

LHV Group

Q4 2019 results
February 4, 2020



2019 – the year of double growth

The assets of LHV Pank doubled in 2019 reaching 3 EURb. By the end of the year, we have serviced 202,000 customers and became the third largest bank in Estonia with 10% market share in daily banking. Bank acquired Danske private customers loan portfolio and increased the amount of ATMs to 125

Rapid growth

- Bank customers: +40,800 (25%)
- Loans: + 768 million (84%)
- Deposits: + 1,279 million (90%)
- Funds: + 160 million (13%)

Customer convenience

- 125 ATMs
- Mobile bank upgrade (customer onboarding, loan applications, securities trading, ordering cards)
- LHV joined real-time Faster Payments scheme for pound payments

Awards

- Bank with the best service – Dive
- Best bank – Euromoney / The Banker

Asset Management

- Asset management fees decreased
- OTC investments
- Yield of Index Fund +25%

Other

- Acquisition of Danske private customers loan portfolio
- Capital raised in amount of 65 EURm
- High credit rating of LHV Pank
- Increase in the amount of investors

Danske deal ensured strong quarterly growth

For customers

- LHV Pank is the third largest bank in Estonia for daily banking
- Loan application through the mobile bank
- Best Bank recognition by The Banker

Records in business volumes

- Customer numbers
- Loans
- Deposits
- Funds
- Payments

Other

- Danske portfolio acquisition completed
- Danske portfolio revenue addition starting from the end of November
- Decrease in asset management fees
- Pillar II pension reform

Events after quarter end

- Real-time pound payments opened to fintech companies
- Moody's confirmed the credit rating of LHV Pank at Baa1

Quarter with the fastest loan portfolio growth

Financial results, EURt	9 quarters	Q4-19	Q3-19	Δ quarter
Net interest income		13,268	11,546	+1,722
Net fee and commission income		6,427	6,412	+15
Other income		228	153	+75
Total revenue		19,923	18,111	+1,812
Total expenses		11,359	9,399	+1,959
Earnings before impairment		8,564	8,711	-147
Impairment losses on loans		1,546	15	+1,531
Income tax expense		586	701	-115
Net income		6,432	7,995	-1,563
Business volumes, EURm	9 quarters	Q4-19	Q3-19	Δ quarter
Deposits from customers		2,701	2,535	+166
Loans (net)		1,687	1,222	+465
Assets under management		1,374	1,328	+46
Customers, thous.		366	352	+14
Key figures	9 quarters	Q4-19	Q3-19	Δ quarter
Cost / income ratio (C/I)		57.0%	51.9%	+ 5.1 pp
pre-tax ROE*		12.8%	18.0%	- 5.2 pp
ROE*		11.6%	16.4%	- 4.8 pp

- Group assets passed 3 EURb mark. All significant business volumes – loans, deposits, funds – are at record levels and growing
- Loan portfolio grew by a record 465 EURm to 1.69 EURb
- Loan impairment losses are low and there are no large loan customers under separate monitoring
- Pension funds management fees have decreased, no success fees earned during the quarter
- The quarterly profit of 6.4 EURm was affected by non-recurring costs and loan provisions from Danske transaction, which were not fully compensated by the fees earned from clients' securities issuances. Additional revenues from acquired Danske portfolio kicked in from November

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

LHV Group – comparison with financial plan

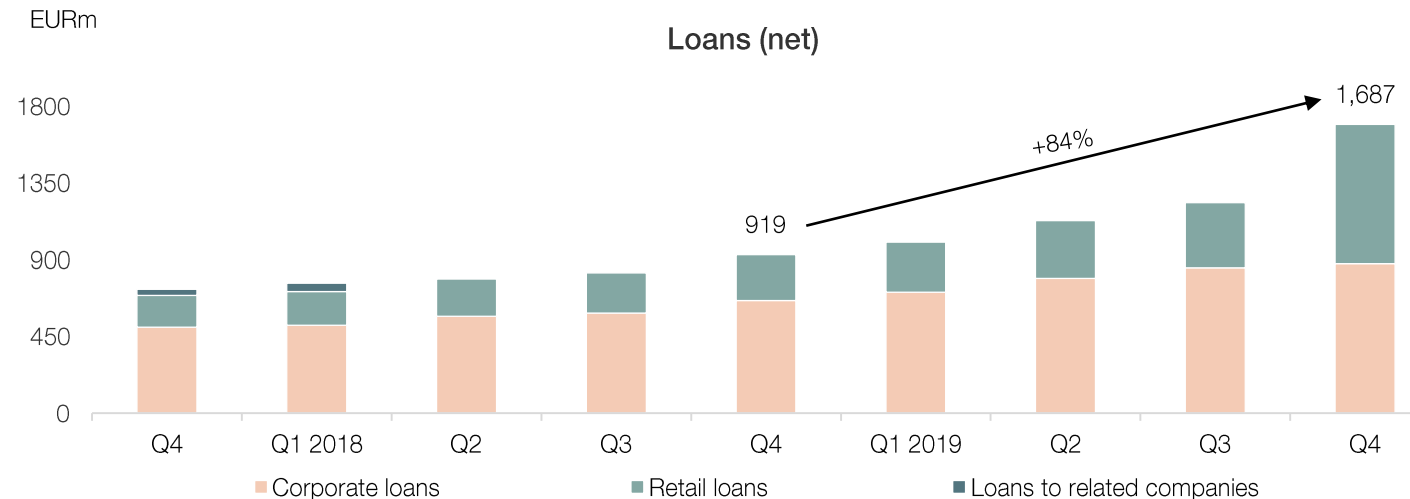
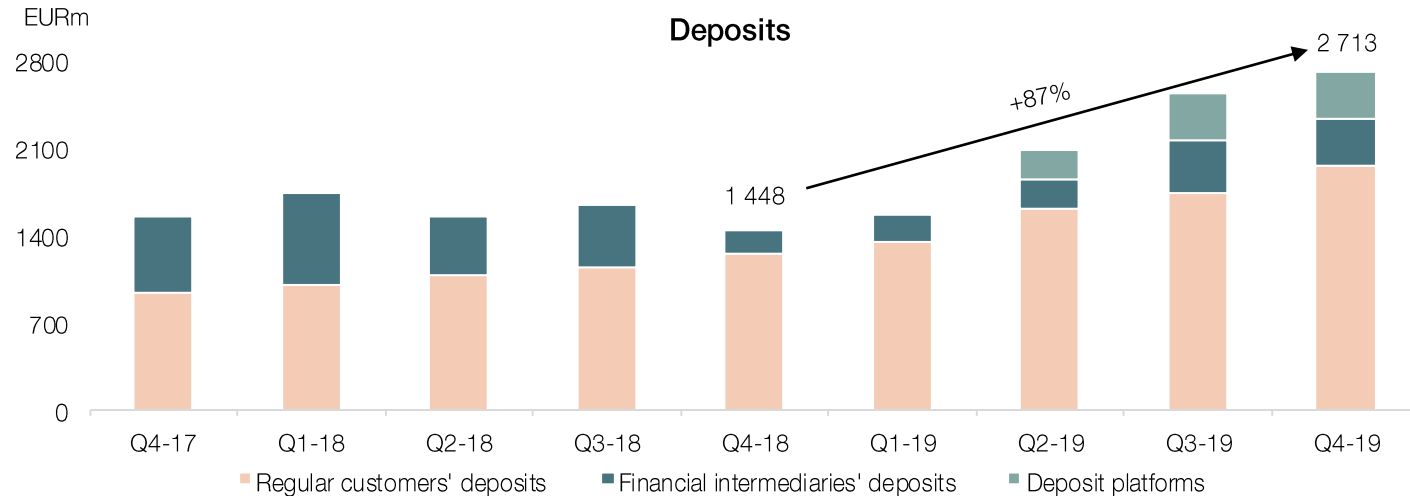
Net profit exceeds financial plan by 1.5 EURm

Financial results, EURt	13 months	Dec-19	YTD19	YTD18	FP YTD	Δ YTD FP
Total revenue, incl.		8,176	73,818	70,024	72,899	+919
Net interest income		5,420	47,388	39,770	48,150	-762
Net fee and commission income		2,601	25,677	26,002	24,216	+1,461
Total operating expenses		3,649	39,266	33,807	37,525	+1,741
Earnings before impairment		4,527	34,552	36,217	35,374	-822
Impairment losses on loans		354	3,209	5,269	5,742	-2,533
Income tax		401	4,250	3,758	4,059	+191
Net profit, incl.		3,772	27,092	27,190	25,572	+1,520
attr. to shareholders		3,547	24,797	25,237	23,482	+1,315
Business volumes, EURm	13 months	Dec-19	YTD19	YTD18	FP YTD	Δ YTD FP
Deposits from customers		2,701	2,701	1,422	2,605	+96
Loans (net)		1,687	1,687	919	1,752	-65
Assets under management		1,374	1,374	1,214	1,407	-33
Key figures	13 months	Dec-19	YTD19	YTD18	FP YTD	Δ YTD FP
Cost / income ratio (C/I)		44.6%	53.2%	48.3%	51.5%	+ 1.7 pp
pre-tax ROE*		23.4%	16.2%	20.9%	15.6%	+ 0.7 pp
ROE*		21.0%	14.0%	18.4%	13.4%	+ 0.6 pp
Net interest margin (NIM)		2.2%	2.2%	2.3%	2.3%	- 0.1 pp
ROA		1.5%	1.2%	1.5%	1.2%	+ 0.0 pp

- Revenues above financial plan due to transaction fees from clients' securities issuances. Costs higher mainly due to increased Guarantee Fund expenses and higher than planned write-downs of intangible assets
- Loan impairment losses are significantly lower than forecasted due to lower direct credit losses as well as model-based changes
- Business volumes are in line with the ones forecasted
- Net profit for the year is 25.6 EURm. Profit was affected by the pre-financing costs of Danske transaction of ca 4 EURm as well as absence of asset management performance fees. Financial plan outperformed by 1.6 EURm, mostly due to lower impairment losses and lower Danske transaction costs

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

Third bank in Estonia with the daily banking market share of almost 10%



- 13,100 new customers. Record levels in regular customers activity. 202,000 customers in the year end, YoY 25% increase
- Deposits increased by 169 EURm, incl. regular customer deposits by 218 EURm. Payment intermediaries' deposits decreased by 43 EURm and deposit platforms deposits decreased by 6 EURm. Deposits in amount of 2,713 EURm by year end, YoY +87%
- Loan growth 465 EURm, including 30 EURm in corporate loans and 435 EURm in retail loans, 393 EURm of which obtained from Danske portfolio. Loans in amount of 1,687 EURm by year end, YoY +84%
- By the year end almost 10% of market share in Estonia gained in daily banking, deposits and corporate loans. Third place in Estonia for daily banking and volume of deposits
- Best bank in Estonia according to The Financial Times magazine The Banker

Acquired portfolio significantly increased revenues starting from the end of Q4

Financial results, EURt	9 quarters	Q4-19	Q3-19	Δ quarter
Net interest income		13,234	11,600	+1,633
Net fee and commission income		3,987	3,109	+878
Other income		143	84	+59
Total revenue		17,363	14,793	+2,571
Total expenses		9,575	7,690	+1,885
Earnings before impairments		7,788	7,103	+685
Impairment losses on loans		1,546	15	+1,531
Income tax expense		586	701	-115
Net income		5,656	6,387	-730
Business volumes, EURm	9 quarters	Q4-19	Q3-19	Δ quarter
Deposits from customers		2,713	2,544	+169
Loans (net)		1,687	1,222	+465
Customers, thous.		230	217	+13
Key figures	9 quarters	Q4-19	Q3-19	Δ quarter
Cost / income ratio (C/I)		55.1%	52.0%	+ 3.2 pp
pre-tax ROE*		14.2%	18.0%	- 3.8 pp
ROE*		12.7%	16.0%	- 3.3 pp
Net interest margin		1.8%	1.8%	+ 0.0 pp

- Net income in amount of 5.7 EURm
- Net profit increased significantly following the Danske private customers loan portfolio acquisition. Prior to this, bank bore higher interest expenses for deposits obtained through the deposit platforms and money held in European Central Bank
- Danske portfolio loan impairment provisions as well as state and notary fees paid for the conversion of collaterals had negative impact on the net profit
- Institutional Banking fee income had positive impact on the net profit

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LHV Banking – comparison with financial plan

Net profit ahead of financial plan by +1.8 EURm

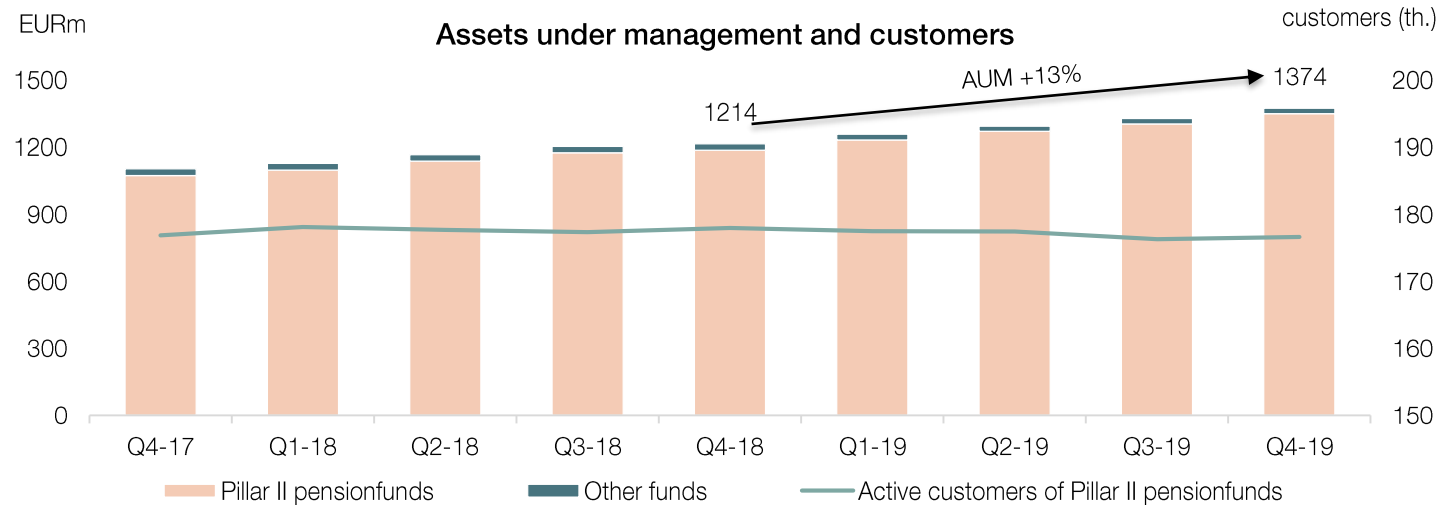
Financial results, EURt	13 months	Dec-19	YTD19	YTD18	FP YTD	Δ YTD FP
Total revenue, incl.		7,291	61,104	51,543	59,957	+1,147
Net interest income		5,395	47,915	39,021	48,569	-655
Net fee and commission income		1,771	12,808	11,103	11,246	+1,562
Total operating expenses		3,089	32,515	25,742	30,864	+1,651
Earnings before impairment		4,201	28,589	25,801	29,093	-504
Impairment losses on loans		354	3,209	4,880	5,742	-2,533
Income tax		401	3,278	2,514	3,087	+191
Net profit		3,446	22,102	18,407	20,263	+1,838
Business volumes, EURm	13 months	Dec-19	YTD19	YTD18	FP YTD	Δ YTD FP
Deposits from customers		2,713	2,713	1,448	2,612	+101
Loans (net)		1,687	1,687	919	1,752	-65
Key figures	13 months	Dec-19	YTD19	YTD18	FP YTD	Δ YTD FP
Cost / income ratio (C/I)		42.4%	53.2%	49.9%	51.5%	+ 1.7 pp
T1 capital adequacy		14.0%	14.0%	13.6%	13.6%	+ 0.3 pp
Total capital adequacy		17.6%	17.6%	17.1%	17.2%	+ 0.4 pp
Net interest margin (NIM)		2.2%	2.1%	2.2%	2.1%	- 0.1 pp

- Deposits exceeded financial plan by 101 EURm. Loans are below the forecasted amount by 65 EURm
- Net profit exceeded financial plan due to higher fees gained by institutional banking and lower loan impairment provisions
- It was decided to re-start the development of the internal ratings-based approach (IRB) for credit risk calculation suspended two years ago

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LHV Asset Management

Great year for stock markets and index funds

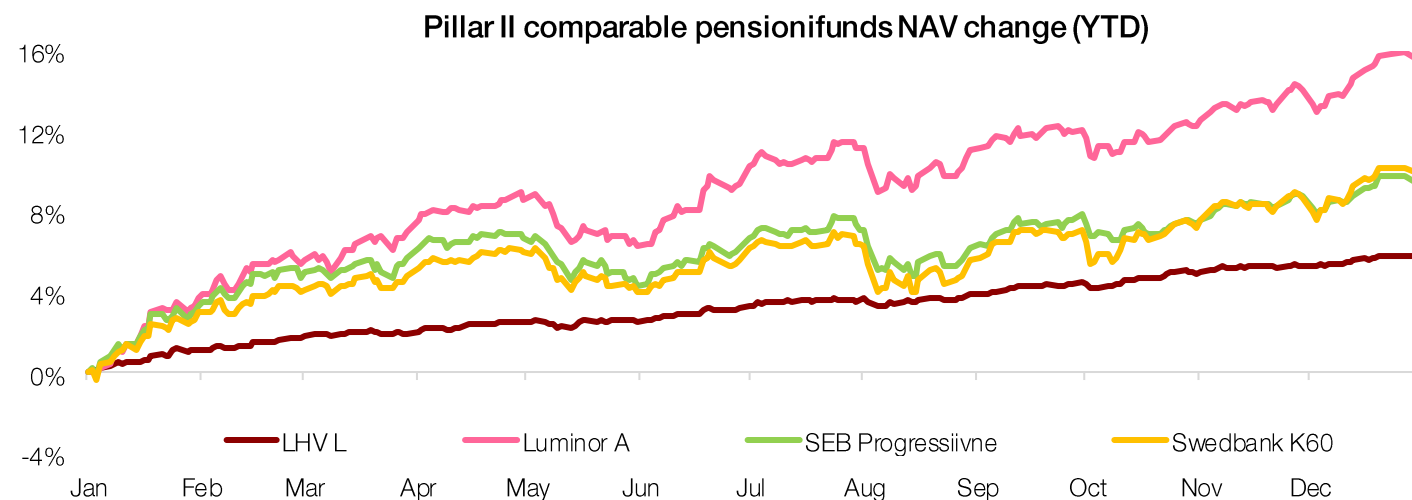


- The volume of assets under management ca 1.4 EURb by the end of fourth quarter, with 13% YoY increase

- In contrast to 2018, actively managed pension funds with lower equity risk fell below equity focused strategies in 2019

- LHV Pension Fund Index yield for the year 25.7%, LHV Pension Fund L yield 5.8%

- Over 176 thousands of active customers, down by 1% on year-over-year basis



LHV Asset Management

EBIT of Q4 0.8 EURm

Financial results, EURt	9 quarters	Q4-19	Q3-19	Δ quarter
Total revenue		2,440	3,303	-864
Total operating expenses		1,634	1,470	+164
EBIT		806	1,833	-1,028
Net financial income		77	61	+17
Net profit		883	1,894	-1,011
Business volumes, EURm				
	9 quarters	Q4-19	Q3-19	Δ quarter
Pillar II pensionfunds		1,349	1,304	+45
Pillar III pension funds		21	21	+1
Eurofunds		3	3	+0
Active customers of PII funds, thous.		177	176	+0
Key figures				
	9 quarters	Q4-19	Q3-19	Δ quarter
Cost / income ratio (C/I)		67.0%	44.5%	+ 22.5 pp
pre-tax ROE		12.3%	27.9%	- 15.6 pp
ROE		12.3%	27.9%	- 15.6 pp

- EBIT in Q4 is 0.8 EURm
- Fund management fees for the largest funds fell by 40% starting from September
- In 2019, the growth of social tax revenue, which acts as a benchmark index, was ca 9%, while the return on actively managed funds was below it
- The goal is to offset the decrease in management fees by collecting success fees by outperforming projected 5% long term growth rate of benchmark index

LHV Asset Management – comparison with financial plan

Net profit for year 2019 is 6.1 EURm

Financial results, EURt	13 months	Dec-19	YTD19	YTD18	FP YTD	Δ YTD FP
Total revenue		857	13,189	13,750	13,290	-101
Total expenses		603	6,097	5,823	6,028	+68
Earnings before taxes		255	7,092	7,926	7,262	-169
Income tax		0	972	1,100	972	+0
Net profit		255	6,120	6,826	6,290	-169
Business volumes	13 months	Dec-19	YTD19	YTD18	FP YTD	Δ YTD FP
Assets under management, EURm		1,374	1,374	1,214	1,407	-33
Active customers of PII funds, thous.		177	177	178	177	-1
Key figures	13 months	Dec-19	YTD19	YTD18	FP YTD	Δ YTD FP
Cost / income ratio (C/I)		72.6%	47.4%	41.8%	46.5%	+ 0.9 pp
Funds average return		0.4%	5.8%	0.0%	4.3%	+ 1.5 pp

- Average return on funds under management is 1.5% higher than planned but considering market movements it is not satisfying
- Valge Maja (real-estate property) investment finalized in January
- A pension reform bill was passed in Riigikogu on 29 of January, but its future is still open
- Net profit in line with the goals set in the beginning of 2019

LHV Group
12 months

27.1 EURm

Net profit

16.2%

Pre-tax ROE

Best bank in Estonia

Euromoney / The Banker

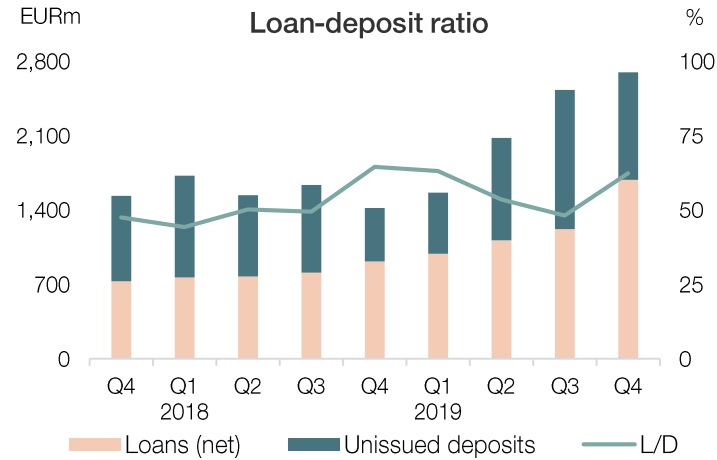
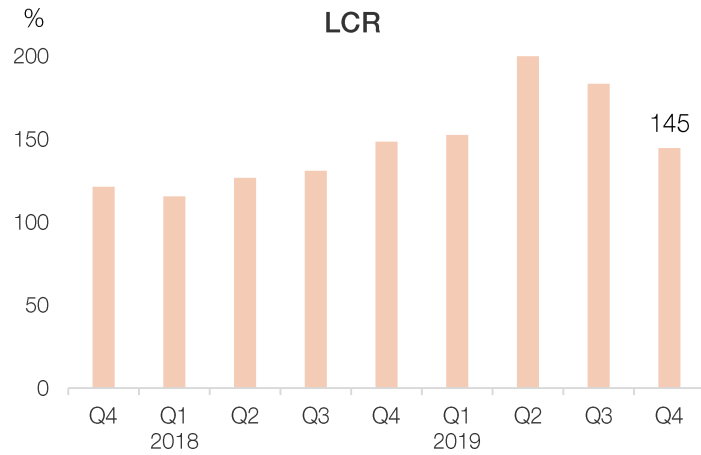
40,800

Bank customer increase

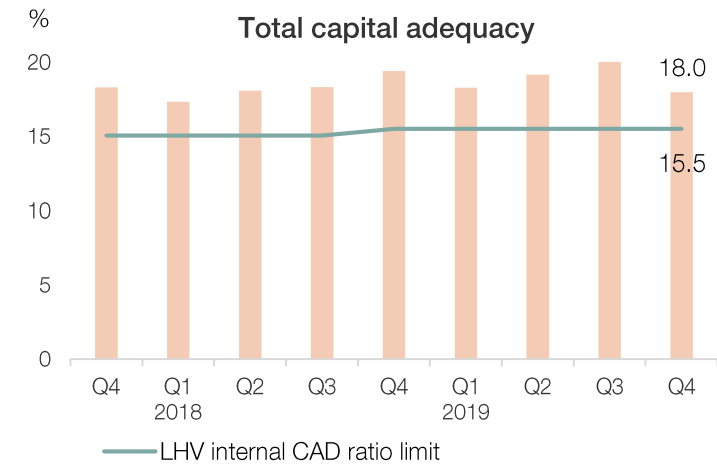
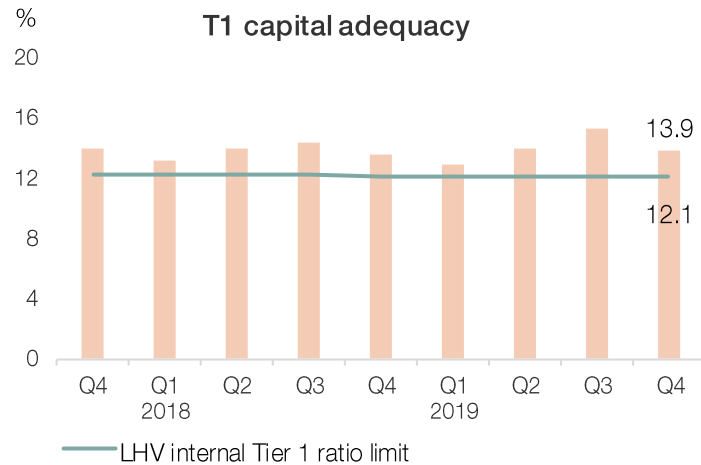
Annexes

LHV Group

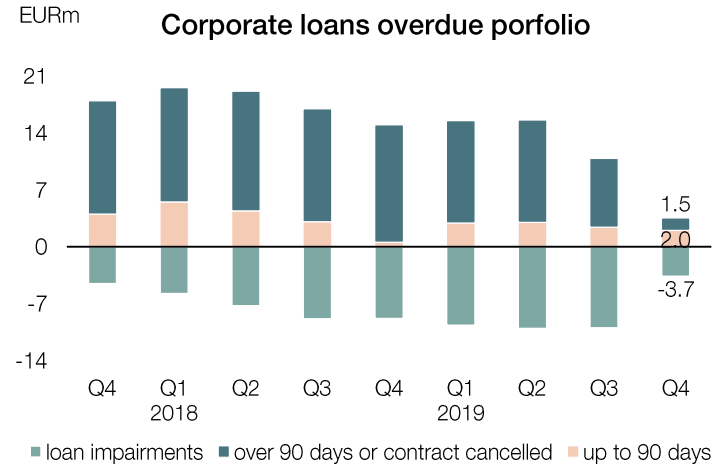
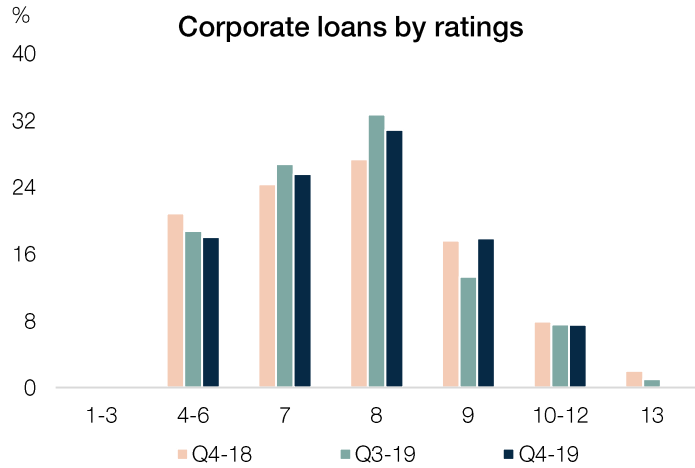
Strong liquidity and capitalization



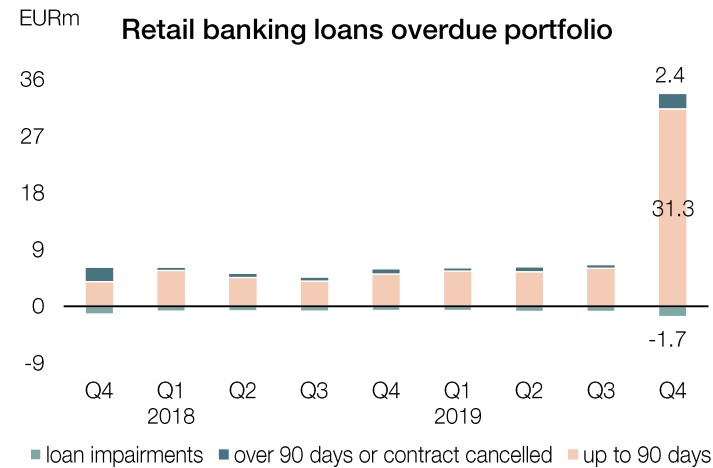
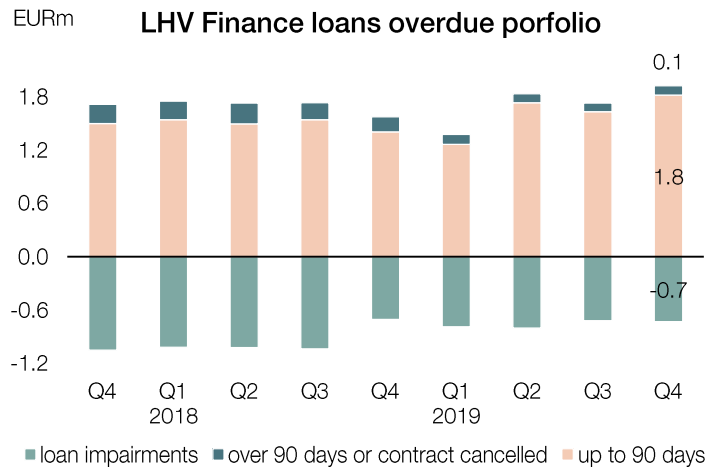
- Following the acquisition of Danske portfolio, LHV balance sheet has reached an optimal structure. This applies to the loan-to-deposit ratio as well as liquidity ratio
- Strong capital adequacy ratio, significantly above regulatory and internal targets



The quality of the loan portfolio is strong



- Biggest overdues in the corporate banking loan portfolio were resolved during the fourth quarter
- The volume of overdue loans in the retail banking loan portfolio increased due to the acquisition of Danske portfolio. The portfolio is well secured, but some customers are constantly in debt for a few months
- Other portfolios share of overdues remain low

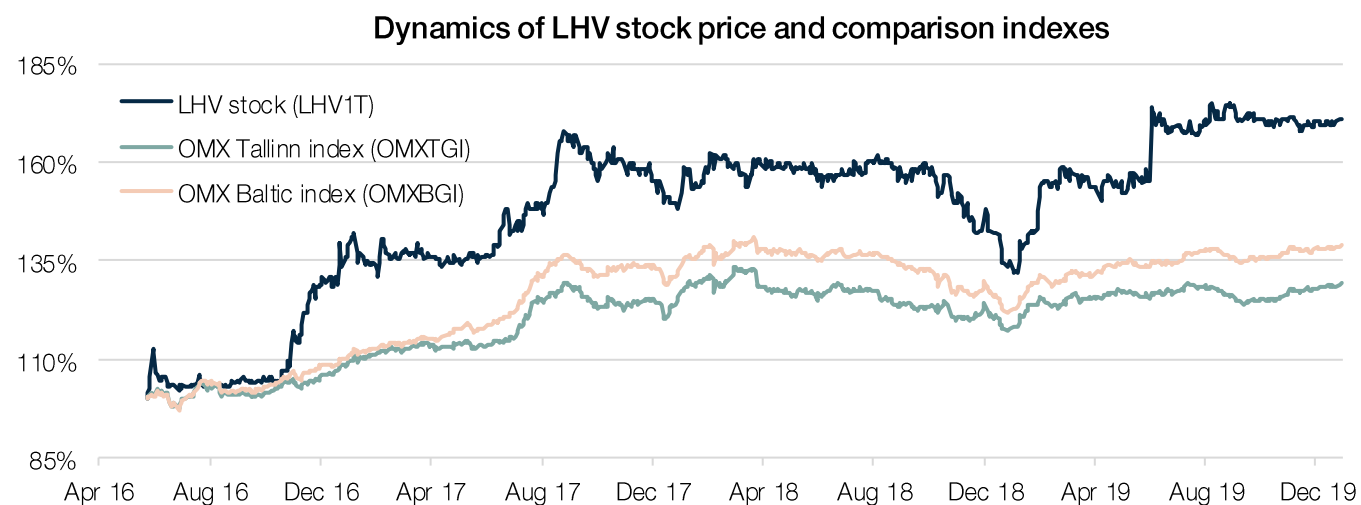


LHV Group

Stock information



- Q4 closing share price 12.00 EUR
- 1,349 trades were made with LHV shares during Q4 on the market with a turnover of 2.2 EURm, which gave the stock an average price of 11.93 EUR
- Shareholders earnings per share (EPS) in Q4 is 0.20 EUR and cumulative shareholder EPS is 0.87 EUR
- As of 31 December 2019 LHV had 6,950 shareholders and 49% of shares belonged to supervisory and management board members and parties associated with them
- Market capitalization based on closing price of 31.12.2019 was 341 EURm



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