

LHV Group

Q3 2019 results
October 15, 2019



Quarter with good growth and strong performance

For customers

- Fivefold increase of the number of ATMs
- Improvement of mobile banking
- Best Bank recognition by Euromoney

Other

- Shares emission in the amount of 25 EURm
- Preparation for the takeover of Danske portfolio
- Financial plan update
- Pillar II pension reform

Records in business volumes

- Customer numbers
- Loans
- Deposits
- Funds
- Card payments

The best quarterly result (based on continuous operations)

Financial results, EURt	9 quarters	Q3-19	Q2-19	Δ quarter
Net interest income		11,546	11,628	-82
Net fee and commission income		6,412	6,613	-201
Other income		153	219	-66
Total revenue		18,111	18,460	-349
Total expenses		9,399	9,403	-3
Earnings before impairment		8,711	9,057	-346
Impairment losses on loans		15	697	-682
Income tax expense		701	697	+4
Net income		7,995	7,662	+333
Business volumes, EURm	9 quarters	Q3-19	Q2-19	Δ quarter
Deposits from customers		2,535	2,083	+451
Loans (net)		1,222	1,118	+104
Assets under management		1,328	1,293	+34
Customers, thous.		352	346	+5
Key figures	9 quarters	Q3-19	Q2-19	Δ quarter
Cost / income ratio (C/I)		51.9%	50.9%	+ 1.0 pp
pre-tax ROE*		18.0%	19.9%	- 1.9 pp
ROE*		16.4%	18.1%	- 1.7 pp

- All significant business volumes are at record levels and growing
- Group assets passed 2.5 EURb mark. All important business volumes – loans, deposits, funds – are growing
- Impairment losses on loans are low and there are no large loan customers under separate monitoring
- Pension funds management fees have fallen, no success fees are forecasted from September till the year end
- Net income of the quarter is 8 EURm, which is historically strongest excluding the quarter results affected by the sale of Mokilizingas

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

LHV Group – comparison with financial plan

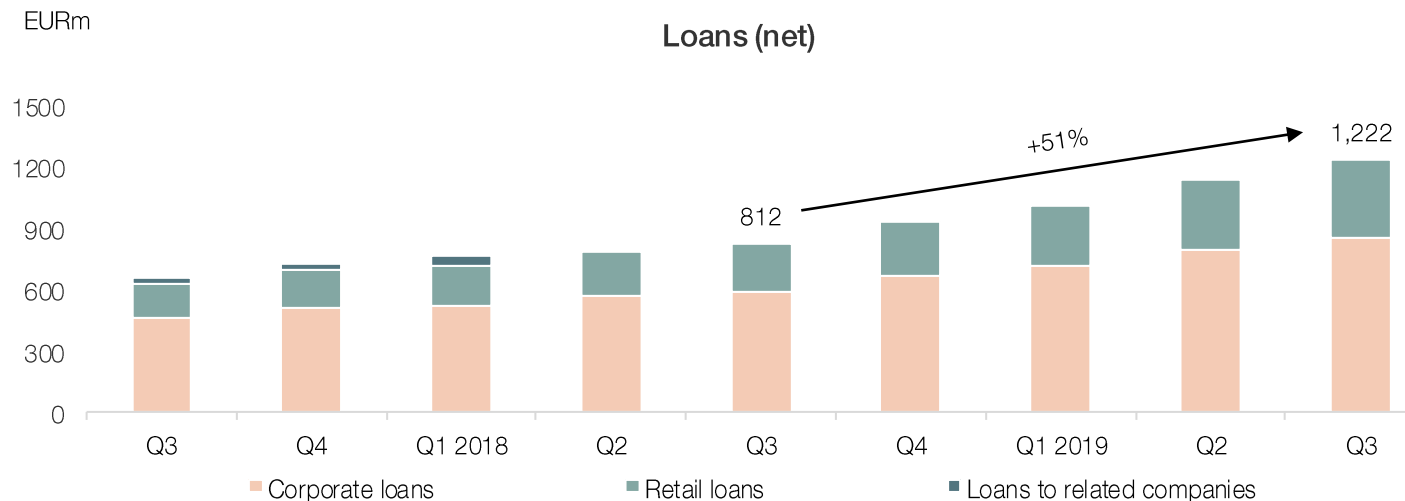
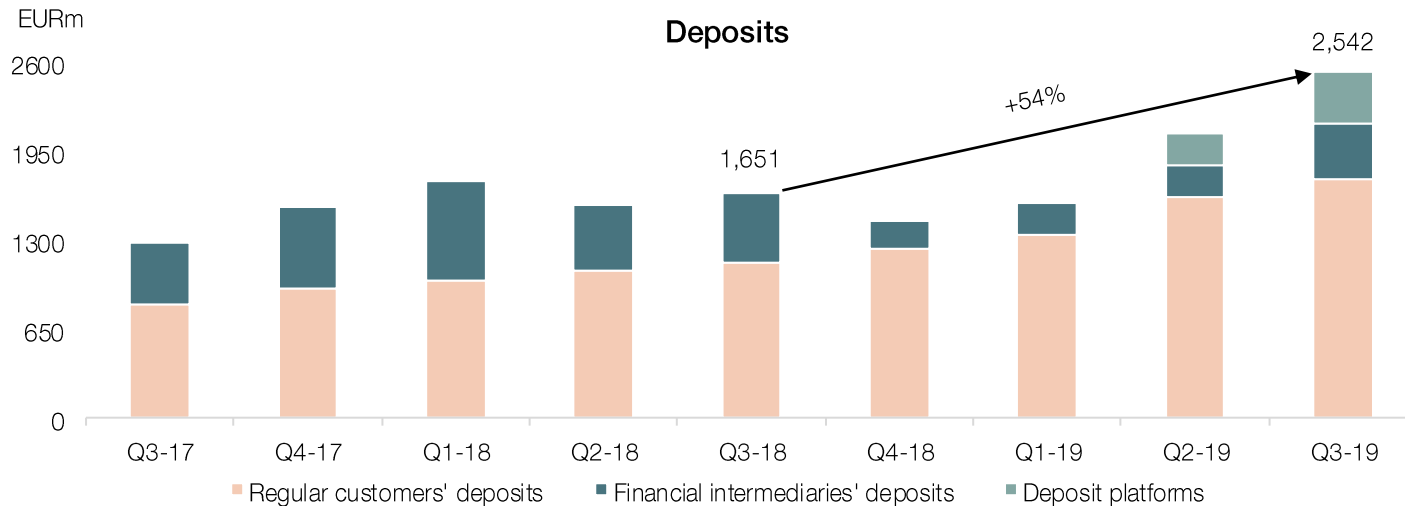
Net profit exceeds financial plan by 1.6 EURm

Financial results, EURt	13 months	Sep-19	YTD19	YTD18	FP YTD	Δ YTD FP
Total revenue, incl.		5,479	53,895	53,430	53,446	+449
Net interest income		3,640	34,119	29,482	33,715	+405
Net fee and commission income		1,818	19,250	19,908	19,291	-42
Total operating expenses		3,199	27,908	25,024	27,942	-34
Earnings before impairment		2,279	25,987	28,406	25,504	+484
Impairment losses on loans		-330	1,663	4,727	2,979	-1,315
Income tax		213	3,664	3,214	3,445	+219
Net profit, incl.		2,396	20,660	20,465	19,080	+1,580
attr. to shareholders		2,114	19,078	19,188	17,604	+1,474
Business volumes, EURm	13 months	Sep-19	YTD19	YTD18	FP YTD	Δ YTD FP
Deposits from customers		2,535	2,535	1,638	2,469	+65
Loans (net)		1,222	1,222	812	1,209	+13
Assets under management		1,328	1,328	1,204	1,353	-26
Key figures	13 months	Sep-19	YTD19	YTD18	FP YTD	Δ YTD FP
Cost / income ratio (C/I)		58.4%	51.8%	46.8%	52.3%	- 0.5 pp
pre-tax ROE*		15.7%	17.2%	22.0%	16.1%	+ 1.1 pp
ROE*		14.2%	14.6%	19.1%	13.6%	+ 1.0 pp
Net interest margin (NIM)		1.6%	2.3%	2.2%	2.3%	- 0.0 pp
ROA		1.0%	1.4%	1.5%	1.3%	+ 0.1 pp

- Revenues above financial plan due to higher business volumes. Expenses are mostly in line with the financial plan. Loan impairment losses are significantly better than forecasted
- The outperformance of the financial plan in the volume of deposits caused by the Danske transaction, obtaining deposits in significant amounts, incl through deposit platforms. Loan volumes ahead of the financial plan due to higher demand. Fund volumes are somewhat below the plan
- Net profit exceeds financial plan by 1.6 EURm, mostly due to lower impairment losses on loans

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The rapid growth of deposits and loans is broad-based



- 9,600 new customers. Record levels in regular customers activity and business volumes. Deposits and loans growth is broad-based
- Deposits increased by 454 EURm, incl. regular customer deposits by 131 EURm, payment intermediaries' deposits by 184 EURm and deposit platforms by 138 EURm. In total 380 EURm obtained through deposit platforms
- Loan growth 104 EURm, including 61 EURm in corporate loans and 44 EURm in retail loans
- New features available through mobile banking: opening an account, card-ordering, application for various loans
- Expansion of the ATM network by 100 ATMs in the joint network
- Launching a State Treasury cash-pool account and opening accounts for bank clients with the Ministry of Finance and the Tax and Customs Board for payment of taxes
- Enforcement of the new Payment Service Directive and grant of Access to the third-parties

The expense of deposits obtained for loan portfolio acquisition is incurred, revenue to follow next quarter

Financial results, EURt	9 quarters	Q3-19	Q2-19	Δ quarter
Net interest income		11,600	11,842	-242
Net fee and commission income		3,109	3,009	+100
Other income		84	177	-93
Total revenue		14,793	15,028	-235
Total expenses		7,690	7,739	-49
Earnings before impairments		7,103	7,289	-186
Impairment losses on loans		15	697	-682
Income tax expense		701	697	+4
Net income		6,387	5,894	+493
Business volumes, EURm	9 quarters	Q3-19	Q2-19	Δ quarter
Deposits from customers		2,544	2,090	+454
Loans (net)		1,222	1,118	+104
Customers, thous.		217	208	+9
Key figures	9 quarters	Q3-19	Q2-19	Δ quarter
Cost / income ratio (C/I)		52.0%	51.5%	+ 0.5 pp
pre-tax ROE*		18.0%	18.2%	- 0.2 pp
ROE*		16.0%	16.1%	- 0.1 pp
Net interest margin		1.8%	2.3%	- 0.5 pp

- Greater amount of deposits obtained through the deposit platforms in the first half of the quarter to ensure the sufficient amount of financing for acquisition of Danske private customers loan portfolio
- 1.4 EURb in Central Bank as of the end of the quarter
- Increased interest expense on the deposits obtained through the deposit platforms as well as money held in Central Bank have limited the growth of net profit
- Basically the interest expense already incurred due to the Danske private customer loan portfolio acquisition, while the income follows in fourth quarter
- Net income in amount of 6.4 EURm

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LHV Banking – comparison with financial plan

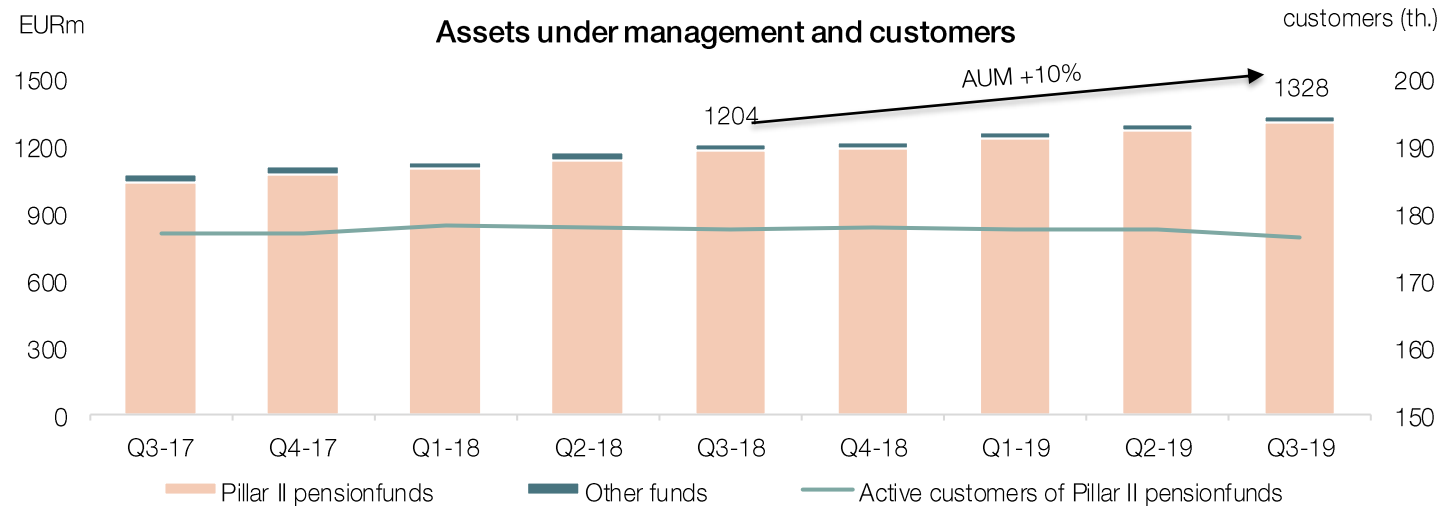
Net profit ahead of financial plan by +1.7 EURm

Financial results, EURt	13 months	Sep-19	YTD19	YTD18	FP YTD	Δ YTD FP
Total revenue, incl.		4,673	43,740	38,144	43,221	+519
Net interest income		3,658	34,681	28,441	34,236	+445
Net fee and commission income		1,027	8,821	8,638	8,837	-16
Total operating expenses		2,644	22,940	18,702	23,036	-96
Earnings before impairment		2,029	20,801	19,442	20,186	+615
Impairment losses on loans		-330	1,663	4,337	2,979	-1,315
Income tax		213	2,692	1,970	2,473	+219
Net profit		2,146	16,445	13,135	14,734	+1,711
Business volumes, EURm	13 months	Sep-19	YTD19	YTD18	FP YTD	Δ YTD FP
Deposits from customers		2,544	2,544	1,652	2,476	+68
Loans (net)		1,222	1,222	812	1,209	+13
Key figures	13 months	Sep-19	YTD19	YTD18	FP YTD	Δ YTD FP
Cost / income ratio (C/I)		56.6%	52.4%	49.0%	53.3%	- 0.9 pp
CT1 capital adequacy		12.3%	12.3%	14.4%	13.9%	- 1.6 pp
Total capital adequacy		18.0%	18.0%	17.1%	20.4%	- 2.4 pp
Net interest margin (NIM)		1.6%	2.2%	2.1%	2.2%	- 0.0 pp

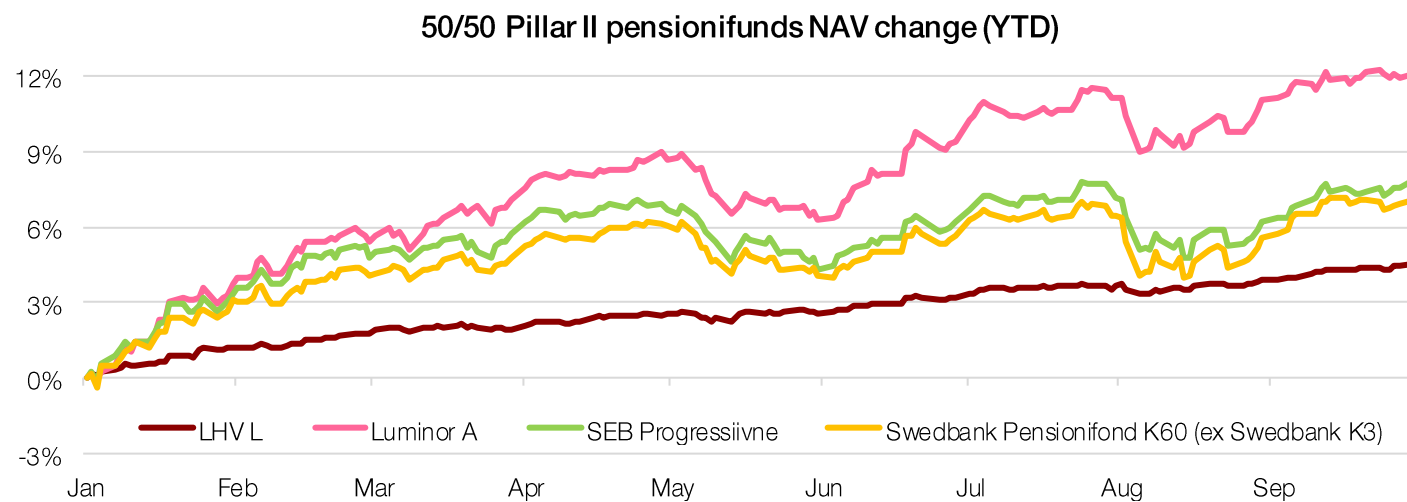
- Net profit exceeded financial plan by 1.7 EURm due to higher interest income and strong quality of loan portfolio
- Submission of application for additional license for covered bonds to Financial Supervision Authority with the aim to finance mortgage portfolio with covered bonds in 2020
- Deposits exceeded financial plan by 68 EURm and loans by 13 EURm

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Very strong three quarters in the stock markets



- The volume of assets under management exceeded 1.3 EURb, with 10% increase in four quarters
- In LHV's actively managed pension funds the price risk of stock market is lowered, focus is on long-term stable yield of OTC assets
- Estonia's best performing pension fund for 9 month is LHV Pension Fund Index, which grew by 20.5%
- Over 176 thousands of active customers, down by 1% on year-on-year basis



LHV Asset Management

EBIT of Q3 1.8 EURm

Financial results, EURt	9 quarters	Q3-19	Q2-19	Δ quarter
Total revenue		3,303	3,605	-301
Total operating expenses		1,470	1,510	-40
EBIT		1,833	2,095	-261
Net financial income		61	33	+28
Net profit		1,894	2,128	-234
Business volumes, EURm	9 quarters	Q3-19	Q2-19	Δ quarter
Pillar II pensionfunds		1,304	1,271	+33
Pillar III pension funds		21	19	+1
Eurofunds		3	3	+0
Active customers of PII funds, thous.		176	177	-1
Key figures	9 quarters	Q3-19	Q2-19	Δ quarter
Cost / income ratio (C/I)		44.5%	41.9%	+ 2.6 pp
pre-tax ROE		27.9%	33.0%	- 5.1 pp
ROE		27.9%	33.0%	- 5.1 pp

- EBIT in Q3 is 1.8 EURm
- Fund management fees for the largest funds fell by 40% in September
- Due to decrease in the management fees, starting from September revenues will be lower up to 500 EURt
- Lower profitability is expected due to lower revenues

LHV Asset Management – comparison with financial plan

Average return on funds ahead of financial plan

Financial results, EURt	13 months	Sep-19	YTD19	YTD18	FP YTD	Δ YTD FP
Total revenue		821	10,672	10,290	10,692	-19
Total expenses		493	4,463	4,295	4,462	+1
Earnings before taxes		328	6,210	5,995	6,230	-20
Income tax		0	972	1,100	972	+0
Net profit		328	5,237	4,895	5,258	-20
Business volumes	13 months	Sep-19	YTD19	YTD18	FP YTD	Δ YTD FP
Assets under management, EURm		1,328	1,328	1,204	1,353	-26
Active customers of PII funds, thous.		176	176	177	177	-1
Key figures	13 months	Sep-19	YTD19	YTD18	FP YTD	Δ YTD FP
Cost / income ratio (C/I)		62.3%	42.8%	41.6%	42.7%	+ 0.1 pp
Funds average return		0.6%	4.5%	1.4%	3.2%	+ 1.3 pp

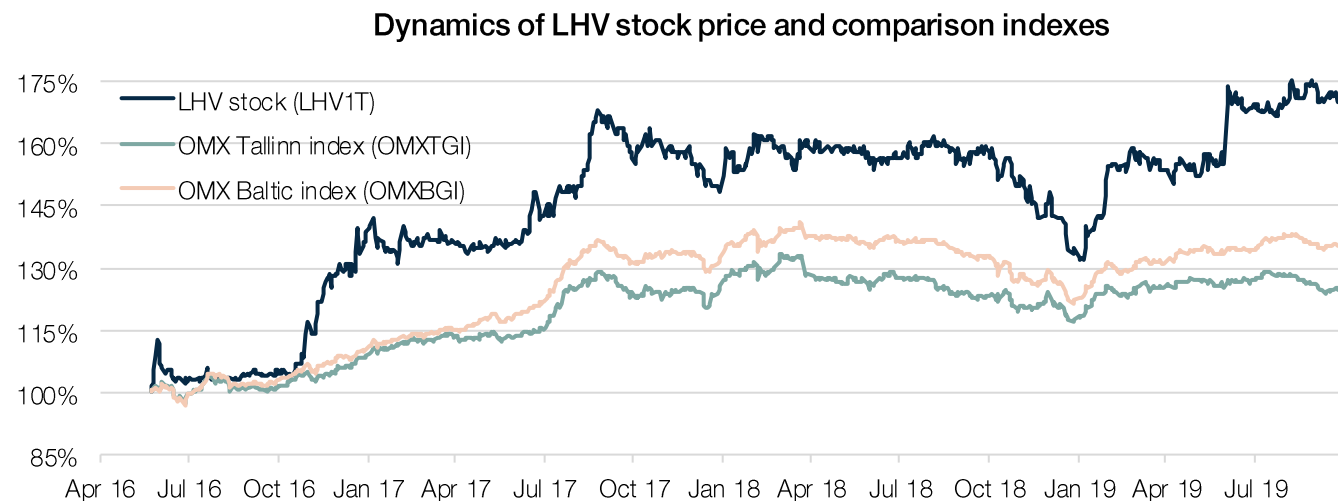
- Average return on funds under management is 1.3% higher than planned
- Several new investments successfully completed in Q3, including the subscription to Eesti Ekspress bonds and purchase of Microsoft office building
- The draft of the law of Pension reform from Coalition is expected within the next month

LHV Group

Stock information



- Closing share price 12.00 EUR in the end of Q3
- 1,629 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 11.94 EUR
- Shareholders earnings per share (EPS) in Q3 is 0.27 EUR and cumulative shareholder EPS is 0.72 EUR.
- As of 30 September 2019 LHV had 6,464 shareholders and 49.99% of shares belonged to supervisory and management board members and parties associated with them
- Market capitalization based on closing price of 30.09.2019 was 315 EURm



20.7 EURm

Net profit

17.2%

Pre-tax ROE

Best bank in Estonia

Euromoney

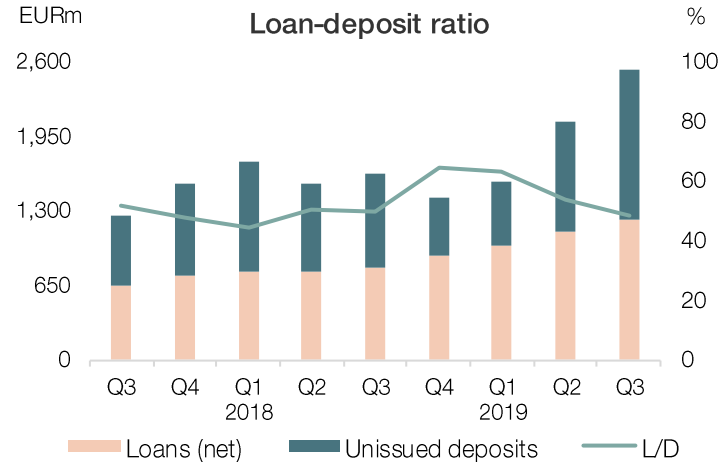
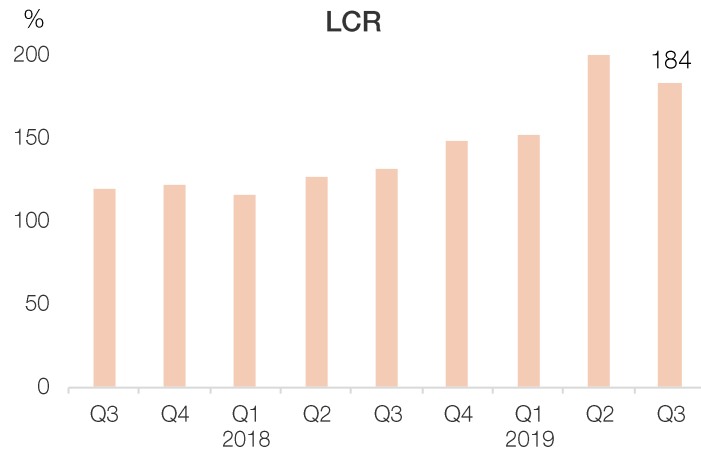
27,700

Bank customer increase

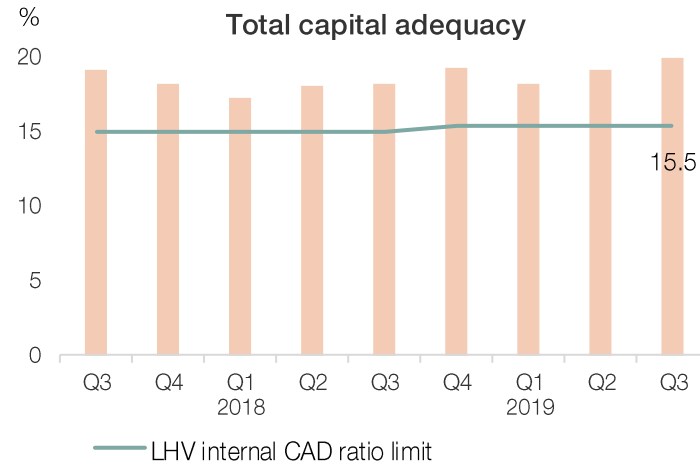
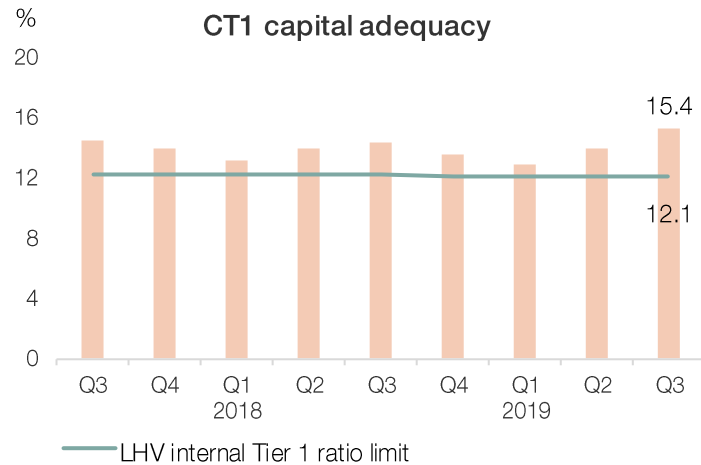
Annexes

LHV Group

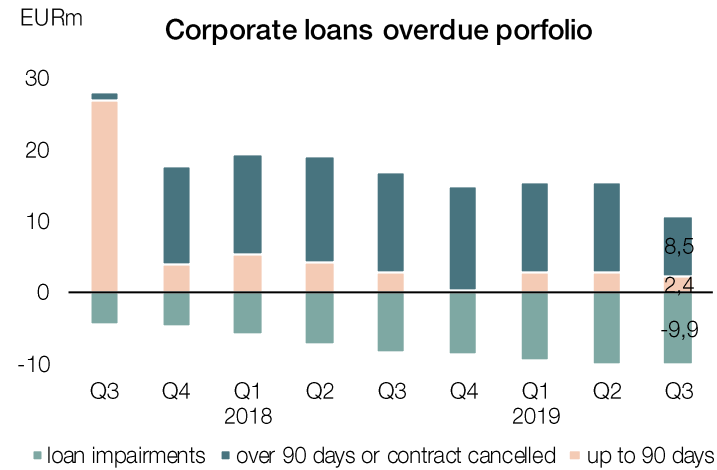
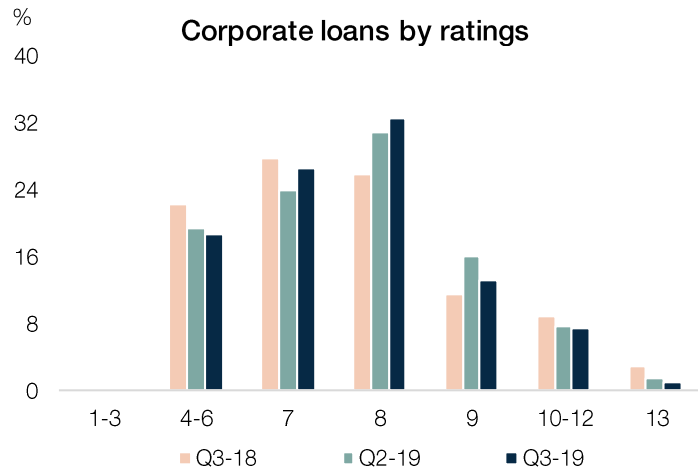
Strong liquidity and capitalization



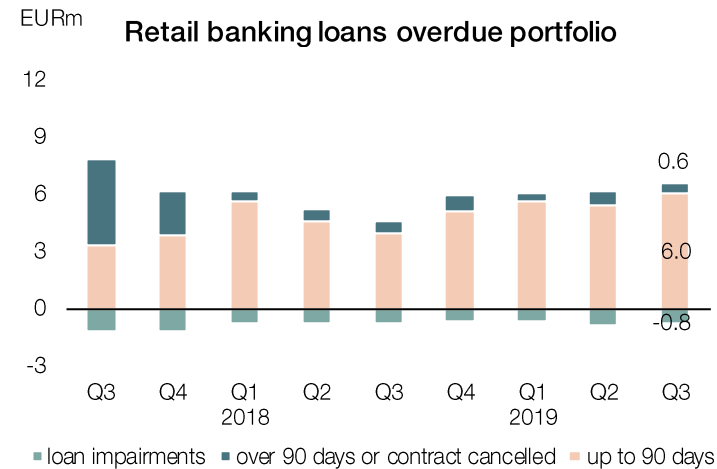
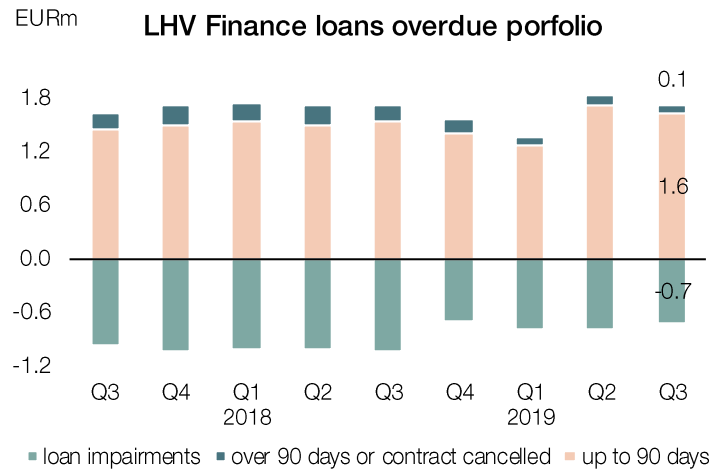
- LCR and loan /deposit ratio is at high level due to the deposits obtained
- Strong capital adequacy ratio, significantly above regulatory and internal targets



The quality of the loan portfolio is strong



- The corporate lending overdue portfolio is linked to three specific customers and additionally to some other customers' overdues by a few days. All longer overdues are provisioned
- Other portfolios share of overdues remain low



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