

LHV Group

Q3 2017 results
24 October 2017

Third quarter with strong trends

Client convenience

- 400 clients through video recognition
- Developing mobile bank

Records in business volumes

- Deposits
- Loans
- Funds
- Clients
- Payments
- Card transactions

Pension funds' Estonian investments

- Rental apartment houses in Põhja-Tallinn
















Change in capital requirements

- Total capital CAD target 15.06% (was 16.19%)
- SREP additional capital charge 1.01% (was 1.89%)

Other

- Börsihai vs investor Toomas
- LHV Pank will be systemically important bank from 2018
- IFRS 9 effects to impairments
- IFRS 15 effects to capitalizing Asset Management sales costs

Rapid volume growth and record-breaking client activity

Financial results, EURt	9 quarters	Q3-17	Q2-17	Δ quarter
Net interest income		8,863	8,607	+257
Net fee and commission income		5,695	5,213	+482
Other income		38	845	-807
Total revenue		14,596	14,665	-68
Total operating expenses		7,838	7,926	-89
Earnings before impairment		6,759	6,739	+20
Impairment losses on loans		1,261	1,839	-578
Income tax		42	21	+21
Net profit		5,456	4,878	+578
Business volumes, EURm	9 quarters	Q3-17	Q2-17	Δ quarter
Deposits from customers		1,268	1,008	+260
Loans (net)		656	606	+49
Assets under management		1,067	1,035	+33
Customers, thous.		406	392	+14
Key figures	9 quarters	Q3-17	Q2-17	Δ quarter
Cost / income ratio (C/I)		53.7%	54.0%	- 0.4 pp
ROE (attr.to owners of the parent)		18.1%	16.4%	+ 1.7 pp

- Keywords for III quarter are rapid growth in all portfolios together with record high client activity
- Interest income record high, commission income recovering
- Credit portfolio quality is good, but proactive impairments were made regarding some problematic clients
- Pension funds focus on Estonian investments
- Cost / income ratio 53,7% and ROE 18,1% on good levels

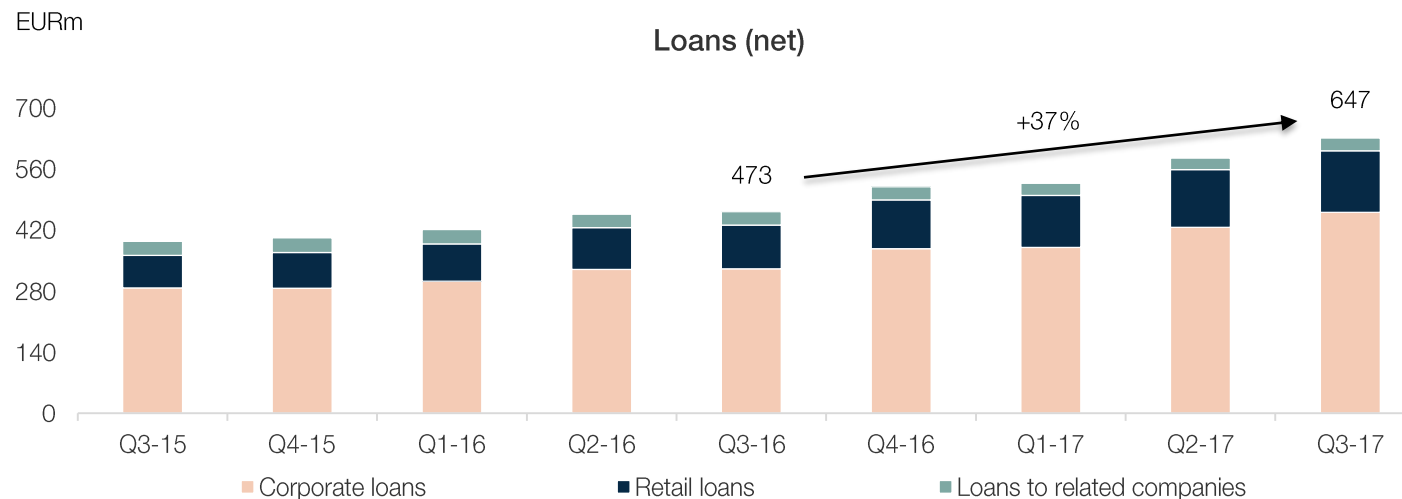
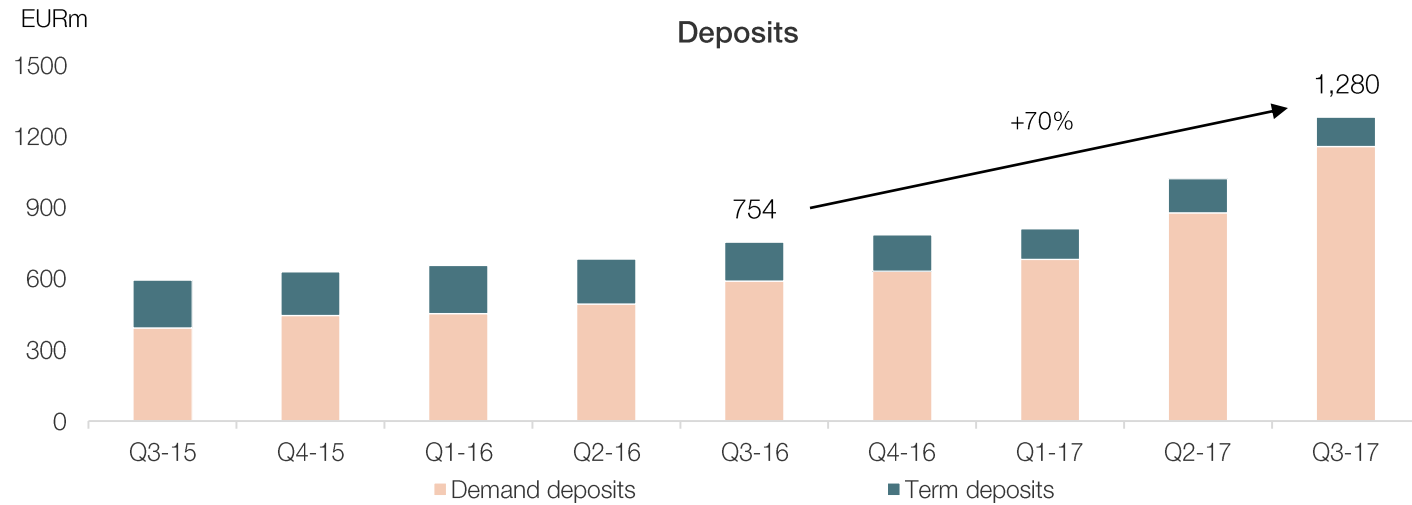
LHV Group – comparison with financial plan

Net income compared to financial plan +0.3 EURm

Financial results, EURt	13 months	Sep-17	YTD17	YTD16	FP YTD	Δ YTD FP
Total revenue, incl.		4,807	43,084	36,942	43,561	-477
Net interest income		3,044	25,634	21,714	27,561	-1,927
Net fee and commission income		1,829	16,193	13,339	15,622	+571
Total operating expenses		2,763	23,459	21,087	24,017	-558
Earnings before impairment		2,044	19,625	15,856	19,544	+81
Impairment losses on loans		128	3,193	1,497	3,022	+172
Income tax		14	1,046	201	1,449	-403
Net profit		1,902	15,385	14,159	15,073	+312
attr. to owners of the parent		1,760	13,917	12,919	13,617	+300
Business volumes, EURm	13 months	Sep-17	YTD17	YTD16	FP YTD	Δ YTD FP
Deposits from customers		1,268	1,268	741	866	+402
Loans (net)		656	656	478	631	+24
Assets under management		1,067	1,067	937	1,119	-51
Key figures	13 months	Sep-17	YTD17	YTD16	FP YTD	Δ YTD FP
Cost / income ratio (C/I)		57.5%	54.4%	57.1%	55.1%	- 0.7 pp
ROE (attr. to owners of the parent)		18.9%	17.2%	20.8%	17.1%	+ 0.1 pp
Net interest margin (NIM)		2.7%	3.2%	3.7%	3.9%	- 0.7 pp
ROA		1.7%	1.9%	2.3%	2.1%	- 0.2 pp

- Revenues are below financial plan due to lower interest income. At the same time net commissions are better than forecasted
- Costs are lower than financial plan mainly because of smaller personell and IT expenses
- Credit impairments exceed the forecast, we expect the last quarter to be better
- YTD cost / income 54.4% and ROE 17,2%
- Financial plan is valid. Net profit is 0.3 EURm ahead of financial plan

Strong growth in loan portfolio for second quarter in row



- Client base increased by 5,100 new clients to 128,000 clients. 400 client contracts were signed using video recognition
- New records in clients activity in payments, card transactions and acquiring
- Deposits increased by 260 EURm, most of the growth came from one fin-tech company. That position is priced and covered with liquidity in whole amount
- Loans increased by 48 EURm, mostly from corporate loans and mortgages. As a new functionality clients can see their loan contracts in internet and mobile bank

LHV Banking

Q3 cost/income below 50%

Financial results, EURt	9 quarters	Q3-17	Q2-17	Δ quarter
Net interest income		7,928	7,658	+270
Net fee and commission income		2,143	1,809	+334
Other income		26	837	-812
Total revenue		10,097	10,304	-207
Total operating expenses		5,039	5,063	-24
Earnings before impairment		5,057	5,240	-183
Impairment losses on loans		1,098	1,882	-783
Net profit		3,959	3,359	+600
Business volumes, EURm	9 quarters	Q3-17	Q2-17	Δ quarter
Deposits from customers		1,280	1,022	+259
Loans (net)		647	599	+48
Customers, thous.		159	153	+6
Key figures	9 quarters	Q3-17	Q2-17	Δ quarter
Cost / income ratio (C/I)		49.9%	49.1%	+ 0.8 pp
ROE (attr.to owners of the parent)		16.1%	14.2%	+ 1.8 pp
Net interest margin (NIM)		2.5%	2.9%	- 44 bp

- Net profit was 4.0 EURm. In addition to regular income and cost base significant impairments were made. From additional impairments 1.0 EURm is related to one single customer
- Cost / income ratio below 50% for second quarter in row
- Due to larger loan portfolio growth bank share capital was increased by 3 EURm
- In Q3 bank's capitalization targets were lowered

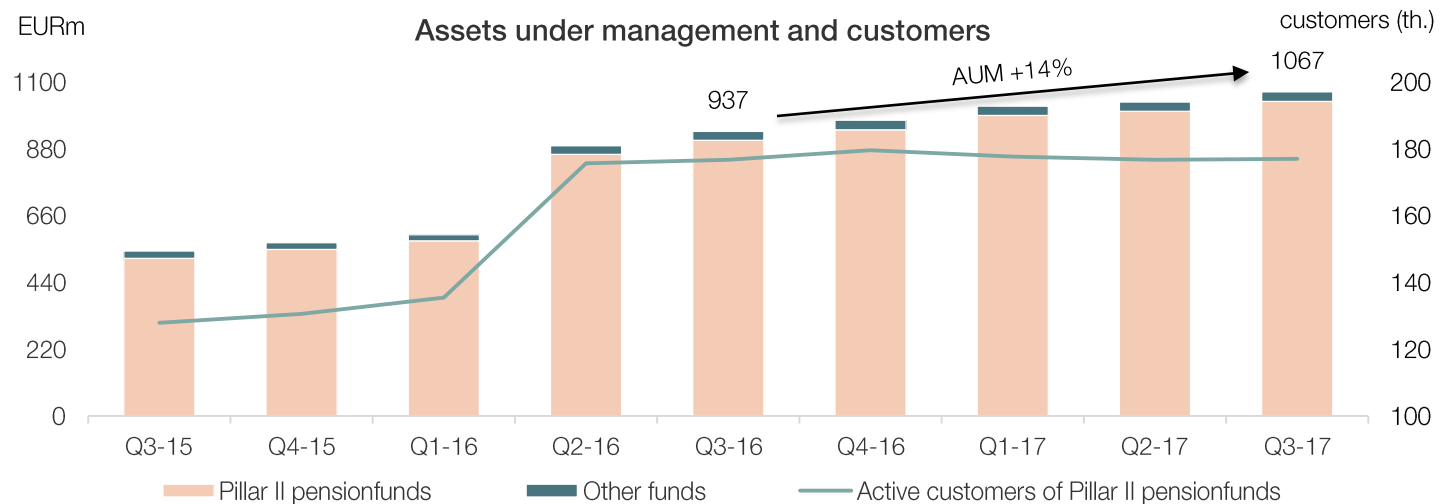
LHV Banking – comparison with financial plan

Profit ahead of financial plan by +0.2 EURm

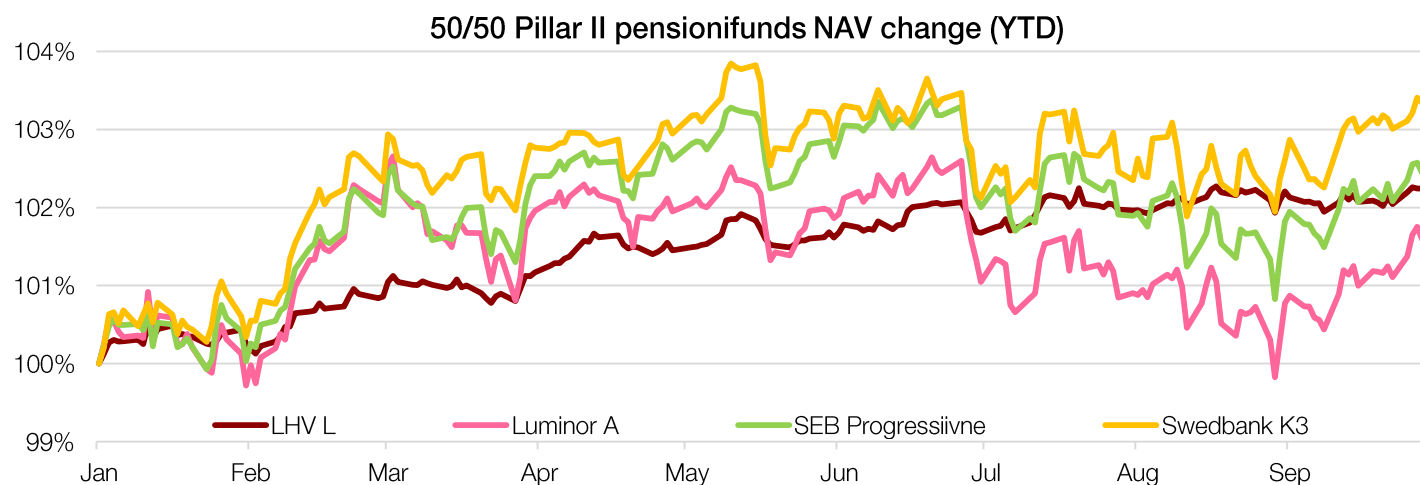
Financial results, EURt	13 months	Sep-17	YTD17	YTD16	FP YTD	Δ YTD FP
Total revenue, incl.		3,319	29,649	24,232	29,256	+393
Net interest income		2,728	22,754	18,376	24,115	-1,361
Net fee and commission income		653	5,771	3,949	4,996	+775
Total operating expenses		1,839	15,005	13,074	15,555	-550
Earnings before impairment		1,480	14,644	11,158	13,700	+943
Impairment losses on loans		54	3,050	1,091	2,344	+706
Net profit		1,427	11,593	10,067	11,356	+237
Business volumes, EURm	13 months	Sep-17	YTD17	YTD16	FP YTD	Δ YTD FP
Deposits from customers		1,280	1,280	754	879	+401
Loans (net)		647	647	473	624	+23
Key figures	13 months	Sep-17	YTD17	YTD16	FP YTD	Δ YTD FP
Cost / income ratio (C/I)		55.4%	50.6%	54.0%	53.2%	- 2.6 pp
CT1 capital adequacy		13.9%	13.9%	14.2%	14.2%	- 0.4 pp
Total capital adequacy		17.0%	17.0%	18.6%	17.7%	- 0.6 pp
Net interest margin (NIM)		2.5%	2.9%	3.1%	3.4%	- 0.6 pp

- Rapid deposit growth came from fin-tech companies. Regular deposits growth is in line with financial plan
- Loans are 23 EURm ahead of plan
- Profit is as expected. Interest income is smaller due to lower loan portfolio in Q1. Commission income is larger due to fees from fin-tech companies. Overall credit quality remains strong. Impairments are related to some individual clients
- Starting from 2018 bank will become one of four systemically important banks in Estonia and based on Emergency Act will be the fourth bank required to offer vital services in Estonia

Estonian investments offer more stable returns



- The share of local investment continues to grow. LHV funds began to invest into rental apartment houses. Q4 will bring several new Estonian investments
- Exposure to the risks of global stock markets is kept at a low level
- The total volume of funds increased by EUR 33 million



LHV Asset Management










The growth of funds increased revenues

Financial results, EURt	9 quarters	Q3-17	Q2-17	Δ quarter
Total revenue		3,340	3,204	+135
Selling expenses		627	405	+222
Other operating expenses		1,043	1,192	-149
Total operating expenses		1,670	1,597	+73
EBIT		1,669	1,607	+62
Net financial income		8	5	+3
Income tax		0	0	+0
Net profit		1,677	1,612	+65
Business volumes, EURm	9 quarters	Q3-17	Q2-17	Δ quarter
Pillar II pensionfunds		1,037	1,004	+33
Pillar III pensionfunds		16	15	+0
Eurofunds		15	15	-0
Active customers of PII funds, thous.		177	177	+0
Key figures	9 quarters	Q3-17	Q2-17	Δ quarter
Cost / income ratio (C/I)		50.0%	49.8%	+ 0.2 pp
ROE		48.5%	41.7%	+ 6.7 pp

- Monthly organic growth of II pillar funds is ca 11 EURm
- Selling expenses higher as expected. The number of active pillar II funds customers increased by 0.3 thousand
- Funds custody expenses have decreased

LHV Asset Management – comparison with financial plan

YTD revenues 10 EURm

Financial results, EURt	13 months	Sep-17	YTD17	YTD16	FP YTD	Δ YTD FP
Total revenue		1,094	9,958	9,155	10,151	-193
Total expenses		542	4,994	4,788	4,960	+34
Earnings before taxes		552	4,964	4,367	5,191	-227
Income tax		0	951	0	1,275	-324
Net profit		552	4,014	4,367	3,916	+97
Business volumes	13 months	Sep-17	YTD17	YTD16	FP YTD	Δ YTD FP
Assets under management, EURm		1,067	1,067	937	1,119	-51
Active customers of PII funds, thous.		177	177	177	181	-4
Key figures	13 months	Sep-17	YTD17	YTD16	FP YTD	Δ YTD FP
Cost / income ratio (C/I)		49.4%	50.7%	53.1%	49.4%	+ 1.4 pp
Funds average return		0.0%	2.1%	2.4%	2.4%	- 0.3 pp

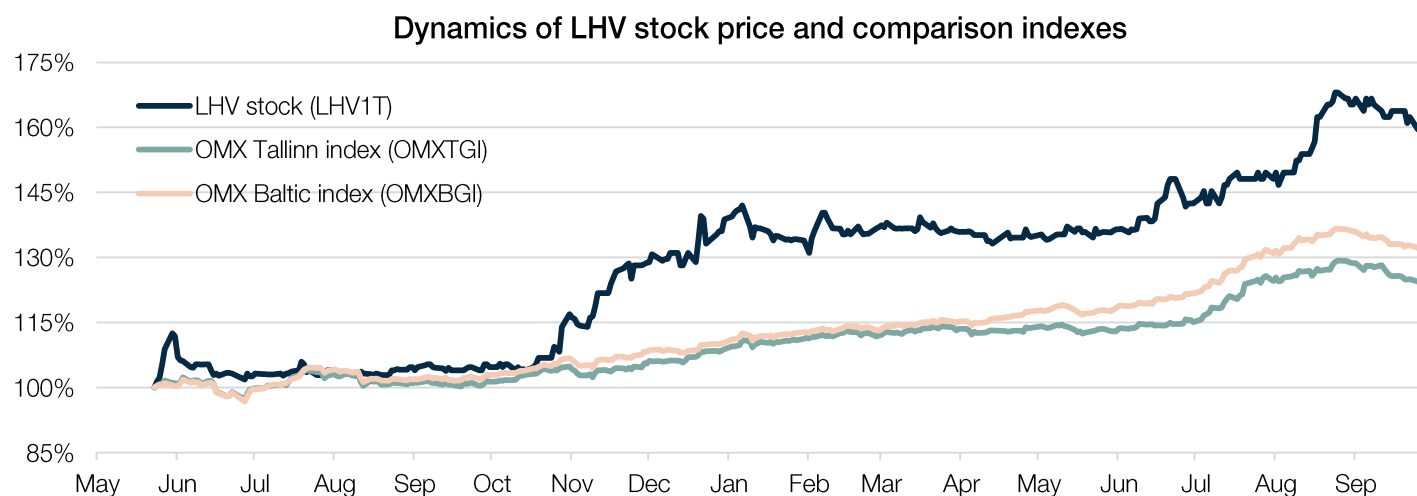
- Revenues are smaller than planned due to lower AUM
- Some costs have occurred earlier than planned. Income tax in Q1 was lower than planned
- Net profit plan remains valid

LHV Group

Stock information



- LHV share price close to 11 EUR by the end of the Q3
- 1,343 trades were made with the stock during Q3 on the market with a turnover of 3.8 EURm which gave the stock an average price of 10.85 EUR
- Shareholders earnings per share (EPS) in Q3 is 0.20 EUR and cumulative 9 months EPS is 0.55 EUR
- As of 30 Sept. 2017 LHV had 5,181 shareholders and 51% of shares belonged to supervisory and management board members and parties associated with them
- Market capitalization based on closing price of 30 Sept. 2017 is 283 EURm



First 9 months of financial year

100 EURm

Investment decisions to Estonia

17.2%

ROE

118 EURm

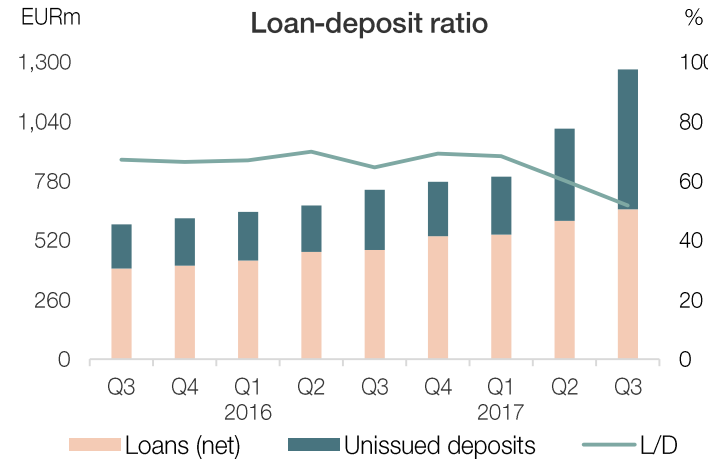
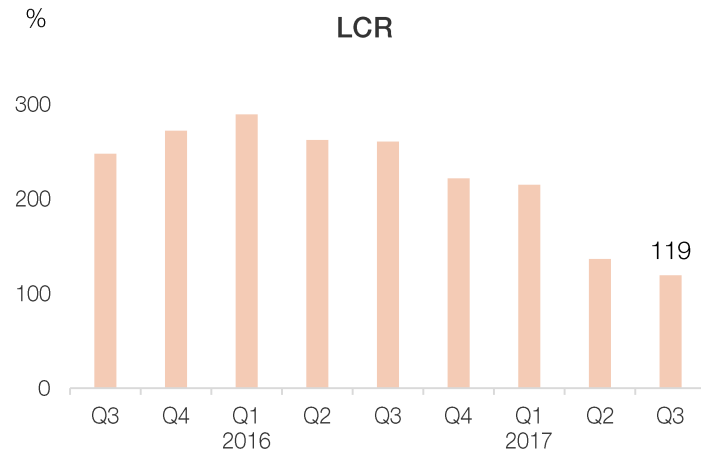
Loan portfolio growth

15,500

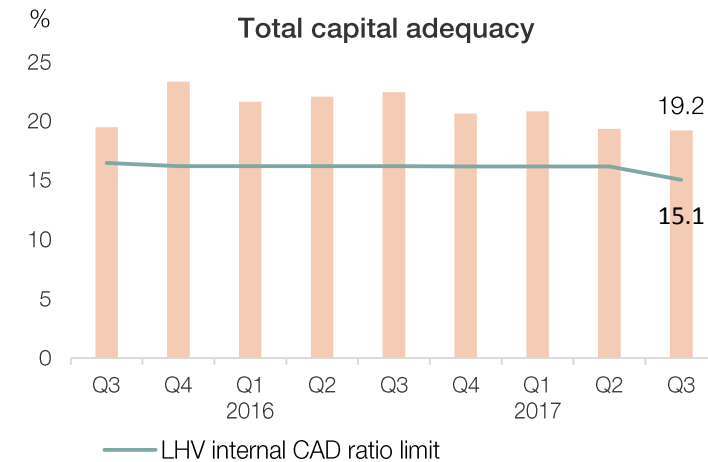
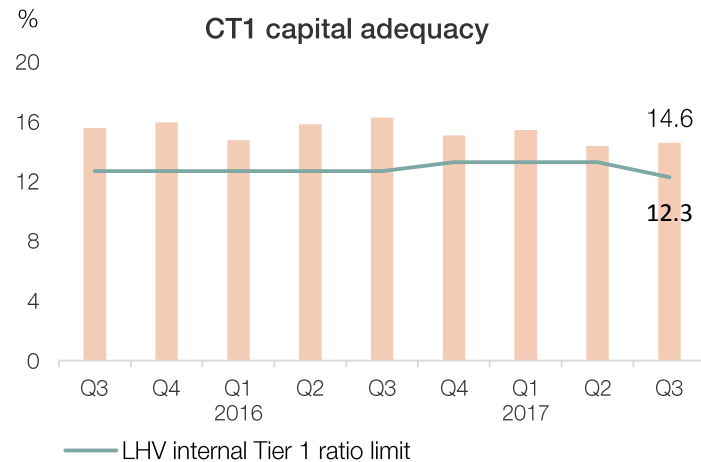
Bank customer increase

Annexes

Quarter influenced by payment intermediaries

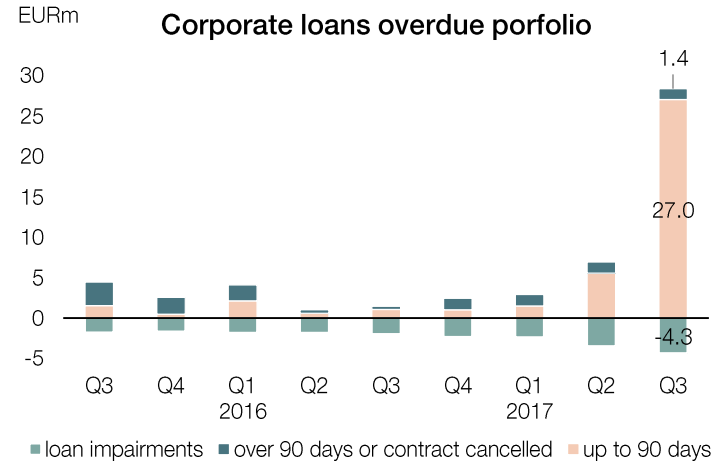
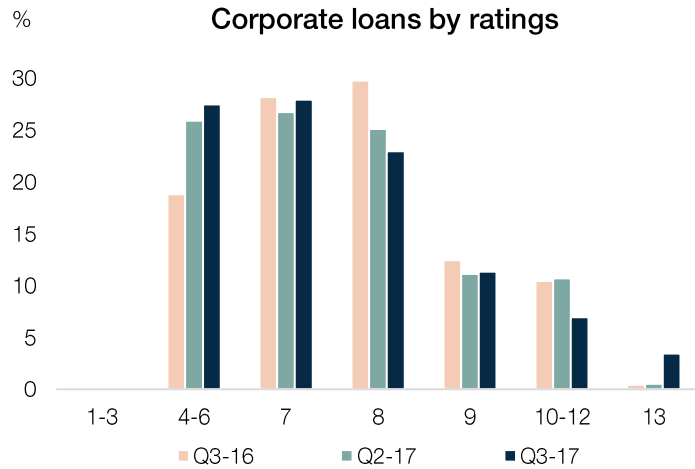


- LCR and loan /deposit ratio have been influenced by one payment intermediary's large balance
- Strong capital adequacy ratio, significantly above regulatory and internal targets



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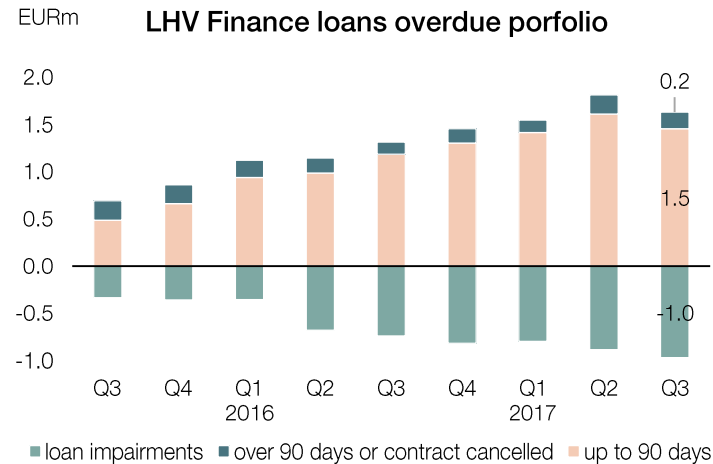
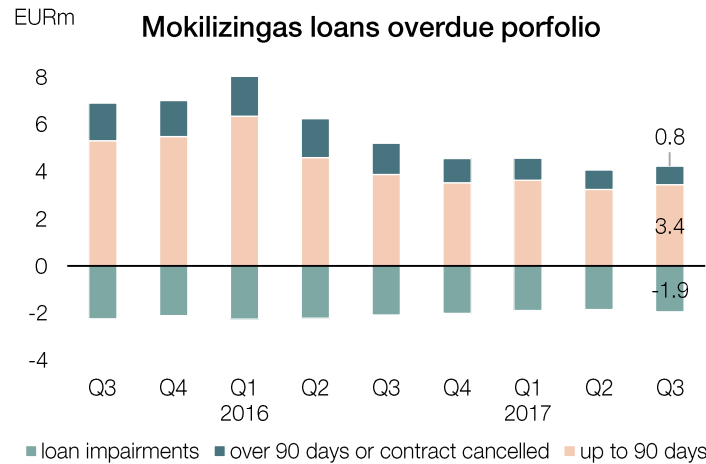
Q3 results influenced by few customers



- The growth of corporate lending overdue portfolio is linked with one specific customer and additionally couple of other customers overdues by a few days. By mid-October, the level of overdues has fallen by 12 EURm

- Other portfolios share of overdues remain low

- Mokilizingas loan portfolio credit quality is continuously improving



Madis Toomsalu

LHV Group Managing Director
madis.toomsalu@lhv.ee

Meelis Paakspuu

LHV Group CFO
meelis.paakspuu@lhv.ee