

LHV Group

Q1 2020 results
April 21, 2020



Quarter with good results, the end affected by the emergency situation

For customers

- Apple Pay
- Commission-free trading with Baltic shares
- Real-time pound payments opened to financial intermediaries
- LHV Pank recognized as bank with the best service

Records in business volumes

- Customer numbers
- Loans
- Deposits

Pension funds

- Different investment strategy in comparison to the competitors
- Planned decrease of asset management fees in February
- Decision to suspend Pillar II pension payments

Other

- Establishment of LHV Kindlustus in progress
- Moody's affirmed the credit rating of LHV Pank at Baa1
- Covered bond issuance in progress
- Emergency situation effects
- Estonian treasury bills acquired in amount 200 EURm

Good growth, though affected by the income tax and emergency situation

Financial results, EURt	9 quarters	Q1-20	Q4-19	Δ quarter
Net interest income		16,323	13,268	+3,055
Net fee and commission income		6,507	6,427	+81
Other income		-353	228	-581
Total revenue		22,477	19,923	+2,554
Total expenses		11,174	11,359	-185
Earnings before impairment		11,303	8,564	+2,739
Impairment losses on loans		1,011	1,546	-535
Income tax expense		2,809	586	+2,223
Net income		7,484	6,432	+1,051
Business volumes, EURm	9 quarters	Q1-20	Q4-19	Δ quarter
Deposits from customers		2,953	2,701	+252
Loans (net)		1,739	1,687	+52
Assets under management		1,344	1,374	-30
Customers, thous.		374	366	+9
Key figures	9 quarters	Q1-20	Q4-19	Δ quarter
Cost / income ratio (C/I)		49.7%	57.0%	- 7.3 pp
pre-tax ROE*		19.0%	12.8%	+ 6.3 pp
ROE*		14.0%	11.6%	+ 2.5 pp

- Loans and deposits grew during the quarter. Fund volumes decreased due to the plunge in stock prices
- As a result of emergency situation, grace period granted to all customers affected by the virus with no changes in terms and conditions. Expected increase in provisions for loan portfolio, increase in the provisions mostly for model-based portfolios at the end of the quarter
- Pension funds management fees have decreased in February. Fund managers are investing in stock markets more actively in comparison to previous periods
- The quarterly profit of 7.5 EURm was affected by income tax on dividends paid as well as increased loan provisions in quarter end

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

LHV Group – comparison with financial plan

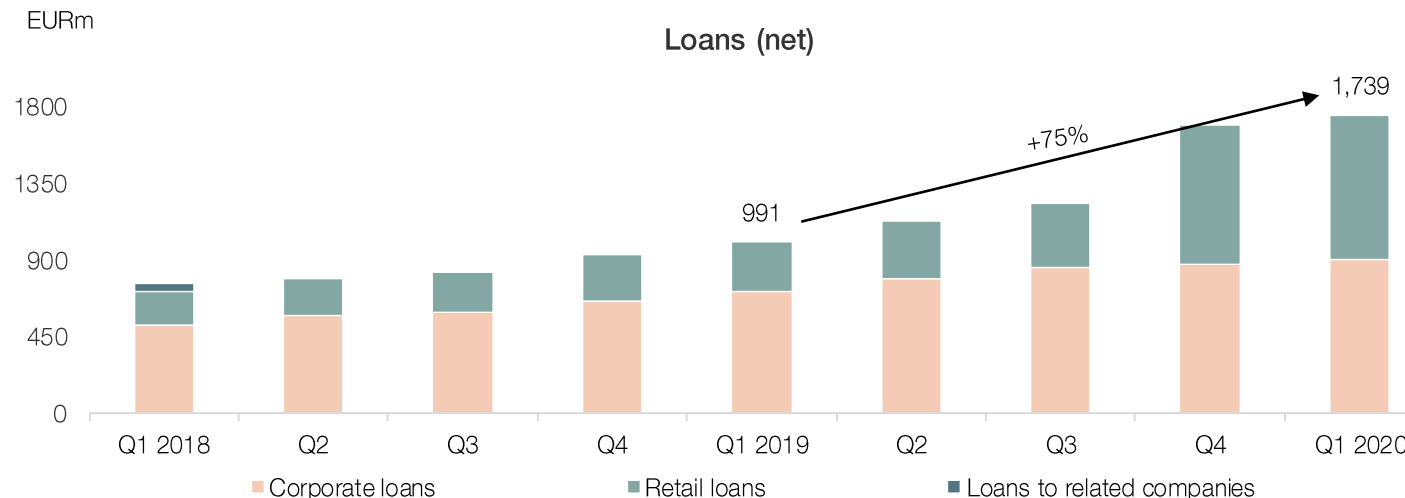
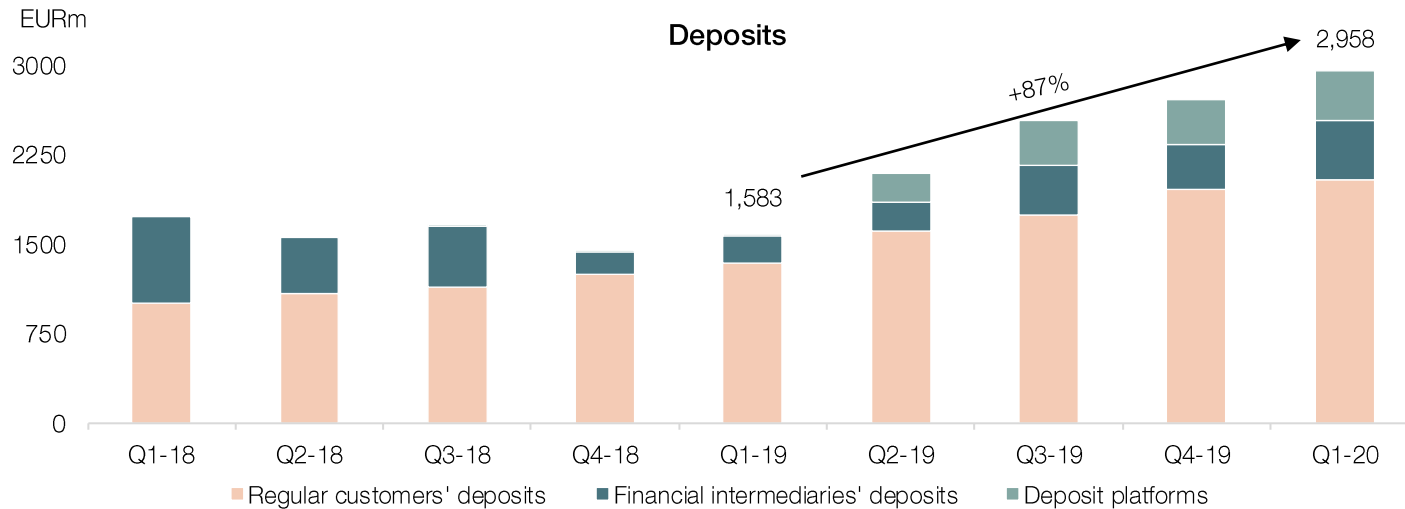
Current financial plan outperformed, lower revenues and income expected in the revised FP

Financial results, EURt	13 months	Mar-20	YTD20	YTD19	FP YTD	Δ YTD FP
Total revenue, incl.		7,822	22,477	17,324	21,091	+1,386
Net interest income		5,728	16,323	10,945	14,914	+1,409
Net fee and commission income		2,439	6,507	6,225	6,019	+488
Total operating expenses		3,936	11,174	9,105	11,149	+24
Earnings before impairment		3,885	11,303	8,219	9,942	+1,362
Impairment losses on loans		923	1,011	951	1,437	-426
Income tax		2,030	2,809	2,265	2,500	+308
Net profit, incl.		932	7,484	5,002	6,004	+1,479
attr. to shareholders		1,014	7,079	4,690	5,604	+1,476
Business volumes, EURm	13 months	Mar-20	YTD20	YTD19	FP YTD	Δ YTD FP
Deposits from customers		2,953	2,953	1,567	2,871	+82
Loans (net)		1,739	1,739	991	1,769	-30
Assets under management		1,344	1,344	1,257	1,406	-62
Key figures	13 months	Mar-20	YTD20	YTD19	FP YTD	Δ YTD FP
Cost / income ratio (C/I)		50.3%	49.7%	52.6%	52.9%	- 3.2 pp
pre-tax ROE*		15.8%	19.0%	17.4%	15.3%	+ 3.7 pp
ROE*		5.8%	14.0%	12.2%	11.0%	+ 3.0 pp
Net interest margin (NIM)		2.1%	2.2%	2.7%	2.0%	+ 0.2 pp
ROA		0.3%	1.0%	1.2%	0.8%	+ 0.2 pp

- Revenues exceed current financial plan in terms of both interest and fee income. Expenses in line with the financial plan
- Results of the March affected by income tax on dividends paid and higher model-based provisions
- Loan impairment losses are lower than forecasted, but updated financial plan projects the growth of provisions
- Increased risks are partially offset by the increased interest income from the Danske portfolio acquired in the end of previous year as well as cost savings
- Current financial plan outperformed by 1.5 EURm, but we are in process of updating our financial plan for year 2020

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

Successful start of the year, but emergency situation affected Bank's quarter results



- 14,400 new customers, down to 3,000 customers per month by the end of the quarter. By the end of quarter regular customers activity declined by 30% while financial intermediaries' customers activity is at record levels
- Deposits increased by 245 EURm, incl. regular customers' by 70 EURm, payment intermediaries' by 129 EURm and deposits from deposit platforms by 45 EURm
- Loan growth 52 EURm, including 20 EURm in corporate loans and 32 EURm in retail loans. Demand for corporate loans reached minimum levels at the quarter end, demand decrease for retail loans exceeded 50%, and for leasing more than 80%. Grace periods granted to 2,000 customers, 1/3 of which are entities and 2/3 are private persons
- New products for regular customers are child account opening via Internet Bank and Apple Pay. Real-time pound payments opened for financial intermediaries

LHV Banking

Record levels in business volumes, revenues, profits and key figures

Financial results, EURt	9 quarters	Q1-20	Q4-19	Δ quarter
Net interest income		16,248	13,234	+3,015
Net fee and commission income		4,334	3,987	+347
Other income		-35	143	-178
Total revenue		20,547	17,363	+3,183
Total expenses		9,432	9,575	-144
Earnings before impairments		11,115	7,788	+3,327
Impairment losses on loans		1,011	1,546	-535
Income tax expense		1,964	586	+1,378
Net income		8,140	5,656	+2,483
Business volumes, EURm	9 quarters	Q1-20	Q4-19	Δ quarter
Deposits from customers		2,958	2,713	+245
Loans (net)		1,739	1,687	+52
Customers, thous.		243	230	+13
Key figures	9 quarters	Q1-20	Q4-19	Δ quarter
Cost / income ratio (C/I)		45.9%	55.1%	- 9.2 pp
pre-tax ROE*		21.9%	14.2%	+ 7.7 pp
ROE*		18.0%	12.7%	+ 5.3 pp
Net interest margin		2.1%	1.8%	+ 0.3 pp

- Net income in amount of 8.1 EURm. Twofold net profit increase in comparison the same period last year
- Net profit was negatively affected by the increase in loan provisions through the grace periods granted, the deterioration of macro indicators used as model inputs and some larger corporate loans credit rating deterioration
- As a result of the emergency situation all new recruitment processes stopped. Costs for various events, trainings and business trips as well as budgets for marketing, premises and some projects was reduced

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

LHV Banking – comparison with financial plan

Net profit ahead of financial plan by +1.9 EURm

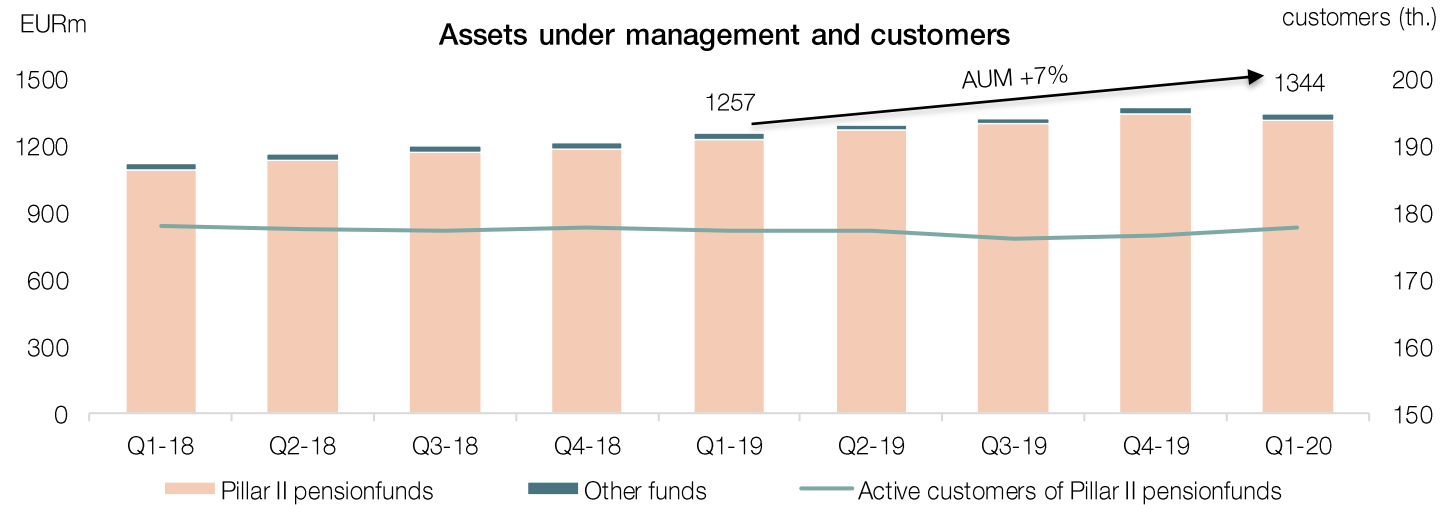
Financial results, EURt	13 months	Mar-20	YTD20	YTD19	FP YTD	Δ YTD FP
Total revenue, incl.		7,386	20,547	13,920	18,704	+1,842
Net interest income		5,704	16,248	11,238	14,840	+1,409
Net fee and commission income		1,753	4,334	2,704	3,816	+518
Total operating expenses		3,305	9,432	7,511	9,365	+67
Earnings before impairment		4,082	11,115	6,409	9,340	+1,775
Impairment losses on loans		923	1,011	951	1,437	-426
Income tax		1,186	1,964	1,293	1,656	+308
Net profit		1,972	8,140	4,165	6,246	+1,893
Business volumes, EURm	13 months	Mar-20	YTD20	YTD19	FP YTD	Δ YTD FP
Deposits from customers		2,958	2,958	1,583	2,883	+75
Loans (net)		1,739	1,739	991	1,769	-30
Key figures	13 months	Mar-20	YTD20	YTD19	FP YTD	Δ YTD FP
Cost / income ratio (C/I)		44.7%	45.9%	54.0%	50.1%	- 4.2 pp
T1 capital adequacy		14.1%	14.1%	13.4%	13.6%	+ 0.5 pp
Total capital adequacy		17.6%	17.6%	16.7%	17.1%	+ 0.6 pp
Net interest margin (NIM)		2.1%	2.1%	2.7%	1.9%	+ 0.2 pp

- Deposits exceeded financial plan by 75 EURm. Loans are below the forecasted amount by 30 EURm due to declined demand in the quarter end
- Net profit exceeded financial plan due to higher interest income on larger loan portfolio at the beginning of the year as well as higher trading fees due to higher trading activity
- Additional activity licence for covered bonds. Emission of covered bonds and rating application in progress
- Moody's affirmed the credit rating of LHV Pank at Baa1

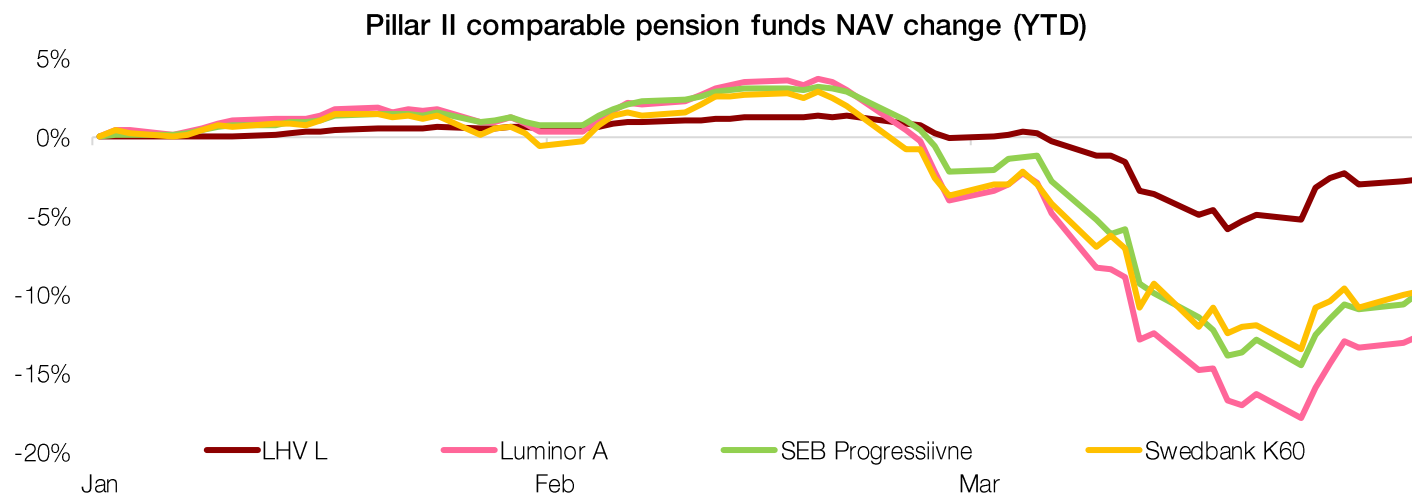
* ROE is based on LHV Group net profit and equity attributable to the owners of AS LHV Group

LHV Asset Management

Coronavirus led stock markets to decline



- The volume of assets under management above 1.3 EURb by the end of first quarter, with 7% YoY increase
- All major stock markets in free fall starting from the second half of February. The end of March and beginning of April have been slightly more positive, but volatility is still high
- LHV actively managed funds entered the crisis with lower equity risk, the decline has been significantly lower in comparison to the competitors. LHV Pension Fund L yield decreased in the first quarter by 2.7%



LHV Asset Management


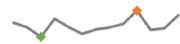







EBIT of Q1 0.6 EURm, the number of active customers is growing

Financial results, EURt	9 quarters	Q1-20	Q4-19	Δ quarter
Total revenue		2,174	2,440	-266
Total operating expenses		1,565	1,634	-69
EBIT		608	806	-197
Net financial income		-327	77	-404
Income tax expense		844	0	+844
Net profit		-563	883	-1,446
Business volumes, EURm	9 quarters	Q1-20	Q4-19	Δ quarter
Pillar II pensionfunds		1,321	1,349	-28
Pillar III pension funds		20	21	-1
Eurofunds		3	3	-1
Active customers of PII funds, thous.		178	177	+1
Key figures	9 quarters	Q1-20	Q4-19	Δ quarter
Cost / income ratio (C/I)		72.0%	67.0%	+ 5.0 pp
pre-tax ROE		4.2%	12.3%	- 8.1 pp
ROE		-8.4%	12.3%	- 20.8 pp

- EBIT in Q1 is 0.6 EURm, net profit affected by the income tax on dividends paid
- Starting from February fund management fees for actively managed funds fell by more than 15% to 0.6% per year
- The social tax revenue, which acts as a benchmark index, was still growing in Q1 2020, but significant decline is expected starting from the Q2 2020 considering the expected economic downturn
- The number of customers has increased in recent months, active Pillar II pension customers are ca 178 thousands

LHV Asset Management – comparison with financial plan

Launch of LHV Green fund, revenues are lower than planned due to market downturn

Financial results, EURt	13 months	Mar-20	YTD20	YTD19	FP YTD	Δ YTD FP
Total revenue		406	1,846	3,671	2,282	-436
Total expenses		576	1,565	1,483	1,555	+10
Earnings before taxes		-170	281	2,188	727	-446
Income tax		844	844	972	844	+0
Net profit		-1,014	-563	1,215	-117	-446
Business volumes	13 months	Mar-20	YTD20	YTD19	FP YTD	Δ YTD FP
Assets under management, EURm		1,344	1,344	1,257	1,406	-62
Active customers of PII funds, thous.		178	178	177	177	+1
Key figures	13 months	Mar-20	YTD20	YTD19	FP YTD	Δ YTD FP
Cost / income ratio (C/I)		83.9%	72.0%	42.1%	70.6%	+ 1.4 pp
Funds average return		-2.9%	-3.1%	1.9%	1.3%	- 4.4 pp

- New LHV Green fund launched in mid-March, which focuses on sustainable and environmentally friendly investments
- Revenues below the financial plan due to lower planned fund volumes and additional financial expenses related to the decline in the value of own equity instruments due to negative returns
- The future of the pension reform will be clear at the earliest in autumn 2020
- The impact of payments suspension is marginal, affecting the expected funds' volume amounts by less than 3%

LHV Group
3 months

7.5 EURm

Net profit

19.0%

Pre-tax ROE

Best bank in Estonia

Dive's survey

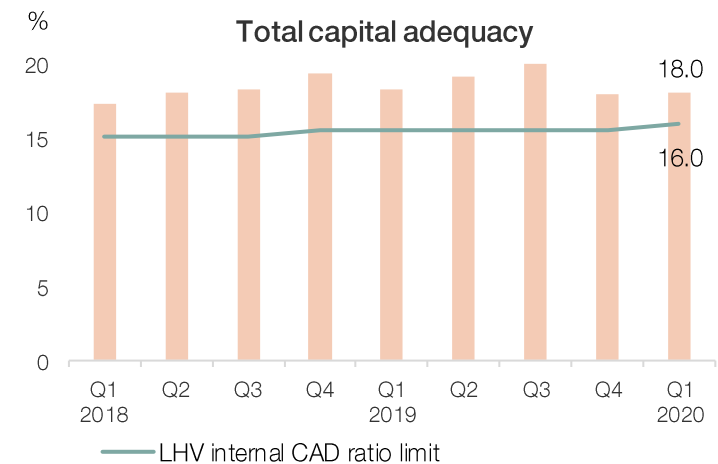
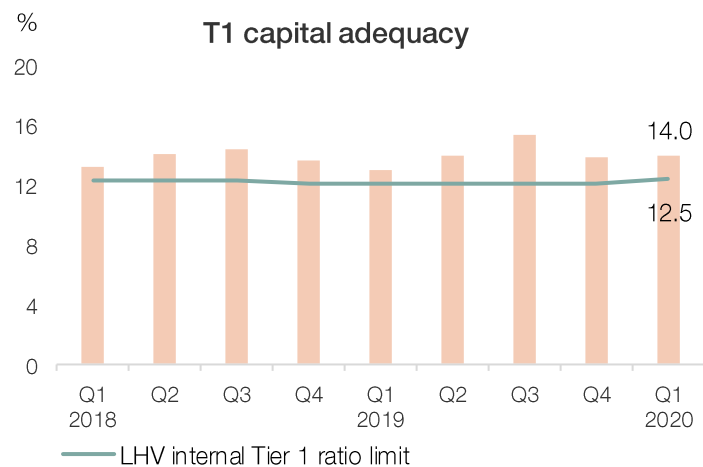
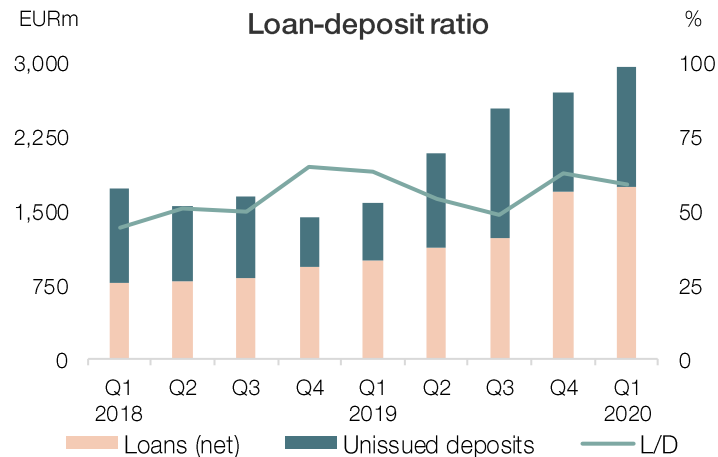
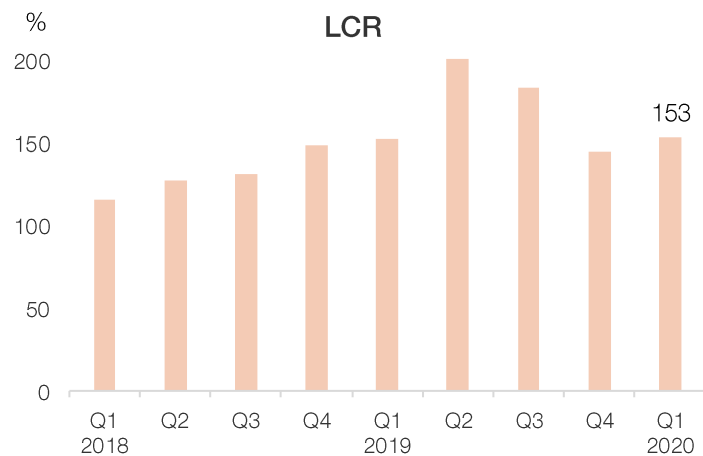
14,400

Bank customer increase

Annexes

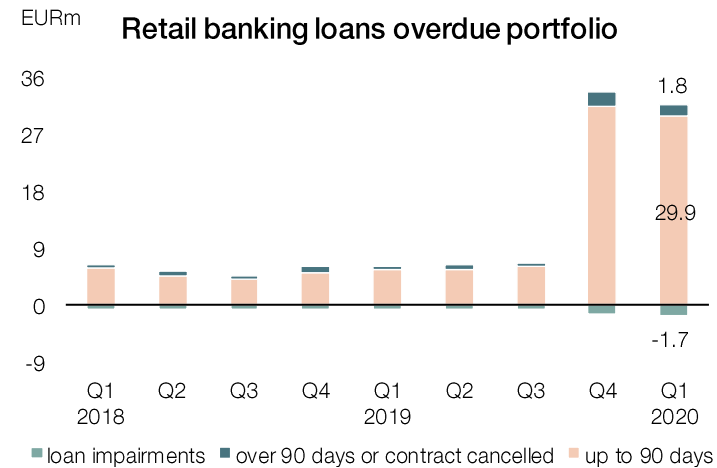
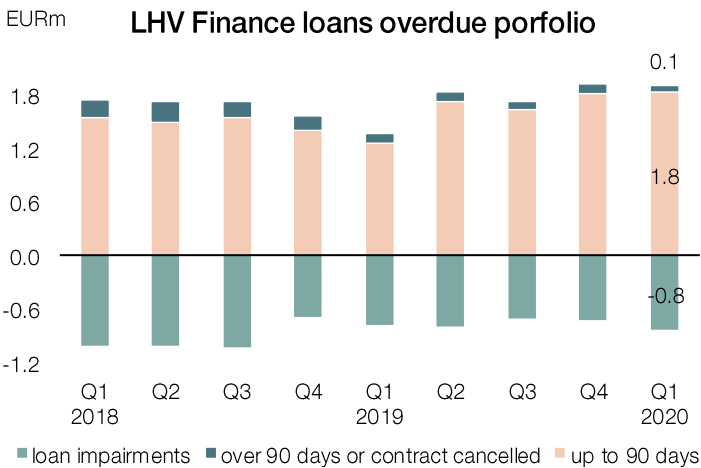
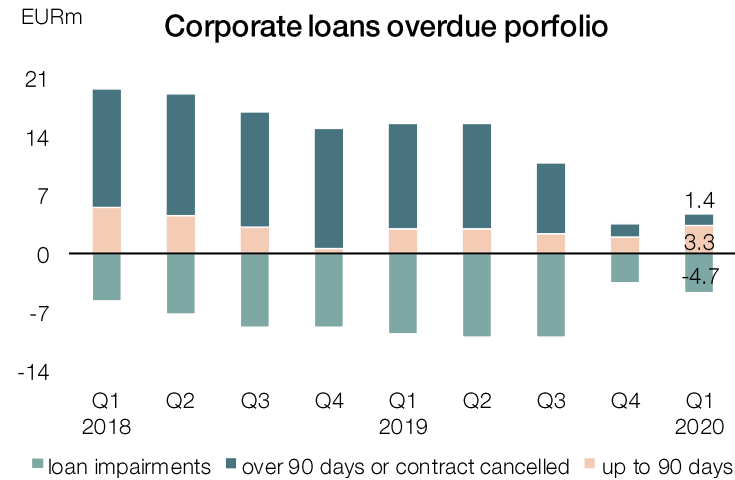
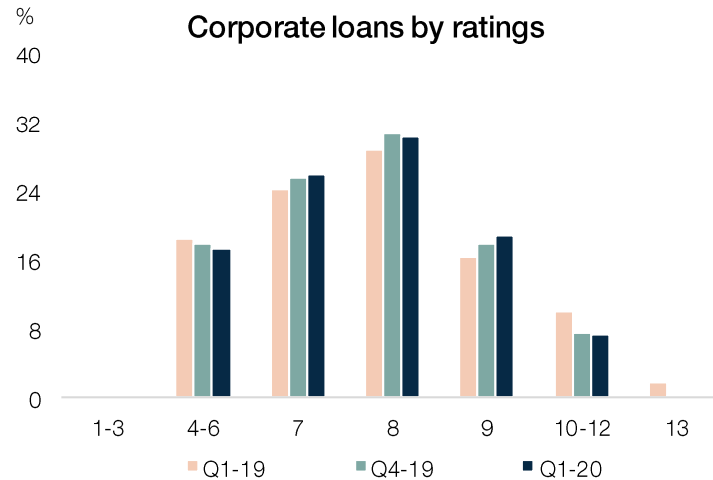
LHV Group

Strong liquidity and capitalization



- Liquidity and capitalization of the Bank strengthened in the first quarter
- Increased volume of deposits accumulated by LHV has raised LCR to a strong 153%
- Capital adequacy ratio strengthened mainly due to the fourth quarter net income added to the own funds
- Both capital adequacy ratios exceed regulatory and internal targets

The quality of the loan portfolio is strong



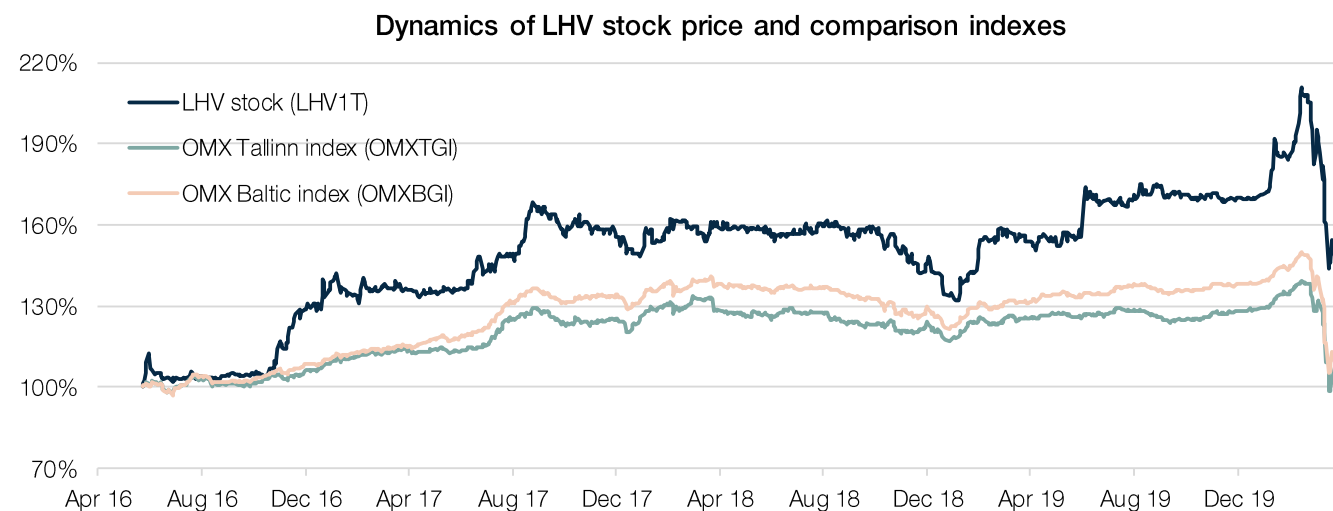
- Corporate banking loan portfolio is entering crisis in good shape
- The volume of overdue loans in the retail banking loan portfolio increased due to the acquisition of Danske portfolio, where some customers are constantly in debt for a few months. However, these portfolios are well secured
- Other portfolios share of overdues is low
- LHV offers customers flexible solutions for mitigation of the effects caused by the crisis

LHV Group

Stock information



- Q1 closing share price 9.90 EUR
- 12,958 trades were made with LHV shares during Q1 on the market with a turnover of 13.1 EURm, which gave the stock an average price of 11.73 EUR
- Shareholders earnings per share (EPS) in Q1 is 0.25 EUR
- As of 31 March 2020 LHV had 8,873 shareholders and 48.76% of shares belonged to supervisory and management board members and parties associated with them
- Market capitalization based on closing price of 31.03.2020 was 282 EURm



Madis Toomsalu

LHV Group Managing Director
madis.toomsalu@lhv.ee

Meelis Paakspuu

LHV Group CFO
meelis.paakspuu@lhv.ee