

LHV Group

Q3 2018 results
October 23, 2018

Eventful quarter

For customers

- Youth Bank
- Micro-investing
- E-recognition
- Improved accessibility to cash withdrawal

Records in business volumes

- Customer numbers
- Loans
- Deposits
- Funds
- Assets under management
- Card payments

Other

- Best Bank in Estonia recognition by Euromoney
- New Board member of LHV Bank
- Contract with deposit platform Raisin
- Preparations for bond program

Strategy

- Increase number of customers in Estonia's larger cities
- Increase customer activity
- Increase corporate loan portfolio
- Complement financial intermediaries product portfolio
- Best performance among pension funds

All business volumes are growing

Financial results, EURt	9 quarters	Q3-18	Q2-18	Δ quarter
Net interest income		9,455	9,832	-377
Net fee and commission income		6,147	7,529	-1,382
Other income		846	3,286	-2,440
Total revenue		16,447	20,646	-4,199
Total expenses		7,918	8,226	-308
Earnings before impairment		8,529	12,420	-3,891
Impairment losses on loans		1,858	1,682	+176
Income tax expense		501	699	-198
Net income		6,170	10,039	-3,869

Business volumes, EURm	9 quarters	Q3-18	Q2-18	Δ quarter
Deposits from customers		1,638	1,543	+95
Loans (net)		812	777	+35
Assets under management		1,204	1,167	+37
Customers, thous.		326	321	+5

Key figures	9 quarters	Q3-18	Q2-18	Δ quarter
Cost / income ratio (C/I)		48.1%	39.8%	+ 8.3 pp
ROE (attr. to shareholders)		15.9%	27.7%	- 11.8 pp
pre-tax ROE (attr. to shareholders)		17.3%	29.6%	- 12.3 pp

- Quarterly decrease of net interest income due final impacts from sale of Mokilizingas. Good trends in net fee and commission income, Q2 included extraordinary income from transaction advisory
- All important business volumes – loans, deposits, funds – are growing
- Pension funds focus on finding investments outside of the stock market
- Positive effect of extraordinary income from institutional banking 0.7 EURm was offset by specific allowances of 1.2 EURm

LHV Group – comparison with financial plan

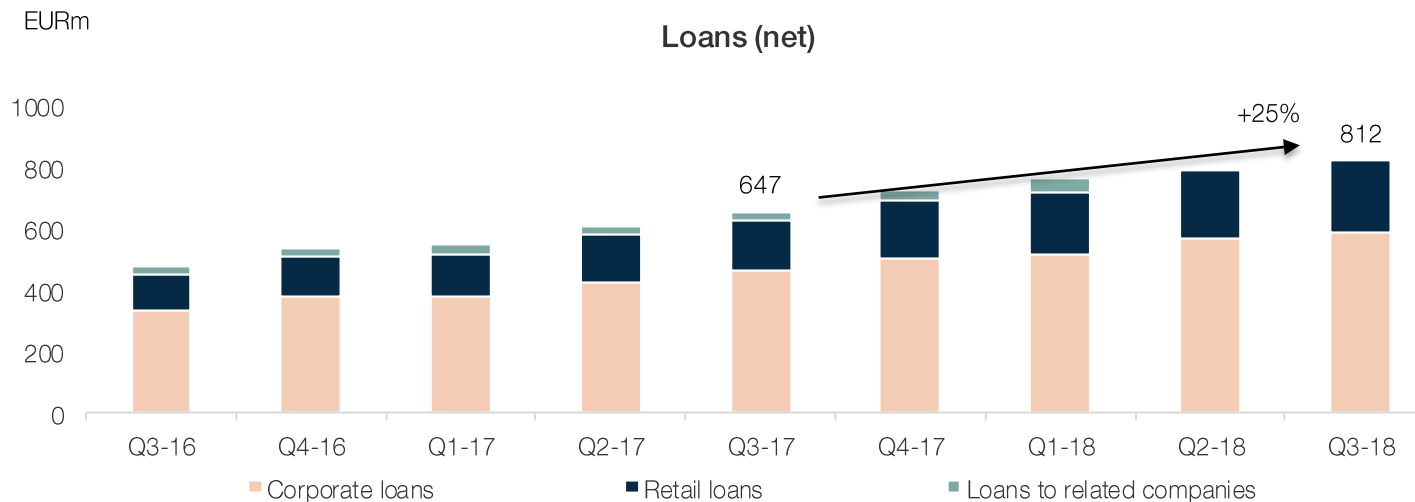
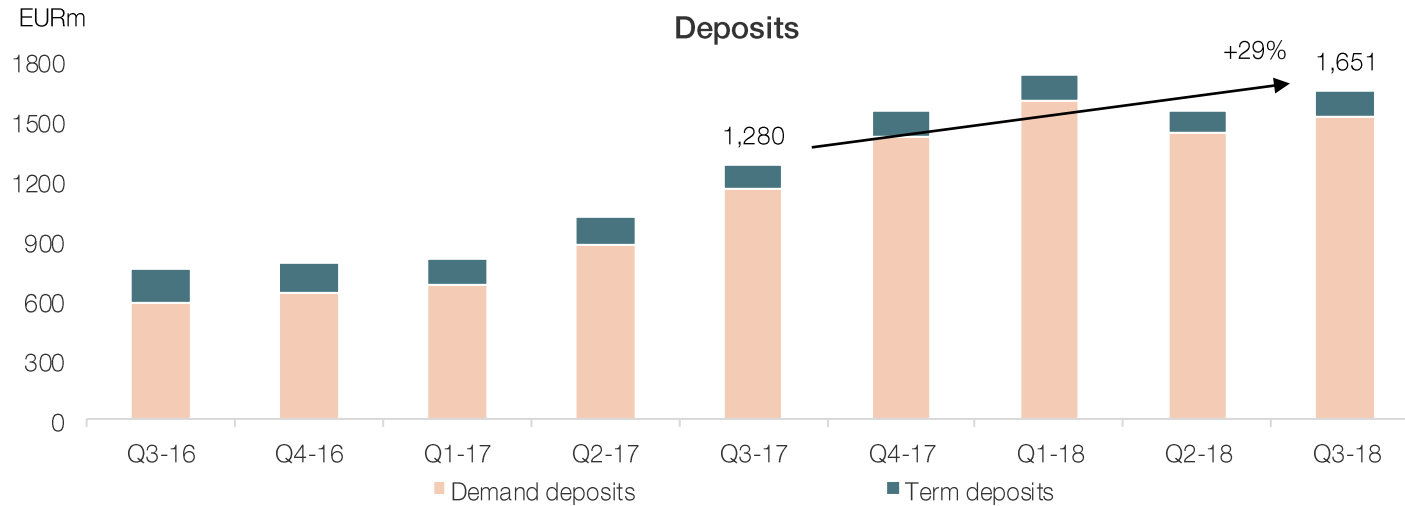
Net profit compared to financial plan +1 EURm

Financial results, EURt	13 months	Sep-18	YTD18	YTD17	FP YTD	Δ YTD FP
Total revenue, incl.		5,079	53,430	43,084	51,343	+2,087
Net interest income		3,135	29,482	25,634	29,462	+20
Net fee and commission income		1,944	19,908	16,193	19,059	+849
Total operating expenses		2,641	25,024	23,459	25,269	-245
Earnings before impairment		2,438	28,406	19,625	26,073	+2,332
Impairment losses on loans		1,093	4,727	3,193	3,576	+1,151
Income tax		49	3,214	1,046	3,078	+135
Net profit, incl.		1,297	20,465	15,385	19,419	+1,046
attr. to shareholders		1,146	19,188	13,917	18,171	+1,018
Business volumes, EURm	13 months	Sep-18	YTD18	YTD17	FP YTD	Δ YTD FP
Deposits from customers		1,638	1,638	1,268	1,362	+276
Loans (net)		812	812	656	803	+9
Assets under management		1,204	1,204	1,067	1,229	-25
Key figures	13 months	Sep-18	YTD18	YTD17	FP YTD	Δ YTD FP
Cost / income ratio (C/I)		52.0%	46.8%	54.4%	49.2%	- 2.4 pp
ROE (attr.to shareholders)		9.5%	18.7%	17.2%	17.8%	+ 0.9 pp
pre-tax ROE (attr.to shareholders)		9.9%	22.0%	18.4%	21.0%	+ 1.0 pp
Net interest margin (NIM)		2.1%	2.2%	3.2%	2.3%	- 0.1 pp
ROA		0.9%	1.5%	1.9%	1.5%	- 0.0 pp

- Revenues and expenses are outperforming financial plan
- Deposits and loans exceed financial plan, AUM is slightly behind
- Credit impairments slightly exceeded financial plan, mainly due to growing loan portfolio and one problematic customer
- Net profit exceeds financial plan disclosed on May 17 by 1 EURm

LHV Banking

More than 7,300 new customers in Q3



- New records in customer activity in payments, cards and investments
- Deposits increased by 97 EURm, incl. 41 EURm increase from payment intermediaries. Private customer deposits increased by 24 EURm quarterly
- Strong 35 EURm growth in loan portfolio, including 15 EURm in corporate loans and 20 EURm in retail loans
- Youth bank campaign kicked off student loan offering

Good revenue base, but also increased provisions

Financial results, EURt	9 quarters	Q3-18	Q2-18	Δ quarter
Net interest income		9,646	9,599	+47
Net fee and commission income		2,587	3,800	-1,213
Other income		823	276	+547
Total revenue		13,057	13,676	-619
Total expenses		6,319	6,286	+33
Earnings before impairments		6,738	7,390	-652
Impairment losses on loans		1,858	1,596	+262
Income tax expense		501	631	-130
Net income		4,379	5,163	-784
Business volumes, EURm	9 quarters	Q3-18	Q2-18	Δ quarter
Deposits from customers		1,652	1,555	+97
Loans (net)		812	777	+35
Customers, thous.		184	176	+7
Key figures	9 quarters	Q3-18	Q2-18	Δ quarter
Cost / income ratio (C/I)		48.4%	46.0%	+ 2.4 pp
ROE (attr. to shareholders)		13.7%	17.2%	- 3.5 pp
pre-tax ROE (attr. to shareholders)		15.5%	19.5%	- 4.0 pp
Net interest margin		2.2%	2.1%	+ 0.0 pp

- In Q3 realization of institutional banking closed transactions increased the revenue base
- Following conservatism principle we created additional allowance due to one problematic customer in amount of 1.4 EURm. The rest of the portfolio is performing well
- EBT 4.9 EURm, net profit 4.4 EURm

LHV Banking – comparison with financial plan

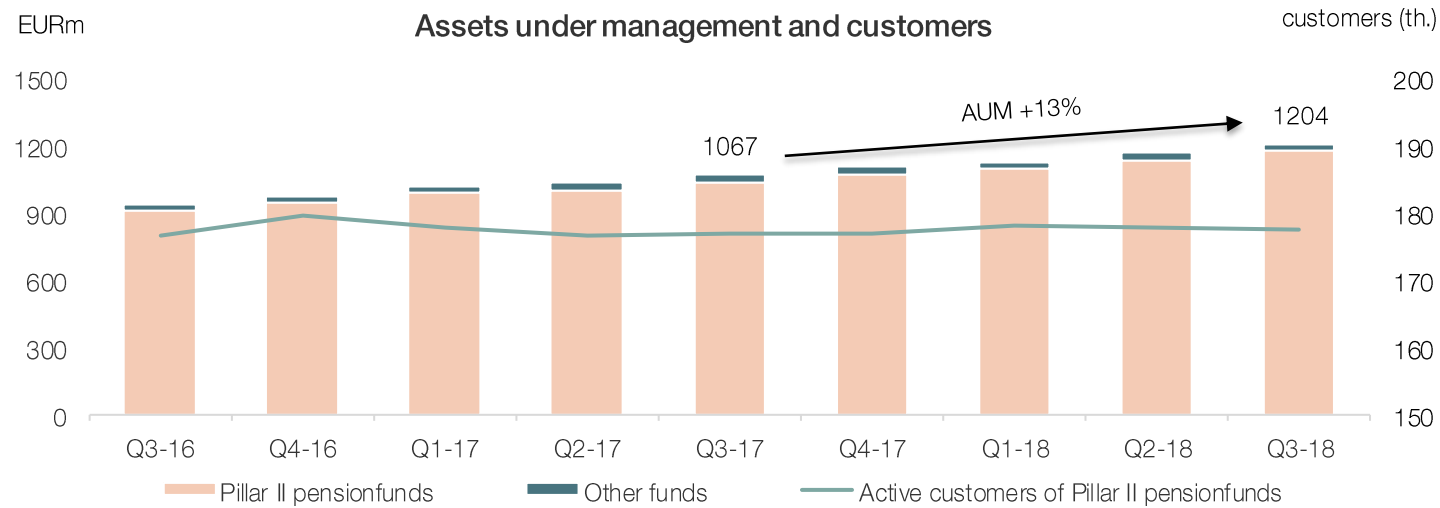
Net profit ahead of updated financial plan by +0.6 EURm

Financial results, EURt	13 months	Sep-18	YTD18	YTD17	FP YTD	Δ YTD FP
Total revenue, incl.		3,982	38,144	29,649	36,277	+1,867
Net interest income		3,199	28,441	22,754	28,250	+191
Net fee and commission income		772	8,638	5,771	7,982	+656
Total operating expenses		2,111	18,702	15,005	18,687	+16
Earnings before impairment		1,871	19,442	14,644	17,591	+1,851
Impairment losses on loans		1,093	4,337	3,050	3,152	+1,185
Income tax		49	1,970	0	1,880	+90
Net profit		729	13,135	11,593	12,559	+576
Business volumes, EURm		Sep-18	YTD18	YTD17	FP YTD	Δ YTD FP
Deposits from customers		1,652	1,652	1,280	1,374	+277
Loans (net)		812	812	647	802	+10
Key figures		Sep-18	YTD18	YTD17	FP YTD	Δ YTD FP
Cost / income ratio (C/I)		53.0%	49.0%	50.6%	51.5%	- 2.5 pp
CT1 capital adequacy		14.4%	14.4%	13.9%	13.7%	+ 0.7 pp
Total capital adequacy		17.1%	17.1%	17.0%	16.2%	+ 0.8 pp
Net interest margin (NIM)		2.1%	2.1%	2.9%	2.2%	- 0.1 pp

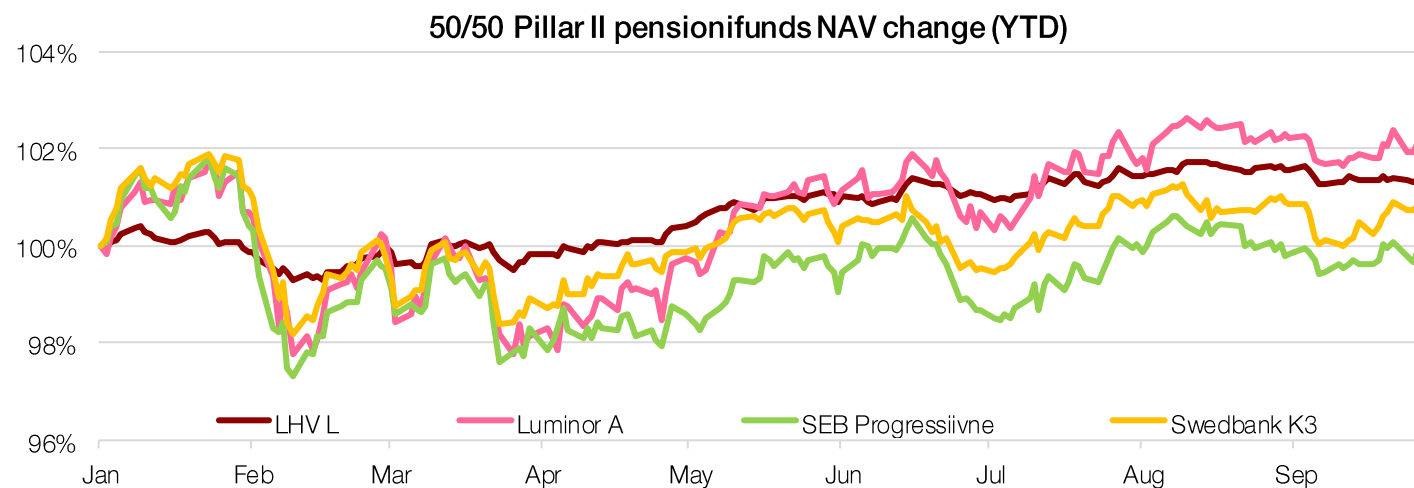
- Net profit exceeded financial plan by 0.6 EURm mainly due to higher revenues: higher fee and commission income, larger loan portfolio and higher than planned balance of payment intermediaries' deposits during the quarter
- Loan impairments exceed financial plan due to additional impairment of an existing customer
- Deposits exceeded financial plan by 277 EURm and loans by 10 EURm
- First half-year cost / income ratio continuously below 50%

LHV Asset Management

Volume of LHV funds 1.2 EURb



- Largest LHV II pillar funds returns were near +0.5% in Q3
- Only 3 sectors in the USA are performing remarkably positive in world stock markets. Other sectors' and areas' performance is close to zero (e.g. Europe) or negative (developing markets)
- Number of II pillar funds customers decreased by 0.3 thousand. From the beginning of the year +0.5 thousand new customers



LHV Asset Management










Quarterly profit 2.1 EURm

Financial results, EURt	9 quarters	Q3-18	Q2-18	Δ quarter
Total revenue		3,559	3,415	+144
Total operating expenses		1,412	1,396	+16
EBIT		2,147	2,019	+128
Net financial income		-5	47	-52
Net profit		2,142	2,066	+76
Business volumes, EURm				
	9 quarters	Q3-18	Q2-18	Δ quarter
Pillar II pensionfunds		1,175	1,138	+38
Pillar III pension funds		17	17	-0
Eurofunds		12	12	-0
Active customers of PII funds, thous.		177	178	-0
Key figures				
	9 quarters	Q3-18	Q2-18	Δ quarter
Cost / income ratio (C/I)		39.7%	40.9%	- 1.2 pp
ROE		33.6%	34.5%	- 0.9 pp
pre-tax ROE		33.6%	34.5%	- 0.9 pp

- Operating income increased together with fund volumes (+37 EURm).
- Operating expenses were 1.4 EURm and profit 2.1 EURm
- Selling costs were amortized in amount of 0.4 EURm (0.3 EURm in Q2)

LHV Asset Management – comparison with financial plan

Profit outperforming financial plan due to lower expenses

Financial results, EURt	13 months	Sep-18	YTD18	YTD17	FP YTD	Δ YTD FP
Total revenue		1 151	10 290	9 958	10 351	-61
Total expenses		495	4 295	4 994	4 426	-132
Earnings before taxes		657	5 995	4 964	5 925	+70
Income tax		0	1 100	951	1 100	+0
Net profit		657	4 895	4 014	4 825	+70
Business volumes	13 months	Sep-18	YTD18	YTD17	FP YTD	Δ YTD FP
Assets under management, EURm		1 204	1 204	1 067	1 229	-25
Active customers of PII funds, thous.		177	177	177	176	+1
Key figures	13 months	Sep-18	YTD18	YTD17	FP YTD	Δ YTD FP
Cost / income ratio (C/I)		42,2%	41,6%	50,7%	42,7%	- 1.1 pp
Funds average return		0,0%	1,4%	2,1%	2,5%	- 1.0 pp

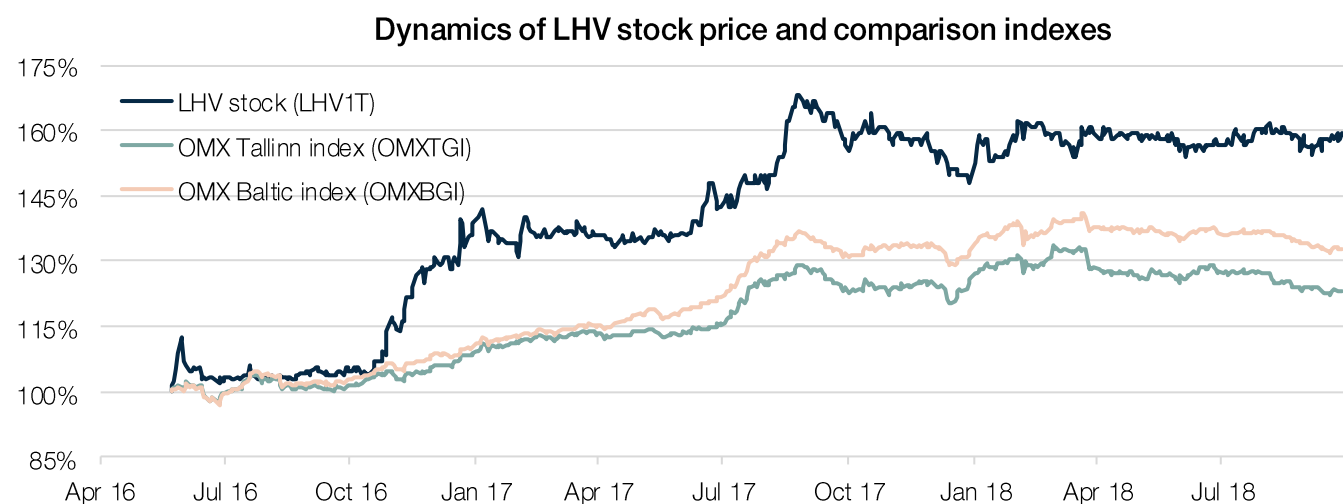
- Deviation from financial plan from the expenses side which have been lower than planned. Lower revenue is also affected by financial income (investments into own funds)
- Customer's movement between pension funds has slightly decreased. Number of active II pillar pension fund customers is exceeding financial plan, however AUM is behind

LHV Group

Stock information



- Closing share price 11.15 EUR in the end of Q3
- 871 trades were made with the stock during Q3 on the market with a turnover of 2.5 EURm which gave the stock an average price of 11.10 EUR
- Shareholders earnings per share (EPS) in Q3 is 0.22 EUR and cumulative shareholders EPS is 0.74 EUR
- As of 30 September 2018 LHV had 5,528 shareholders and 52% of shares belonged to supervisory and management board members and parties associated with them
- Market capitalization based on closing price of 30.09.2018 was 290 EURm



LHV Group
9 months

20.5 EURm

Net profit

22%

Pre-tax ROE

Best bank in Estonia

Euromoney award

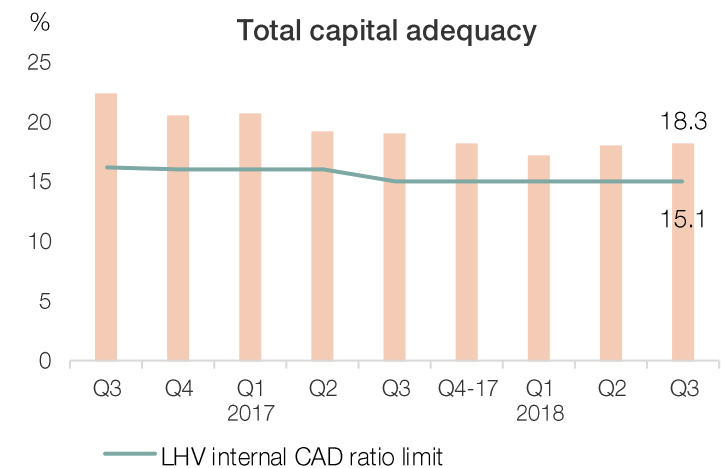
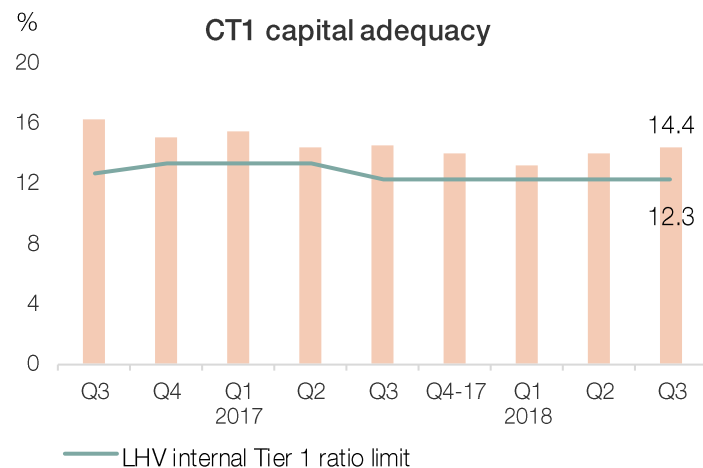
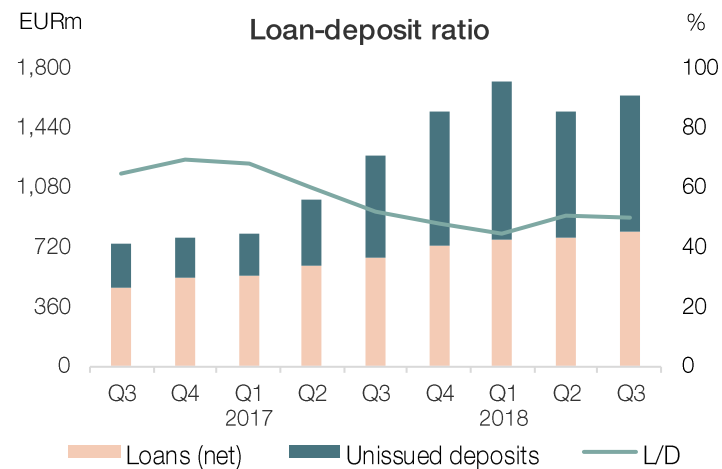
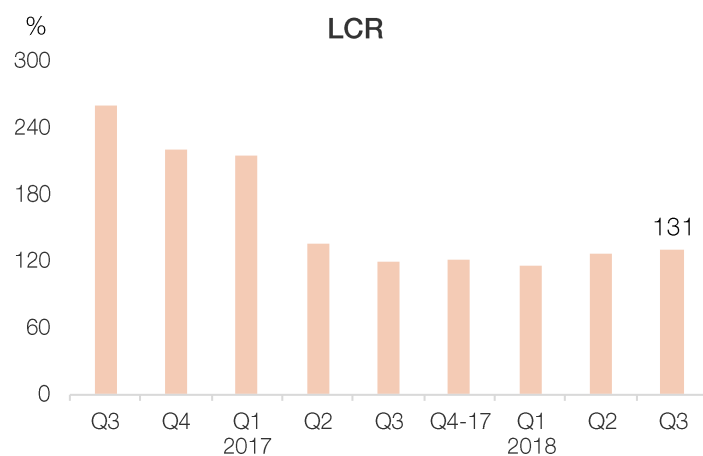
20,000

Bank customer increase

Annexes

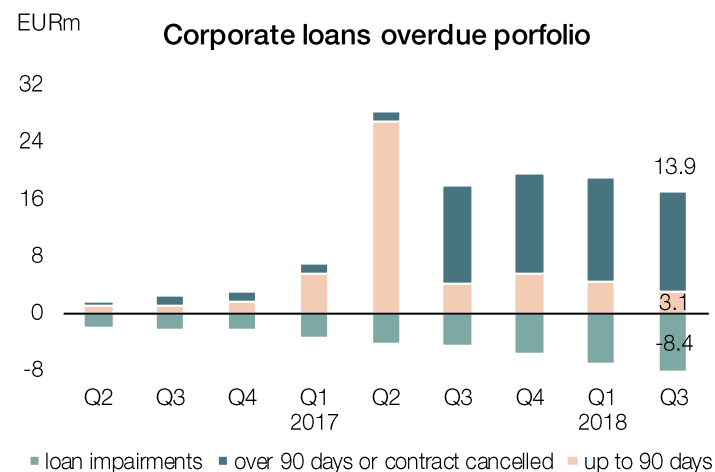
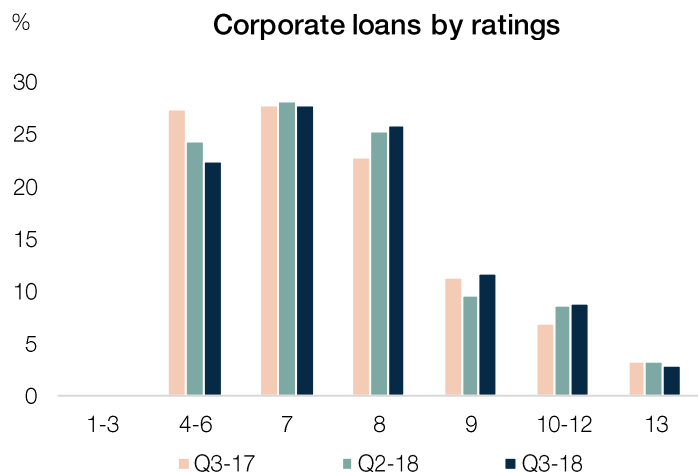
LHV Group

Strong liquidity and capitalization

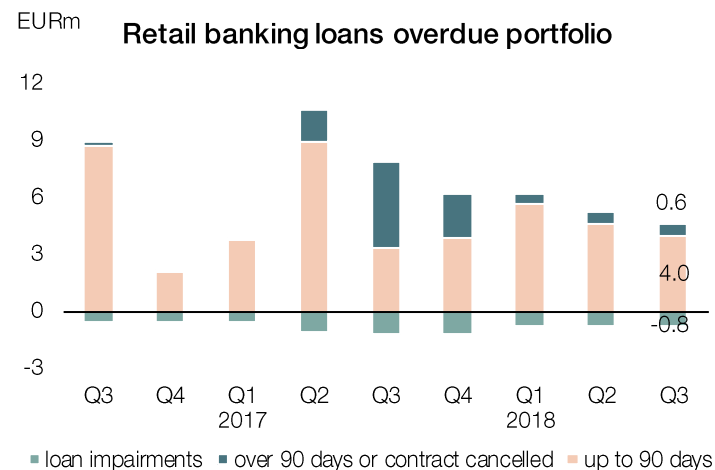
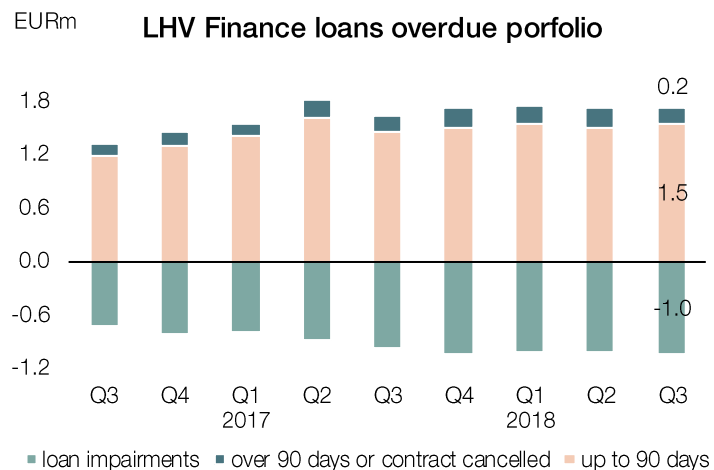


- LCR and loan /deposit ratio have been influenced by one payment intermediary's large balance. Excluding payment intermediaries, LCR would increase to 240%
- Strong capital adequacy ratio, significantly above regulatory and internal targets. In October new internal capital adequacy ratios were set considering SREP feedback: 15.5%, 12.1% and 10.4%

Loan portfolio quality influenced by loans to a few specific 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