

LHV Group

Q4 2017 results
6 February 2018

Strong trends take us to the new year

Customer convenience

- 5% from clients through video recognition
- Mobile bank logins 1.4 millions
- LHV Connect has 1000 clients

Records in business volumes

- Deposits
- Loans
- Funds
- Client assets
- Customers
- Payments
- Card transactions

Pension funds' Estonian investments

- Luminor, Coop Pank, Tartu city
- New Estonia-oriented actively managed pension fund will be established

Good developments in Mokilizingas

- Changes in management board
- New sources of growth
- Extraordinary income

Other

- LHV Pank systematically important bank as of 2018
- IFRS 9 effects on impairments
- IFRS 15 effects on Asset Management sales cost capitalization
- Approval to open branch in UK from 01/2018

Rapid volume growth with record-breaking customer activity

Financial results, EURt	9 quarters	Q4-17	Q3-17	Δ quarter
Net interest income		9,868	8,863	+1,005
Net fee and commission income		5,987	5,695	+292
Other income		-416	38	-454
Total revenue		15,439	14,596	+843
Total operating expenses		8,486	7,838	+649
Earnings before impairment		6,953	6,759	+194
Impairment losses on loans		-40	1,261	-1,300
Income tax		201	42	+159
Net profit		6,791	5,456	+1,335
Business volumes, EURm	9 quarters	Q4-17	Q3-17	Δ quarter
Deposits from customers		1,537	1,268	+269
Loans (net)		732	656	+77
Assets under management		1,103	1,067	+35
Customers, thous.		435	406	+28
Key figures	9 quarters	Q4-17	Q3-17	Δ quarter
Cost / income ratio (C/I)		55.0%	53.7%	+ 1.3 pp
ROE (attr.to owners of the parent)		19.4%	18.1%	+ 1.3 pp

- In Q4 highest growth in loans and deposits with record level client activity
- Interest income continuously increasing, fee income has recovered to highest levels
- Credit portfolio quality is good, some previously impaired individual customers are under close supervision
- Pension funds focus on Estonian based investments
- Cost / income ratio higher due to higher personnel costs last quarter, ROE was affected positively by extraordinary incomes from Mokilizingas

LHV Group – comparison with financial plan

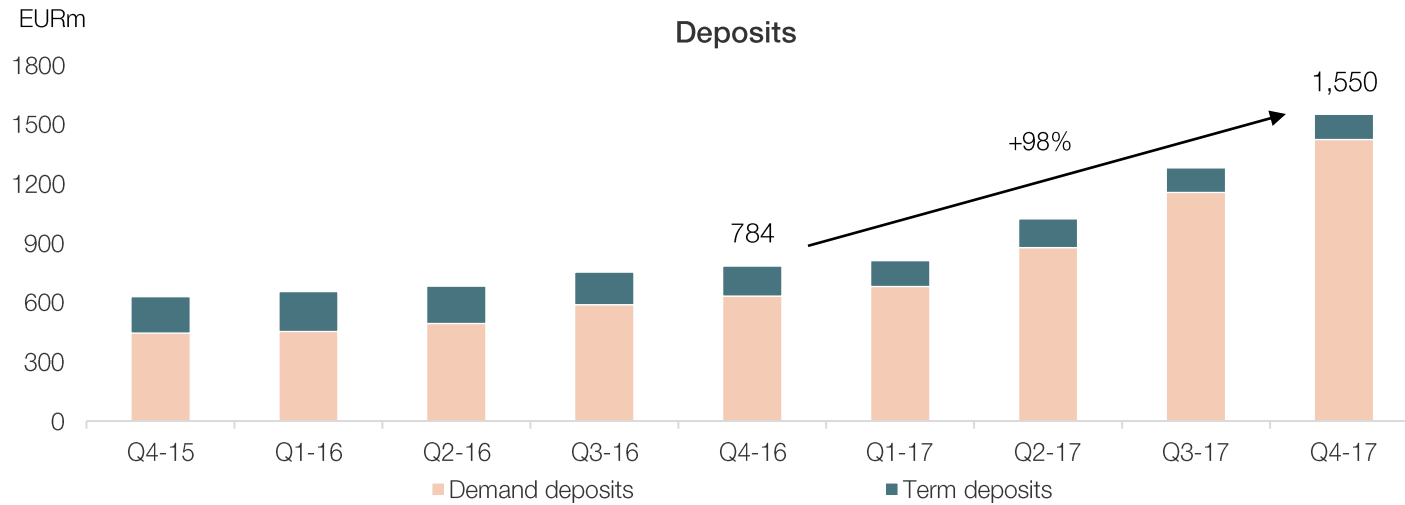
Net profit compared to financial plan +0.4 EURm

Financial results, EURt	13 months	Dec-17	YTD17	YTD16	FP YTD	Δ YTD FP
Total revenue, incl.		5,397	58,523	50,558	59,666	-1,143
Net interest income		3,460	35,502	29,976	37,879	-2,376
Net fee and commission income		1,991	22,180	19,186	21,308	+872
Total operating expenses		2,607	31,945	28,914	32,153	-208
Earnings before impairment		2,789	26,578	21,644	27,513	-936
Impairment losses on loans		-276	3,154	1,480	4,171	-1,017
Income tax		142	1,248	270	1,530	-282
Net profit		2,923	22,176	19,894	21,812	+364
attr. to owners of the parent		2,405	19,601	17,816	19,747	-146
Business volumes, EURm	13 months	Dec-17	YTD17	YTD16	FP YTD	Δ YTD FP
Deposits from customers		1,537	1,537	777	896	+641
Loans (net)		732	732	538	666	+66
Assets under management		1,103	1,103	974	1,158	-55
Key figures	13 months	Dec-17	YTD17	YTD16	FP YTD	Δ YTD FP
Cost / income ratio (C/I)		48.3%	54.6%	57.2%	53.9%	+ 0.7 pp
ROE (attr. to owners of the parent)		23.8%	17.6%	20.7%	17.9%	- 0.2 pp
Net interest margin (NIM)		2.5%	2.7%	3.6%	3.9%	- 1.2 pp
ROA		2.1%	1.6%	2.4%	2.2%	- 0.5 pp

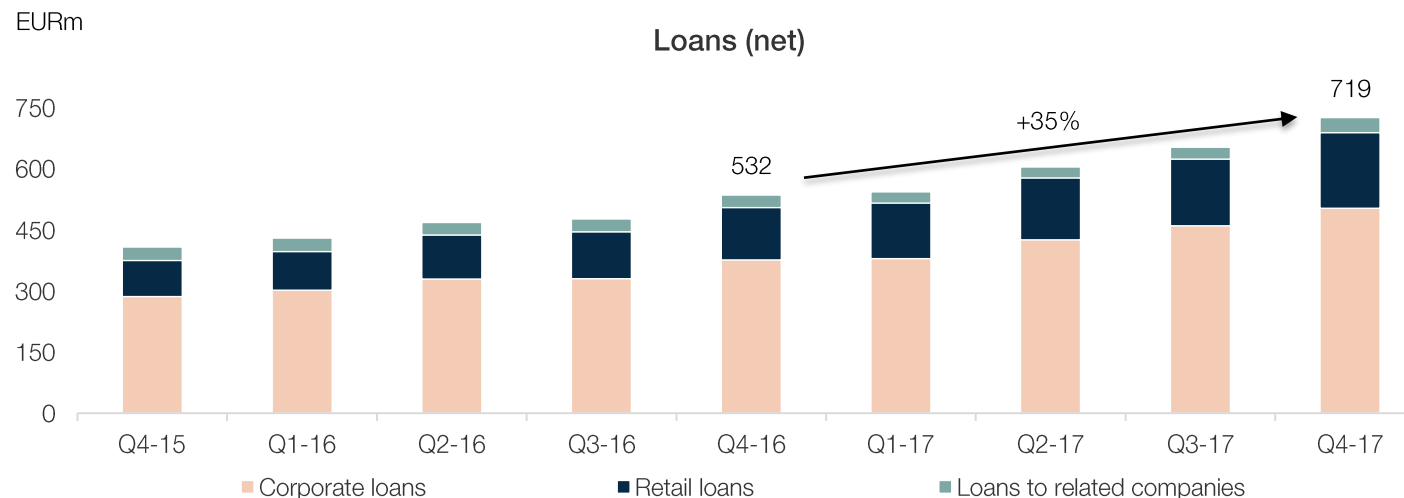
- Consolidated net profit exceeded financial plan by 0.4 EURm, Net profit attributable to owners of the parent was 0.1 EURm behind the plan
- Revenues behind financial plan due to lower interest income, main reason lower portfolio in small loan financing. Fee income higher than predicted
- Deficit in incomes was compensated through lower cost base. IT-costs were the main driver behind lower costs
- Loan impairments were lower than financial plan, main driver retail banks strong credit quality. On corporate loans side some individual impairments were made

LHV Banking

Quarter with very strong growth



- New records in client activity in payments, card issuing and acquiring
- Deposits grew 276 EURm, from which 152 EURm came from financial intermediates. These deposits are covered fully with liquidity and priced accordingly. Private individuals deposits grew by 24 EURm q-t-q



- Loans grew 72 EURm. 43 EURm of growth came from loans to companies and 14 EURm from home loans. In addition financing Mokilizingas grew by 7.4 EURm

LHV Banking

Net profit 3.9 EURm

Financial results, EURt	9 quarters	Q4-17	Q3-17	Δ quarter
Net interest income		8,380	7,928	+452
Net fee and commission income		1,925	2,143	-218
Other income		-434	26	-459
Total revenue		9,872	10,097	-225
Total operating expenses		5,410	5,039	+371
Earnings before impairment		4,462	5,057	-596
Impairment losses on loans		534	1,098	-564
Net profit		3,927	3,959	-32
Business volumes, EURm	9 quarters	Q4-17	Q3-17	Δ quarter
Deposits from customers		1,551	1,280	+270
Loans (net)		719	647	+72
Customers, thous.		165	159	+6
Key figures	9 quarters	Q4-17	Q3-17	Δ quarter
Cost / income ratio (C/I)		54.8%	49.9%	+ 4.9 pp
ROE (attr.to owners of the parent)		14.9%	16.1%	- 1.2 pp
Net interest margin (NIM)		2.1%	2.5%	- 35 bp

- Net profit was 3.9 EURm. Revenues were affected by lower financial income. Costs were affected by seasonability
- Loan impairments 0.5 EURm, which is mostly related to increased portfolio
- Cost/income ratio 54.8% and ROE 14.9%
- One additional new normative was applied to LHV – MREL. Own funds and qualifying liabilities to total assets ratio. It was set minimally at 5.79%. As end of December the ratio was 6.67%

LHV Banking – comparison with financial plan

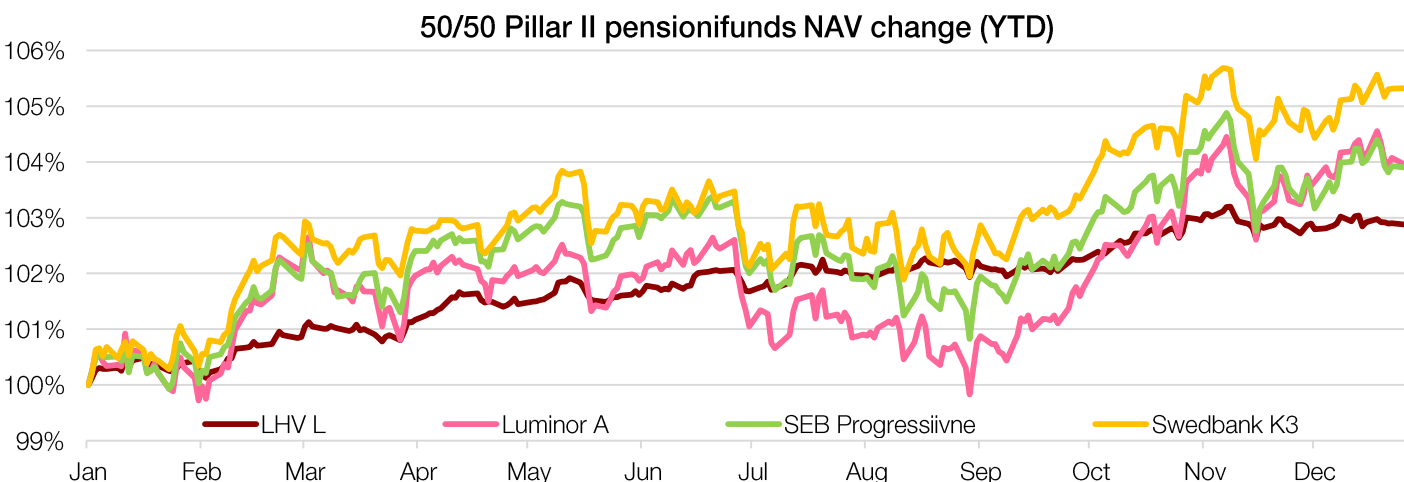
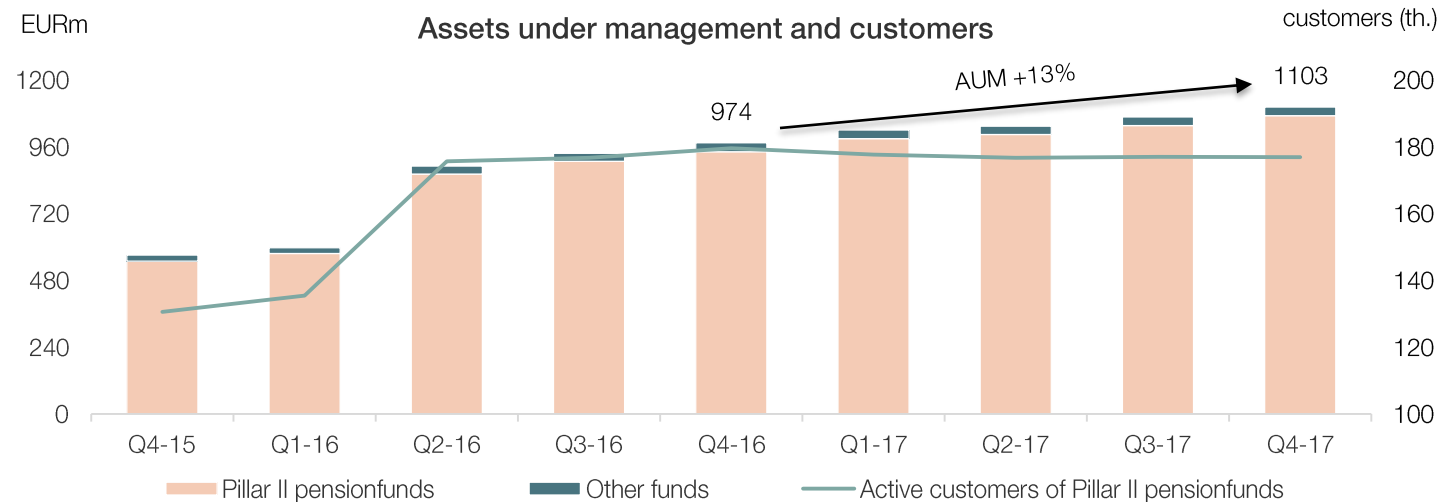
Net profit 4% below financial plan

Financial results, EURt	13 months	Dec-17	YTD17	YTD16	FP YTD	Δ YTD FP
Total revenue, incl.		3,414	39,521	32,651	40,177	-656
Net interest income		2,822	31,134	25,552	33,134	-2,000
Net fee and commission income		634	7,696	5,716	6,846	+850
Total operating expenses		1,704	20,415	17,638	20,796	-380
Earnings before impairment		1,710	19,105	15,013	19,381	-276
Impairment losses on loans		183	3,585	1,766	3,259	+326
Net profit		1,527	15,521	13,247	16,122	-602
Business volumes, EURm	13 months	Dec-17	YTD17	YTD16	FP YTD	Δ YTD FP
Deposits from customers		1,551	1,551	785	909	+641
Loans (net)		719	719	532	658	+61
Key figures	13 months	Dec-17	YTD17	YTD16	FP YTD	Δ YTD FP
Cost / income ratio (C/I)		49.9%	51.7%	54.0%	51.8%	- 0.1 pp
CT1 capital adequacy		13.3%	13.3%	14.3%	14.2%	- 0.9 pp
Total capital adequacy		16.2%	16.2%	18.1%	17.5%	- 1.3 pp
Net interest margin (NIM)		2.1%	2.4%	3.1%	3.4%	- 1.1 pp

- Net profit 602 EURt lower than planned, slower loan portfolio growth in the beginning of the year and lower share of higher margin loans generated the lower interest income compared to plans. Other cost-income items were better than planned and partially covered the deficit
- Balance sheet grew 93% y-t-y, mainly driven by deposit growth. Deposits were at end of year 641 EURm and loans 61 EURm ahead of financial plan
- From 2018 bank became one of the four systematically important banks in Estonia and according to emergency act fourth bank offering vitally important services

LHV Asset Management

170 EURm of investment decisions related to Estonia



- In 2017 our yields underperformed competitors. In 3 years term, LHV outperformed competitors in 3 categories out of 4
- In the first half-year, number of II pillar pension fund clients decreased, however in the second half-year it remained stable
- Among Estonian investments the most active period was at year end. We invested in Baltic banking and venture capital funds
- In 2018 we are going to launch II pillar pension fund Eesti 100 with target to Estonian economy

Volume of funds reached to 1.1 billion euros

Financial results, EURt	9 quarters	Q4-17	Q3-17	Δ quarter
Total revenue		3,451	3,340	+111
Selling expenses		666	627	+39
Other operating expenses		1,003	1,043	-40
Total operating expenses		1,670	1,670	-0
EBIT		1,781	1,669	+112
Net financial income		12	8	+4
Income tax		0	0	+0
Net profit		1,793	1,677	+116










Business volumes, EURm	9 quarters	Q4-17	Q3-17	Δ quarter
Pillar II pensionfunds		1,072	1,037	+36
Pillar III pensionfunds		16	16	+1
Eurofunds		14	15	-1
Active customers of PII funds, thous.		177	177	-0

Key figures	9 quarters	Q4-17	Q3-17	Δ quarter
Cost / income ratio (C/I)		48.4%	50.0%	- 1.6 pp
ROE		45.9%	48.5%	- 2.5 pp

- The growth of funds (by 35 EURm) increased revenues
- Organic growth supports the improvement in efficiency
- In February 2018, LHV fund fees will decrease by an average of 6%

LHV Asset Management – comparison with financial plan

Annual net profit 5.8 EURm

Financial results, EURt	13 months	Dec-17	YTD17	YTD16	FP YTD	Δ YTD FP
Total revenue		1,166	13,421	13,069	13,763	-342
Total expenses		446	6,664	6,940	6,653	+10
Earnings before taxes		720	6,758	6,129	7,110	-352
Income tax		0	951	0	1,275	-324
Net profit		720	5,807	6,129	5,835	-28
Business volumes	13 months	Dec-17	YTD17	YTD16	FP YTD	Δ YTD FP
Assets under management, EURm		1,103	1,103	974	1,158	-55
Active customers of PII funds, thous.		177	177	180	183	-6
Key figures	13 months	Dec-17	YTD17	YTD16	FP YTD	Δ YTD FP
Cost / income ratio (C/I)		38.0%	50.1%	53.8%	48.8%	+ 1.4 pp
Funds average return		-0.1%	2.7%	2.8%	3.3%	- 0.6 pp

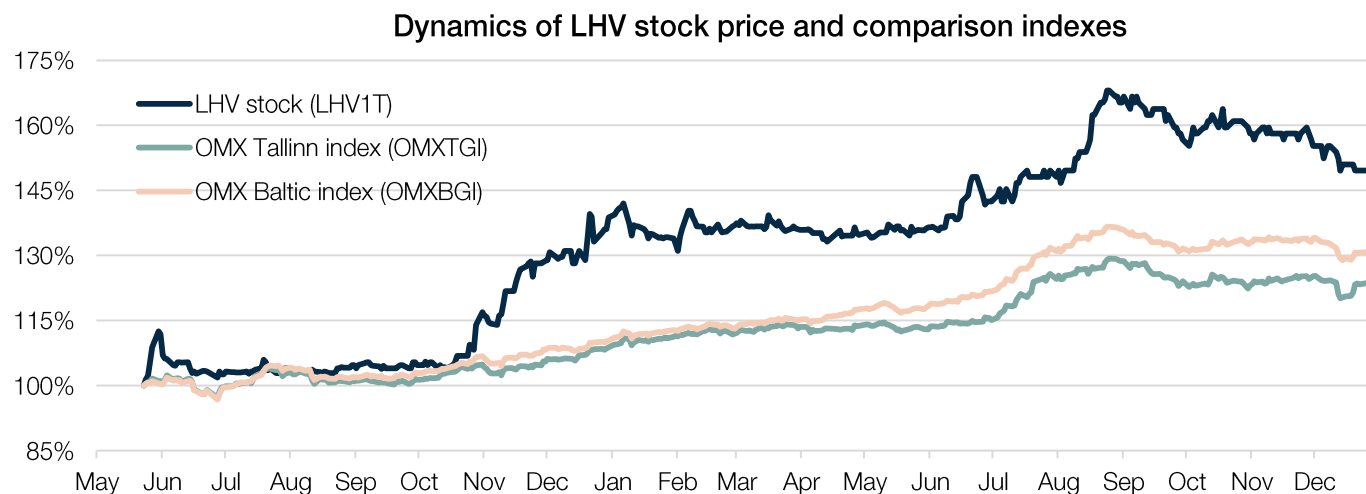
- Net profit lower than financial plan by 28 EURt
- Annual growth of 10% in pre-tax profit
- From 2018 IFRS 15 is effective (capitalizing and expensing of selling costs over the effective lifetime of the customers)

LHV Group

Stock information



- Share price 10,4 EUR in the end of Q4
- 1,243 trades were made with the stock during Q4 on the market with a turnover of 2.5 EURm which gave the stock an average price of 10.99 EUR
- Shareholders earnings per share (EPS) in Q4 is 0.22 EUR and cumulative 12 months EPS is 0.77 EUR. Presumed dividend for 2017 is 0.16 EUR
- As of 31 Dec. 2017 LHV had 5,281 shareholders and 52% of shares belonged to supervisory and management board members and parties associated with them
- Market capitalization based on closing price of 31 Dec. 2017 is 268 EURm



LHV Group
12 months

194 EURm

Loan portfolio growth

17.6%

ROE

170 EURm

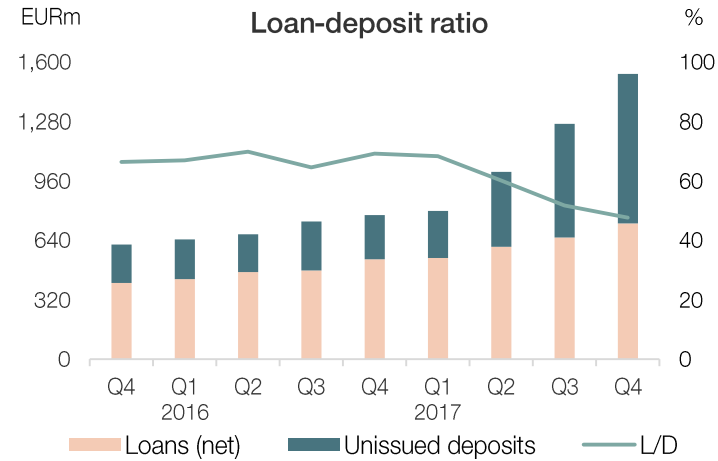
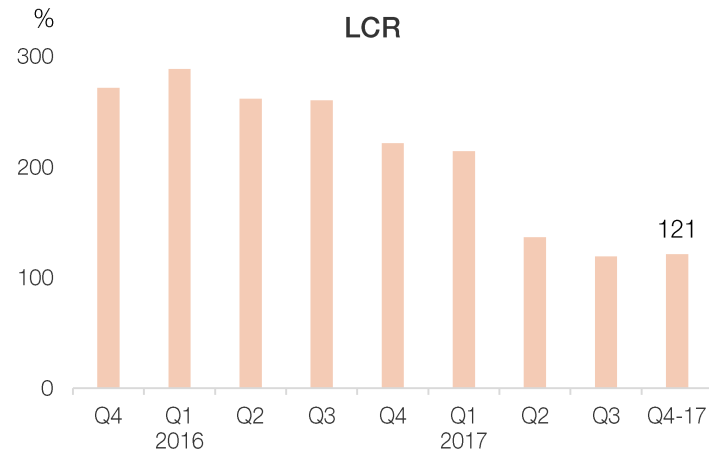
Investment decisions to Estonia

21,000

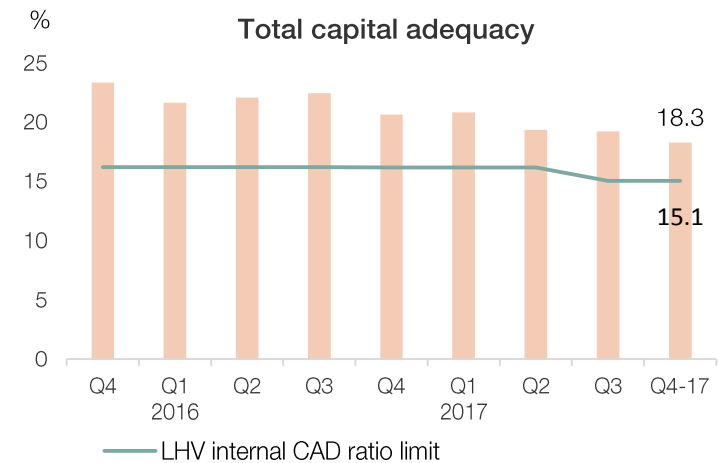
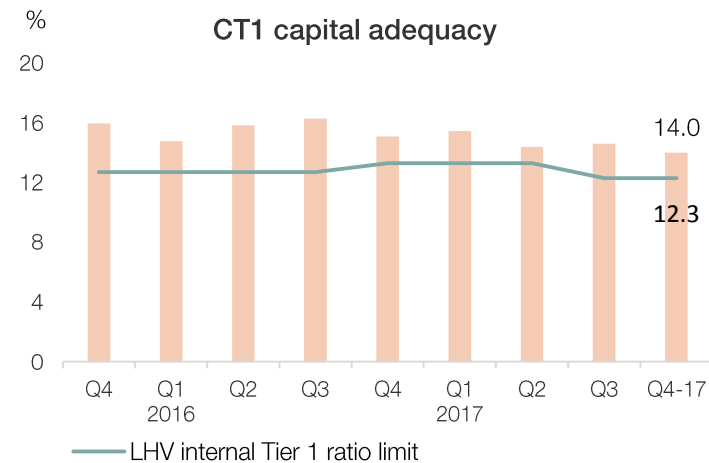
Bank customer increase

Annexes

Quarter influenced by payment intermediaries

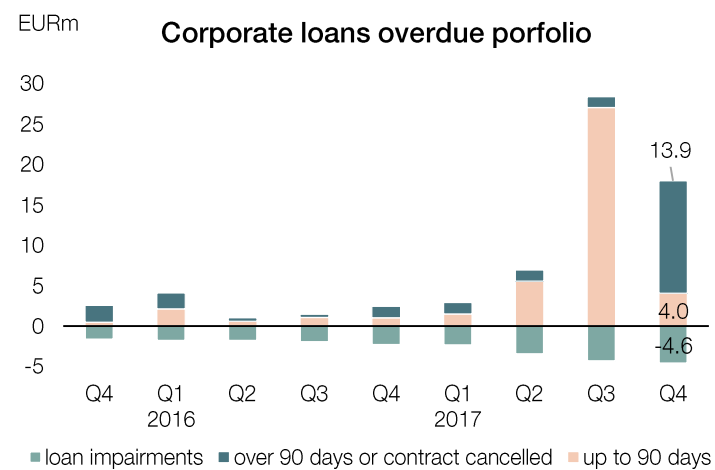
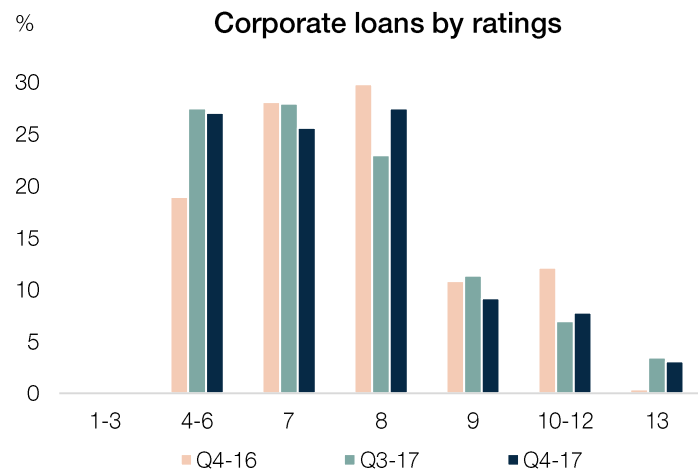


- LCR and loan /deposit ratio have been influenced by one payment intermediary's large balance. Excluding payment intermediaries, LCR would increase to 215%
- Strong capital adequacy ratio, significantly above regulatory and internal targets

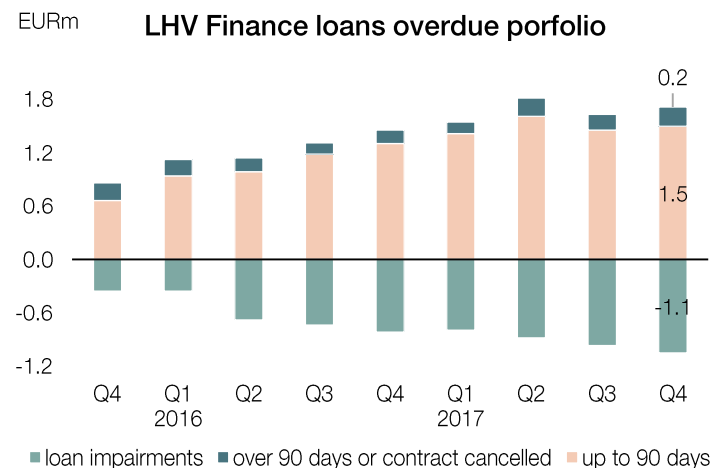
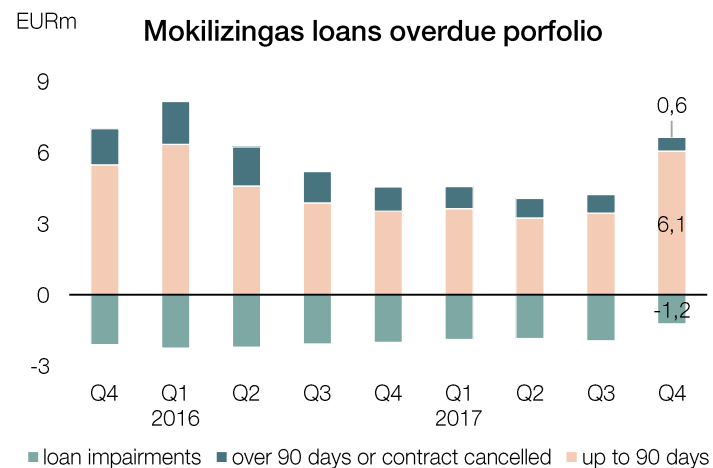


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Credit quality influenced by few customers



- 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



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