

LHV Group

Q2 2018 results
July 24, 2018



Onwards with strong focus

Main events

- Sale of Mokilizingas
- Higher income from institutional banking
- Award of Best bank in Estonia
- Additional ATMs
- Launch of factoring

Records in business volumes

- Deposits
- Loans
- Funds
- Client assets
- Customers

Other

- Disclosure of updated financial plan
- Advance income tax applied for the first time
- 16 cents dividend per share

Subsequent events

- Realization of employee stock options
- Preparations for bond program

Higher income from the sale of Mokilizingas and transaction advisory

Financial results, EURt	9 quarters	Q2-18	Q1-18	Δ quarter
Net interest income		9,832	10,195	-364
Net fee and commission income		7,529	6,232	+1,296
Other income		3,286	-91	+3,377
Total revenue		20,646	16,337	+4,310
Total operating expenses		8,226	8,880	-654
Earnings before impairment		12,420	7,457	+4,963
Impairment losses on loans		1,682	1,186	+496
Income tax		699	2,014	-1,315
Net profit		10,039	4,256	+5,783
Business volumes, EURm	9 quarters	Q2-18	Q1-18	Δ quarter
Deposits from customers		1,543	1,725	-183
Loans (net)		777	766	+11
Assets under management		1,167	1,127	+40
Customers, thous.		321	476	-155
Key figures	9 quarters	Q2-18	Q1-18	Δ quarter
Cost / income ratio (C/I)		39.8%	54.4%	- 14.5 pp
ROE (attr.to owners of the parent)		27.7%	12.4%	+ 15.3 pp

- Interest income increasing due to growing loan portfolio (not considering decrease due to Mokilizingas), good trends in net fee and commission income
- Credit portfolio quality is good, only a few clients under more thorough surveillance, resulting in additional provisions
- Pension funds focus on finding investments outside of the stock market
- Cost / income ratio and ROE influenced by extraordinary income
- Updated financial plan disclosed on May 17 is valid

LHV Group – comparison with financial plan

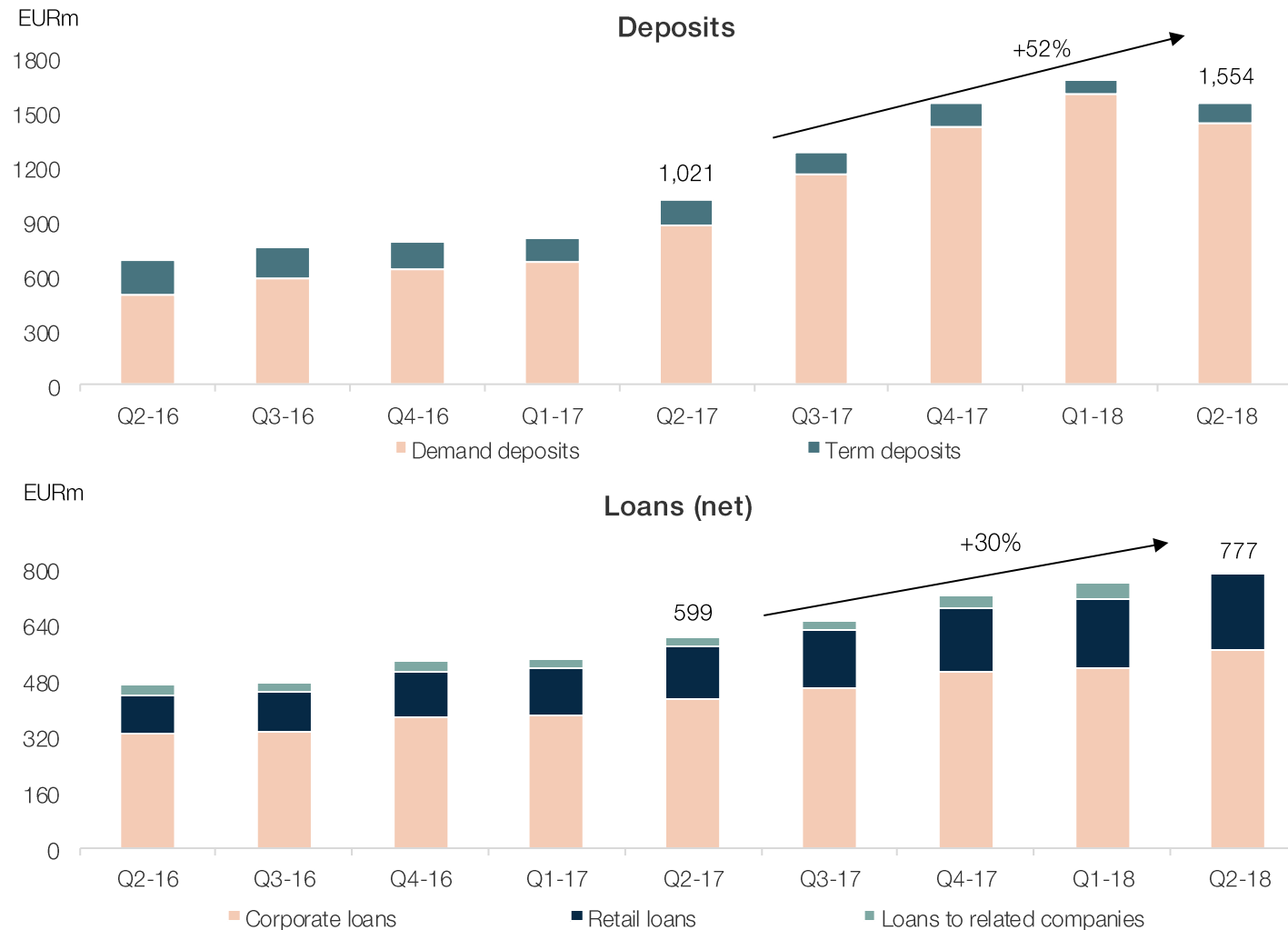
Net profit compared to financial plan +0.7 EURm

Financial results, EURt	13 months	Jun-18	YTD18	YTD17	FP YTD	Δ YTD FP
Total revenue, incl.		4,990	36,983	28,487	35,763	+1,220
Net interest income		3,124	20,027	16,771	19,861	+166
Net fee and commission income		1,886	13,761	10,498	13,196	+565
Total operating expenses		2,506	17,106	15,622	17,166	-60
Earnings before impairment		2,484	19,876	12,866	18,597	+1,279
Impairment losses on loans		300	2,868	1,933	2,376	+492
Income tax		172	2,713	1,004	2,625	+87
Net profit		2,012	14,295	9,929	13,596	+700
attr. to owners of the parent		1,878	13,474	8,890	12,799	+675
Business volumes, EURm	13 months	Jun-18	YTD18	YTD17	FP YTD	Δ YTD FP
Deposits from customers		1,543	1,543	1,008	1,390	+152
Loans (net)		777	777	606	769	+8
Assets under management		1,167	1,167	1,035	1,182	-16
Key figures	13 months	Jun-18	YTD18	YTD17	FP YTD	Δ YTD FP
Cost / income ratio (C/I)		50.2%	46.3%	54.8%	48.0%	- 1.7 pp
ROE (attr. to owners of the parent)		16.4%	20.4%	16.9%	19.4%	+ 1.0 pp
Net interest margin (NIM)		2.2%	2.2%	3.5%	2.3%	- 0.0 pp
ROA		1.4%	1.6%	2.0%	1.5%	+ 0.0 pp

- Both consolidated profit and net profit attributable to owners of the parent exceed financial plan by 0.7 EURm
- Revenues and expenses are outperforming financial plan. All business lines have performed better than planned
- Credit impairments slightly exceeded financial plan, mainly due to growing loan portfolio and one problematic client
















LHV Banking

About 6,800 new customers in Q2



- New records in customer activity. Half of the subscribers of Port of Tallinn shares were from LHV Bank
- Deposits decreased by 179 EURm, incl. 83 EURm increase by regular customers and 262 EURm decrease by payment intermediaries
- Strong 24 EURm growth in loan portfolio, which includes 18 EURm decrease in the financing of Mokilizingas
- Launch of factoring
- LHV was recognised as the best bank in Estonia by Euromoney

Higher fee and commission income resulted in record quarter profit

Financial results, EURt	9 quarters	Q2-18	Q1-18	Δ quarter
Net interest income		9,599	9,195	+404
Net fee and commission income		3,800	2,250	+1,550
Other income		276	-35	+312
Total revenue		13,676	11,411	+2,265
Total operating expenses		6,286	6,098	+188
Earnings before impairment		7,390	5,313	+2,077
Impairment losses on loans		1,596	882	+714
Income tax		631	838	-206
Net profit		5,163	3,593	+1,569
Business volumes, EURm	9 quarters	Q2-18	Q1-18	Δ quarter
Deposits from customers		1,555	1,733	-179
Loans (net)		777	753	+23
Customers, thous.		176	170	+6
Key figures	9 quarters	Q2-18	Q1-18	Δ quarter
Cost / income ratio (C/I)		46.0%	53.4%	- 7.5 pp
ROE (attr.to owners of the parent)		17.2%	13.4%	+ 3.8 pp
Net interest margin (NIM)		2.1%	2.0%	+10 bp

- EBT 5.8 EURm, net profit 5.2 EURm
- Higher fee and commission income due to realization of institutional banking transactions
- In Q2, impairments increased 0.9 EURm due to one customer and 0.6 EURm due to growing loan portfolio
- From April, advance income tax applied on the bank, which is expensed directly

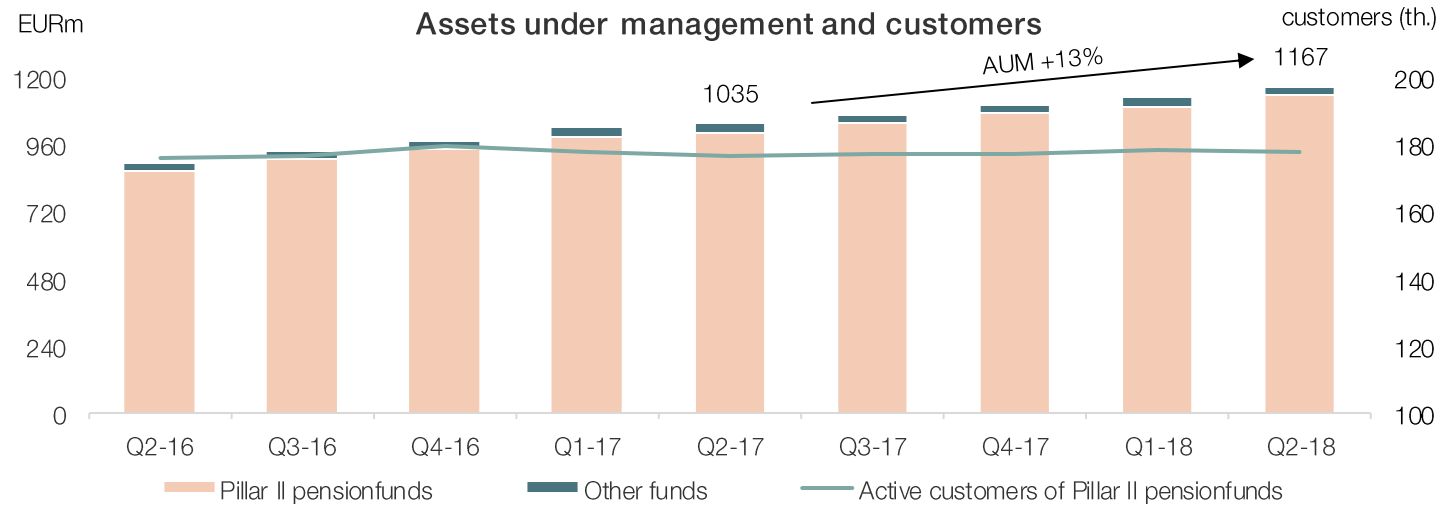
LHV Banking – comparison with financial plan

Net profit ahead of updated financial plan by +0.3 EURm

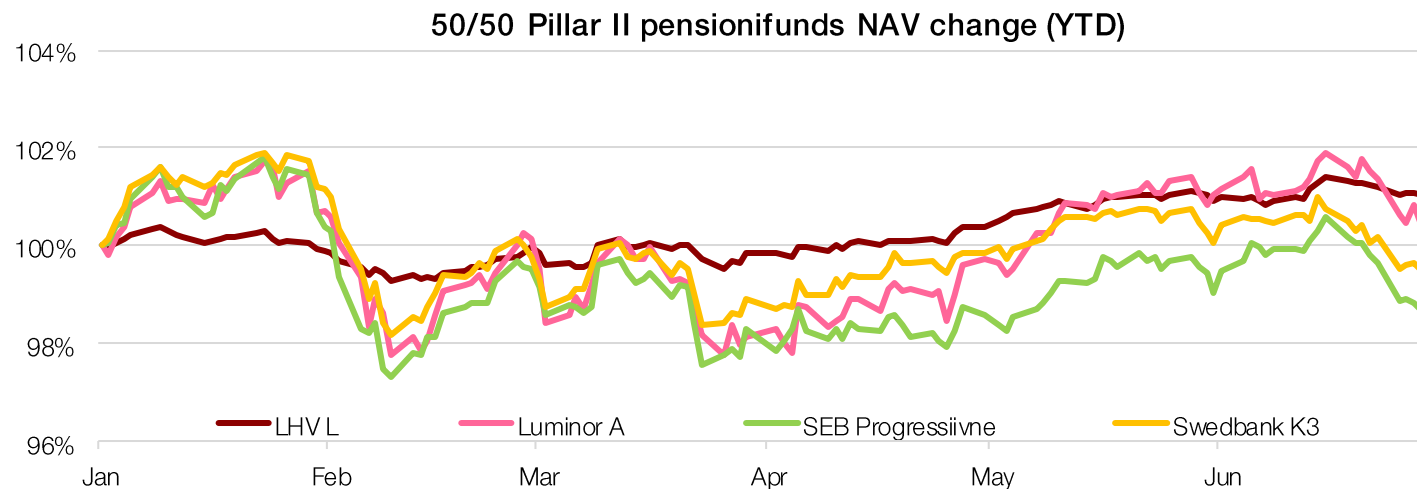
Financial results, EURt	13 months	Jun-18	YTD18	YTD17	FP YTD	Δ YTD FP
Total revenue, incl.		3,909	25,087	19,552	24,150	+937
Net interest income		3,188	18,795	14,826	18,440	+354
Net fee and commission income		749	6,051	3,627	5,707	+343
Total operating expenses		1,997	12,383	9,966	12,286	+97
Earnings before impairment		1,912	12,704	9,586	11,864	+840
Impairment losses on loans		300	2,479	1,952	1,952	+527
Income tax		172	1,469	0	1,427	+42
Net profit		1,440	8,756	7,634	8,485	+271
Business volumes, EURm	13 months	Jun-18	YTD18	YTD17	FP YTD	Δ YTD FP
Deposits from customers		1,555	1,555	1,022	1,402	+152
Loans (net)		777	777	599	769	+8
Key figures	13 months	Jun-18	YTD18	YTD17	FP YTD	Δ YTD FP
Cost / income ratio (C/I)		51.1%	49.4%	51.0%	50.9%	- 1.5 pp
CT1 capital adequacy		14.2%	14.2%	13.8%	13.2%	+ 1.0 pp
Total capital adequacy		17.0%	17.0%	17.3%	15.7%	+ 1.2 pp
Net interest margin (NIM)		2.2%	2.1%	3.1%	2.1%	- 0.0 pp

- Net profit exceeded financial plan updated in May by 0.3 EURm mainly due to higher revenues: bigger loan portfolio, higher fee and service income and higher than planned balance of payment intermediaries' deposits during the quarter
- Loan impairments exceed financial plan due to additional impairment of an existing customer
- Deposits exceeded financial plan by 152 EURm and loans by 8 EURm
- First half-year cost / income ratio below 50%

LHV actively managed funds have offered more stable returns



- LHV II pillar funds returns were positive in Q2 (from +0.5% to +4.6%) except for recently started pension fund Eesti (-0.2%)
- Actively managed funds have achieved returns in more stable manner than competitors. Passively managed funds returns were positively affected by strengthened dollar
- Q2 was not an active sales period. However, number of leaving customers was lower than planned



LHV Asset Management

Growth of funds increased revenues

Financial results, EURt	9 quarters	Q2-18	Q1-18	Δ quarter
Total revenue		3,415	3,339	+76
Total operating expenses		1,396	1,486	-90
EBIT		2,019	1,853	+166
Net financial income		47	-66	+113
Income tax		0	1,100	-1,100
Net profit		2,066	687	+1,379
Business volumes, EURm	9 quarters	Q2-18	Q1-18	Δ quarter
Pillar II pensionfunds		1,138	1,097	+41
Pillar III pensionfunds		17	16	+1
Eurofunds		12	14	-2
Active customers of PII funds, thous.		178	178	-0
Key figures	9 quarters	Q2-18	Q1-18	Δ quarter
Cost / income ratio (C/I)		40.9%	44.5%	- 3.6 pp
ROE		34.5%	13.7%	+ 20.8 pp

- Operating income increased together with fund volumes (+40 EURm). Expenses have been lower and Cost / income ratio improved
- Net profit of the quarter 2.1 EURm
- In April, share capital was reduced from 2.7 EURm to 1.5 EURm

LHV Asset Management – comparison with financial plan

Number of customers ahead of plan, however AUM is behind

Financial results, EURt	13 months	Jun-18	YTD18	YTD17	FP YTD	Δ YTD FP
Total revenue		1,136	6,736	6,611	6,732	+4
Total expenses		494	2,882	3,324	2,926	-44
Earnings before taxes		642	3,853	3,287	3,806	+48
Income tax		0	1,100	951	1,100	+0
Net profit		642	2,753	2,336	2,706	+48
Business volumes	13 months	Jun-18	YTD18	YTD17	FP YTD	Δ YTD FP
Assets under management, EURm		1,167	1,167	1,035	1,182	-16
Active customers of PII funds, thous.		178	178	177	176	+2
Key figures	13 months	Jun-18	YTD18	YTD17	FP YTD	Δ YTD FP
Cost / income ratio (C/I)		43.5%	42.7%	51.1%	43.2%	- 0.5 pp
Funds average return		0.2%	1.0%	1.6%	1.6%	- 0.7 pp

- Lower than planned AUM is affecting service fee income. Total revenue is ahead of plan due to higher financial income (investments into own funds)
- Customers' loyalty has improved and number of active II pillar pension fund customers is higher than forecasted. However, during the quarter, number of customers decreased as sales **are** seasonal and Q2 was not an active sales period

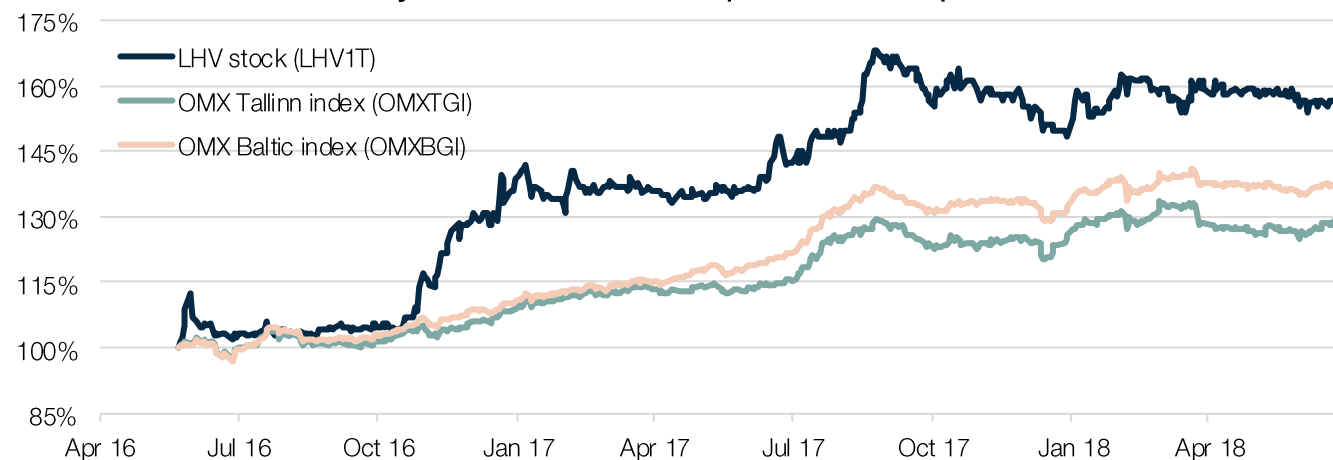
LHV Group

Stock information



- Closing share price 11 EUR in the end of Q2
- 889 trades were made with the stock during Q2 on the market with a turnover of 3.5 EURm which gave the stock an average price of 11.06 EUR
- Shareholders earnings per share (EPS) in Q2 is 0.37 EUR and cumulative shareholders EPS is 0.52 EUR
- As of June 30, 2018 LHV had 5,510 shareholders and 52% of shares belonged to supervisory and management board members and parties associated with them
- Market capitalization based on closing price of 30.06.2018 is 283 EURm

Dynamics of LHV stock price and comparison indexes



LHV Group
6 months

1 mln

Card payments in a month

LHV Bank

Best place for holding LHV
shares

United Kingdom

Active interest of customers

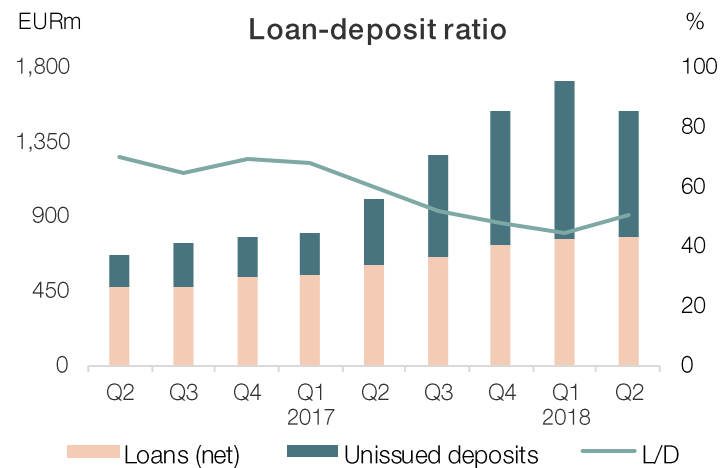
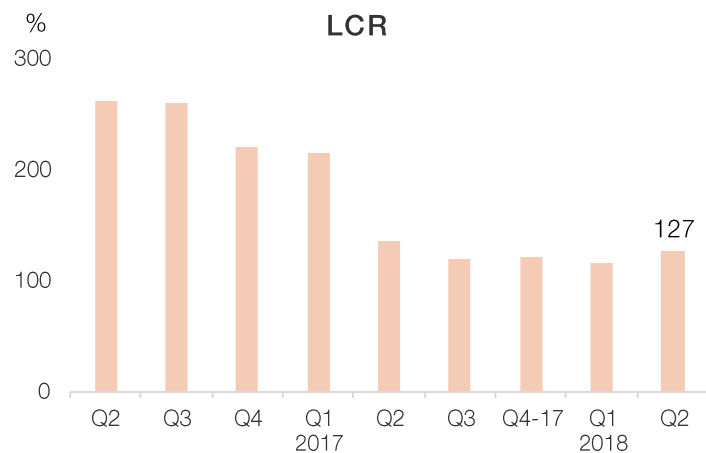
6,800

Bank customer increase

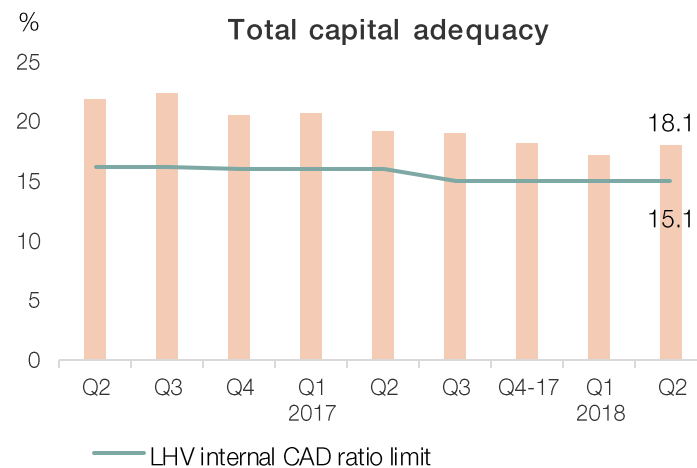
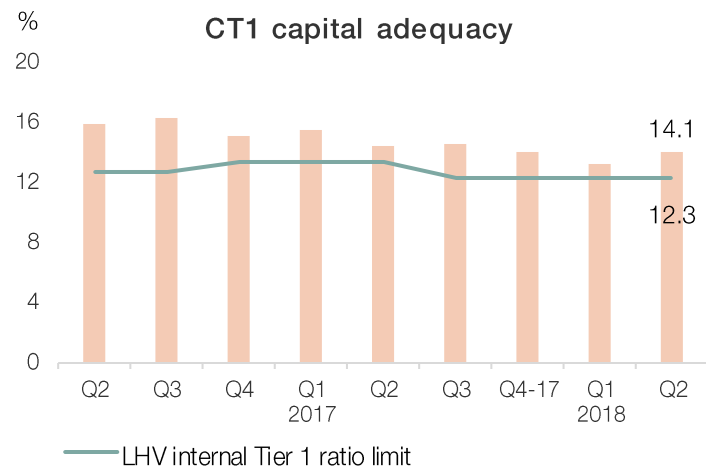
Annexes

LHV Group

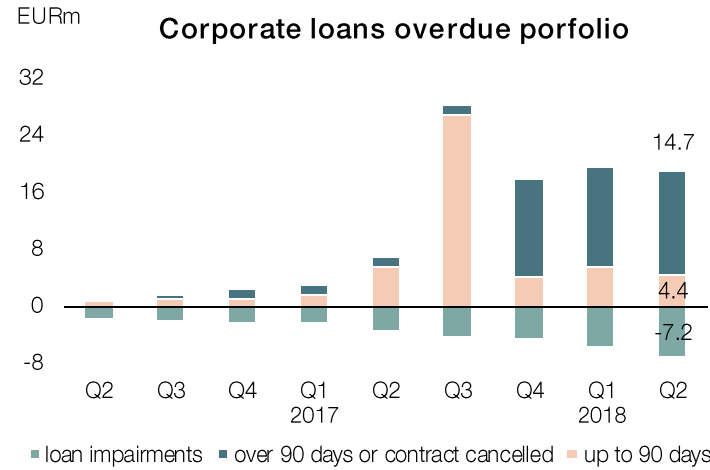
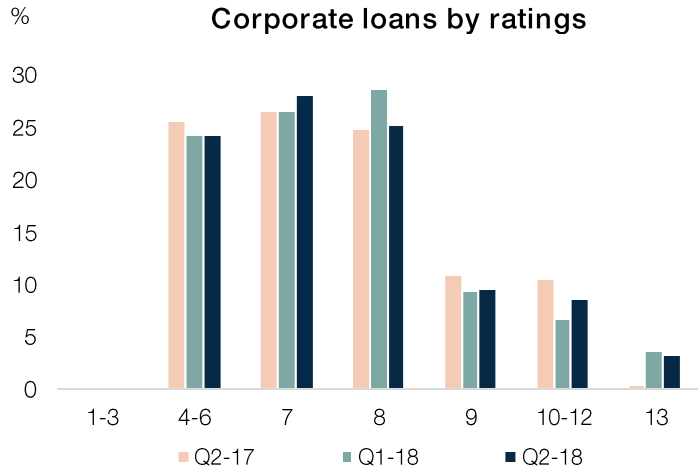
Strong liquidity and capitalization



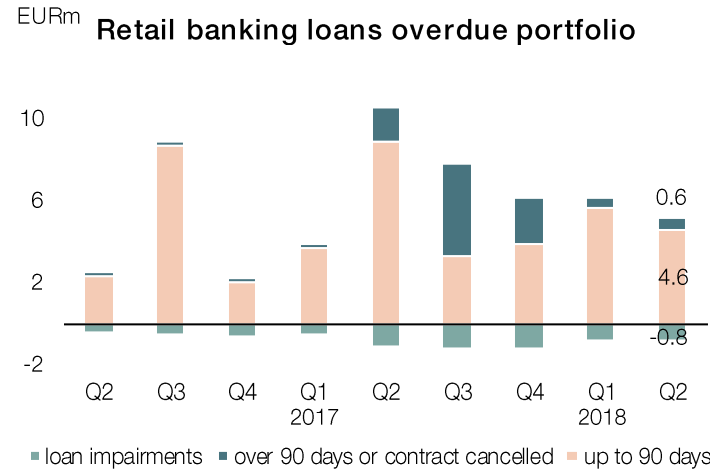
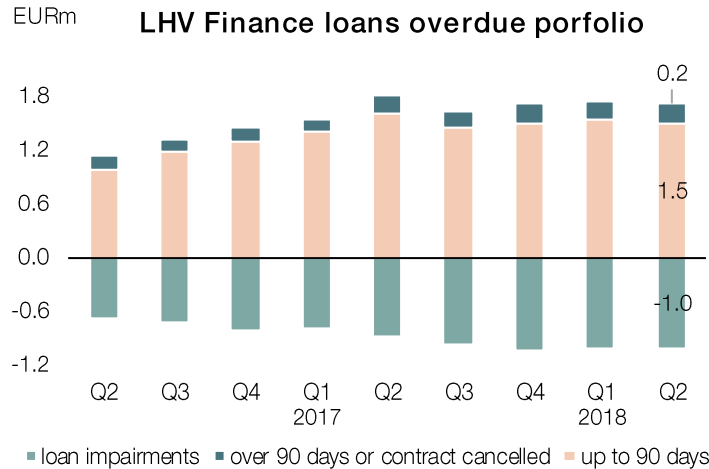
- LCR and loan /deposit ratio have been influenced by one payment intermediary's large balance. Excluding payment intermediaries, LCR would increase to 216%
- Strong capital adequacy ratio, significantly above regulatory and internal targets



Loan portfolio quality influenced by loans to a 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
- Other portfolios share of overdues remain low



Madis Toomsalu

LHV Group Managing Director
madis.toomsalu@lhv.ee

Meelis Paakspuu

LHV Group CFO
meelis.paakspuu@lhv.ee