

# LHV Group

Q4 2018 results  
January 29, 2019



# Greeting the new year with strong capitalization and growth

## For customers

- Baltic shares trading in mobile bank
- Car insurance for leasing customers

## Records in business volumes

- Customer numbers
- Loans
- Deposits (excl. financial intermediaries)
- Funds
- Assets under management
- Card payments

## Other

- Intent of acquiring Versopank loan portfolio
- Moody's assigned investment grade rating to Bank
- Change in regulation of investment funds
- Subordinated bonds issue 3.2 times oversubscribed
- New capital requirements Tier1 12.10% and CAD 15.50%

## Quarter with record loan growth and solid profit

Financial results, EURt	9 quarters	Q4-18	Q3-18	Δ quarter
Net interest income		10,289	9,455	+834
Net fee and commission income		6,094	6,147	-53
Other income		212	846	-633
<b>Total revenue</b>		<b>16,595</b>	<b>16,447</b>	<b>+148</b>
<b>Total expenses</b>		<b>8,783</b>	<b>7,918</b>	<b>+866</b>
<b>Earnings before impairment</b>		<b>7,811</b>	<b>8,529</b>	<b>-718</b>
Impairment losses on loans		543	1,858	-1,316
Income tax expense		544	501	+43
<b>Net income</b>		<b>6,725</b>	<b>6,170</b>	<b>+555</b>
Business volumes, EURm	9 quarters	Q4-18	Q3-18	Δ quarter
Deposits from customers		1,422	1,638	-216
Loans (net)		919	812	+107
Assets under management		1,214	1,204	+11
Customers, thous.		337	326	+11
Key figures	9 quarters	Q4-18	Q3-18	Δ quarter
Cost / income ratio (C/I)		52.9%	48.1%	+ 4.8 pp
ROE*		16.1%	15.9%	+ 0.2 pp
pre-tax ROE*		17.5%	17.3%	+ 0.2 pp

- Net interest income that decreased after the sale of Mokilizingas is again at the highest level and continuously growing. Good trends in net fee and commission income
- All important business volumes – loans, deposits, funds – are growing. In Q4 record-breaking loan growth 107 EURm, however, it includes new loans issued under previously concluded contracts; growth in next quarters is likely to be slower
- Pension funds focus on finding investments outside of the stock market
- Net profit of the quarter – solid 6.7 EURm

\* ROE is based on LHV Group net profit and equity attributable to the owners of AS LHV Group

# LHV Group – comparison with financial plan

## Net profit compared to financial plan +1.1 EURm

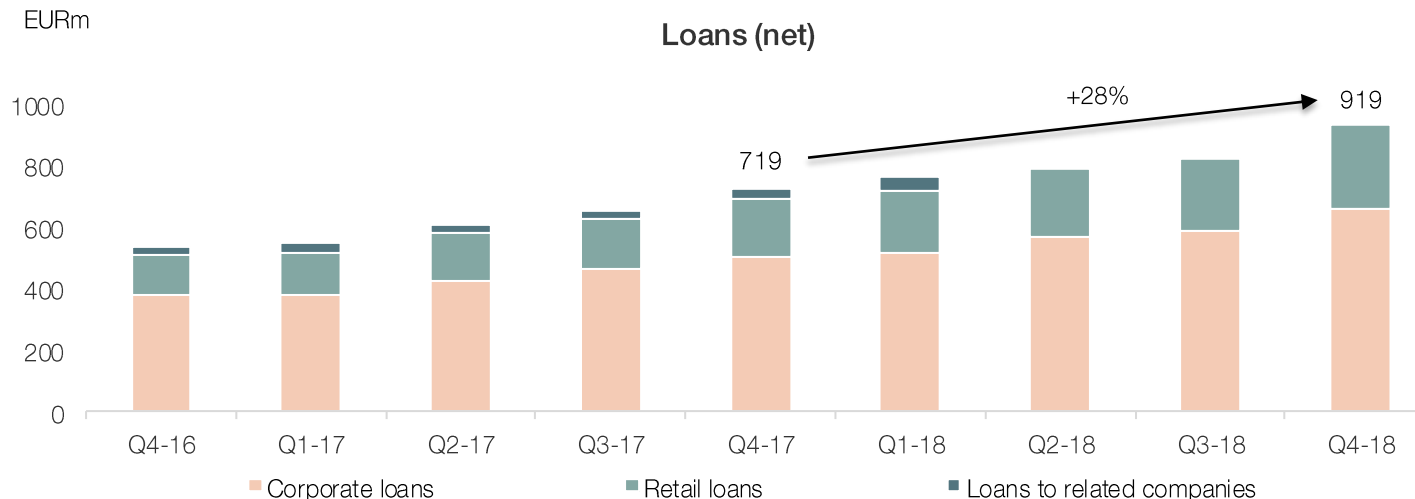
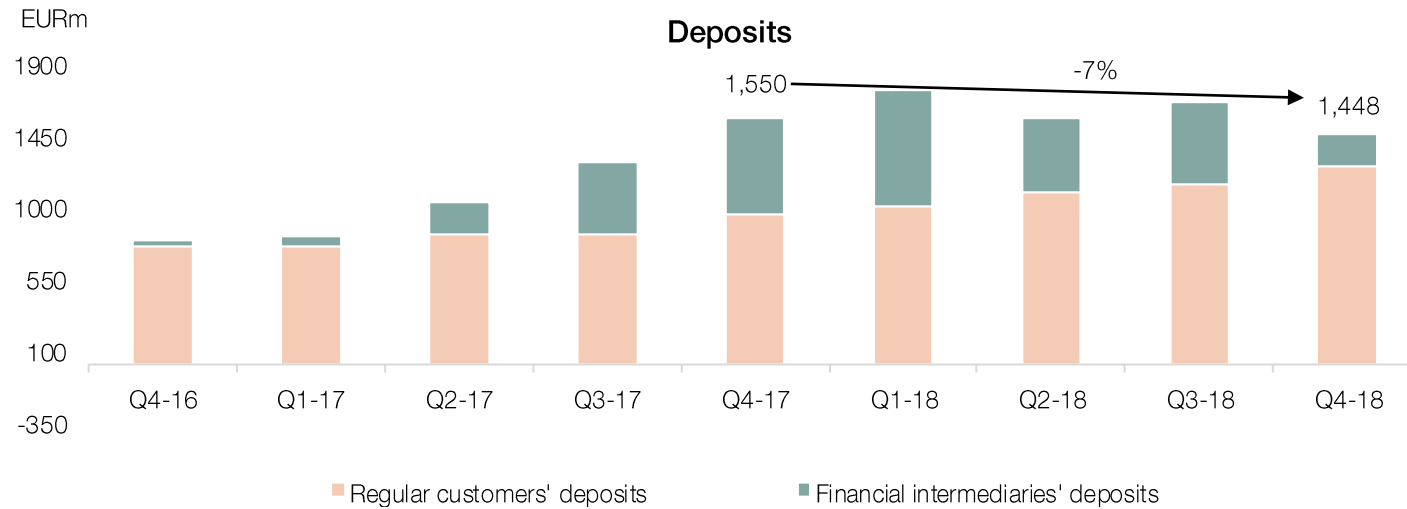
Financial results, EURt	13 months	Dec-18	YTD18	YTD17	FP YTD	Δ YTD FP
<b>Total revenue, incl.</b>		5,775	70,024	58,523	67,675	+2,349
Net interest income		3,598	39,770	35,502	39,533	+237
Net fee and commission income		2,015	26,002	22,180	25,206	+796
<b>Total operating expenses</b>		2,867	33,807	31,945	33,342	+465
<b>Earnings before impairment</b>		2,908	36,217	26,578	34,333	+1,884
Impairment losses on loans		435	5,269	3,154	4,611	+658
Income tax		213	3,758	1,248	3,638	+120
<b>Net profit, incl.</b>		2,261	27,190	22,177	26,084	+1,106
attr. to shareholders		2,067	25,237	19,602	24,348	+889
<b>Business volumes, EURm</b>	<b>13 months</b>	<b>Dec-18</b>	<b>YTD18</b>	<b>YTD17</b>	<b>FP YTD</b>	<b>Δ YTD FP</b>
Deposits from customers		1,422	1,422	1,537	1,334	+88
Loans (net)		919	919	732	835	+84
Assets under management		1,214	1,214	1,103	1,269	-55
<b>Key figures</b>	<b>13 months</b>	<b>Dec-18</b>	<b>YTD18</b>	<b>YTD17</b>	<b>FP YTD</b>	<b>Δ YTD FP</b>
Cost / income ratio (C/I)		49.6%	48.3%	54.6%	49.3%	- 1.0 pp
pre-tax ROE*		17.6%	20.9%	18.6%	20.3%	+ 0.6 pp
ROE*		16.0%	18.4%	17.6%	17.9%	+ 0.6 pp
Net interest margin (NIM)		2.6%	2.3%	3.0%	2.4%	- 0.1 pp
ROA		1.6%	1.5%	1.9%	1.5%	- 0.0 pp

- Revenues are outperforming financial plan by 2.3 EURm and expenses by 0.5 EURm
- Deposits and loans exceed financial plan, AUM is slightly behind
- Annually, credit impairments slightly exceeded financial plan, mainly due to growing loan portfolio and one problematic customer
- Annually, net profit exceeds financial plan disclosed on May 17 by 1.1 EURm

\* ROE is based on LHV Group net profit and equity attributable to the owners of AS LHV Group

# LHV Banking

## Strong year end in loan issuing



- 7,500 new customers. New records in regular customers activity, incl. in investment activities
- Regular customer deposits increased by 124 EURm, however payment intermediaries deposits decreased by 318 EURm
- Record loan growth of 107 EURm, including 74 EURm in corporate loans and 32 EURm in retail loans
- Loan agreement with Nordic Investment Bank for long-term financing purposes
- Moody's assigned LHV Bank a credit rating of Baa1
- Adaption of new payment information system and joining with EBA Clearing Instant Payments

## All business lines showed good revenue growth

Financial results, EURt	9 quarters	Q4-18	Q3-18	Δ quarter
Net interest income		10,580	9,646	+934
Net fee and commission income		2,465	2,587	-122
Other income		353	823	-470
<b>Total revenue</b>		<b>13,399</b>	<b>13,057</b>	<b>+342</b>
<b>Total expenses</b>		<b>7,040</b>	<b>6,319</b>	<b>+721</b>
<b>Earnings before impairments</b>		<b>6,359</b>	<b>6,738</b>	<b>-379</b>
Impairment losses on loans		543	1,858	-1,316
Income tax expense		544	501	+43
<b>Net income</b>		<b>5,272</b>	<b>4,379</b>	<b>+894</b>
<b>Business volumes, EURm</b>	<b>9 quarters</b>	<b>Q4-18</b>	<b>Q3-18</b>	<b>Δ quarter</b>
Deposits from customers		1,448	1,652	-204
Loans (net)		919	812	+107
Customers, thous.		192	184	+8
<b>Key figures</b>	<b>9 quarters</b>	<b>Q4-18</b>	<b>Q3-18</b>	<b>Δ quarter</b>
Cost / income ratio (C/I)		52.5%	48.4%	+ 4.1 pp
ROE*		15.5%	13.7%	+ 1.7 pp
pre-tax ROE*		17.3%	15.5%	+ 1.8 pp
Net interest margin		2.4%	2.2%	+ 0.3 pp

- No exceptional revenues or expenses affecting the quarter result
- EBT 5.8 EURm, net profit 5.3 EURm
- Net interest margin increased
- Quality of the loan portfolio remains high

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# LHV Banking – comparison with financial plan

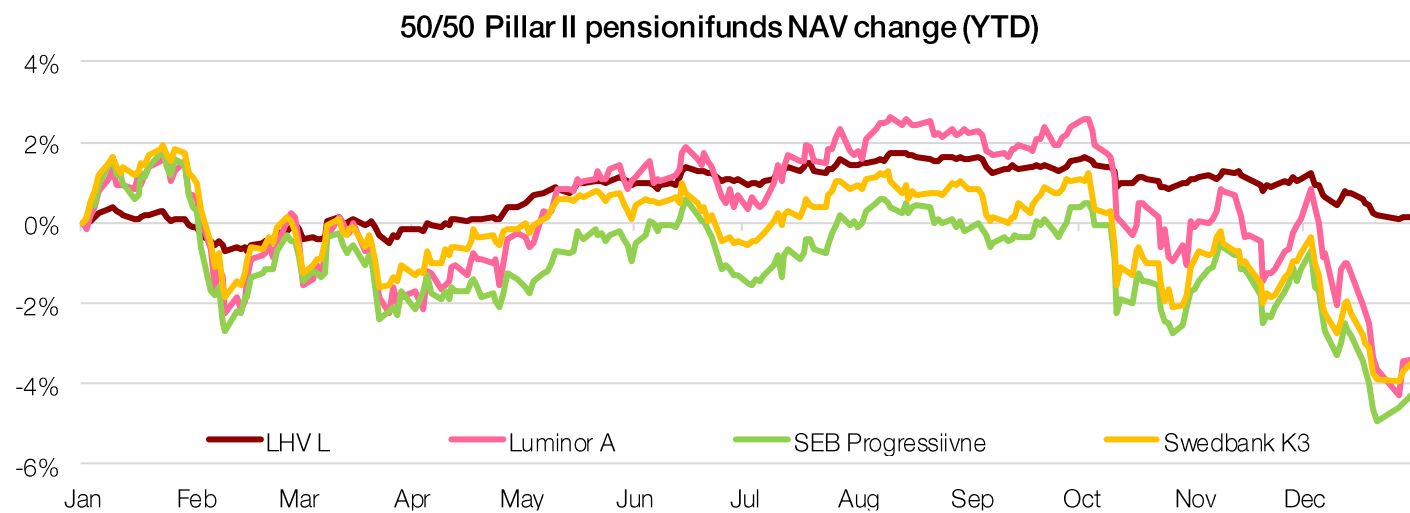
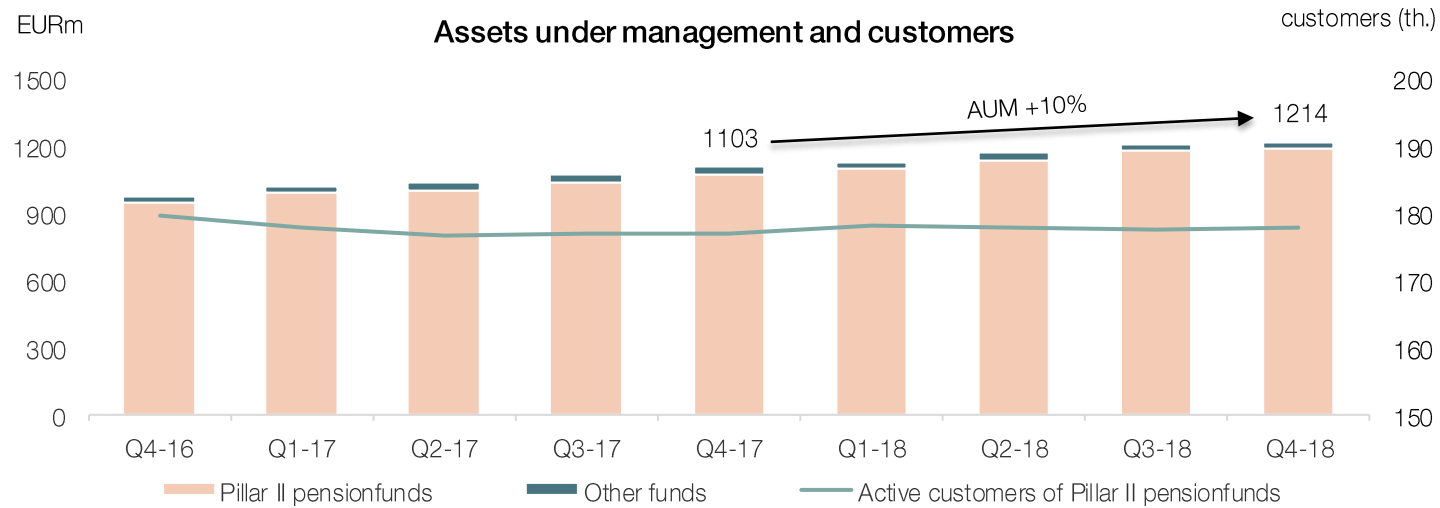
## Net profit ahead of updated financial plan by +1.0 EURm

Financial results, EURt	13 months	Dec-18	YTD18	YTD17	FP YTD	Δ YTD FP
<b>Total revenue, incl.</b>		4,807	51,543	39,521	49,019	+2,524
Net interest income		3,761	39,021	31,134	38,530	+491
Net fee and commission income		789	11,103	7,696	10,402	+701
<b>Total operating expenses</b>		2,298	25,742	20,415	25,005	+737
<b>Earnings before impairment</b>		2,509	25,801	19,105	24,014	+1,786
Impairment losses on loans		435	4,880	3,585	4,187	+693
Income tax		213	2,514	0	2,439	+75
<b>Net profit</b>		1,861	18,407	15,521	17,388	+1,019
<b>Business volumes, EURm</b>	<b>13 months</b>	<b>Dec-18</b>	<b>YTD18</b>	<b>YTD17</b>	<b>FP YTD</b>	<b>Δ YTD FP</b>
Deposits from customers		1,448	1,448	1,551	1,346	+102
Loans (net)		919	919	719	835	+84
<b>Key figures</b>	<b>13 months</b>	<b>Dec-18</b>	<b>YTD18</b>	<b>YTD17</b>	<b>FP YTD</b>	<b>Δ YTD FP</b>
Cost / income ratio (C/I)		47.8%	49.9%	51.7%	51.0%	- 1.1 pp
CT1 capital adequacy		13.6%	13.6%	13.3%	13.9%	- 0.3 pp
Total capital adequacy		17.1%	17.1%	16.2%	16.3%	+ 0.8 pp
Net interest margin (NIM)		2.7%	2.2%	2.7%	2.3%	- 0.1 pp

- Net profit exceeded financial plan by 1.0 EURm mainly due to higher revenues: higher interest income due to larger loan portfolio and higher fee and commission income
- Higher expenses compared to financial plan due to larger business volumes
- Loan impairments exceed financial plan due to additional impairment of one existing customer
- Deposits exceeded financial plan by 102 EURm and loans by 84 EURm
- Annual cost / income ratio below 50% for the first time

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## LHV funds protected customer assets during rough year



- Actively managed II pillar funds (excl. Estonia fund that has been active less than one year) annual returns -0.1% to +1.1%
- Rough year for investors due to decrease in asset values. For example, Europe shares -10.6%, developing markets -10.3%
- LHV funds made local investments in amount of 153 EURm
- Number of II pillar funds active customers increased 1.1 thousand from the beginning of the year



# LHV Asset Management


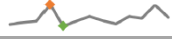







## Quarterly profit 1.9 EURm

Financial results, EURt	9 quarters	Q4-18	Q3-18	Δ quarter
Total revenue		3,629	3,559	+69
Total operating expenses		1,529	1,412	+116
<b>EBIT</b>		2,100	2,147	-47
Net financial income		-169	-5	-163
Income tax expense		0	0	+0
<b>Net profit</b>		1,931	2,142	-211
<b>Business volumes, EURm</b>	<b>9 quarters</b>	<b>Q4-18</b>	<b>Q3-18</b>	<b>Δ quarter</b>
Pillar II pensionfunds		1,187	1,175	+11
Pillar III pension funds		17	17	+0
Eurofunds		11	12	-1
Active customers of PII funds, thous.		178	177	+1
<b>Key figures</b>	<b>9 quarters</b>	<b>Q4-18</b>	<b>Q3-18</b>	<b>Δ quarter</b>
Cost / income ratio (C/I)		42.1%	39.7%	+ 2.5 pp
ROE		28.0%	33.6%	- 5.6 pp

- Due to falling markets -0.1 EURm loss from investments in own funds
- Slight increase in fee & commission income together with fund volumes
- Operating expenses were 1.5 EURm and profit 1.9 EURm
- New selling costs were amortized in amount of 0.5 EURm (0.4 EURm in Q2)

# LHV Asset Management – comparison with financial plan

## Relatively good return of funds was not enough to fulfill the plan

Financial results, EURt	13 months	Dec-18	YTD18	YTD17	FP YTD	Δ YTD FP
Total revenue		1,123	13,750	13,421	14,109	-359
Total expenses		487	5,823	6,664	5,983	-159
Earnings before taxes		636	7,926	6,758	8,126	-200
Income tax		0	1,100	951	1,100	+0
Net profit		636	6,826	5,807	7,026	-200
<b>Business volumes</b>	<b>13 months</b>	<b>Dec-18</b>	<b>YTD18</b>	<b>YTD17</b>	<b>FP YTD</b>	<b>Δ YTD FP</b>
Assets under management, EURm		1,214	1,214	1,103	1,269	-55
Active customers of PII funds, thous.		178	178	177	176	+2
<b>Key figures</b>	<b>13 months</b>	<b>Dec-18</b>	<b>YTD18</b>	<b>YTD17</b>	<b>FP YTD</b>	<b>Δ YTD FP</b>
Cost / income ratio (C/I)		39.7%	41.8%	50.1%	42.5%	- 0.7 pp
Funds average return		-1.1%	0.0%	2.7%	3.3%	- 3.3 pp

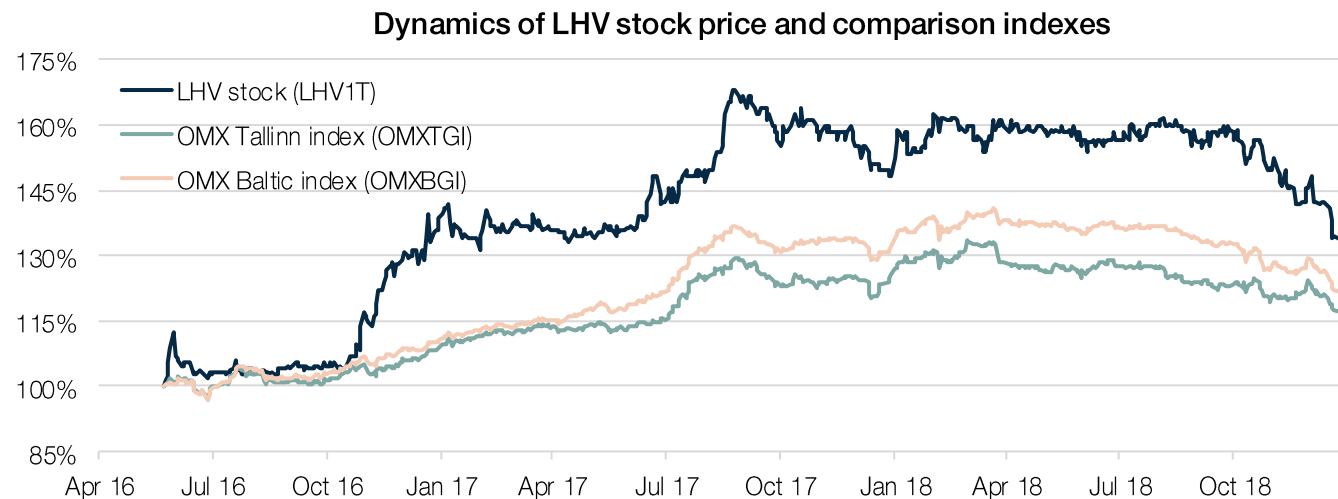
- Although LHV funds had successful year (considering the falling markets) and return exceeded competitors', it was lower than planned
- Lower than planned return of funds caused -0,3 EURm deviation from the financial plan. Due to that, fund volumes and fee & commission income increased less
- Lower expenses decreased the effect on net profit

# LHV Group

## Stock information



- Closing share price 9.46 EUR in the end of Q4
- 1,359 trades were made with the stock during Q4 on the market with a turnover of 2.3 EURm which gave the stock an average price of 10.37 EUR
- Shareholders earnings per share (EPS) in Q4 is 0.23 EUR and cumulative shareholders EPS is 0.98 EUR
- As of 31 December 2018 LHV had 5615 shareholders and 50,4% of shares belonged to supervisory and management board members and parties associated with them
- Market capitalization based on closing price of 31.12.2018 was 246 EURm



LHV Group  
**12 months**

**27.2 EURm**

Net profit

**21%**

Pre-tax ROE

**Best bank in Estonia**

Euromoney award

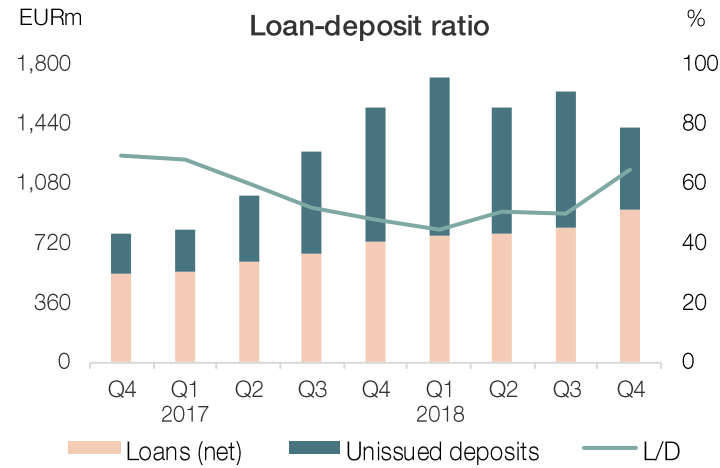
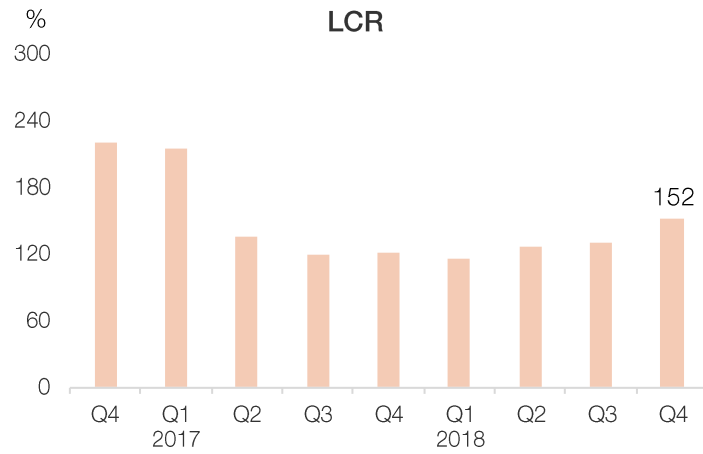
**27,700**

Bank customer increase

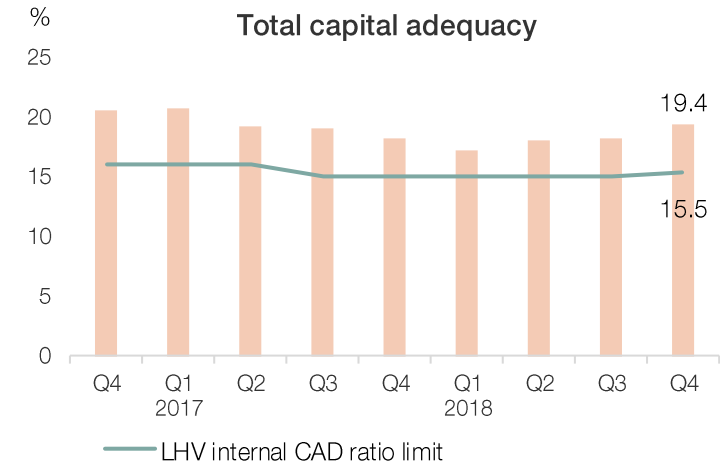
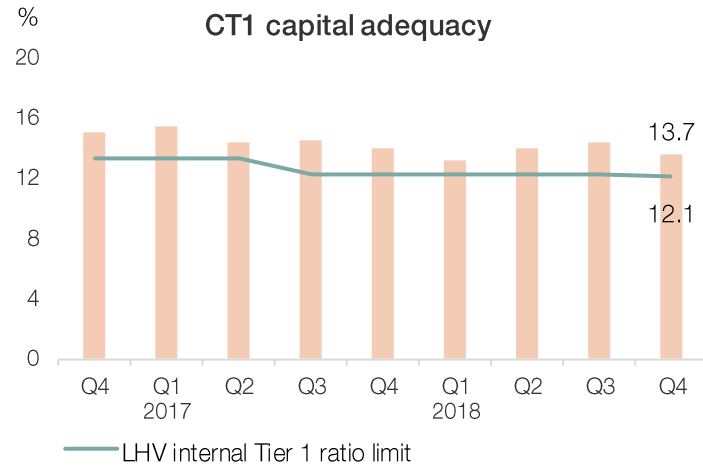
# Annexes

# LHV Group

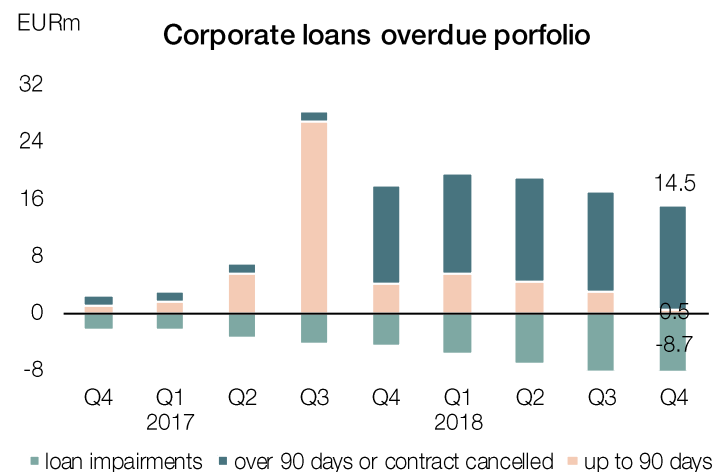
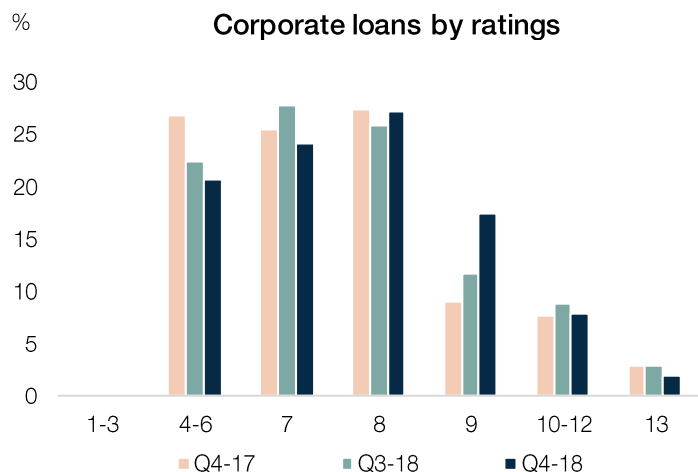
## Strong liquidity and capitalization



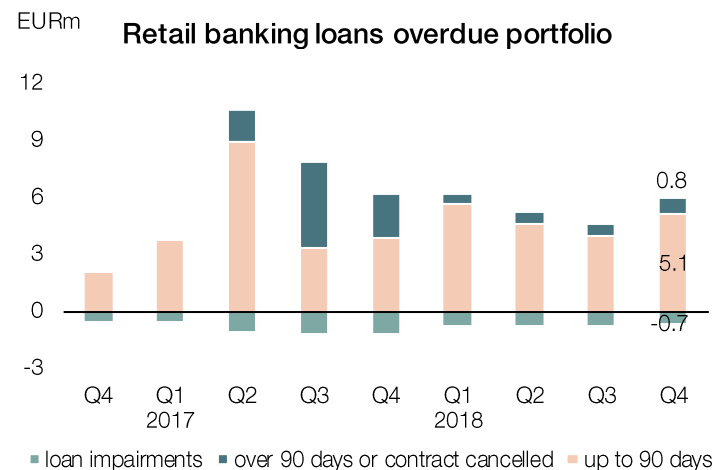
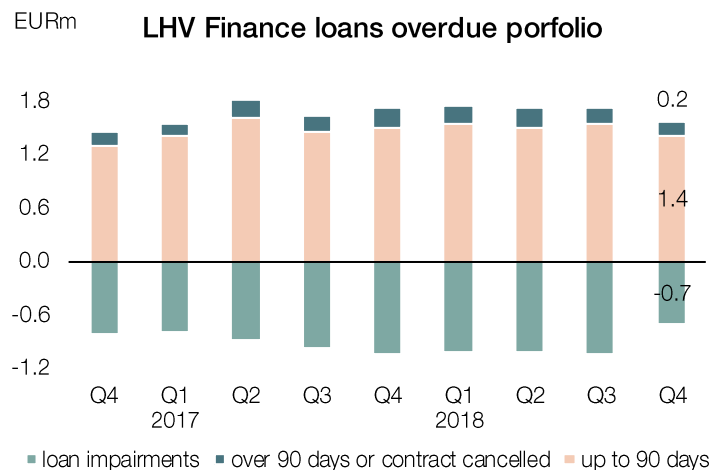
- LCR and loan /deposit ratio have been influenced by one payment intermediary's large balance. Excluding payment intermediaries, LCR would increase to 230%
- Strong capital adequacy ratio, significantly above regulatory and internal targets



# 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](mailto:madis.toomsalu@lhv.ee)

## **Meelis Paakspuu**

LHV Group CFO  
[meelis.paakspuu@lhv.ee](mailto:meelis.paakspuu@lhv.ee)