grew by EUR 158.4 million on an annualised basis (+19%) and EUR 49.4 million on a quarterly basis (+5%). The main source of growth was real estate management, which has traditionally been well-financed by commercial banks, growing by EUR 52.4 million (+18%). Commercial real estate projects with a strong rental flow were the greatest contributor to growth, followed by loans issued to the processing industry, which grew by EUR 24.5 million (+23%). Loans issued in the administrative and auxiliary service sector grew by EUR 16.2 million, year-over-year (+49%).

The greatest contributors to portfolio growth, compared to Q1 2020, included loans and guarantees issued to the processing industry (EUR 20.3 million; +18%), followed by the wholesale and retail as well as motor vehicle sales and repair sector (EUR 10.9 million; +22%) and electricity, gas, steam and air conditioning sector (EUR 4.3 million; +22%).

The largest amount of corporate loans was granted to the real estate sector, which accounts for 37% 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, far 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 21%. LHV's market share in the financing of new developments in Tallinn was approximately 25% at the end of Q2 2020. 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 55%, at an average.

Alongside the real estate sector, the biggest volume of loans has been issued to the processing industry (proportion: 14%) and financial and insurance activities (10%). As regards sectors with a higher-than-average risk, accommodation and catering contributes 4%, construction 2% and transport and warehousing 1% of the total portfolio volume.

The bank's customer numbers grew by 8 000 during the quarter. While the first half of the quarter was characterised by a significant decline in standard customer activity, attributable to the crisis triggered by the coronavirus COVID-19 and the emergency situation declared by the Government of the Republic, the second half of the quarter saw a recovery. By the end of the quarter, we already witnessed record levels in standard customer activity and business volumes. Deposits grew by EUR 146 million and loans by EUR 65 million during the quarter.

Standard customer deposits grew by EUR 160 million, with the deposits of financial intermediaries growing by EUR 34 million. Deposits engaged through deposit platforms shrank by EUR -48 million, as the bank did not actively engage deposits from the platforms during the quarter. To enhance the efficiency of liquid resources, the bank participated in the second Estonian sovereign bond issue, subscribing and receiving EUR 200 million of the total issue volume. At the beginning of June, the bank successfully organised the first issue of covered bonds in the amount of EUR 250 million for a period of 5 years and an annual interest rate of 0.12%. 31 institutional investors from 13 European countries participated in the issue. The interest of central banks and supranational investors contributed 41%, the interest of German institutional investors 20% and the interest of Scandinavian institutional investors 19% of the total issue volume. The international rating agency Moody's assigned the provisional rating of (P)Aa1 to the covered bonds.

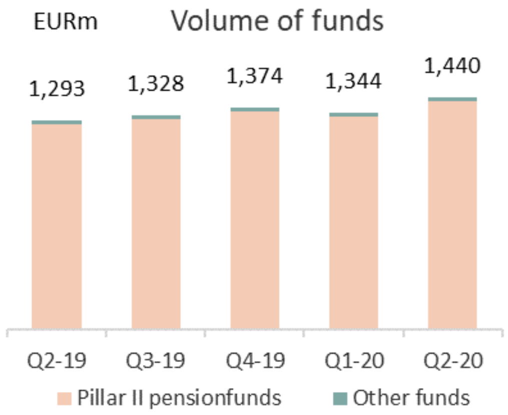
Corporate loans grew by EUR 39 million and retail loans by EUR 26 million. Loan demand declined significantly in the first half of the quarter but recovered by the end of the quarter, with the demand for consumer financing resuming the pre-crisis level. In April, the bank adopted the grace period procedure agreed between Estonian banks. The customers' interest in a grace period was significant in April, but started to wane in May and dropped to a minimum by the end of the quarter. As regards loans issued, grace periods had been granted to nearly 2,900 customers (67% private customers and 33% business customers) in the total amount of EUR 349 million (14% private customers and 86% business customers) as at the end of the quarter. At the beginning of June, the bank entered into a contract with Danske Bank for the purchase of the Estonia corporate loan and public-sector loan portfolio for a total of EUR 312 million (a write-down of EUR 19 million). 54% of the portfolio consists of local governments' loans, 42% of corporate loans, 3% of apartment associations' loans and 1% of non-profit associations' loans. The transaction is scheduled to be completed at the beginning of October.

Net profit for the quarter amounted to EUR 2.8 million. Net profit was negatively affected by the increase in loan write-downs triggered by the deterioration in macro-economic indicators and the credit rating of certain large corporate loans. Total loan write-downs amounted to EUR 7.7 million during the quarter. At the same time, the quality of the bank's loan portfolio has remained strong, with the proportion of overdue loans remaining small.

In May, the bank resumed the provision of USD payments to Estonian-resident customers. As regards new products, the bank launched the name-based payment service, which allows to effect payments (including interbank payments) based on the telephone number. We also added the alternative investment service to the internet bank, for both private and business customers. The contactless payment limit was raised to EUR 50 during the quarter, and the flash payment limit to EUR 100 000. The remote identification option was introduced by notaries, allowing to apply and formalise the home loan and enter into the notarised transaction contact-free. As regards intrabank systems, we started using the next-generation global HR software Hibob. We also filed an application with the UK supervisory authority for establishing the UK branch of a third-country bank.

Overview of AS LHV Varahaldus

- Net profit for Q2: EUR 986 thousand
- Customer numbers are rising; active second-pillar customers as at the end-of-quarter: 179 thousand
- Second-pillar fund asset volume: EUR 1 414 million, rising by EUR 93 million during the quarter
- The impact of the suspension of the state's contributions to the total fund volume is marginal.



EUR million	Q2 2020	Q1 2020	Change %	Q2 2019	Change %	6M 2020	6M 2019	Change %
Net fee and commission income	2.10	2.17	-3%	3.61	-42%	4.27	7.13	-40%
Net financial income	0.48	-0.32	NA	0.03	1 500%	0.16	0.18	-11%
Operating expenses	-1.11	-1.09	2%	-1.05	6%	-2.20	-2.08	6%
Depreciation of non-current assets	-0.48	-0.48	0%	-0.46	4%	-0.96	-0.91	5%
Profit	0.99	0.28	254%	2.13	-54%	1.27	4.32	-71%
Financial investments	8.4	7.9	6%	7.8	8%			
Subordinated liabilities	1.6	1.6	0%	1.6	0%			
Equity	25.0	24.0	4%	26.0	-4%			
Assets under management	1 440.0	1 344.0	5%	1 293.4	9%			

In Q2, LHV Asset Management posted an operating income of EUR 2.1 million, and a net profit of EUR 986 thousand. Net profit for the quarter was strongly affected by the rise in the value of own shares (triggered by good yield) in the total amount of EUR 504 thousand over a period of three months. Net profit for the first six months amounted to EUR 423 thousand, with a dividend payment made to LHV Group in Q1. Compared to the financial plan renewed in April, Asset Management exceeds the net profit forecast by EUR 325 thousand.

While Q1 was characterised by a sharp drop in stock markets, the markets showed a strong recovery in Q2. Measured in EUR, S&P 500 rose by 17.1%, MSCI World by 16.6% and the predominately Tech-based Nasdaq a whopping 27.5%. As at the end of June, Nasdaq had risen by 12.0% from the beginning of the year, with other major markets and indexes still in the red for 2020.

All pension funds managed by LHV Asset Management showed a positive yield in Q2, while the funds with the greatest stock market risk also generated the highest yield. LHV Pension Fund Index rose by 12.6% over a period of three months, with the value of the shares of the actively managed M, L and XL funds growing by 1.5%, 5.3% and 8.1%, respectively. LHV Pension Fund Green, which was launched in March at market bottom, showed the best yield on the market in Q2, with a three-month yield of 16.6%. Three LHV funds have shown the best yield on the market in 2020 - Green at 27.6%, XL at 4.2% and L at 2.4%, with the stock market positions acquired in March giving the greatest contribution to the yield of the actively managed funds.

Q2 was characterised, above all, by the active monitoring and management of investments made hitherto. We focused on assessing coronavirus' impact on off-balance sheet items, so as to measure the assets in a true and fair manner as soon as possible, in light of the new market situation. With regard to real assets and transactions, the local market seems to have taken a standby mode - transactions are few, prices stand still. Instead of purchase transactions, we can recognise successful sales transactions - Pension Fund L successfully sold its direct investment in Thermory. In terms of liquid positions, mention must be made of the subscription of the bonds of the Republic of Estonia and Ignitis Group, and purchase of the shares of Swedbank, Sampo and Banco Santander. We also somewhat increased the proportion of stocks in the L and XL funds via index positions.

The number of active second-pillar customers grew by more than 1,200 during the quarter. The beginning of Q2 was characterised by extremely low customer activity, with no sales promotion carried out in April and May (neither Asset Management nor its competitors) and branch offices being closed. The situation normalised in June, with the branch offices opened and sales promotion resumed. Customer numbers have kept growing for the fifth month in a row. As at the end of June, LHV's second-pillar funds had nearly 179 thousand active customers.

The net asset value of pension funds has grown, fuelled by the increase in customer numbers and the positive yield generated by the funds. As at end-of-quarter, LHV Asset Management manages EUR 1,414 million in second-pillar funds. This represents a growth of EUR 93 million over a period of three months.

A further growth in fund volumes will be inhibited by the suspension of the state's contribution to second-pillar funds as of 1 July 2020, until August 2021. We estimate the monthly contributions to drop by EUR 6 million. Nonetheless, the impact on the total fund volume is estimated to be marginal. Fund yield will be a much more important factor for both customers and Asset Management.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

(in thousands of euros)	Note	Q2 2020	6M 2020	Q2 2019	6M 2019
Continuing operations					
Interest income		20 508	41 487	14 264	27 177
Interest expense		-4 963	-9 618	-2 637	-4 605
Net interest income	9	**15 545**	**31 869**	**11 627**	**22 572**
Fee and commission income		9 129	18 592	9 126	17 590
Fee and commission expense		-2 942	-5 897	-2 514	-4 753
Net fee and commission income	10	**6 187**	**12 695**	**6 612**	**12 837**
Net gains from financial assets measured at fair value		315	-51	190	388
Foreign exchange rate gains/losses		7	-16	12	-7
Net gains from financial assets		**322**	**-67**	**201**	**381**
Other income		0	44	17	16
Other expense		-17	-25	0	-23
Total other income		**-17**	**19**	**17**	**-7**
Staff costs		-6 145	-11 914	-4 882	-9 435
Administrative and other operating expenses		-4 515	-9 922	-4 519	-9 072
Total expenses	11	**-10 660**	**-21 836**	**-9 401**	**-18 507**
Profit before impairment losses on loans and advances		**11 377**	**22 680**	**9 057**	**17 276**
Impairment losses on loans and advances	21	-7 671	-8 682	-698	-1 649
Profit before income tax		**3 706**	**13 998**	**8 359**	**15 627**
Income tax expense		-155	-2 964	-697	-2 962
Net profit for the reporting period	2	**3 551**	**11 034**	**7 662**	**12 665**
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		0	0	0	0
Total profit and other comprehensive income for the reporting period		**3 551**	**11 034**	**7 662**	**12 665**
Total profit of the reporting period attributable to:					
Owners of the parent		2 936	10 015	7 097	11 788
Non-controlling interest		615	1 019	565	877
Total profit for the reporting period	2	**3 551**	**11 034**	**7 662**	**12 665**
Total profit and other comprehensive income attributable to:					
Owners of the parent		2 936	10 015	7 097	11 788
Non-controlling interest		615	1 019	565	877
Total profit and other comprehensive income for the reporting period		**3 551**	**11 034**	**7 662**	**12 665**
Basic earnings per share (in euros)	16	0.10	0.35	0.27	0.45
Diluted earnings per share (in euros)	16	0.10	0.34	0.27	0.45

The Notes on pages 21 to 37 are an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Financial Position

(in thousands of euros)	Note	30.06.2020	31.12.2019
Assets			
Due from central bank	4, 5, 6, 12	1 329 434	1 232 733
Due from credit institutions	4, 5, 6, 12	104 346	32 947
Due from investment companies	4, 6, 12	5 012	5 473
Equity instruments at fair value through other comprehensive income	4, 6, 7	652	432
Financial assets at fair value through profit or loss	4, 6, 7	422 465	40 530
Loans and advances to customers	4, 6, 8, 21	1 804 036	1 687 034
Receivables from customers		3 042	3 551
Other financial assets		2 253	2 246
Other assets		1 697	1 961
Tangible assets	19	6 578	6 686
Intangible assets	19	14 383	14 705
Goodwill		3 614	3 614
Total assets	2	**3 697 512**	**3 031 912**
Liabilities			
Deposits of customers and loans received	14	2 979 098	2 726 562
Financial liabilities at fair value through profit or loss	6	55	8
Accounts payable and other liabilities	15	26 038	24 314
Subordinated debt	6, 20	75 000	75 000
Total liabilities	2	**3 080 191**	**2 825 884**
Owner's equity			
Share capital		28 454	28 454
Share premium		70 136	70 136
Statutory reserve capital		4 713	4 713
Other reserves		3 756	3 280
Retained earnings		95 901	94 228
Total equity attributable to owners of the parent		**202 960**	**200 811**
Non-controlling interest		4 190	5 217
Total equity		**207 150**	**206 028**
Total liabilities and equity		**3 287 341**	**3 031 912**

The Notes on pages 21 to 37 are an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Cash Flows

(in thousands of euros)	Note	Q2 2020	6M 2020	Q2 2019	6M 2019
Cash flows from operating activities					
Interest received		20 456	41 345	13 917	26 761
Interest paid		-7 073	-10 234	-2 333	-4 154
Fees and commissions received		9 129	18 592	9 127	17 590
Fees and commissions paid		-2 942	-5 897	-2 514	-4 753
Other income received		6	-26	48	-50
Staff costs paid		-5 379	-10 340	-4 368	-8 463
Administrative and other operating expenses paid		-3 449	-7 549	-3 546	-7 040
Income tax		-1 139	-3 394	-697	-2 962
Cash flows from operating activities before change in operating assets and liabilities		**9 609**	**22 497**	**9 634**	**16 929**
Net increase/decrease in operating assets:					
Net increase/(decrease) in financial assets at fair value through profit or loss		12	-39	1	46
Loans and advances to customers		-67 992	-120 138	-129 814	-206 197
Mandatory reserve at central bank		-1 492	-4 553	-4 199	-5 584
Security deposits		47	-7	120	86
Other assets		-3 696	-4 550	273	-152
Net increase/decrease in operating liabilities:					
Demand deposits of customers		154 733	322 717	249 267	367 882
Term deposits of customers		-19 428	63 970	266 727	292 858
Loans received		248 834	248 834	10 000	10 000
Prepayments of loans received		-2 943	-2 943	-2 943	-2 943
Financial liabilities held for trading at fair value through profit and loss		-37	10	-25	-2
Other liabilities		10 372	11 069	853	-833
Net cash generated from/used in operating activities		**328 019**	**536 868**	**399 894**	**472 090**
Cash flows from investing activities					
Purchase of non-current assets		-310	-1 425	-885	-1 892
Proceeds from disposal and redemption of investment securities at fair value through other comprehensive income		-220	-220	0	0
Net changes of investment securities at fair value through profit or loss		-191 272	-381 945	-93 089	-72 819
Net cash flows from/used in investing activities		**-191 802**	**-383 590**	**-93 974**	**-74 711**
Cash flows from financing activities					
Paid in share capital (incl. share premium)		1 697	1 697	0	0
Non-controlling interests on acquisition of subsidiary		437	437	0	0
Dividends paid		-0	- 6 383	0	-6 664
Subordinated loans received		15 000	15 000	40 000	40 000
Repayments of the subordinated loans received		-239	-472	-15 900	-15 900
Net cash flows from/used in financing activities		**16 895**	**9 824**	**24 100**	**17 436**
Effect of exchange rate changes on cash and cash equivalents	6	**7**	**-16**	**12**	**-7**
Net increase/decrease in cash and cash equivalents		**153 119**	**163 086**	**330 032**	**410 766**
Cash and cash equivalents at the beginning of the period		1 254 694	1 244 727	749 112	668 378
Cash and cash equivalents at the end of the period	12	**1 407 813**	**1 407 813**	**1 079 144**	**1 079 144**

The Notes on pages 21 to 37 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 01.01.2019	**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	775	0	775	0	**0**
Profit for the reporting period	0	0	0	*0*	11 788	11 788	877	**12 665**
Other comprehensive income/loss	0	0	0	0	*0*	0	*0*	**0**
Total profit and other comprehensive income for the reporting period	0	0	0	0	11 788	11 788	877	**5 003**
Balance as at 30.06.2019	**26 016**	**46 653**	**4 713**	**2 865**	**80 493**	**160 740**	**3 799**	**164 539**

(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 01.01.2020	**28 454**	**70 136**	**4 713**	**3 280**	**94 228**	**200 811**	**5 217**	**206 028**
Paid in share capital	365	1 332	0	0	0	1 697	438	**2 135**
Dividends paid	0	0	0	0	-5 406	-5 406	-1 431	**-6 837**
Share options	0	0	0	-651	1 613	962	0	**962**
Profit for the reporting period	*0*	*0*	*0*	*0*	10 015	*10 015*	*1 019*	***11 034***
Other comprehensive income/loss	*0*	*0*	*0*	0	*0*	0	*0*	0
Total profit and other comprehensive income for the reporting period	0	0	0	0	10 015	10 015	1 019	**11 034**
Balance as at 30.06.2020	**28 819**	**71 468**	**4 713**	**2 629**	**100 450**	**208 079**	**5 243**	**213 322**

The Notes on pages 21 to 37 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 2019, which comply with the International Financial Reporting Standards, as adopted by the European Union (IFRS EU).

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 2019, 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) and AS LHV Kindlustus (65% interest).

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.

Q2 2020	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	6 655	10 306	0	2 983	315	2 457	-2 208	20 508
Interest expense	-313	-1 207	-31	-491	0	-5 129	2 208	-4, 963
Net interest income	**6 342**	**9 099**	**-31**	**2 492**	**315**	**-2 672**	**0**	**15, 545**
Fee and commission income	2 026	210	2 099	172	4 622	0	0	9 129
Fee and commission expense	-281	-44	0	-138	-2 475	-4	0	-2 942
Net fee and commission income	**1 745**	**166**	**2 099**	**34**	**2 147**	**-4**	**0**	**6 187**
Net income	**8 087**	**9 265**	**2 068**	**2 526**	**2 462**	**-2 676**	**0**	**21 732**

Net gains from financial assets	-12	-1	512	0	0	-177		322
Administrative and other operating expenses, staff costs	-3 266	-1 867	-1 595	-431	-2 298	-1 220	0	-10 677
Operating profit	**4 809**	**7 397**	**985**	**2 095**	**164**	**-4 073**	**0**	**11 377**
Impairment losses on loans and advances	-1 101	-6 317	0	-247	-6	0	0	-7 671
Income tax	-78	-54	0	0	-23	0	0	-155
Net profit	**3 630**	**1 026**	**985**	**1 848**	**135**	**-4 073**	**0**	**3 551**

6M 2020	**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	15 107	20 758	0	6 070	600	5 002	-6 050	41 487
Interest expense	-2 975	-2 688	-62	-985	0	-8 958	6 050	-9 618
Net interest income	**12 132**	**18 070**	**-62**	**5 085**	**600**	**-3 956**	**0**	**31 869**
Fee and commission income	4 010	585	4 273	345	9 379	0	0	18 592
Fee and commission expense	-552	-49	0	-292	-4 998	-6	0	-5 897
Net fee and commission income	**3 458**	**536**	**4 273**	**53**	**4 381**	**-6**	**0**	**12 695**
Net income	**15 590**	**18 606**	**4 211**	**5 138**	**4 981**	**-3 962**	**0**	**44 564**
Net gains from financial assets	-38	-2	216	0	-1	6 817	-7 059	-67
Administrative and other operating expenses, staff costs	-6 772	-3 963	-3 160	-888	-4 830	-2 204	0	-21 817
Operating profit	**8 780**	**14 641**	**1 267**	**4 250**	**150**	**651**	**-7 059**	**22 680**
Impairment losses on loans and advances	-1 178	-7 065	0	-421	-18	0	0	-8 682
Income tax	-454	-688	-844	-826	-152	0	0	-2 964
Net profit	**7 148**	**6 888**	**423**	**3 003**	**-20**	**651**	**-7 059**	**11 034**
Total assets 30.06.2020	**1 315 829**	**1 973 744**	**27 430**	**62 659**	**365 508**	**200 082**	**-247 740**	**3 697 512**
Total liabilities 30.06.2020	**2 438 978**	**557 481**	**2 187**	**48 765**	**487 796**	**90 744**	**-141 761**	**3 484 190**

Q2 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	4 016	8 547	0	2 681	128	1 427	-2 535	14 264
Interest expense	-702	-1 531	-41	-425	0	-2 473	2 535	-2 637
Net interest income	**3 314**	**7 016**	**-41**	**2 256**	**128**	**-1 046**	**0**	**11 627**
Fee and commission income	1 592	315	3 605	143	3 471	0	0	9 126
Fee and commission expense	-125	-8	0	-162	-2 218	-1	0	-2 514
Net fee and commission income	**1 467**	**307**	**3 605**	**-19**	**1 253**	**-1**	**0**	**6 612**

Net income	**4 781**	**7 323**	**3 564**	**2 237**	**1 381**	**-1 047**	**0**	**18 239**
Net gains from financial assets	43	0	73	0	0	86	0	202
Administrative and other operating expenses, staff costs	-2 607	-1 828	-1 510	-557	-2 166	-716	0	-9 384
Operating profit	**2 217**	**5 495**	**2 127**	**1 680**	**-785**	**-1 677**	**0**	**9 057**
Impairment losses on loans and advances	-185	-431	0	-67	-15	0	0	-698
Income tax	-194	-486	0	0	-17	0	0	-697
Net profit	**1 838**	**4 578**	**2 127**	**1 613**	**-817**	**-1 677**	**0**	**7 662**

6M 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	7 704	16 158	0	5 251	250	2 617	-4 803	27 177
Interest expense	-1 292	-2 931	-83	-750	0	-4 352	4 803	-4 605
Net interest income	**6 412**	**13 227**	**-83**	**4 501**	**250**	**-1 735**	**0**	**22 572**
Fee and commission income	3 133	612	7 126	281	6 438	0	0	17 590
Fee and commission expense	-226	-20	0	-314	-4 188	-5	0	-4 753
Net fee and commission income	**2 907**	**592**	**7 126**	**-33**	**2 250**	**-5**	**0**	**12 837**
Net income	**9 319**	**13 819**	**7 043**	**4 468**	**2 500**	**-1 740**	**0**	**35 409**
Net gains from financial assets	39	0	265	0	0	4 477	-4 400	381
Administrative and other operating expenses, staff costs	-5 148	-3 775	-2 993	-985	-4 296	-1 317	0	-18 514
Operating profit	**4 210**	**10 044**	**4 315**	**3 483**	**-1 796**	**1 420**	**-4 400**	**17 276**
Impairment losses on loans and advances	-255	-1,158	0	-218	-18	0	0	-1 649
Income tax	-369	-836	-972	-760	-25	0	0	-2 962
Net profit from continued operations	**3 586**	**8 050**	**3 343**	**2 505**	**-1 839**	**1 420**	**-4 400**	**12 665**
Total assets 30.06.2019	**1 356 599**	**765 034**	**29 831**	**57 213**	**213 724**	**153 026**	**-200 713**	**2 374 714**
Total liabilities 30.06.2019	**1 643 911**	**256 400**	**3 687**	**46 322**	**302 794**	**75 453**	**-118 392**	**2 210 175**

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 2019.

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

The impact of COVID-19 on the Group's operations needs to be reported separately. The crisis mainly affects three risks: personnel risk, liquidity risk and credit risk.

Fortunately, the impact on personnel risk has been minimal, LHV was ready to work in home offices and almost all employees worked for two months from home offices. This reduced social interaction and the chances of being exposed to the virus.

The liquidity risk was primarily caused by the planned mortgage bond issuance plan. The bank had already reduced other sources of funding before crises. When the crisis hit, we responded accordingly by attracting large amounts of new deposits and thus reducing the need to issue mortgage bonds. Following a successful issue at the beginning of June, the bank is overliquid.

In terms of credit risk, LHV joined in granting payment holidays to customers' loan payments agreed under the auspices of the Banking Association. At the same time, we offer our customers as much of our own and the state's mitigation measures as possible. In total, we provided payment holidays in the amount of 350 million euros. However, LHV did not join the other part of the memorandum concerning credit impairements. The Group continues to follow the market practice of making credit impairements. Therefore, in the second quarter, we made forward-looking model-based credit impairements of 7.7 million euros.

NOTE 4 Breakdown of Financial Assets and Liabilities by Countries

30.06.2020	Estonia	Latvia	Lithuania	Finland	Germany	Other EU	USA	UK	Other	Total
Due from banks and investment companies	1 328 046	0	0	0	0	81 619	7 016	21 942	169	**1 438 792**
Financial assets at fair value	411 820	755	8 571	0	1	1 956	13	0	1	**423 117**
Loans and advances to customers	1 763 945	1 536	210	5 955	839	5 664	372	21 597	3 918	**1 804 036**
Receivables from customers	3 042	0	0	0	0	0	0	0	0	**3 042**
Other financial assets	110	0	0	0	0	0	2 143	0	0	**2 253**
Total financial assets	**3 506 963**	**2 291**	**8 781**	**5 955**	**840**	**89 239**	**9 544**	**43 539**	**4 088**	**3 671 240**
Deposits of customers and loans received	2 335 487	20 624	2 344	37 804	372 310	70 150	1 838	476 456	41 474	**3 358 487**
Subordinated debt	90 000	0	0	0	0	0	0	0	0	**90 000**
Financial liabilities at fair value	19	0	0	0	0	0	0	0	0	**19**
Accounts payable and other financial liabilities	31 109	0	0	0	0	0	0	0	0	**31 109**
Total financial liabilities	**2 456 615**	**20 624**	**2 344**	**37 804**	**372 310**	**70 150**	**1 838**	**476 456**	**41 474**	**3 479 615**

Unused loan commitments in the amount of EUR 384 702 thousand are for the residents of Estonia.

31.12.2019	Estonia	Latvia	Lithuania	Finland	Germany	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.

NOTE 5 Breakdown of Assets and Liabilities by Contractual Maturity Dates

30.06.2020	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	2 512 399	230 474	347 297	270 392	2 175	**3 362 737**
Subordinated debt	0	1 600	4 800	25 600	98 888	**130 888**
Accounts payable and other financial liabilities	0	31 109	0	0	0	**31 109**
Unused loan commitments	0	384 702	0	0	0	**384 702**
Financial guarantees by contractual amounts	0	10 994	0	0	0	**10 994**
Foreign exchange derivatives (gross settled)	0	44 819	0	629	0	**45 448**
Financial liabilities at fair value	0	19	0	0	0	**19**
Total liabilities	**2 512 399**	**703 717**	**352 097**	**296 621**	**101 063**	**3 965 897**
Financial assets by contractual maturity dates						
Due from banks and investment companies	1 438 792	0	0	0	0	**1 438 792**
Financial assets at fair value (debt securities)	0	0	401 411	12 098	0	**413 509**
Loans and advances to customers	0	92 018	275 685	1 133 575	633 657	**2 134 935**
Receivables from customers	0	3 042	0	0	0	**3 042**
Other financial assets	0	44 819	0	629	0	**45 448**
Foreign exchange derivatives (gross settled)	2 253	0	0	0	0	**2 253**
Total financial assets	**1 441 045**	**139 879**	**677 096**	**1 146 302**	**633 657**	**4 037 979**
Maturity gap from financial assets and liabilities	**-1 071 354**	**-563 838**	**324 999**	**849 681**	**532 594**	**72 082**

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**

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

NOTE 6 Open Foreign Currency Positions

30.06.2020	EUR	CHF	GBP	SEK	USD	Other	Total
Assets bearing currency risk							
Due from banks and investment companies	1 399 990	1 008	22 481	1 003	5 857	8 452	**1 438 792**
Financial assets at fair value	423 061	0	0	1	20	34	**423 117**
Loans and advances to customers	1 781 300	2	20 751	246	1 409	327	**1 804 036**
Receivables from customers	2 027	115	361	34	1	504	**3 042**
Other financial assets	110	0	0	0	2 143	0	**2 253**
Total assets bearing currency risk	**3 606 489**	**1 126**	**43 594**	**1 284**	**9 430**	**9 318**	**3 671 240**
Liabilities bearing currency risk							
Deposits from customers and loans received	3 257 934	8 470	38 760	10 856	26 908	15 558	**3 358 487**
Financial liabilities at fair value	5	0	0	1	1	12	**19**
Accounts payable and other financial liabilities	21 974	121	5 106	147	2 606	1 155	**31 109**
Subordinated debt	90 000	0	0	0	0	0	**90 000**
Total liabilities bearing currency risk	**3 369 913**	**8 591**	**43 866**	**11 004**	**29 515**	**16 725**	**3 479 614**
Open gross position derivative assets at contractual value	627	7 417	0	9 719	20 271	7 414	**45 448**
Open gross position derivative liabilities at contractual value	44 821	0	0	0	627	0	**45 448**
Open foreign currency position	**192 382**	**-48**	**-271**	**-2**	**-442**	**8**	**191 626**

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**

NOTE 7 Fair Value of Financial Assets and Liabilities

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

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

	Level 1	Level 2	Level 3	30.06.2020	Level 1	Level 2	Level 3	31.12.2019
Financial assets at fair value through profit and loss								
Shares and fund units*	526	8 396	0	**8 922**	500	7 695	0	**8 195**
Equity instruments at fair value through other comprehensive income	0	0	652	**652**	0	0	432	**432**
Bonds at fair value through profit and loss	413 509	0	0	**413 509**	32 331	0	0	**32 331**
Interest rate swaps and foreign exchange forwards	0	34	0	**34**	0	4	0	**4**
Total financial assets	**414 036**	**8 430**	**652**	**423 117**	**32 831**	**7 699**	**432**	**40 962**
Financial liabilities at fair value through profit and loss								
Interest rate swaps and foreign exchange	0	19	0	**19**	0	8	0	**8**
Total financial liabilities	**0**	**19**	**0**	**19**	**0**	**8**	**0**	**8**

*Shares and fund units include the Group companies' AS LHV Varahaldus investment into pension fund units in the amount of EUR 8 396 (31.12.2019: 7 695) thousand. Pursuant to the Investment Funds Act, the mandatory shares of LHV Varahaldus as the management company is 0.5% of the number of units in each of the mandatory pension fund managed by it.

Hierarchy levels:

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

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

As at 30.06.2020 the fair value of corporate loans and overdraft is EUR 806 thousand (0,03%) higher than their carrying amount (31.12.2019: 8 478 thousand, 0.97% higher). Loans are issued in the bank's business segments on market conditions. Therefore, the fair value of retail loans does not materially differ from their carrying amount as at 30 June 2020 and 31 December 2019. 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 fair value level of leveraged loans, hirepurchase, credit cards and consumer loans is 3 as significant judgmental assumptions are used for the valuation process.

Other receivables from customers, along with accrued expenses and other current receivables have been generated in the course of ordinary business and are subject to payment over a short period of time. Their fair value does not thus differ from the carrying amount. These receivables and payables do not bear any interest. The fair value of accounts payable, accrued expenses and other payables is determined based on hierarchy level 3.

Customer deposits with fixed interest rates are mostly short-term with the deposits priced pursuant to market conditions. The 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 3.

Subordinated loans in the amount of EUR 20 000 thousand were received in 2020, subordinated loans in the amount of EUR 40 000 were received in 2109, EUR 20 000 thousand were received in 2018 and EUR 15 000 thousand were received in 2015. Subordinated loans were issued on market terms and considering the movements in loan and interest market, we can say that the market conditions are similar as they were when issuing the subordinated loans so that the fair value of the loans does not materially differ from their carrying value. In determining the fair value of loans, considerable management judgements are used. Subordinated debt are thus categorised under hierarchy level 3.

NOTE 8 Breakdown of Loan Portfolio by Economic Sectors

	30.06.2020	%	31.12.2019	%
Individuals	783 891	43.1%	738 152	43.6%
Real estate activities	374 822	20.6%	353 405	20.9%
Manufacturing	125 397	6.9%	114 104	6.7%
Arts and entertainment	58 034	3.2%	42 638	2.5%
Financial activities	74 016	4.1%	71 690	4.2%
Wholesale and retail trade	95 922	5.3%	80 767	4.8%
Administrative and support service activities	66 388	3.7%	67 064	4.0%
Transportation and storage	16 050	0.9%	15 337	0.9%
Agriculture	59 529	3.3%	59 657	3.5%
Other service activities	16 973	0.9%	7 290	0.4%
Construction	32 139	1.8%	38 951	2.3%
Information and communication	11 340	0.6%	7 017	0.4%
Professional, scientific and technical activities	50 601	2.8%	47 368	2.8%
Education	1 873	0.1%	1 976	0.1%
Other sectors	51 669	2.8%	47 722	2.8%
Total	**1 818 644**	**100%**	**1 693 138**	**100%**
Impairment	-14 608		-6 104	
Total loan portfolio	**1 804 036**	**100%**	**1 687 034**	**100%**

NOTE 9 Net Interest Income

Interest income	**Q2 2020**	**6M 2020**	**Q2 2019**	**6M 2019**
From balances with credit institutions and investment	-24	5	97	152
From debt securities	-123	-40	63	136
Leasing	915	1 833	663	1 309
Leverage loans and lending of securities	160	311	113	215
Consumer loans	2 057	4 160	1 708	3 254
Hire purchase	926	1 909	973	1 996
Corporate loans	10 886	21 881	8 938	16 775
Credit card loans	203	416	200	399
Mortgage loans	4 264	8 673	901	1 637
Other loans	1 244	2 339	608	1 304
Total	**20 508**	**41 487**	**14 264**	**27 177**
Interest expense				
Deposits of customers and loans received	-2 167	-4 278	-953	-1 503
Balances with the central bank	-1 436	-2 736	-821	-1 407
Subordinated liabilities	-1 360	-2 604	-863	-1 695
including loans between related parties	-101	-191	-104	-193
Total	**-4 963**	**-9 618**	**-2 637**	**-4 605**
Net interest income	**15 545**	**31 869**	**11 627**	**22 572**

Interest income on loans by customer location (interest on bank balances and bonds excluded):	**Q2 2020**	**6M 2020**	**Q2 2019**	**6M 2019**
Estonia	20 867	41 522	14 103	26 889
Total	**20 867**	**41 522**	**14 103**	**26 889**

NOTE 10 Net Fee and Commission Income

Fee and commission income	**Q2 2020**	**6M 2020**	**Q2 2019**	**6M 2019**
Security brokerage and commissions paid	1 246	2 498	779	1 307
Asset management and similar fees	2 956	5 990	4 323	8 498
Currency exchange fees conversion revenues	742	1 478	349	843
Fees from cards and payments	3 198	6 57	2 906	5 418
Other fee and commission income	987	2 099	772	1 524
Total	**9 129**	**18 592**	**9 126**	**17 590**
Fee and commission expense				
Security brokerage and commissions paid	-294	-565	-123	-244
Expenses related to cards	-1 178	-2 355	-935	-1 709
Expenses related to acquiring	-845	-1 769	-952	-1 769
Other fee and commission expense	-625	-1 208	-504	-1 031
Total	**-2 942**	**-5 897**	**-2 514**	**-4 753**
Net fee and commission income	**6 187**	**12 695**	**6 612**	**12 837**

Fee and commission income by customer location:	**Q2 2020**	**6M 2020**	**Q2 2019**	**6M 2019**
Estonia	9 129	18 592	9 109	17 542
Luxembourg	0	0	17	48
Total	**9 129**	**18 592**	**9 126**	**17 590**

NOTE 11 Operating Expenses

	Q2 2020	**6M 2020**	**Q2 2019**	**6M 2019**
Wages, salaries and bonuses	4 784	9 273	3 811	7 340
Social security and other taxes*	1 361	2 641	1 071	2 095
Total personnel expenses	**6 145**	**11 914**	**4 882**	**9 435**
IT expenses	796	1 540	653	1 297
Information services and bank services	255	528	198	418
Marketing expenses	315	791	468	1 176
Office expenses	142	337	158	301
Transportation and communication expenses	55	136	64	117
Staff training and business trip expenses	43	167	263	385
Other outsourced services	1 018	1 869	821	1 580
Other administrative expenses	890	2 392	805	1 463
Depreciation of non-current assets	851	1 856	964	1 989
Operational lease payments	94	176	67	153
Other operating expenses	56	130	58	193
Total other operating expenses	**4 515**	**9 922**	**4 519**	**9 072**
Total operating expenses	**10 660**	**21 836**	**9 401**	**18 507**

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

NOTE 12 Balances with the Central Bank, Credit Institutions and Investment Companies

	30.06.2020	31.12.2019
Demand and term deposits with maturity less than 3 months*	109 358	38 420
Statutory reserve capital with the central bank	30 979	29 426
Demand deposit from central bank*	1 298 455	1 206 307
Total	**1 438 792**	**1 271 153**
*Cash and cash equivalents in the Statement of Cash Flows	1 407 813	1 244 727

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 5 012 thousand (31 December 2019: EUR 5 473 thousand). All other demand and term deposits are held with credit institutions and the central bank.

The minimum reserve requirement as at 30 June 2020 was 1% (31 December 2019: 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 13 Deposits of Customers and Loans Received

Deposits/loans by type	Individuals	Financial intermediates	Legal entities	Public sector	30.06.2020
Demand deposits	618 827	539 814	1 113 163	239 916	2 511 720
Term deposits	411 870	0	155 133	5 517	572 520
Loans received	0	0	271 534	0	271 534
Accrued interest liability	2 123	0	588	2	2 713
Total	**1 032 820**	**539 814**	**1 540 418**	**245 435**	**3 358 487**

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**

LHV Pank has signed an unsecured 10-year loan agreement with the European Investment Fund (EIF) in the amount of EUR 12.5 million to increase the borrowing possibilities of small and medium-sized enterprises. As at 30.06.2020, the Bank had utilized 12 250 thousand euros of the loan amount and repaid the principal in the amount of EUR 2 883 thousand euros. From Nordic Investment Bank possible 20 000 thousand euro loan the Bank had utilized 20 000 thousand euros as of 30.06.2020 and repaid the principal in the amount of EUR 6 666 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.

In June 2020, LHV Bank made a successful debut issue of EUR 250 million in covered bonds to international investors. 31 institutional investors participated in the 5-year issue and the interest rate was 0.12%. The issue by LHV Pank was the first debut issue since the beginning of the COVID-19 crisis. The issue received an Aa1 rating from Moodys and was listed on the Dublin Stock Exchange.

NOTE 14 Accounts payable and other liabilities

Financial liabilities	**30.06.2020**	**31.12.2019**
Trade payables and payables to merchants	2 355	5 033
Other short-term financial liabilities	2 218	3 067
Lease liabilities	4 200	4 672

Accrued interest on subordinated loans	564	444
Payments in transit	21 461	7 395
Financial guarantee contracts issued	311	178
Subtotal	**31 109**	**20 789**
Performance guarantee contracts issued	269	266
Tax liabilities	1 564	1 230
Payables to employees	2 401	1 705
Other short-term liabilities	341	324
Subtotal	**4 575**	**3 525**
Total	**35 684**	**24 314**

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 15 Contingent Liabilities

Irrevocable transactions	**Performance guarantees**	**Financial guarantees**	**Letter of credit**	**Unused loan commitments**	**Total**
Liability in the contractual amount as at 30 June 2020	13 385	10 994	11	384 702	**409 092**
Liability in the contractual amount as at 31 December 2019	11 078	14 139	10	359 230	**384 457**

NOTE 16 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.

	Q2 2020	**6M 2020**	**Q2 2019**	**6M 2019**
Total profit (incl. discontinued operations) attributable to owners of the parent (EUR thousand)	2 936	10 015	7 097	11 788
Weighted average number of shares (in thousands of units)	28 637	28 576	26 016	26 016
Basic earnings per share (EUR)	0.10	0.35	0.27	0.45
Weighted average number of shares used for calculating the diluted earnings per shares (in thousands of units)	29 360	29 256	26 609	26 609
Diluted earnings per share (EUR)	0.10	0.34	0.27	0.45

NOTE 17 Capital Management

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

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

The amount of capital that the Group managed as of 30.06.2020 was 264 203 thousand euros (31.12.2019: 241 801 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 in all situations;
- The main focus of the capital management is on tier 1 own funds, because only tier 1 own funds can absorb losses. All other capital layers in use are dependent of tier 1 own funds volume;
- Capital of the Group can be divided in two: 1) regulative minimum capital and 2) capital buffer held by the Group. In order to reach its long-term economic goals the Group must on one hand strive towards proportional lowering of the regulative minimumcapital (through minimizing risks and high transparency). On the other hand, the Group must strive towards sufficient and conservative capital reserve, which will ensure economic preservation even in the event of severe negative risk scenario;
- The risk appetite set by the Group is an important input to capital management planning and capital goal setting. Higher risk appetite requires marinating higher capital buffer.

Capital base	**30.06.2020**	**31.12.2019**
Paid-in share capital	28 819	28 454
Share premium	71 468	70 136
Reserves	4 713	4 713
Other reserves	212	212
Accumulated loss	90 434	69 452
Intangible assets (subtracted)	-17 996	-18 319
Profit for the reporting period (COREP)	4 607	12 186
Other adjustments	-8 054	-33
Total Core Tier 1 capital	**174 203**	**166 801**
Additional Tier 1 capital	35 000	20 000
Total Tier 1 capital	**209 203**	**186 801**
Subordinated liabilities	55 000	55 000
Total Tier 2 capital	**55 000**	**55 000**
Total net own funds	**264 203**	**241 801**

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

NOTE 18 Transactions with related parties

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

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

Transactions	Q2 2020	6M 2020	Q2 2019	6M 2019
Interest income	**15**	**30**	**17**	**34**
incl. management	9	18	9	18
incl. shareholders that have significant influence	6	12	8	16
Fee and commission income	**10**	**20**	**10**	**10**
Incl. management	0	0	0	0
incl. shareholders that have significant influence	10	20	10	10
Interest expenses from deposits	**10**	**20**	**20**	**20**
incl. management	0	0	0	0
incl. shareholders that have significant influence	10	20	20	20
Interest expenses from subordinated loans	**101**	**191**	**104**	**193**
incl. management	2	4	2	4
incl. shareholders that have significant influence	99	187	102	189

Balances	30.06.2020	31.12.2019
Loans and receivables as at the year-end	**3 270**	**3 290**
incl. management	2 423	2 399
incl. shareholders that have significant influence	847	892
Deposits as at the year-end	**11 231**	**16 063**
incl. management	169	283
incl. shareholders that have significant influence	11 062	15 780
Subordinated loans as at the year-end	**6 565**	**5 054**
incl. management	129	118
incl. shareholders that have significant influence	6 436	4 936

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

Loans granted to related parties are issued at market conditions.

In Q2, salaries and other compensations paid to the management of the parent AS LHV Group and its subsidiaries totalled EUR 453 thousand (Q2 2019: EUR 386 thousand), including all taxes. As at 30.06.2020, remuneration for June and accrued holiday pay in the amount of EUR 102 thousand (31.12.2019: EUR 73 thousand) is reported as a payable to management. The Group did not have any long-term payables or commitments to the members of the Management Board and the Supervisory Board as at 30.06.2020 and 31.12.2019 (pension liabilities, termination benefits, etc.). In Q2 2020, the remuneration paid to the members of the Group's Supervisory Board totalled EUR 32 thousand (Q2 2019: EUR 27 thousand).

Management is related to the share-based compensation plan. In Q2 2020 the share-based compensation to management amounted to EUR 193 thousand (Q2 2019: EUR 185 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 19 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 31.12.2018						
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**
Purchase of non-current assets	607	0	607	301	518	819
Depreciation/amortisation charge	-352	-363	-715	-262	-879	-1 141
Balance as at 30.06.2020						
Cost	5 720	5 676	11 396	8 653	14 538	23 191
Accumulated depreciation and amortisation	-3 556	-1 262	-4 818	-5 037	-3 771	-8 808
Carrying amount 30.06.2020	**2 164**	**4 414**	**6 578**	**3 616**	**10 768**	**14 383**

NOTE 20 Subordinated debts

Subordinated debts (in thousands of euros)

	Year of issue	Amount	Interest rate	Maturity date
Subordinated Tier 2 liabilities	2015	15 000	6.5%	October 29, 2025
Subordinated Tier 2 liabilities	2018	20 000	6.0%	November 28, 2028
Subordinated Tier 2 liabilities	2019	20 000	6.0%	November 28, 2028
Additional subordinated Tier 2 liabilites	2019	20 000	8.0%	Perpetual
Additional subordinated Tier 2 liabilites	2020	15 000	8.0%	Perpetual
Subordinated debt as at 31.03.2019		50 900		
Subordinated debt as at 30.06.2019		75 000		
Subordinated debt as at 31.12.2019		75 000		
Subordinated debt as at 31.03.2020		75 000		
Subordinated debt as at 30.06.2020		90 000		

NOTE 21 Loans and advances to customers

(in thousands of euros)	**30.06.2020**	**31.12.2019**
Loans to legal entities	**1 034 562**	**795 986**
incl. corporate loans	859 111	795 924
incl. retail loans	37 001	40 967
incl. leasing	73 011	66 078
incl. overdraft	55 664	42 801
incl. leveraged loans	3 431	3 148
incl. hire-purchase	157	277
incl. credit card loans	364	402
incl. credit letters	5 823	5 389
Loans to individuals	**784 082**	**738 152**
incl. hire-purchase	13 748	16 133
incl. mortgage loans	49 421	587 855
incl. consumer loans	3 694	49 412
incl. private loans	24 911	44 776
incl. leasing	6 800	23 410
incl. leveraged loans	631 935	2 840
incl. credit card loans	47 374	7 263
incl. overdraft	20	34
incl. study loan	825	750
incl. real estate leasing	5 354	5 679
Total	**1 818 644**	**1 693 138**
Impairment provisions	-14 608	-6 104
Total	**1 804 036**	**1 687 034**

Changes in impairments in 6M 2020	**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	**-3 666**	**-153**	**-624**	**-53**	**-112**	**-639**	**-6**	**-851**	**0**	**-6 104**
Impairment provisions/reversals set up during the year	-8 408	-106	-278	-39	-20	-1 604	-13	-436	-19	-10 923
Written off during the reporting period	1 315	43	1	24	-29	639	2	424	0	2 419
Balance as at June 30 2020	**-10 759**	**-216**	**-901**	**-68**	**-161**	**-1 604**	**-17**	**-863**	**-19**	**-14 608**

	Realized impairments	**The projected impact of the IFRS 9 macroscenarios**	**The projected special impairments**
Impairments (in thousand of euros)	**Q1 2020**	**Q2 2020**	**Q3-Q4 2020**
Total	**1 011**	**7 671**	**10 675**

Shareholders of AS LHV Group

AS LHV Group has a total of 28 819 092 ordinary shares, with a nominal value of 1 euro.

As at 30 June 2020, AS LHV Group has 9 692 shareholders:

- 13 908 669 shares (48.26%) were held by members of the Supervisory Board and Management Board, and related parties.
- 14 910 423 shares (51.74%) were held by Estonian entrepreneurs and investors, and related parties.

Top ten shareholders as at 30 June 2020:

Number of	Participation	Name of shareholder
3 618 920	12.6%	AS Lõhmus Holdings
2 538 367	8.8%	Rain Lõhmus
2 186 432	7.6%	Viisemann Investments AG
1 653 709	5.7%	Ambient Sound Investments OÜ
1 210 215	4.2%	OÜ Krenno
1 082 744	3.8%	AS Genteel
1 031 310	3.6%	AS Amalfi
782 488	2.7%	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 53 509 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 34 330 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 1 653 709 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 508 109 shares, Astrum OÜ holds 371 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

AS LHV Kindlustus
Supervisory board: Madis Toomsalu, Erki Kilu, Veiko Poolgas, Jaan Koppel
Management board: Tarmo Koll, Jaanus Seppa

OÜ Cuber Tehnology
Management board: Jüri Laur

Signatures of the Management Board to the Condensed Consolidated Interim Report

The Management Board has prepared the summary of results for January to June 2020 period the condensed consolidated interim financial statements of AS LHV Group for the 6-months period ended 30 June 2020.

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”.

14.07.2020

Madis Toomsalu