

# LHV Group

Q2 2020 results  
July 14, 2020



# Quarter with significant events

## For customers

- Name payments
- Dollar payments to Estonian residents

## Records in business volumes

- Customer numbers
- Loans
- Deposits
- Funds

## Pension funds

- Best three pension funds this year
- Suspension of public contributions from July
- Decision on pension reform in October

## Other

- Signing of Danske portfolio purchase agreement
- Submission of LHV Insurance license application
- Successful covered bond issuance
- AT1 bonds issuance
- New financial plan published
- Green LHV

## Good growth, though affected by provisions

Financial results, EURt	9 quarters	Q2-20	Q1-20	Δ quarter
Net interest income		15,545	16,323	-778
Net fee and commission income		6,188	6,507	-319
Other income		305	-353	+658
<b>Total revenue</b>		<b>22,039</b>	<b>22,477</b>	<b>-438</b>
<b>Total expenses</b>		<b>10,661</b>	<b>11,174</b>	<b>-512</b>
<b>Earnings before impairment</b>		<b>11,378</b>	<b>11,303</b>	<b>+74</b>
Impairment losses on loans		7,672	1,011	+6,660
Income tax expense		156	2,809	-2,653
<b>Net income</b>		<b>3,550</b>	<b>7,484</b>	<b>-3,933</b>
Business volumes, EURm	9 quarters	Q2-20	Q1-20	Δ quarter
Deposits from customers		3,087	2,953	+134
Loans (net)		1,804	1,739	+65
Assets under management		1,440	1,344	+96
Customers, thous.		377	374	+2
Key figures	9 quarters	Q2-20	Q1-20	Δ quarter
Cost / income ratio (C/I)		48.4%	49.7%	- 1.3 pp
pre-tax ROE*		6.0%	19.0%	- 13.0 pp
ROE*		5.7%	14.0%	- 8.3 pp

- Loans, deposits and funds grew during the quarter
- Credit portfolio remains strong, grace periods granted to customers end from October to April 2021
- Q2 provisions were related to the deterioration of macro indicators and of the Credit rating of some major corporate loans
- LHV actively managed pension funds L and XL increased the equity risk significantly at the end of March, beginning of April. End of June return from the beginning of the year for L and XL was 2.4% and 4.2%, quarterly 5.3% and 8.1%
- The quarterly profit of 3.6 EURm was affected by loan provisions

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

# LHV Group – comparison with financial plan

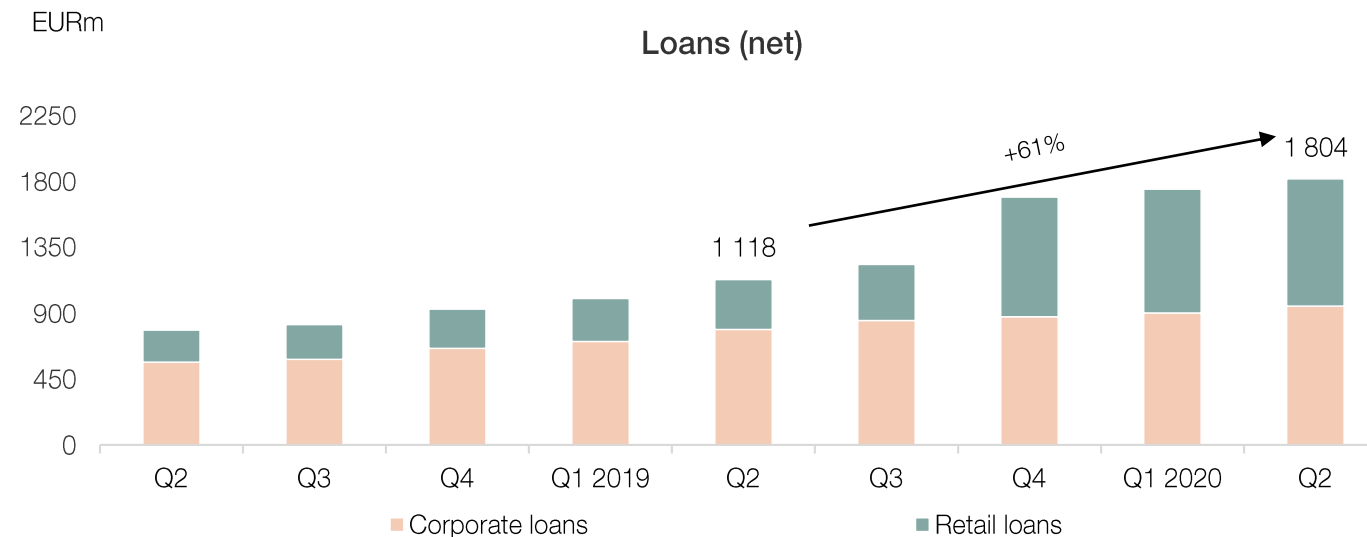
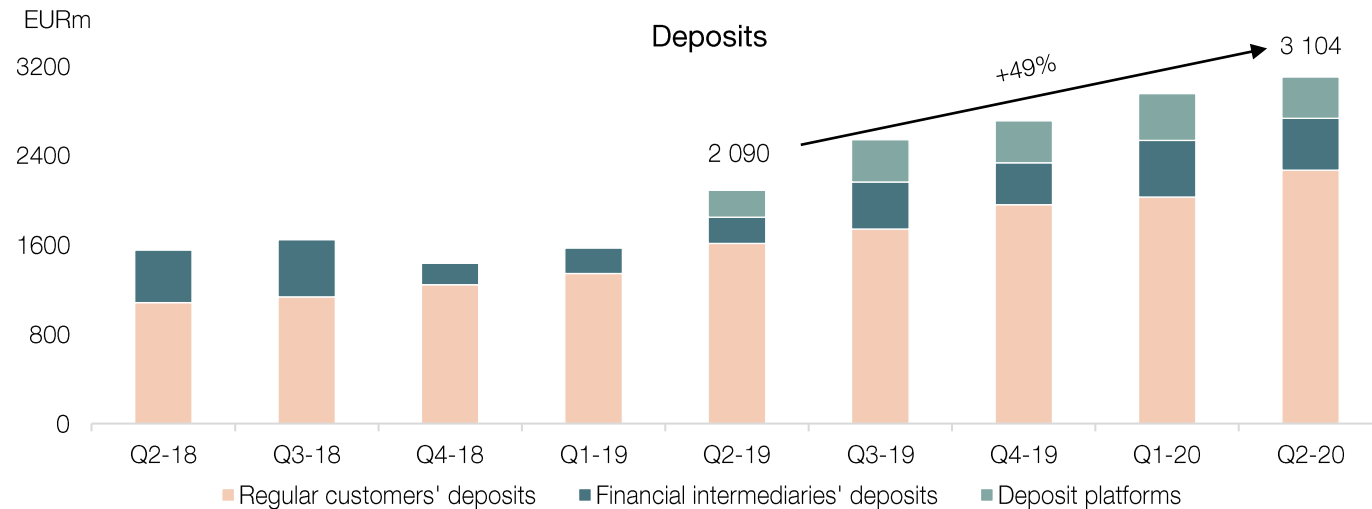
## Net profit +3.2 EURm ahead of financial plan

Financial results, EURt	13 months	Jun-20	YTD20	YTD19	FP YTD	Δ YTD FP
<b>Total revenue, incl.</b>		7,459	44,516	35,784	43,573	+944
Net interest income		5,185	31,868	22,573	31,625	+244
Net fee and commission income		2,111	12,696	12,838	12,066	+630
<b>Total operating expenses</b>		3,461	21,835	18,508	22,214	-379
<b>Earnings before impairment</b>		3,998	22,681	17,276	21,359	+1,322
Impairment losses on loans		1,485	8,683	1,649	10,704	-2,021
Income tax		156	2,964	2,963	2,803	+162
<b>Net profit, incl.</b>		2,357	11,034	12,665	7,852	+3,182
attr. to shareholders		2,117	10,014	11,788	7,088	+2,926
<b>Business volumes, EURm</b>	<b>13 months</b>	<b>Jun-20</b>	<b>YTD20</b>	<b>YTD19</b>	<b>FP YTD</b>	<b>Δ YTD FP</b>
Deposits from customers		3,087	3,087	2,083	2,950	+137
Loans (net)		1,804	1,804	1,118	1,785	+19
Assets under management		1,440	1,440	1,293	1,387	+53
<b>Key figures</b>	<b>13 months</b>	<b>Jun-20</b>	<b>YTD20</b>	<b>YTD19</b>	<b>FP YTD</b>	<b>Δ YTD FP</b>
Cost / income ratio (C/I)		46.4%	49.0%	51.7%	51.0%	- 1.9 pp
pre-tax ROE*		13.4%	12.4%	18.4%	9.5%	+ 2.9 pp
ROE*		12.4%	9.8%	15.0%	7.0%	+ 2.8 pp
Net interest margin (NIM)		1.8%	2.1%	2.6%	2.1%	- 0.0 pp
ROA		0.8%	0.7%	1.4%	0.5%	+ 0.2 pp

- Revenues exceed current financial plan in terms of both interest and commission income. Expenses lower than the financial plan
- Loan provisions lower than the financial plan, provisions so far mainly model-based
- 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 3.2 EURm

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

## Successful issuance of covered bonds. Purchase of Danske loans



- 8,000 new customers. In the first half of the quarter, the activity of regular customers decreased significantly, but recovered very quickly in the second half. By the end of the quarter, record levels of retail customer activity and business volumes
- Deposits increased by 146 EURm, incl. retail customers by 160 EURm, payment intermediaries by 34 EURm and deposits from deposit platforms by -48 EURm. Active participation in the second issue of Estonian government bonds, receiving 200 EURm. First and successful 250 EURm covered bond issue with Moody's initial rating (P) Aa1
- Loan growth 65 EURm, including 39 EURm in corporate loans and 26 EURm in retail loans. Danske Bank agreement for the purchase of an Estonian corporate and public sector loan facility with volume 312 EURm at a discount of 19 EURm
- New products: dollar payments to residents and name payment service

## Record levels in business volumes. The quality of the loan portfolio is strong

Financial results, EURt	9 quarters	Q2-20	Q1-20	Δ quarter
Net interest income		15,541	16,248	-707
Net fee and commission income		4,089	4,334	-245
Other income		-184	-35	-148
<b>Total revenue</b>		<b>19,446</b>	<b>20,547</b>	<b>-1,101</b>
<b>Total expenses</b>		<b>8,814</b>	<b>9,432</b>	<b>-618</b>
<b>Earnings before impairments</b>		<b>10,632</b>	<b>11,115</b>	<b>-483</b>
Impairment losses on loans		7,672	1,011	+6,660
Income tax expense		156	1,964	-1,809
<b>Net income</b>		<b>2,805</b>	<b>8,140</b>	<b>-5,335</b>
<b>Business volumes, EURm</b>	<b>9 quarters</b>	<b>Q2-20</b>	<b>Q1-20</b>	<b>Δ quarter</b>
Deposits from customers		3,104	2,958	+146
Loans (net)		1,804	1,739	+65
Customers, thous.		249	243	+6
<b>Key figures</b>	<b>9 quarters</b>	<b>Q2-20</b>	<b>Q1-20</b>	<b>Δ quarter</b>
Cost / income ratio (C/I)		45.3%	45.9%	- 0.6 pp
pre-tax ROE*		5.2%	21.9%	- 16.7 pp
ROE*		4.8%	18.0%	- 13.2 pp
Net interest margin		1.8%	2.1%	- 0.3 pp

- Net income 2.8 EURm.
- Net profit was negatively affected by the increase in loan provisions due to the deterioration of macro indicators used as model inputs and a few larger corporate loans credit rating deteriorations
- Loan provisions 7.7 EURm in Q2. The quality of the loan portfolio remained strong and the share of overdue loans remained low
- Grace periods granted to 2,900 customers (67% retail, 33% corporate) in total for 349 EURm (14% retail, 86% corporate)

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

# LHV Banking – comparison with financial plan

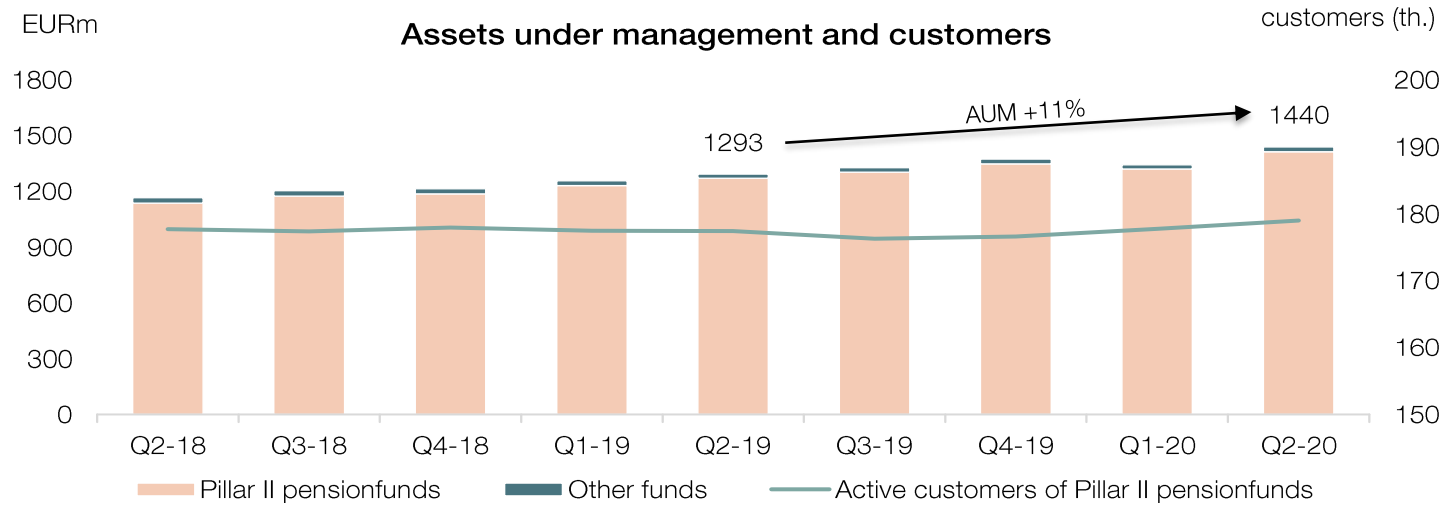
## Net profit ahead of financial plan by +2.9 EURm

Financial results, EURt	13 months	Jun-20	YTD20	YTD19	FP YTD	Δ YTD FP
<b>Total revenue, incl.</b>		6,707	39,993	28,948	39,483	+510
Net interest income		5,220	31,789	23,081	31,539	+250
Net fee and commission income		1,406	8,422	5,712	7,844	+579
<b>Total operating expenses</b>		2,807	18,246	15,250	18,789	-544
<b>Earnings before impairment</b>		3,900	21,747	13,698	20,694	+1,053
Impairment losses on loans		1,485	8,683	1,649	10,704	-2,021
Income tax		156	2,120	1,990	1,958	+162
<b>Net profit</b>		2,260	10,944	10,059	8,031	+2,913
<b>Business volumes, EURm</b>	<b>13 months</b>	<b>Jun-20</b>	<b>YTD20</b>	<b>YTD19</b>	<b>FP YTD</b>	<b>Δ YTD FP</b>
Deposits from customers		3,104	3,104	2,090	2,961	+143
Loans (net)		1,804	1,804	1,118	1,785	+19
<b>Key figures</b>	<b>13 months</b>	<b>Jun-20</b>	<b>YTD20</b>	<b>YTD19</b>	<b>FP YTD</b>	<b>Δ YTD FP</b>
Cost / income ratio (C/I)		41.8%	45.6%	52.7%	47.6%	- 2.0 pp
T1 capital adequacy		14.2%	14.2%	14.8%	13.9%	+ 0.2 pp
Total capital adequacy		17.6%	17.6%	18.9%	17.4%	+ 0.2 pp
Net interest margin (NIM)		1.8%	1.9%	2.5%	2.0%	- 0.0 pp

- Deposits exceeded financial plan by 143 EURm. Loans by 19 EURm
- Net profit exceeded financial plan due to higher interest income from larger loan portfolio at the beginning of the year as well as higher trading fees due to higher trading activity and lower provisions
- C/I ratio at all-time low

# LHV Asset Management

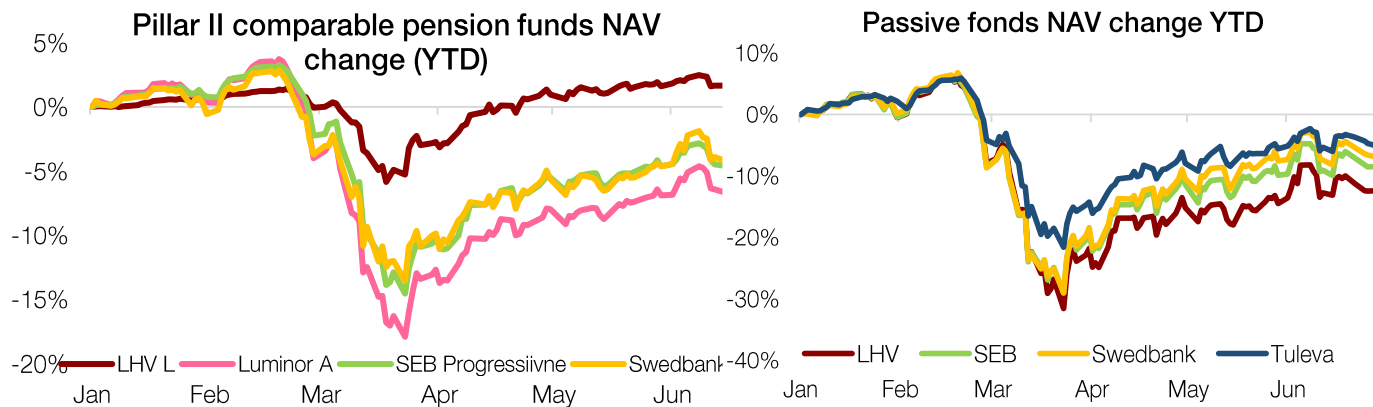
## Strong recovery of stock markets



- The volume of assets under management above 1.4 EURb by the end of second quarter, with 11% YoY increase

- Stock markets have recovered strongly from March slump. However as of the beginning of the year, high risk equity funds have not yet fully recovered.

- LHV actively managed pension funds L and XL increased the equity risk significantly at the end of March, beginning of April. End of June return from the beginning of the year for L and XL was 2.4% and 4.2%, quarterly 5.3% and 8.1%





# LHV Asset Management










## Q2 Net profit 1 EURm, the number of active customers is growing

Financial results, EURt	9 quarters	Q2-20	Q1-20	Δ quarter
Total revenue		2,100	2,174	-74
Total operating expenses		1,595	1,565	+30
<b>EBIT</b>		505	608	-104
Net financial income		481	-327	+808
Income tax expense		0	844	-844
<b>Net profit</b>		986	-563	+1,549
Business volumes, EURm	9 quarters	Q2-20	Q1-20	Δ quarter
Pillar II pensionfunds		1,414	1,321	+92
Pillar III pension funds		23	20	+3
Eurofunds		3	3	+1
Active customers of PII funds, thous.		179	178	+1
Key figures	9 quarters	Q2-20	Q1-20	Δ quarter
Cost / income ratio (C/I)		76.0%	72.0%	+ 4.0 pp
pre-tax ROE		15.9%	4.2%	+ 11.7 pp
ROE		15.9%	-8.4%	+ 24.4 pp

- Net profit in Q2 is 1 EURm, net profit was positively affected by the increase in the value of own shares due to the good performance of the funds
- Pillar II pension funds net assets increase 92 EURm in Q2
- The number of customers has increased for five months in a row, number of active Pillar II pension customers ca 179 thousands
- The social tax revenue, which acts as a benchmark index, decreased sharply in April, however recovered just as quickly due to payments from the Unemployment Insurance Fund in May and June

# LHV Asset Management – comparison with financial plan

## Despite the turbulent times, a successful quarter with a strong return

Financial results, EURt	13 months	Jun-20	YTD20	YTD19	FP YTD	Δ YTD FP
Total revenue		785	4,427	7,308	3,978	+450
Total expenses		569	3,160	2,993	3,035	+125
Earnings before taxes		216	1,267	4,315	942	+325
Income tax		0	844	972	844	+0
Net profit		216	423	3,343	98	+325
<b>Business volumes</b>	<b>13 months</b>	<b>Jun-20</b>	<b>YTD20</b>	<b>YTD19</b>	<b>FP YTD</b>	<b>Δ YTD FP</b>
Assets under management, EURm		1,440	1,440	1,293	1,387	+53
Active customers of PII funds, thous.		179	179	177	176	+3
<b>Key figures</b>	<b>13 months</b>	<b>Jun-20</b>	<b>YTD20</b>	<b>YTD19</b>	<b>FP YTD</b>	<b>Δ YTD FP</b>
Cost / income ratio (C/I)		80.8%	73.9%	42.0%	71.9%	+ 2.1 pp
Funds average return		0.9%	1.9%	3.2%	1.4%	+ 0.5 pp

- The three best performing funds in 2020 are LHV funds L, XL and LHV Green fund launched in mid-March, with returns of 2.4%, 4.2% and 27.6% respectively
- Net profit ahead the financial plan 0.3 EURm by the end of Q2, largely due to the great performance of the funds
- Pension reform decision by Supreme Court latest in the beginning of October
- From the beginning of July, until August 2021, the state will temporarily withhold 4% of contributions to the II pillar funds. The effect on the volumes of the funds will be marginal

**11 EURm**

Net profit

**12.4%**

Pre-tax ROE

**Growth in business  
volumes**

Acquisition of Danske portfolio

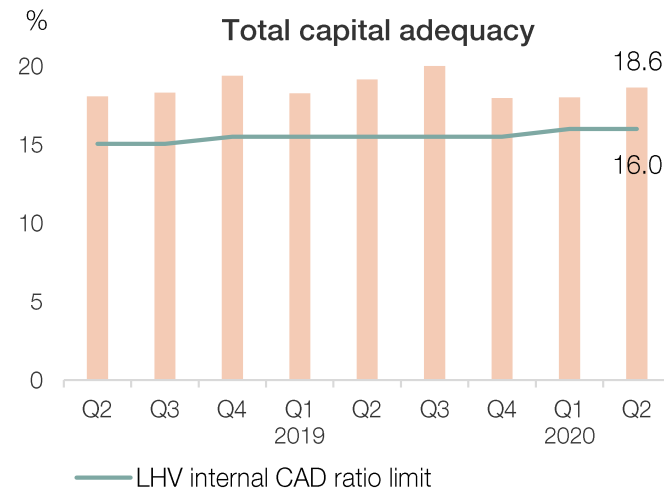
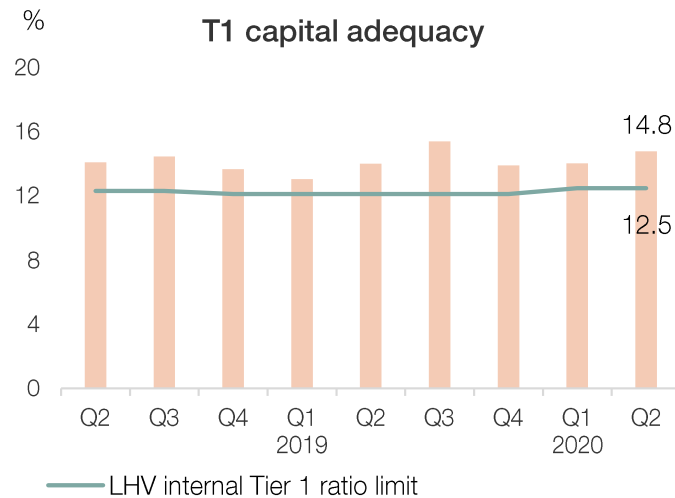
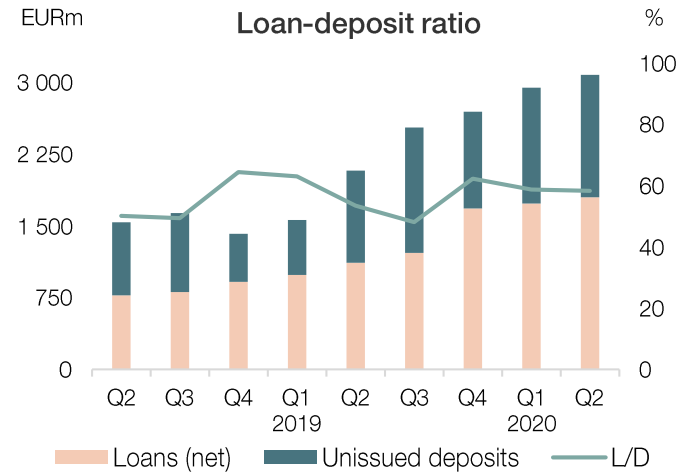
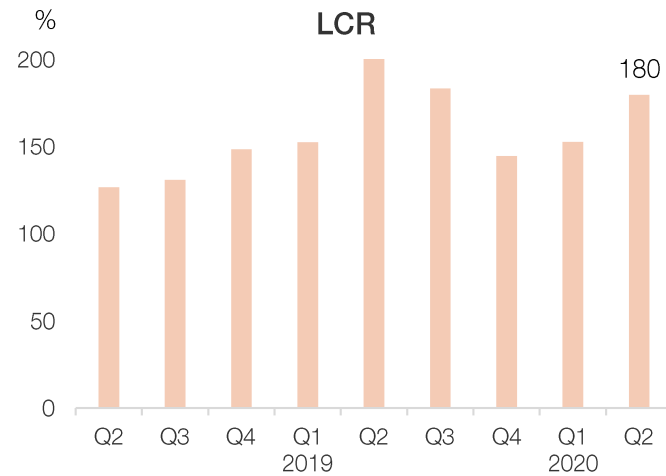
**22,400**

Bank customers increase

# Annexes

# LHV Group

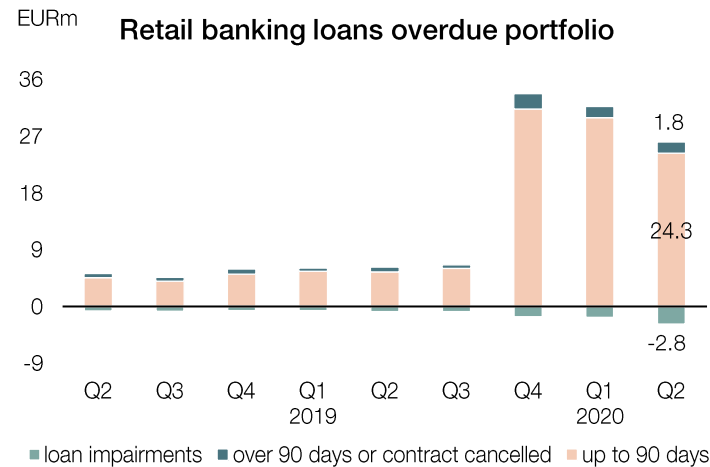
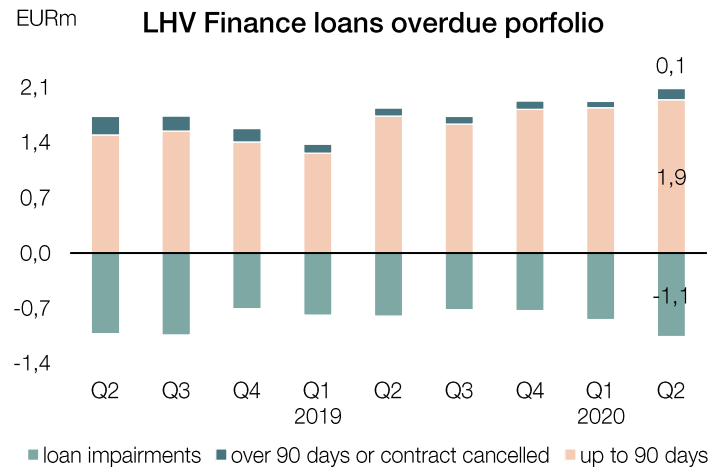
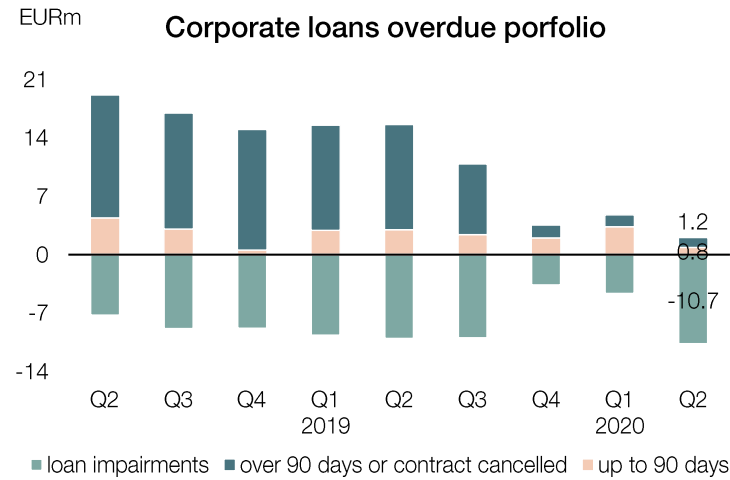
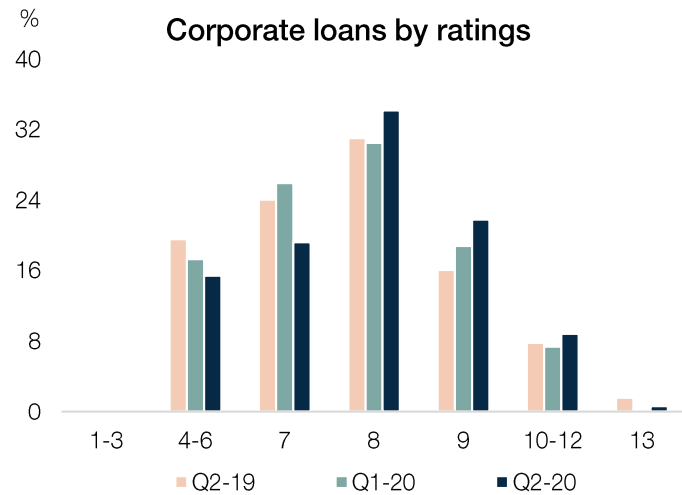
## Strong liquidity and capitalization



- Liquidity and capitalization of the Bank are strong. Preparations for Danske's portfolio takeover planned for Q4
- Covered bonds issuance resulted in very high liquidity in short term, LCR of 180%
- Capitalization strengthened as a result of the first quarter's profit and the issuance of T1 bonds in May
- Both capital adequacy ratios exceed regulatory and internal targets

# LHV Group

## The debt ratio remains low



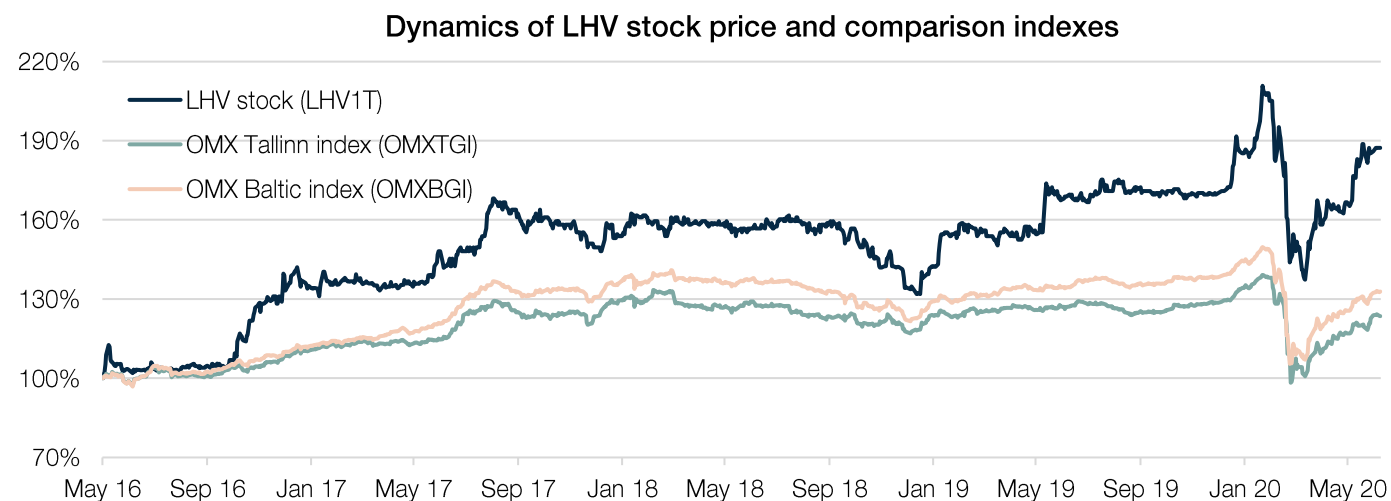
- LHV joined the Banking Association's proposal of a unified grace period to customers, which resulted in short-term grace periods for 350 EURm
- The volume of overdue loans remain low, LHV made additional provisions of 7.7 EURm
- LHV continues to offer customers flexible solutions for mitigation of the effects caused by the crisis

# LHV Group

## Stock information



- Q2 closing share price 13.15 EUR
- 9,930 trades were made with LHV shares during Q2 on the market with a turnover of 9.9 EURm, which gave the stock an average price of 11.62 EUR
- Shareholders earnings per share (EPS) in H1 is 0.35 EUR
- As of 30 June 2020 LHV had 9,692 shareholders and 48.26% of shares belonged to supervisory and management board members and parties associated with them
- Market capitalization based on closing price of 30.06.2020 was 379 EURm



## **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)