

# LHV Group

October 2018



# Subordinated bond issue

## Key risks related to subordinated bond issue

The purpose of the presentation is to provide insight into subordinated bond issue intended by AS LHV Group and to provide background information for the purpose of making investment decision. Offering period will be 14.11-27.11.2018.

Details regarding the emission are published in the public offering, listing and admission to trading prospectus.

- **Credit Risk.** An investment into the bonds is subject to credit risk, which means that the company may fail to meet its obligations arising from the bonds in a duly and timely manner
- **Subordination Risk.** The bonds are subordinated to all unsubordinated claims against the company. The subordination of the bonds means that upon the liquidation or bankruptcy of the company, all the claims arising from the bonds shall fall due in accordance with the terms of the bonds and shall be satisfied only after the full satisfaction of all unsubordinated recognised claims against the company in accordance with the applicable law
- **Early Redemption Risk.** According to the terms of the bonds, the bonds may be redeemed prematurely on the initiative of the company. The bonds may; however, be redeemed prematurely by the company only if the EFSA (or the EBA if it is in the competence thereof) has granted its consent to the early redemption
- **No Ownership Rights.** An investment into the bonds is an investment into debt instruments, which does not confer any legal or beneficial interest in the equity of the company
- **Tax Regime Risks.** Adverse changes in the tax regime applicable in respect of transacting with the bonds or receiving interest or principal payments based on the bonds may result in an increased tax burden of the bondholders

# Subordinated bond issue

## Key risks related to subordinated bond issue

- **Bail-in Risk.** If a Group company meets the conditions for the initiation of resolution proceedings, the bail-in powers may be exercised by a relevant authority:
  - the amount outstanding of the bonds could be reduced, including to zero;
  - the bonds could be converted into shares, other securities or other instruments of the company or another person;
  - the bonds or the outstanding amounts of the bonds could be cancelled;
  - the terms of the bonds could be varied (e.g. the maturity date or interest rate of the bonds could be changed)
- **Cancellation of Offering.** Although best efforts will be made by the company to ensure that the offering is successful, the company cannot provide any assurance that the offering will be successful and that the investors will receive the offer bonds they subscribed for
- **Bond Price and Limited Liquidity of Bonds.** The value of the bonds can fluctuate on the securities market due to events and the materialisation of risks related to the Group, but also because of events outside the Group's control. The Estonian market has limited liquidity and the bondholders may not be able to sell their bonds at the desired price, or at all.
- **Lack of Adequate Analyst Coverage.** There is no guarantee of continued analyst research coverage for the company

Topics covered

## Overview

- Business environment
- LHV Group overview
- Investor information
- New bond offering
- LHV Bank
- LHV Asset Management
- Financials: actuals and projections
- Risk, capital and asset quality
- Social responsibility

# LHV home markets

## Overview

### ESTONIA

**Member** of EU, NATO and OECD

**Estonia in different world indexes:**

- #12 Ease of doing business
- #12 World Press Freedom Index
- #21 Corruption Perception Index
- #24 Global Innovation Index
- #18 European Digital City Index @start-up

**GDP per capita (2017):**

- 17 500 EUR

**Country rating**

- Fitch: AA-
- S&P: AA-
- Moody's: A1

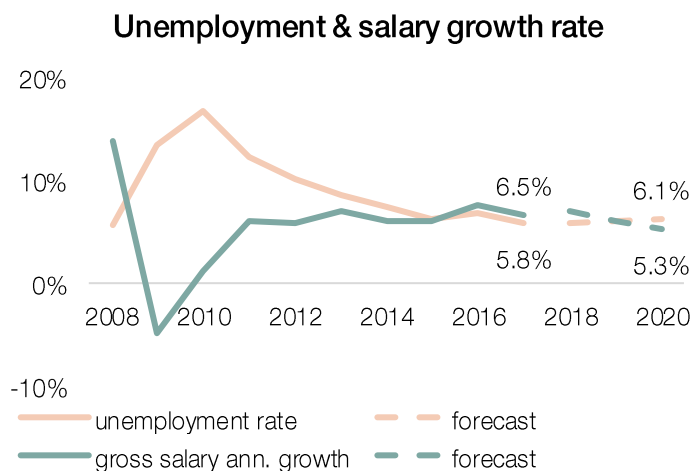
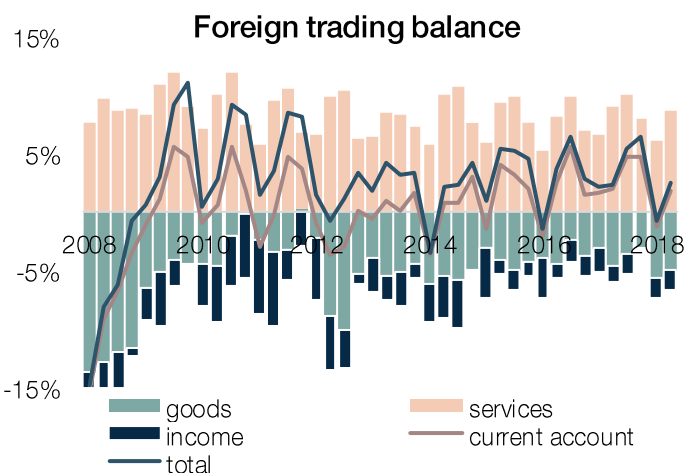
**e-Estonia**

- e-elections - online voting since 2005
- e-residency - country without barriers
- e-governance - most public services are e-services

# Business environment

# Business environment

## Economic outlook is good

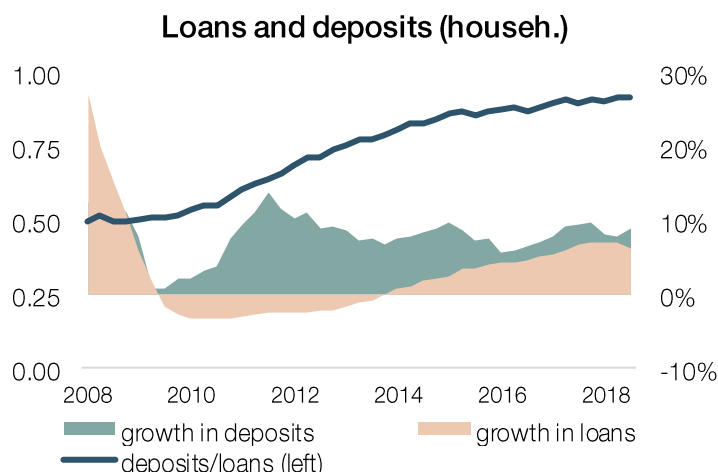
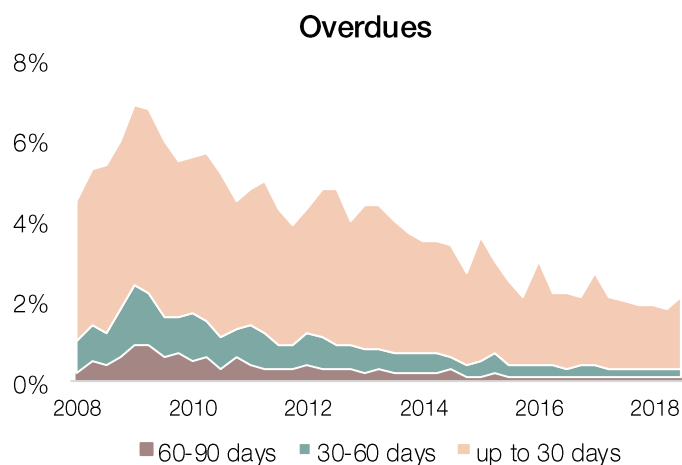
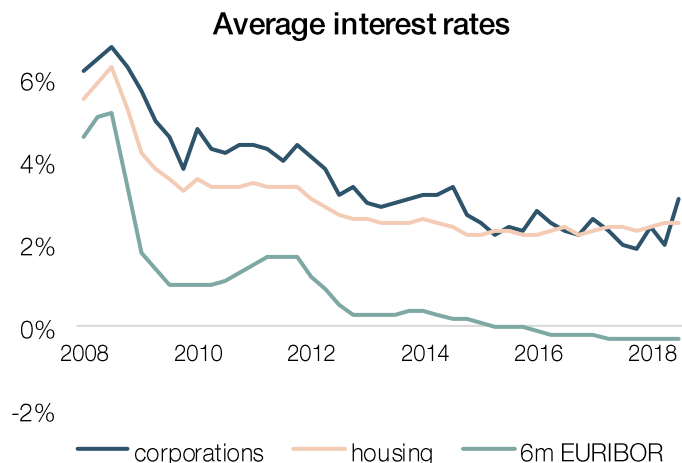
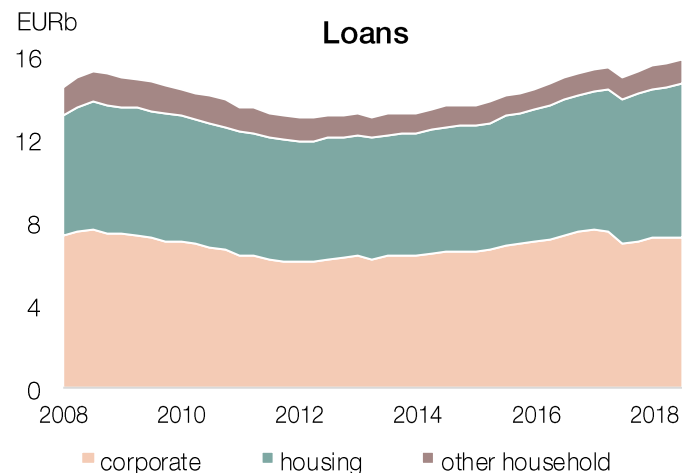


- Estonia has reached from below potential performance period to stable economic growth outlook. All economic sectors are growing
- Rather balanced budget and foreign trade and low level of public sector debt are maintaining low domestic risk. Main risks are related to external factors
- Productivity is starting to increase in despite of wage growth
- The economic growth outlook of all of the main trading partners has improved

\* Forecast prepared by Ministry of Finance

## Business environment

# Estonia's financial sector indicators are strong

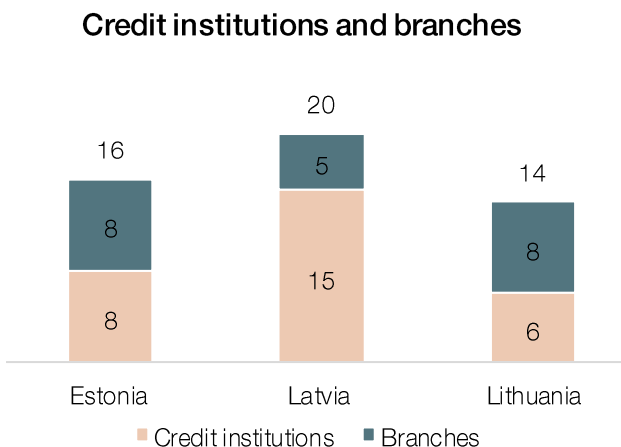
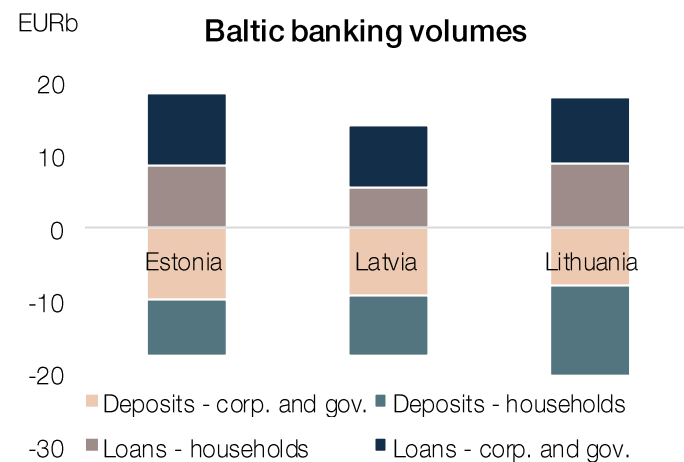


- Stock of loans has recovered through previous peaks. All important loan types are increasing
- Financial health of the households is stronger. Deposits have consistently increased more than loans; deposit/loan ratio has improved and more than doubled during last 10 years
- Euribor is remaining at all-time lowest levels. Housing loans margin has started to increase, downward tendency among corporate loan margins is likely to stabilize
- Share of overdue loans in portfolio is low, bad debts are mostly covered with provisions



## Business environment

# Baltic Banking 2018 H1: Estonia is well positioned

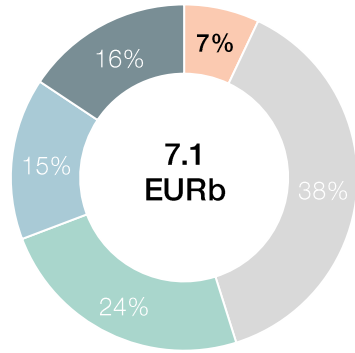


- Despite of differences in economies and population, banking market in the Baltic states is rather similar
- Biggest market players are Baltic-wide banking groups with Scandinavian background, one exeption would be one local Latvian bank
- Number of market players has decreased
- Regarding profits, biggest differences have occurred in 2009-2010 when credit portfolio of Estonian banks turned out to be most resilient to economic downturn

## Business environment

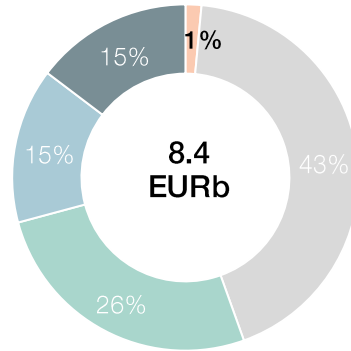
### Market share in Estonia as of 06/2018

Corporate loans



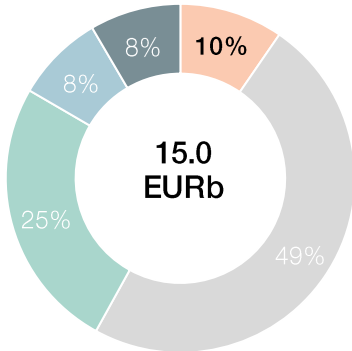
■ LHV ■ Swedbank ■ SEB ■ Luminor ■ Other

Household loans



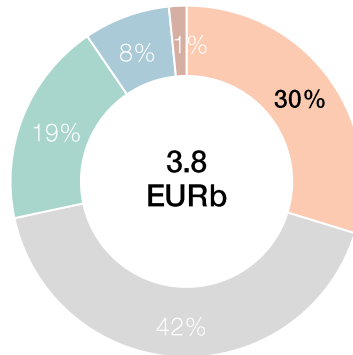
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Deposits



■ LHV ■ Swedbank ■ SEB ■ Luminor ■ Other

II pillar pension funds



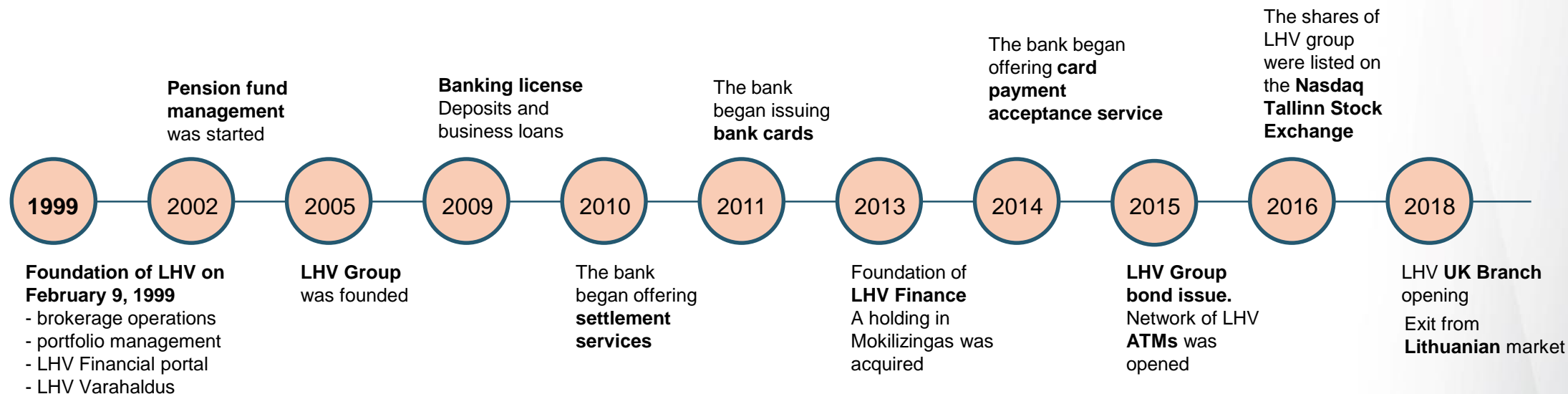
■ LHV ■ Swedbank ■ SEB ■ Luminor ■ Tuleva

- Market share of deposits has increased rapidly, in the future we expect growth from Estonian companies and private persons. Payment intermediaries' deposits are more volatile
- Market share growth in Pillar II pension funds depends highly on the pension funds performance
- Regarding loans we expect increase that is continuously higher than the market average, however ensuring high quality of the credit portfolio
- Market share of household loans is low, however we have issued housing loans only 2 years
- 2018 H1 34% of Nasdaq Baltic trades through LHV

# LHV Group – overview

# LHV Group

## Timeline overview



LHV Group

## **LHV Group today**

**Largest and fastest growing financial group and capital provider in Estonia**

Fourth-largest bank in Estonia

Second-largest pension fund manager in Estonia

Ca 4 EURb of customer assets, incl.

- 1.5 EURb – customer deposits
- 1.2 EURb – assets under management
- 1.3 EURb – customer securities

## Mission and vision

### We are helping to raise Estonian capital

Our mission is to give a new boost to human and financial capital growth in Estonia. We implement our strategic strengths – both investment and business experience – to ensure that Estonian capital helps to build a modern and viable financial group that helps Estonian businesses and people to save and invest and that is an international and relevant partner for companies developing financial technologies

### We dare to think big

Our vision is Estonia where people and businesses dare to think big, engage in enterprise and invest in the future. We have a vision that Estonian people and businesses have wide horizons; and are able to overcome the limits of country borders and outdated perceptions; that Estonian businesses have the ability to use foreign labor and apply new technologies to sell their products and services all over the world

LHV Group

## **Business philosophy**

LHV is focused on active, entrepreneurial and independent customers

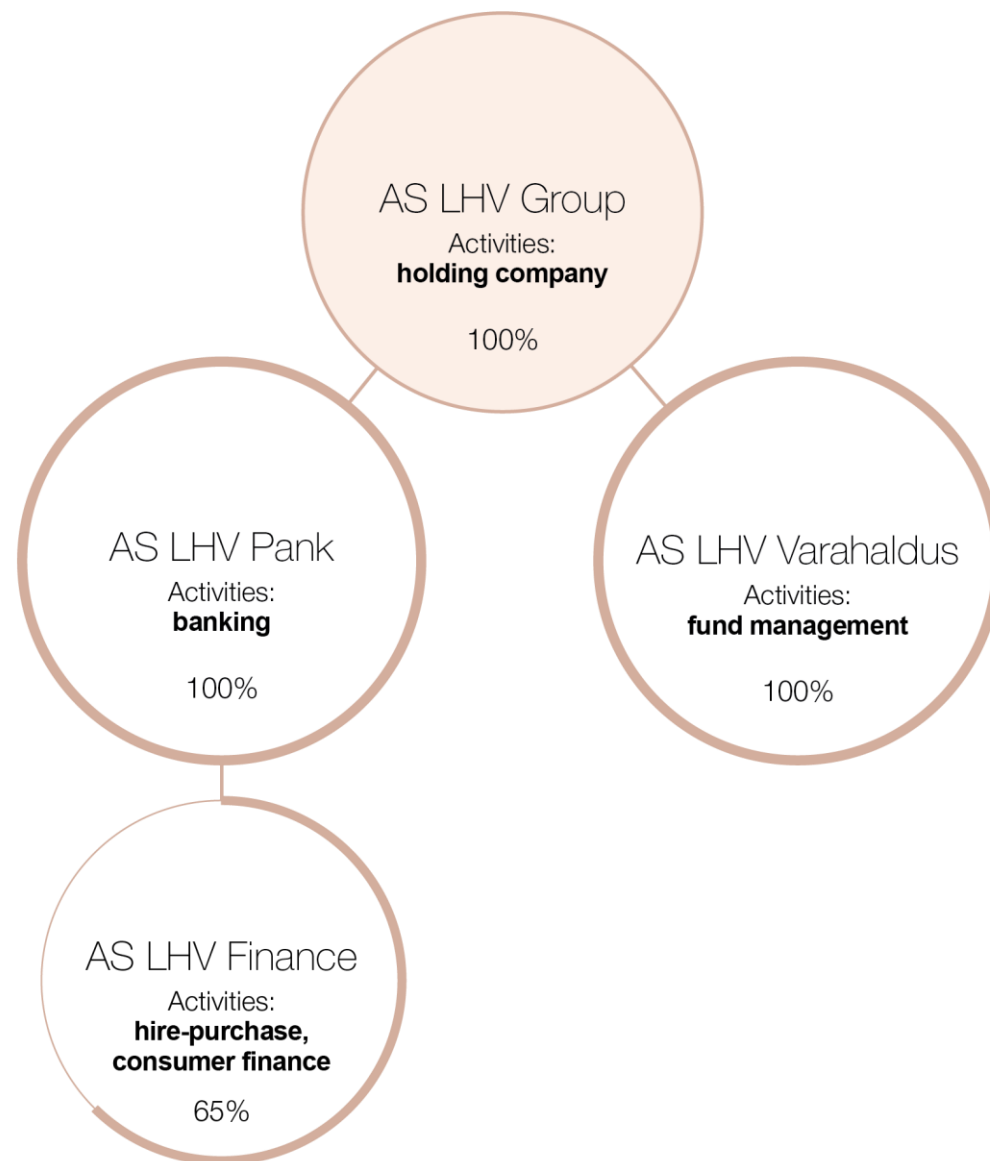
LHV's products and services are simple, transparent and relevant. LHV communicates with customers mainly via modern electronic communication channels and through means preferred by customers

LHV makes an effort to offer only the products and services which set LHV apart from the rest of the market, in a positive way

Partnership is central to the business pursuits of LHV. Together with its partners, LHV participates in various ventures and initiatives

LHV is a publicly traded company. LHV welcomes all customers and partners as owners and investors, inviting them to participate in the effort of building a jointly held business

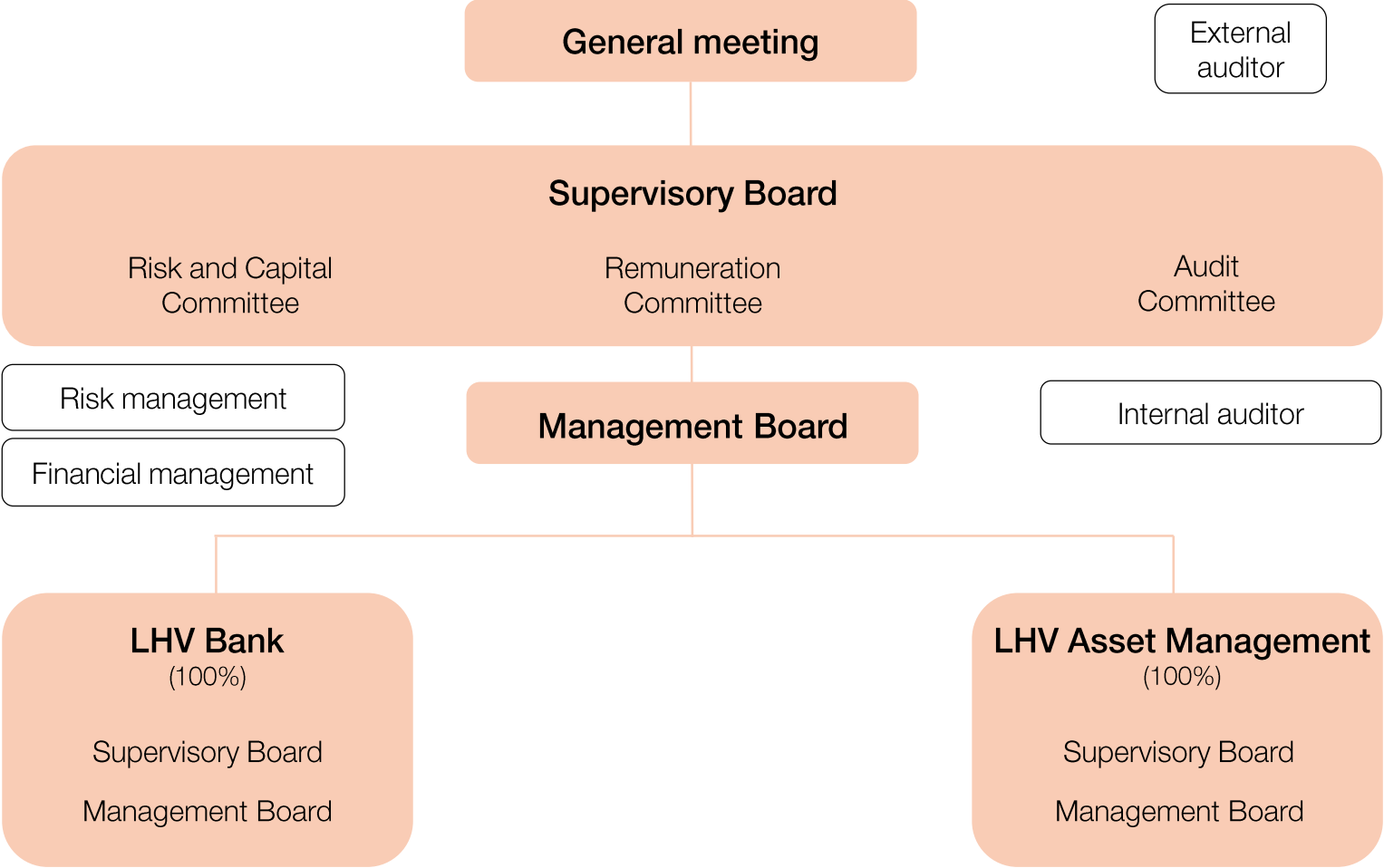
# LHV Group Structure





LHV Group

# Corporate governance



## Supervisory board members



**Rain Lõhmus** is the founder of LHV and chairman of the Supervisory Board. Rain serves as a member of the supervisory boards of AS LHV Pank, AS LHV Finance and AS Arco Vara, and as a member of the management boards and supervisory boards of several other companies. Rain has graduated from the Tallinn University of Technology and completed the MBA programme in Harvard Business School. He is also a member of the Estonian Business Association.



**Andres Viisemann** is the founder of LHV and the manager of LHV's pension funds. Andres serves as a member of the supervisory boards of AS LHV Pank, AS LHV Varahaldus and AS Fertilitas, and as a member of the management boards and supervisory boards of several other companies. Andres has graduated from the University of Tartu, and has acquired an MBA degree in international business management in INSEAD.



**Tiina Mõis** is the owner and managing director of AS Genteel. Tiina is a member of the Supervisory Board of AS LHV Pank, AS Baltika and several other companies. Tiina has graduated from the Tallinn University of Technology and has served as a member of the Board of the Estonian Chamber of Commerce and Industry, and as a member of the Estonian Accounting Standards Board.



**Heldur Meerits** is the owner of and member of the Management Board of AS Amalfi. Heldur serves as a member of the supervisory boards of AS LHV Pank and Kodumaja AS, and as a member of the management boards and supervisory boards of several other companies. Heldur has graduated from the Faculty of Economics and Business Administration of the University of Tartu, and serves as a member of the supervisory boards of the Dharma Foundation and several other foundations.



**Raivo Hein** is the owner of and member of the Management Board of OÜ Kakssada Kakskümmend Volti. Raivo serves as a member of the Supervisory Board of AS LHV Pank, and as a member of the management boards and supervisory boards of several other companies. Raivo has graduated from the Tallinn University of Technology.



**Tauno Tats** is a member of the Management Board of Ambient Sound Investments OÜ. Tauno serves as a member of the Supervisory Board of EfTEN Kinnisvarafond AS, and as a member of the management boards and supervisory boards of several other companies. Tauno has graduated from the Tallinn University of Technology.



**Sten Tamkivi** is a co-founder and member of the Management Board of Teleport, Inc. He serves as a member of the Supervisory Board of ASI Private Equity AS and as a management board member of other companies. Sten Tamkivi graduated from the Stanford University Graduate School of Business. He serves as a member of the Supervisory Boards of Kistler-Ritso Eesti SA.

# LHV Group

## Management board



**Madis Toomsalu** serves as the chairman of supervisory boards of AS LHV Pank and AS LHV Varahaldus. He is member of the Management Board of MTÜ Finance Estonia. He has previously served as Head of Credits and chairman of the Credit Committee in LHV Bank. Toomsalu has obtained bachelor's degree in business management from Tallinn University of Technology in 2009 and a master's degree in 2011 in public sector finance

# LHV Group

## Committees

### Audit committee



**Kristel Aarna** has worked as the CFO at Viasat AS since 2011, prior to which she served as the Chief Controller of Baltic operations at Swedbank. Previously, she was employed as the Head of Financial Advisory Services at KPMG Baltics and has also worked at Eesti Pank and for the CVS Caremark Corporation. Aarna has a Bachelor's level degree in Economics from the University of Tartu and an MBA in Finance from the Bentley University Graduate School of Business.



**Urmas Peiker** works as the Head of Business Development at Estonian start-up Funderbeam. From May 2013 to October 2014, Peiker was the Head of Compliance at LHV Pank. Previously, Urmas Peiker has also worked as the Head of the Market Surveillance Department at the Financial Supervision Authority, in the European Reconstruction and Development Bank, Morgan Stanley, and Estcap Ltd. Peiker has a Bachelor's level degree in Law from the University of Tartu and an MBA in Law from the Duke University School of Law.



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### Remuneration committee



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# LHV Group

## Committees and Auditor

### Risk and capital committee



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### Auditor

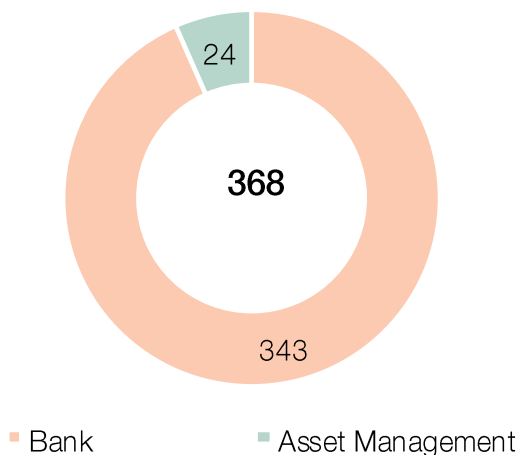


In November 2017 the Management Board in cooperation with the Audit Committee conducted a selection process to determine the external auditor for the company. LHV requested submissions from four of the largest internationally renown audit firms and met with their representatives. As a result of the process AS PricewaterhouseCoopers was selected and nominated as the auditor at the annual general meeting of shareholders held on 11 April 2018. LHV concluded an agreement with AS PricewaterhouseCoopers for the financial years 2018 and 2019.

# LHV Group

## Employees and motivation

LHV employees 09/2018



### Estonia's Most Desirable Employer 2018

(CV Keskus)\*

1. Eesti Energia
2. Telia Eesti
3. Skype Technologies
4. Swedbank
5. Transferwise Ltd Estonia branch
6. Tallink Grupp
7. LHV Pank
8. Playtech Estonia
9. ABB

- Share options are issued annually in the amount of up to maximum 2% of the total number of LHV shares
- The term of share options is 3 years from the moment the options were granted. This vesting period before issuance of shares gives the opportunity to evaluate the results in the long run. In addition there applies 1 year of holding period for higher management
- In July 2018, share capital increased by 249,139 EUR in connection with realisation of the staff options programme

### Share options

EUR	No of options (thous.)	Strike price	Option expense (thous.)	Number of employees
For 2015	238	3.00	726	48
For 2016	365	4.65	1,573	69
For 2017	300	5.33	1,458	72
<b>Total</b>	<b>903</b>			

# Investor information

# Investor information

## Share information

### Overview:

Name of security	Ordinary share of LHV Group
Security short name	LHV1T
Regulated market	Nasdaq Main list of Baltic shares, Nasdaq Tallinn Stock Exchange
ISIN	EE3100073644
Nominal value	1 euro
Number of securities	26,016,485

### TOP 5 shareholders:

Name of shareholder	Number of shares (m)	Participation (%)
Rain Lõhmus & related companies	6.5	24.9
Andres Viisemann related companies	2.5	9.8
Ambient Sound Investments OÜ	1.6	6.1
Krenno OÜ	1.2	4.7
Tiina Mõis related companies	1.0	3.8

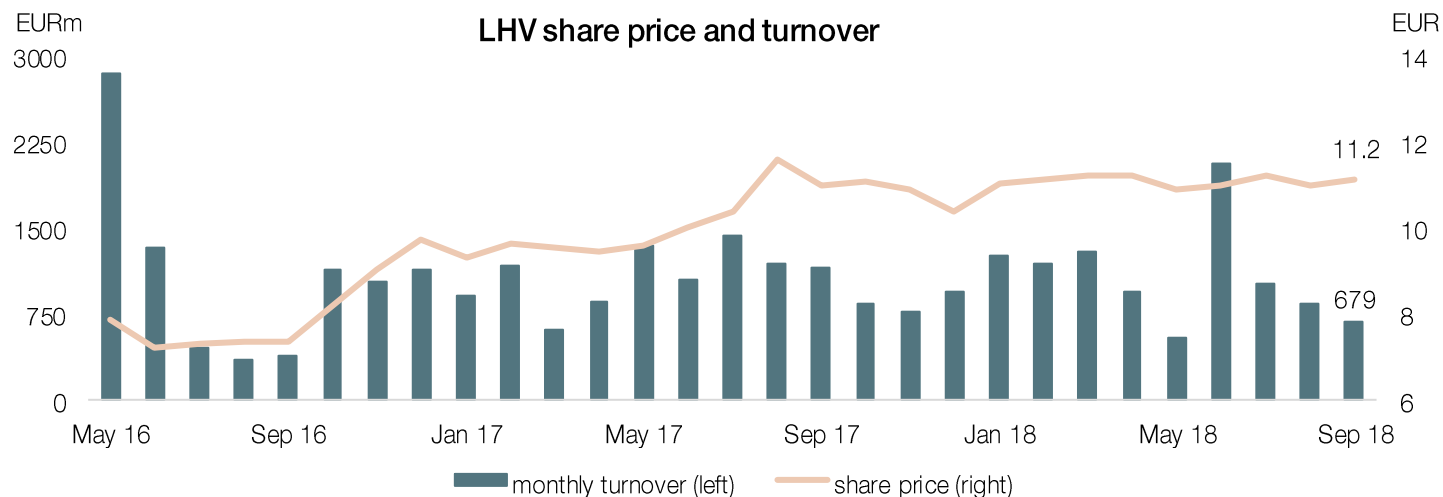
As at 30 September 2018, AS LHV Group has 5,528 shareholders:

- 51.8% of shares were held by members of the Supervisory Board and Management Board, and related parties
- 48.2% of shares were held by Estonian entrepreneurs and investors, and related parties

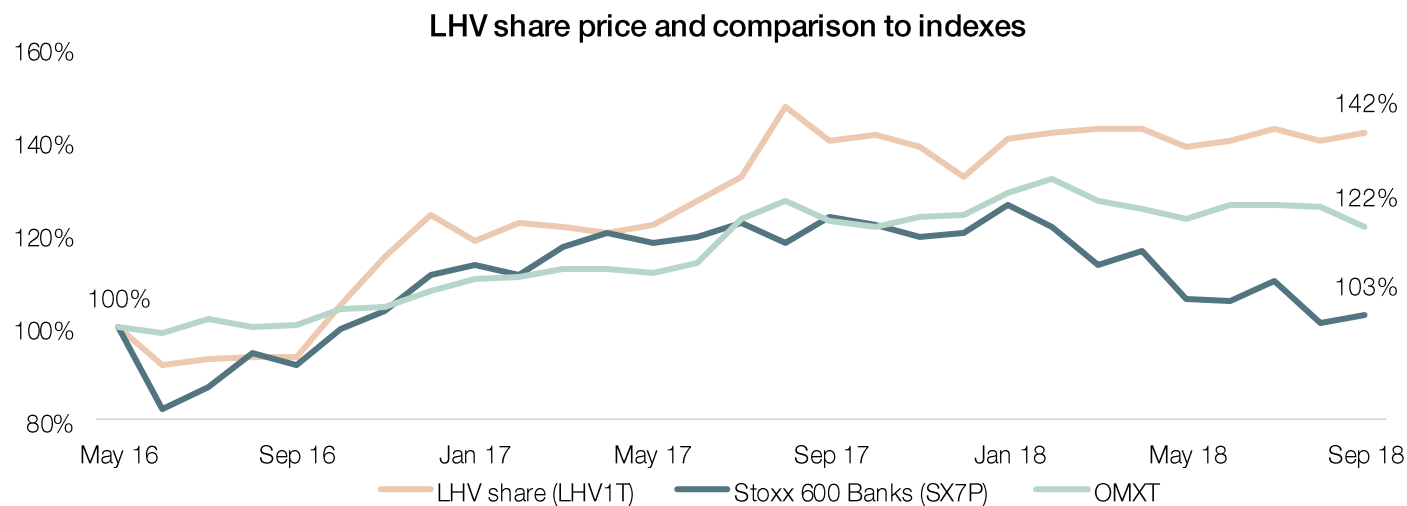


# Investor information

## Share information



- Closing share price 11.15 EUR in the end of September 2018
- Market capitalization based on closing price of end of September 2018 is 290 EURm
- 52 week range: 10.3 – 11.5 EUR
- 9m 2018: 886 thousand shares traded with 3133 trades



## Investor information

### Existing listed subordinated bonds

#### LHV Group 7.25% subordinated bond

ISIN	EE3300110550
Ticker	LHVB072524A
Total number of securities	318
Nominal value (EUR)	50,000
Issue value (EUR)	15,900,000
Listing date	05.10.2015
Maturity date	20.06.2024
Coupon rate (annual)	7.25%
Coupon frequency	quarterly

#### LHV Group 6.50% subordinated bond

ISIN	EE3300110741
Ticker	LHVB065025A
Total number of securities	15,000
Nominal value (EUR)	1,000
Issue value (EUR)	15,000,000
Listing date	02.11.2015
Maturity date	29.10.2025
Coupon rate (annual)	6.5%
Coupon frequency	quarterly



**LHV GROUP**  
Best Investor Relations  
In Baltics among  
Bond Issuers  
**2<sup>ND</sup> PLACE**

# **New subordinated bond issue and risks**

## Bond issue and risks

# Bonds programme and securities overview

### New issue of LHV Group subordinated bonds\*:

ISIN	EE3300111558
Total number of securities	16,000-20,000
Nominal value	1,000 EUR
Issue value	16 – 20 EURm
Listing date	03.12.2018
Maturity	10 years*
Coupon rate (annual)	6.0%
Coupon frequency	quarterly

\* The Company is entitled to redeem the Bonds prematurely at any time after the lapse of 5 years as from the date of issue, by notifying the bondholders at least 30 days in advance.

Bonds will be offered only in Estonian market through members of Nasdaq CSD Estonian settlement system, effectively all Estonian banks.

Offering period will be 14.11-27.11.2018

- The purpose of bonds programme is:
  - to strengthen the capital structure of the Group and ensure stable access to additional capital to support the further growth and market position of the Group
  - to increase the business volumes of the Group and ensure conservative capital buffer for the Group companies use bonds issued within its framework to finance growth and
  - if needed, the redemption of the earlier bonds issued
- The Bonds represent unsecured debt obligation of the Company before the bondholder
- Interest is calculated on 30-day calendar month and 360-day calendar year

# Bond issue and risks

## Securities overview

- The bonds are freely transferrable
- The rights attached to the bonds have been established by the bond terms. The main rights of bondholders are the right to the redemption of the bonds and the right to interest. In addition, the bondholders are entitled to access the annual and quarterly reports of the company. Upon a delay in making any payments, the bondholders are entitled to a delay interest.
- The bonds constitute direct and unsecured obligations of the company and rank and will rank pari passu without any preference among themselves. The claims arising from the bonds are subordinated to all unsubordinated claims against the company
- The company intends to apply for the listing and the admission to trading of the bonds on the Baltic Bond List of the Nasdaq Tallinn Stock Exchange
- Base prospectus is available on page <https://investor.lhv.ee/en/reports/#prospectuses>

# Bond issue and risks

## **Allocation**

Allocation after the expiry of offering period in accordance with the following principles:

- under the same circumstances, all investors shall be treated equally
- LHV may set minimum and maximum number of the bonds allocated to one investor
- LHV may prefer Estonian investors to foreign investors
- LHV may prefer its existing shareholders and bondholders to other investors
- LHV may prefer the clients of LHV Pank and LHV Varahaldus to other investors

# LHV Bank

# LHV Bank

## Operating principles and objectives

### **LHV Bank focuses on active entrepreneurial customers**

LHV concentrates on active and independent customers with an entrepreneurial mind-set. For private consumers LHV offers high quality universal banking services. For corporate customers LHV offers flexible and suitable financing and managing of everyday financial operations

### **Simple – transparent - appropriate**

The products and services provided by LHV are simple, transparent and appropriate. Customer interaction is mainly conducted using modern electronic communication channels. Costs avoided will reach the customers of LHV through affordable cost of everyday service

### **Our long-term vision is to serve as a part of a modern European banking infrastructure**

Beyond Estonian borders, we have positioned ourselves as the next-generation fintech bank, which is able to integrate and serve as the connection point between traditional banking and the next-generation financial services. We are moving towards open banking and API, which will establish the basis for efficient cooperation with various payment service providers across Europe

**In July 2018, Euromoney declared LHV the best bank in Estonia**

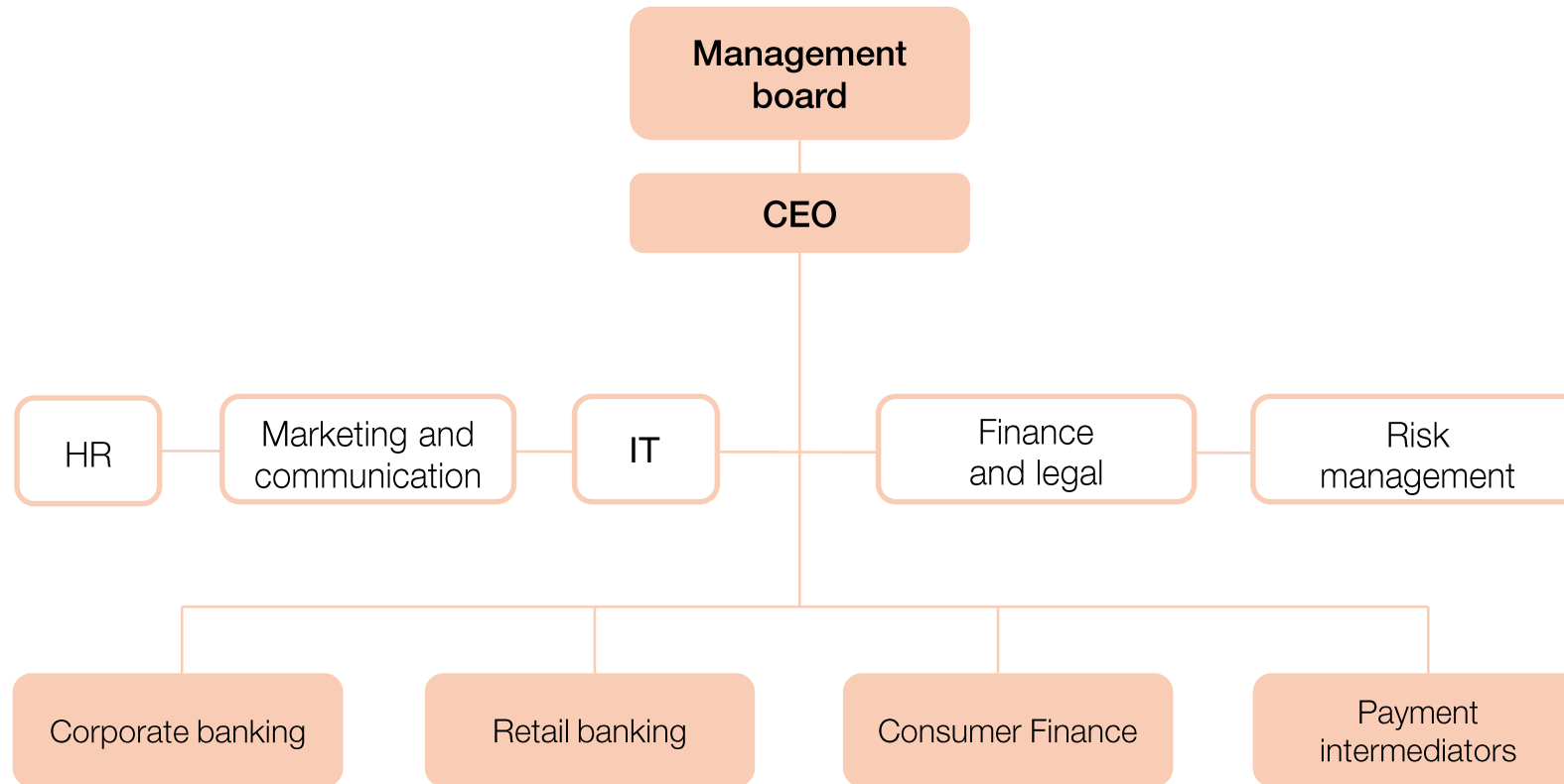


The LHV logo, consisting of the letters "LHV" in a bold, black, sans-serif font.



# LHV Bank

## Bank structure



# LHV Bank

## Management



**Erki Kilu** has been the CEO of LHV Bank since 2008, the bank got its licence in 2009. Erki has worked previously in Seesam Life Insurance for almost 10 years on several positions, ending up as the CEO of the company. Erki has graduated from Estonian Business School and completed his BA in International Business Administration. Erki has completed the MBA programme in University of Tartu in Business Administration. Erki Kilu also serves as the Chairman of the Board of the Estonian Banking Association



**Meelis Paakspuu** has worked as the CFO of LHV since 2015. Previously he has worked as the CFO of DNB Bank and Head of Swedbank CEE Treasury units. Meelis has studied in University of Tartu and London Business School.



**Indrek Nuume** is a member of Management Board of LHV Bank, Head of Private and Business Banking since 2009. Indrek has long term corporate banking experience and has worked in previously in Danske Bank. Indrek holds MBA from University of Tartu.



**Andres Kitter** is a member of Management Board of LHV Bank and is also leading financial intermediaries business line. Worked in finance and banking since 2000, worked in SEB Leasing and managed Skype Payment operations team. Andres holds Masters degree from University of Tartu.



**Kadri Kiisel** has worked in LHV Bank since 2011 starting as the manager of LHV Bank's Tallinn branch, since 2017 she has been the head of branches and since 2018 a member of AS LHV Finance Management Board. Kadri acquired a MBA degree in finance from University of Tartu.



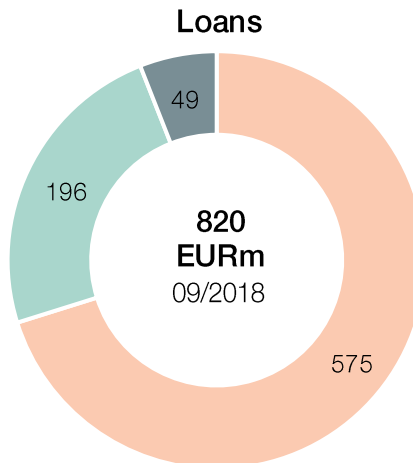
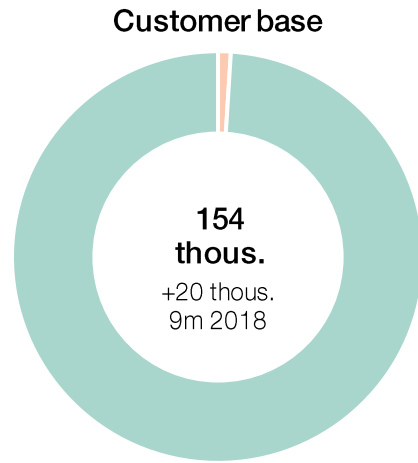
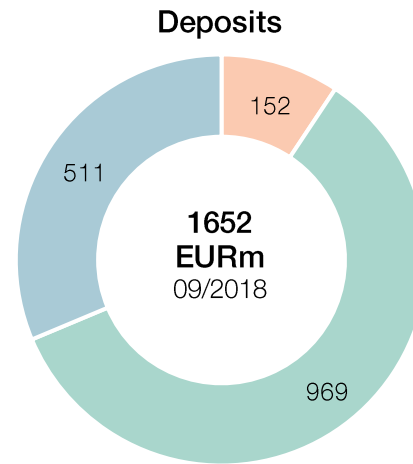
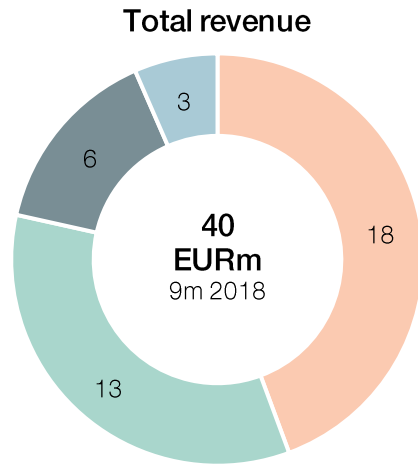
**Jüri Heero** has worked in LHV since 2000, he started as an IT specialist and worked his way up to become a member of the board and IT manager. Jüri has graduated from the University of Tartu where he studied economics.



**Martti Singi** has worked in LHV as the CRO since 2012. He has a long banking experience starting with Hoiupank in 1996, after which he has worked in SEB and Swedbank on various positions related to risk control and finance. Martti has graduated from Estonian Business School, he completed his MBA in Banking and Finance.

# LHV Bank

## Business volumes

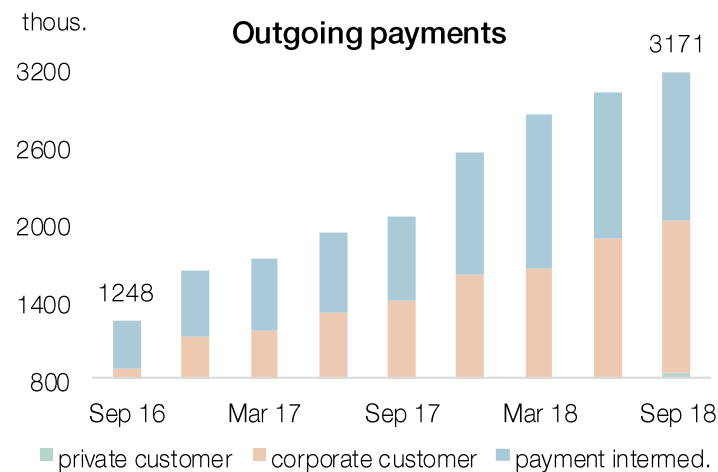
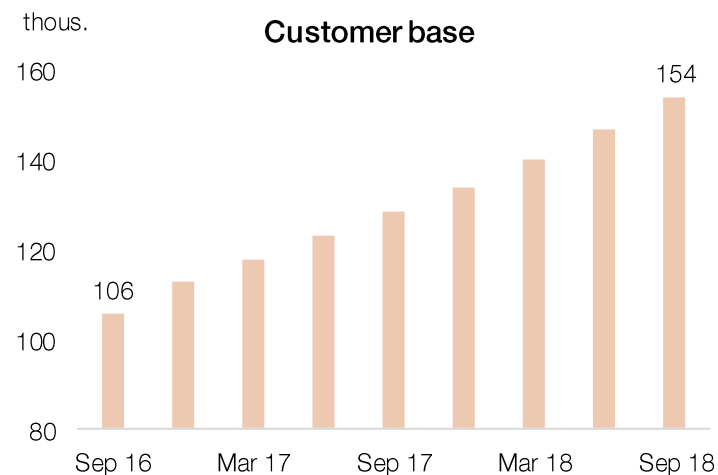


■ Corporate banking ■ Retail banking ■ Consumer Finance ■ Payment intermediators

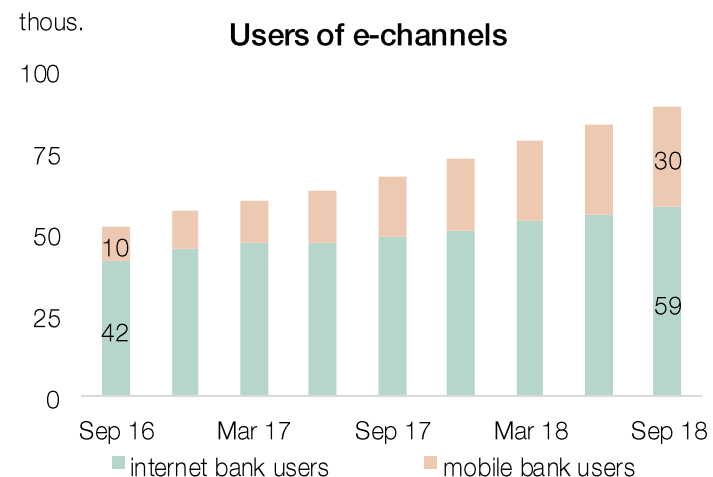
- Bank is deposit funded mainly through retail bank. Payment intermediators' deposits are not used for financing loan portfolio
- Housing loan was added to portfolio 2 years ago
- Corporate banking has been mainly based on lending
- Revenues have solid distribution between different business lines

# LHV Bank

## Business volumes

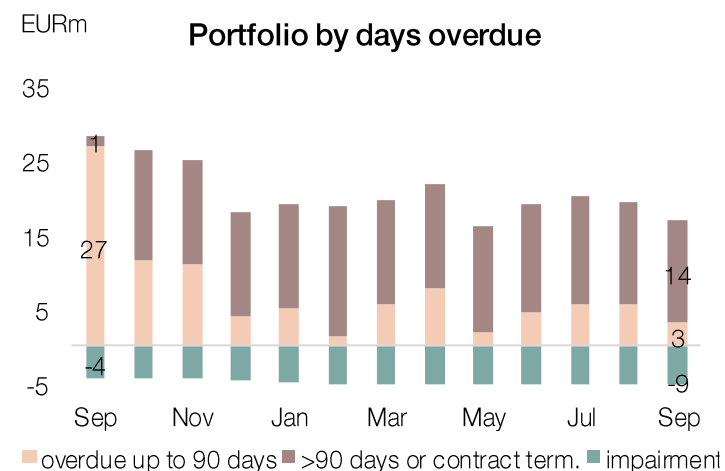
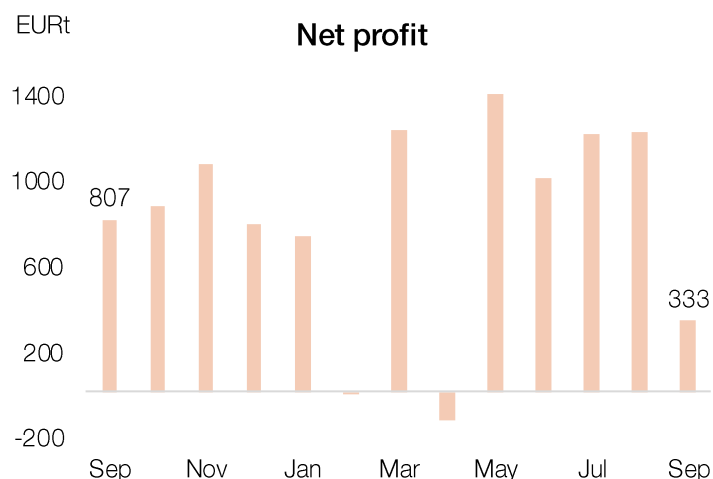
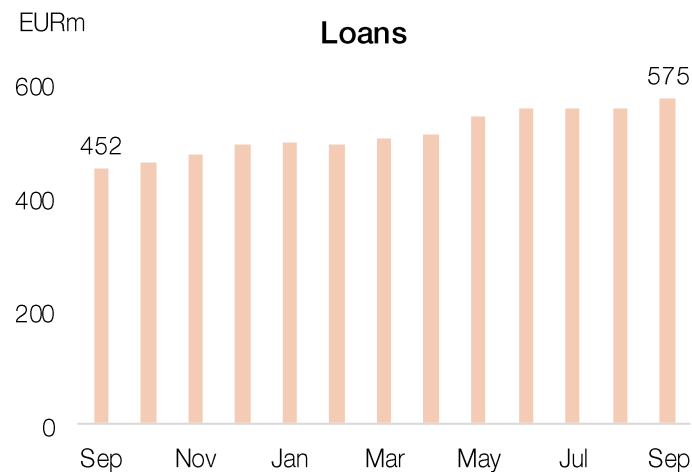
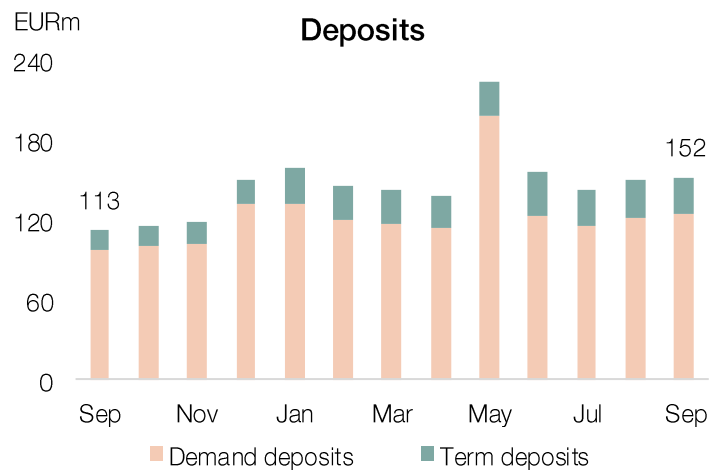


- Since 2015, bank's business has been growing with solid speed
- Customer base doubled in three years, same with share of active customers
- Payment volumes are tripled in same time period



# LHV Bank

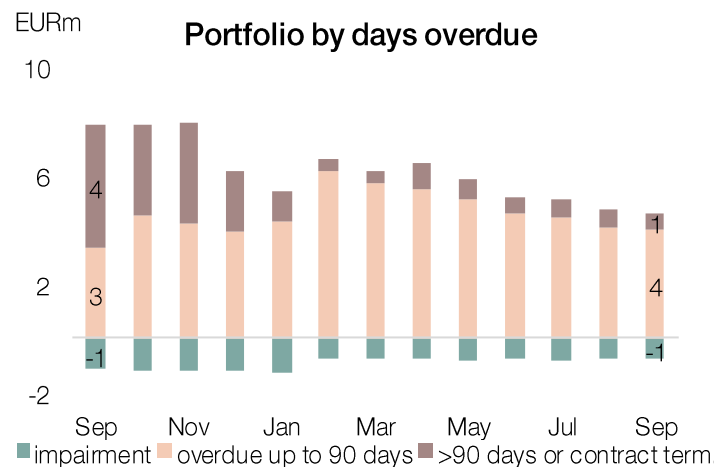
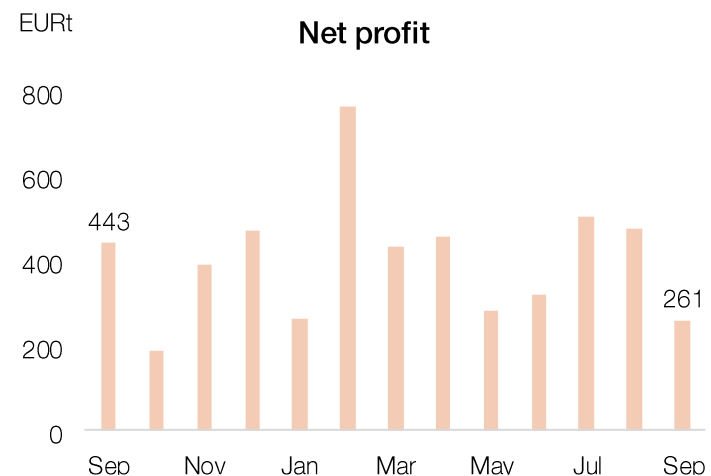
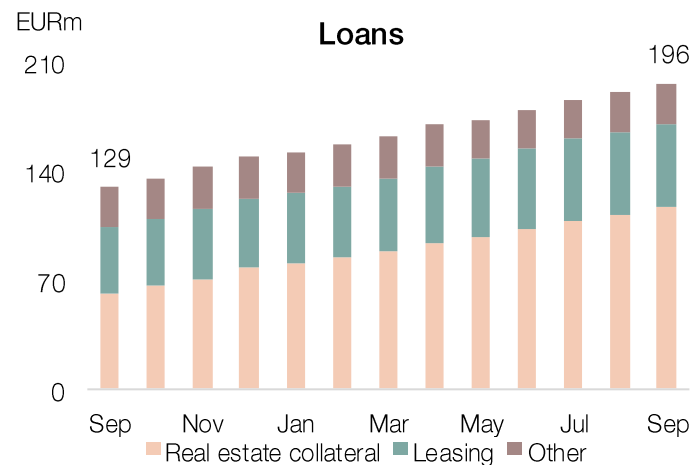
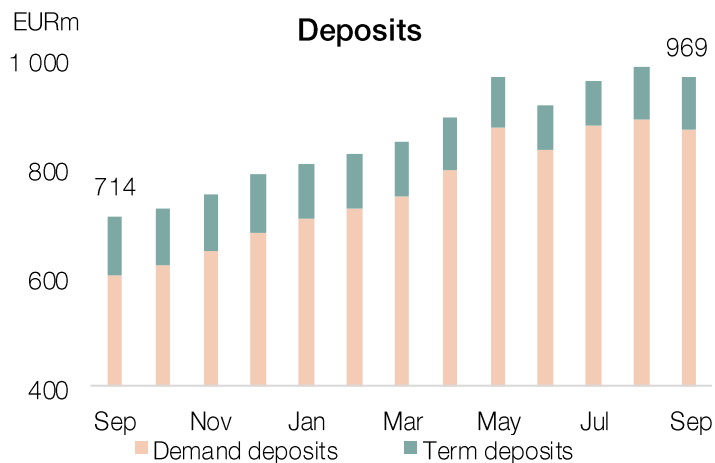
## Corporate banking



- Corporate banking loans have been growing 27% yty. The portfolio diversification has steadily been growing
- Corporate deposits are growing, but volatility remains high due to some larger transactions
- Profitability fluctuations are due to irregular incomes from institutional banking or credit impairments

# LHV Bank

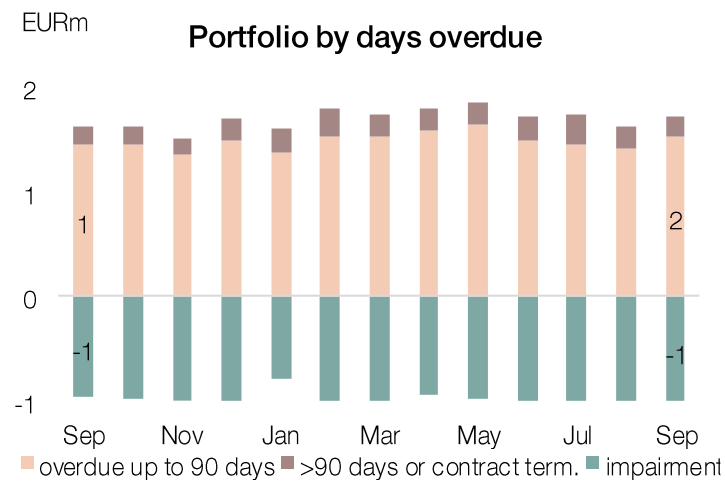
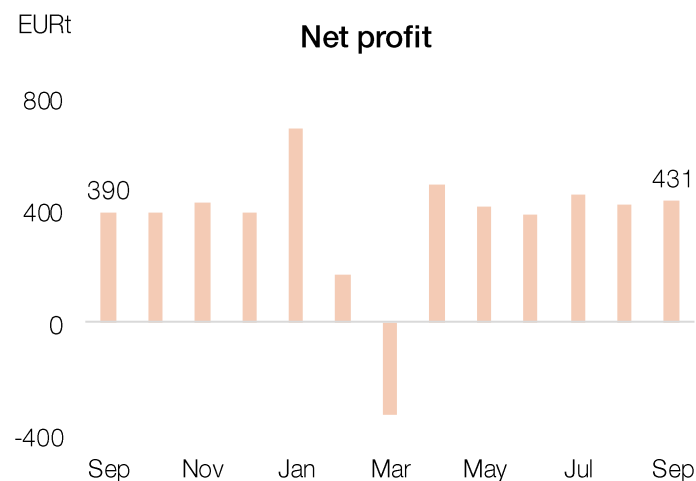
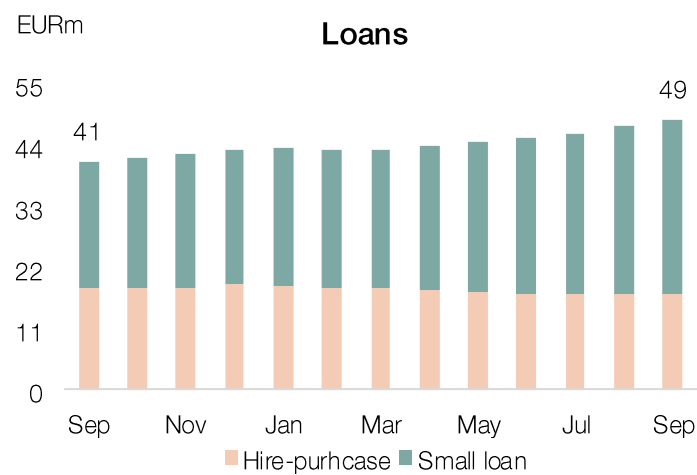
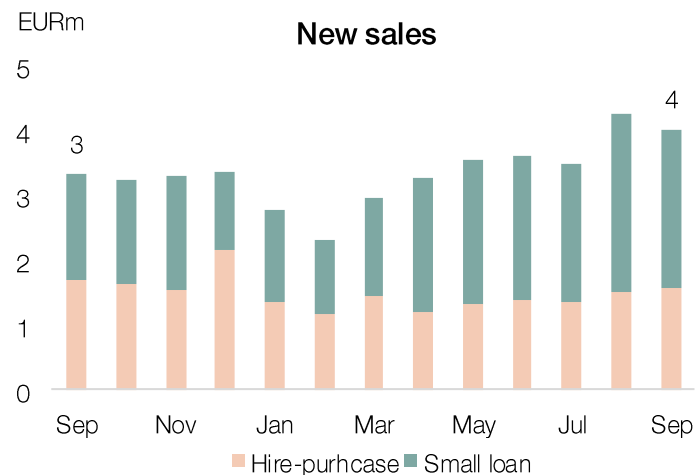
## Retail banking



- Both deposits and loans are increasing along with number of customers
- Share of active customers is growing
- Largest growing loan portfolio is home loans
- There was one large default in 2017, but bank managed to avoid losses

# LHV Bank

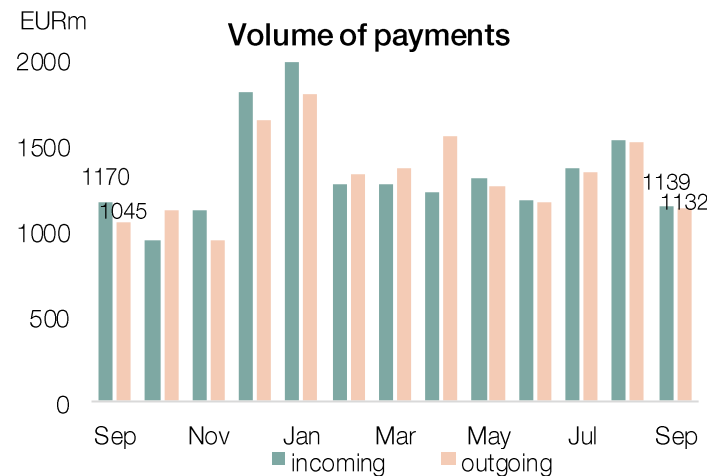
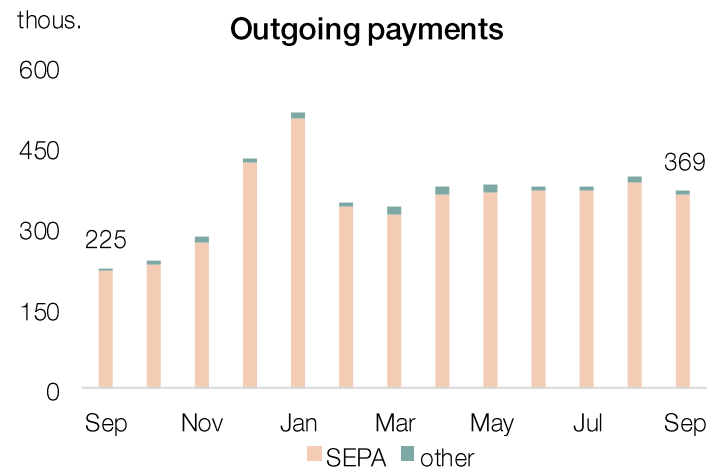
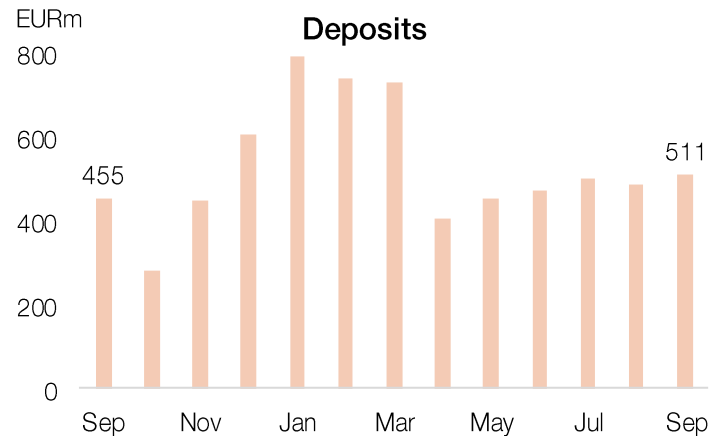
## Consumer finance



- Consumer Finance is gathered into company called LHV Finance
- Portfolio is increasing mainly due to small loans product
- Portfolio credit quality is solid
- In March LHV Finance paid dividends first time that generated also corporate income tax expense

# LHV Bank

## Payment intermediaries



- Business line was separated from retail bank starting from 2018
- Deposits are very volatile and affected by couple of large customers activities. These deposits are priced and are always covered with 100% of liquidity
- Payment volumes are constantly over 1 million incoming and outgoing payments each month



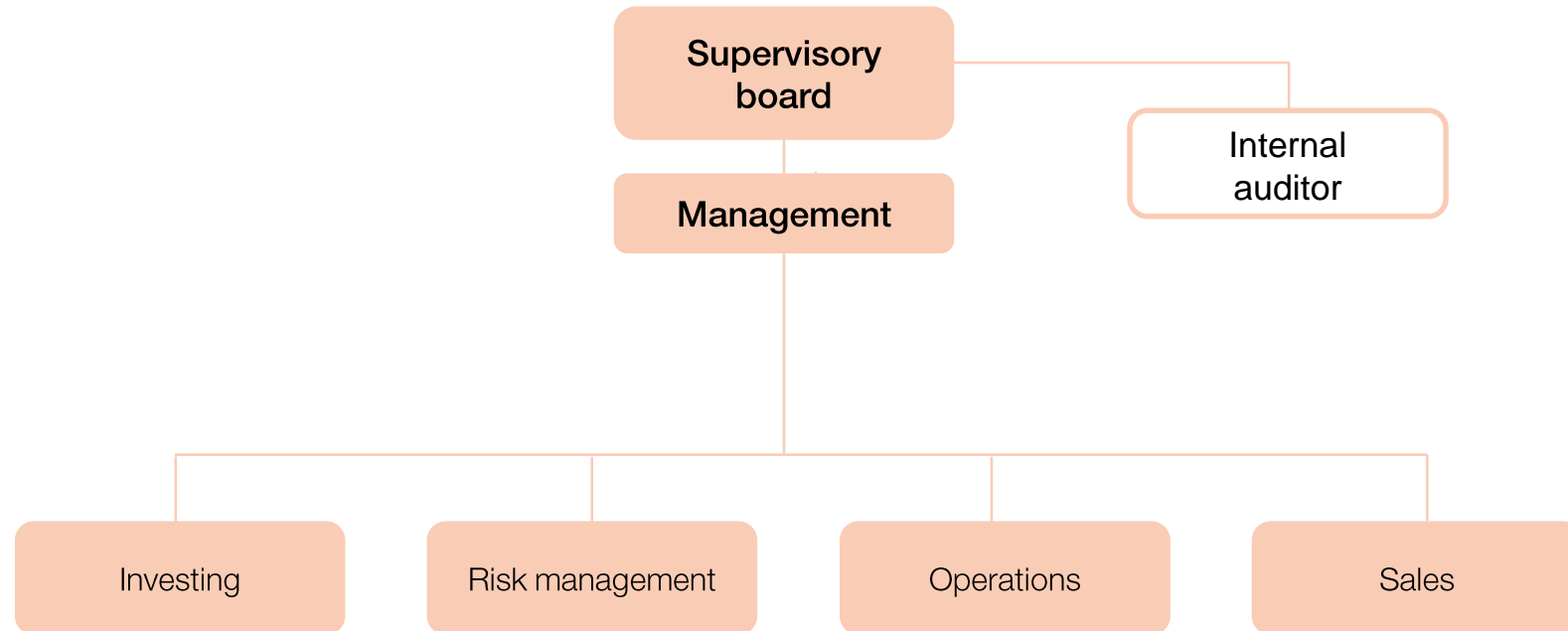
# LHV Asset Management

# LHV Asset Management

## **Market leader of long and short-term returns**

- AS LHV Varahaldus is a fund management company managing investment funds
- LHV Varahaldus manages mandatory pension funds (II pillar) and voluntary pension funds (III pillar), in addition it offers investment advisory services to SEF-LHV Persian Gulf Fund
- LHV Varahaldus is the second largest fund management company in Estonia based on the volume of managed funds.
- As of September 2018, LHV Varahaldus has 195 thousand pension fund customers

# LHV Asset Management Structure



# LHV Asset Management

## Management



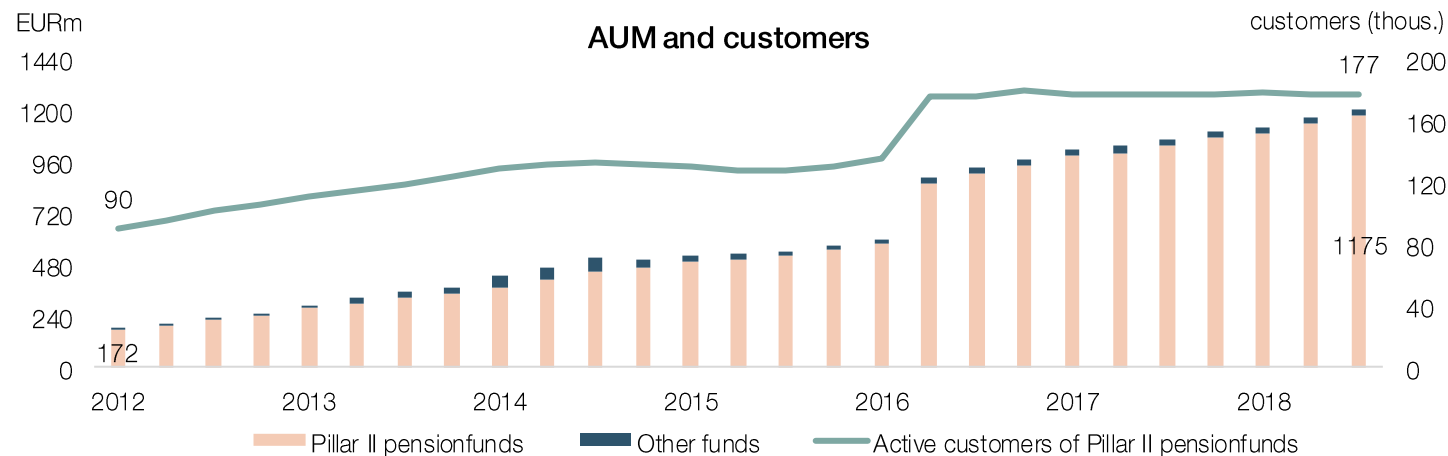
**Mihkel Oja** is the Chairman of the Management Board of LHV Varahaldus since 2007. Before assuming his current position he worked in AS LHV Financial Advisory Services. In 2004, he graduated from the Stockholm School of Economics in Riga, the Faculty of Economics and Business Management, having specialised in finance. In 2015, Mihkel Oja graduated from Edinburgh Business School (with distinction), having acquired the MBA degree. Mihkel Oja is also a member of the Management Board of the Estonian Fund Managers Association.



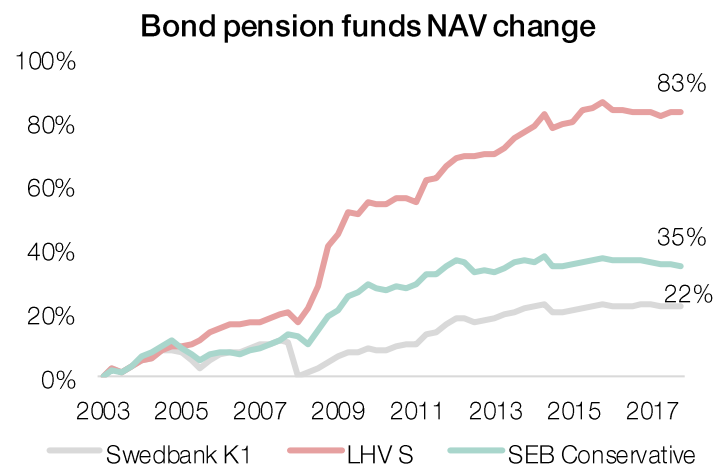
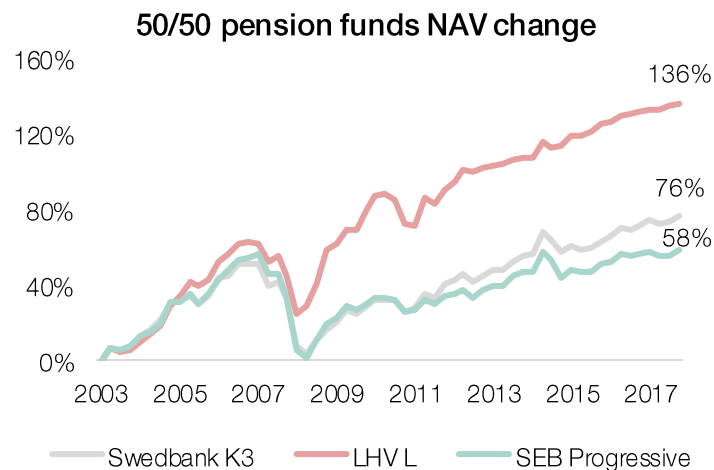
**Joel Kukemelk** is a Member of the Management Board of LHV Asset Management, Fund Manager of LHV Pension Fund Index, LHV Pension Fund Index Plus and LHV Persian Gulf Fund. In 2010, he acquired cum laude Master's degree from the University of Tartu in Economics. Since 2016 Joel Kukemelk is a CFA® (Chartered Financial Analyst) charterholder. Joel has been working in LHV Group since 2006. Before starting working in LHV Asset Management (2010) he held positions of equity market analyst and portfolio manager in LHV Bank. Since January 2016 Joel Kukemelk is also a member of the Supervisory Board of the Guarantee Fund.

# LHV Asset Management

## AUM and NAV change



- LHV is market leader in terms of most long and short-term yields
- LHV pension funds are market leaders in terms of long-term returns
- LHV funds invest the most locally and into alternatives
- LHV merged with Danske Capital (Estonia) in 2016
- AUM has increased by 13% YoY. Funded pension system is relatively young in Estonia and experiencing a moderate growth rate



# 5 year financial results

## Multiple times volume growth in past 5 years

Financial results, EURt	2013	2014	2015	2016	2017	
<b>Total income, incl.</b>	<b>24,033</b>	<b>33,600</b>	<b>41,265</b>	<b>50,558</b>	<b>58,523</b>	<b>25%</b>
Net interest income	11,838	20,343	23,232	29,976	35,502	
Net fee and commission income	9,426	12,772	14,665	19,186	22,180	
Other income	2,769	484	3,368	1,396	841	
<b>Total operating expenses</b>	<b>16,743</b>	<b>21,738</b>	<b>24,241</b>	<b>28,914</b>	<b>31,945</b>	<b>18%</b>
<b>Operating profit</b>	<b>7,290</b>	<b>11,862</b>	<b>17,024</b>	<b>21,644</b>	<b>26,578</b>	
Impairment losses on loans	2,872	2,644	1,367	1,480	3,154	
<b>Earnings before taxes</b>	<b>4,428</b>	<b>9,218</b>	<b>15,656</b>	<b>20,164</b>	<b>23,424</b>	
Income tax expense	83	-449	869	270	1,248	
<b>Net profit, incl.</b>	<b>4,345</b>	<b>9,667</b>	<b>14,787</b>	<b>19,894</b>	<b>22,176</b>	<b>50%</b>
attr. to the owners of the parent	4,237	9,203	13,705	17,816	19,601	
<b>Business volumes, EURm</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	
Deposits	353	458	617	777	1,537	
Loans (net)	207	316	410	538	732	
Assets under management	376	504	570	974	1,103	
<b>Key figures</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	
Cost / income ratio (C/I)	69.7%	64.7%	58.7%	57.2%	54.6%	
ROE*	15.7%	21.6%	21.5%	20.4%	17.8%	
CT1 capital adequacy	15.3%	17.6%	16.0%	15.1%	14.0%	
Total capital adequacy	23.0%	22.8%	23.4%	20.7%	18.3%	

- Deposits have grown more than 4x in the past five years. Loan portfolio increased more than three times
- Purchasing of Danske Capital in 2016 allowed Asset management to grow AUM three times over 5 years
- In 2017, record growth in deposits and loans. Record volumes in pension funds and private banking. Customer activity at all time high
- 5y average increase in revenues 25% and in expenses 18%
- ROE of last two financial years has been 17.8% and 20.4%

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

# Financial plan 2018



# LHV Group - forecast

## Profitable growth as key target

Financial results, EURt	FP2018	2017	Δ YoY	Δ %
<b>Total revenue, incl.</b>	<b>67,636</b>	<b>58,523</b>	<b>+9,113</b>	<b>+16%</b>
Net interest income	39,533	35,502	+4,031	+11%
Net fee and commission income	25,206	22,180	+3,026	+14%
<b>Total operating expenses</b>	<b>33,303</b>	<b>31,945</b>	<b>+1,358</b>	<b>+4%</b>
<b>Earnings before impairment</b>	<b>34,333</b>	<b>26,578</b>	<b>+7,755</b>	<b>+29%</b>
Impairment losses on loans	4,611	3,154	+1,457	+46%
<b>Earnings before taxes</b>	<b>29,722</b>	<b>23,424</b>	<b>+6,298</b>	<b>+27%</b>
Income tax expense	3,638	1,248	+2,390	+192%
<b>Net profit</b>	<b>26,084</b>	<b>22,176</b>	<b>+3,908</b>	<b>+18%</b>
attr. to the owners of the parent	24,348	19,601	+4,747	+24%

Business volumes, EURm	FP2018	2017	Δ YoY	Δ %
Deposits from customers	1,334	1,537	-203	-13%
Loans (net)	835	732	+103	+25%
Assets under management	1,269	1,103	+166	+15%

Key figures	FP2018	2017	Δ YoY
Cost / Income ratio (C/I)	49.2%	54.6%	- 5.4 pp
ROE*	17.9%	17.6%	+ 28 bp
CT1 capital adequacy	14.2%	14.0%	+ 20 bp
Total capital adequacy	17.9%	18.3%	- 37 bp
ROA	1.5%	1.6%	- 14 bp

- LHV Group updated the financial plan for 2018 in May as positive deviation exceeded stock exchange deviation limit
- All business lines grow in volumes, only financial intermediates deposits will decrease by 350 EURm
- Incomes growth exceeds significantly cost growth
- Earning before taxes 29.7 EURm (+27%), ROE 17.9%, which includes larger tax expenses, conservative impairments and investments to financial intermediates business line
- Income tax expense increases almost three times due to banking tax implementation

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

# Financial results 2018

# LHV Group – comparison with financial plan

## Higher business volumes and incomes

Financial results, EURt	9 quarters	Q3-18	YTD18	YTD17	FP YTD	Δ YTD FP
<b>Total income, incl.</b>		16,447	53,430	43,084	51,343	+2,087
Net interest income		9,455	29,482	25,634	29,462	+20
Net fee and commission income		6,147	19,908	16,193	19,059	+849
Other income		846	4,040	1,257	5,700	-1,660
<b>Total operating expenses</b>		7,918	25,024	23,459	25,269	-245
<b>Earnings before impairment</b>		8,529	28,406	19,625	26,073	+2,332
Impairment losses on loans		1,858	4,727	3,193	3,576	+1,151
<b>Earnings before taxes</b>		6,671	23,679	16,431	22,498	+1,181
Income tax expense		501	3,214	1,046	3,078	+135
<b>Net profit, incl.</b>		6,170	20,465	15,385	19,419	+1,046
attr. to the owners of the parent		5,714	19,188	13,917	18,171	+1,018
<b>Business volumes, EURm</b>	<b>9 quarters</b>	<b>Q3-18</b>	<b>YTD18</b>	<b>YTD17</b>	<b>FP YTD</b>	<b>Δ YTD FP</b>
Deposits		1,638	1,638	1,268	1,362	+276
Loans (net)		812	812	656	803	+9
Assets under management		1,204	1,204	1,067	1,229	-25
<b>Key figures</b>	<b>9 quarters</b>	<b>Q3-18</b>	<b>YTD18</b>	<b>YTD17</b>	<b>FP YTD</b>	<b>Δ YTD FP</b>
Cost / income ratio (C/I)		48.1%	46.8%	54.4%	49.2%	- 2.4 pp
pre-tax ROE*		17.3%	22.0%	18.4%	21.0%	+ 1.0 pp
ROE*		15.9%	19.1%	17.1%	18.2%	+ 0.9 pp

- All important business volumes – loans, deposits, funds – are growing
- The revenue base is solid and deviations are on positive side. Cost base is in line with plans
- Pension funds focus on finding investments outside of the stock market
- Credit impairments exceeded financial plan, mainly due to growing loan portfolio and one problematic customer

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

# LHV Bank – comparison with financial plan

## Net profit ahead of updated financial plan by +0.6 EURm

Financial results, EURt	9 quarters	Q3-18	YTD18	YTD17	FP YTD	Δ YTD FP
<b>Total income, incl.</b>		13,057	38,144	29,649	36,277	+1,867
Net interest income		9,646	28,441	22,754	28,250	+191
Net fee and commission income		2,587	8,638	5,771	7,982	+656
Other income		823	1,064	1,124	45	+1,019
<b>Total operating expenses</b>		6,319	18,702	15,005	18,687	+16
<b>Earnings before impairment</b>		6,738	19,442	14,644	17,591	+1,851
Impairment losses on loans		1,858	4,337	3,050	3,152	+1,185
<b>Earnings before taxes</b>		4,880	15,105	11,593	14,439	+665
Income tax expense		501	1,970	0	1,880	+90
<b>Net profit, incl.</b>		4,379	13,135	11,593	12,559	+576
attr. to the owners of the parent		3,923	12,046	10,406	11,478	+568
<b>Business volumes, EURm</b>						
Deposits		1,652	1,652	1,280	1,374	+277
Loans (net)		812	812	647	802	+10
Customers, thous.		184	184	159		
<b>Key figures</b>						
Cost / income ratio (C/I)		48.4%	49.0%	50.6%	51.5%	- 2.5 pp
pre-tax ROE*		15.5%	17.2%	16.3%	16.4%	+ 0.8 pp
ROE*		13.7%	15.1%	16.3%	14.4%	+ 0.7 pp
T1		14.4%	14.4%	13.9%	13.7%	+ 0.7 pp
CAD		17.1%	17.1%	17.0%	16.2%	+ 0.8 pp

- Net profit exceeded financial plan updated in May by 0.6 EURm mainly due to higher revenues: bigger loan portfolio, higher fee and service income and higher than planned balance of payment intermediaries' deposits
- Provisions are related mostly with one problematic customer. The rest of the portfolio is performing well
- From April, advance income tax applied on the bank, which is expensed directly
- First 9-month cost / income ratio below 50%

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

# LHV Asset Management – comparison with financial plan

## Developments according to plan

Financial results, EURt	9 quarters	Q3-18	YTD18	YTD17	FP YTD	Δ YTD FP
<b>Total income, incl.</b>		3,554	10,290	9,958	10,351	-61
Net fee income		3,559	10,314	9,842	10,361	-47
Net interest income		-42	-126	-124	-125	-0
Other financial income		37	101	240	115	-14
<b>Total expenses</b>		1,412	4,295	4,994	4,426	-132
<b>Earnings before taxes</b>		2,142	5,995	4,964	5,925	+70
Income tax expense		0	1,100	951	1,100	+0
<b>Net profit</b>		2,142	4,895	4,014	4,825	+70

Business volumes	9 quarters	Q3-18	YTD18	YTD17	FP YTD	Δ YTD FP
Assets under management (EURm)		1,204	1,204	1,067	1,229	-25
Pension funds customers (thous)		195	195	196		

Key figures	9 quarters	Q3-18	YTD18	YTD17	FP YTD	Δ YTD FP
Cost / income ratio (C/I)		39.7%	41.6%	50.7%	42.7%	- 1.1 pp
pre-tax ROE		33.6%	37.1%	37.1%	29.9%	+ 7.2 pp
ROE		33.6%	30.3%	30.0%	29.9%	+ 38 bp
Market share by no of customers		29.7%	29.7%	29.8%		
Market share by volume		25.2%	25.2%	25.7%		

- Operating income increased together with fund volumes. Expenses have been lower and Cost / income ratio improved
- Lower than planned AUM is affecting service fee income
- Profits have improved due to lower costs. New legislation changes will affect the operating environment

LHV Group  
**2018 9m in brief**

**20.5 EURm**

Net profit

**22%**

pre-tax ROE

**Best bank in Estonia**

Recognition by Euromoney

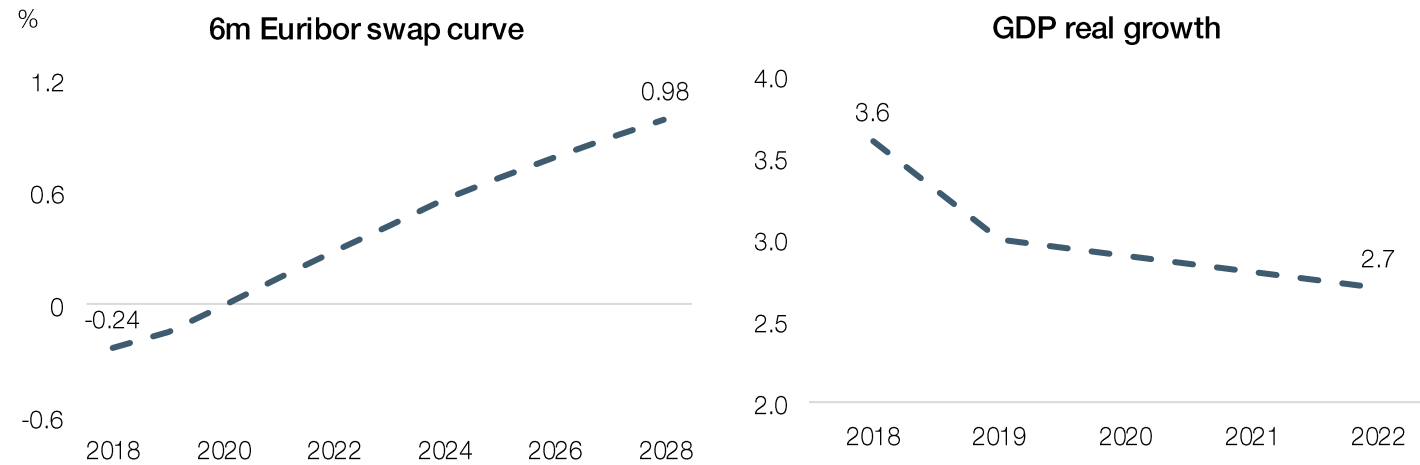
**101 EURm**

AUM increase

# Financial projection 2018-2022

# LHV Group – long-term forecast

## Main macroeconomic assumptions



- Our financial projections are based on stable economic growth approach forecasted by MinFIN and Bank of Estonia
- There are no one-time major positive or negative effects forecasted
- Legislative environment changes are taken into account as far as new legislation is approved
- Interest rates change according to the market consensus

Macroindicators*	2017	2018	2019	2020	2021	2022
GDP real growth	4.9	3.6	3.0	2.9	2.8	2.7
CPI	3.4	3.3	2.8	2.4	2.0	2.0
Unemployment rate	5.8	5.7	6.0	6.1	6.4	6.6
Average salary	1,221	1,307	1,385	1,458	1,534	1,613

\* Latest forecast prepared by Ministry of Finance



# LHV Group – long-term forecast

## Capital enhancing quality growth in all business segments

Financial results, EURt	2018	2019	2020	2021	2022	
<b>Total income, incl.</b>	<b>67,636</b>	<b>83,138</b>	<b>97,559</b>	<b>109,147</b>	<b>123,090</b>	<b>16%</b>
Net interest income	39,533	55,525	65,610	74,271	84,952	
Net fee and commission income	25,206	27,203	31,534	34,455	37,715	
<b>Total expenses</b>	<b>33,303</b>	<b>40,616</b>	<b>43,791</b>	<b>47,199</b>	<b>50,458</b>	<b>11%</b>
<b>Operating profit</b>	<b>34,333</b>	<b>42,522</b>	<b>53,767</b>	<b>61,948</b>	<b>72,633</b>	
Impairment losses on loans	4,611	7,419	8,041	8,058	9,012	
<b>Earnings before taxes</b>	<b>29,722</b>	<b>35,103</b>	<b>45,726</b>	<b>53,890</b>	<b>63,621</b>	
Income tax expense	3,638	5,667	6,966	8,422	9,480	
<b>Net profit</b>	<b>26,084</b>	<b>29,436</b>	<b>38,760</b>	<b>45,468</b>	<b>54,141</b>	<b>20%</b>
<b>Business volumes, EURm</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	
Deposits	1,334	1,521	1,714	1,923	2,154	
Loans (net)	835	1,093	1,240	1,362	1,510	
Assets under management	1,269	1,479	1,713	1,967	2,243	
<b>Key figures</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	
Cost / income ratio (C/I)	49.2%	48.9%	44.9%	43.2%	41.0%	
pre-tax ROE*	19.1%	17.6%	19.5%	19.5%	19.8%	
ROE*	17.9%	16.2%	18.3%	18.3%	18.9%	
CT1 capital adequacy	14.2%	13.1%	13.9%	15.6%	17.3%	
Total capital adequacy	17.9%	16.7%	17.4%	18.8%	20.2%	

- Assumptions: stable economy, growth in business volumes, euribor increase, capitalization&amortization of Asset Management selling costs, decrease in fund management fees in line with the increase in volumes, persistence in dividend policy, banking tax
- Growth in all important business volumes during 5 years: deposits by 800 EURm, loans by 600 EURm, funds by 1000 EURm
- Increase in revenues is expected to be significantly faster than growth in expenses. Costs impacted by tax costs increase. Forecast rather conservative regarding loan impairments
- Raise of capital by bond issues
- Moving towards ROE of 20%

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

LHV Group  
**5 year targets**

**LHV Bank**

Best bank in customer service

**1 billion EUR**

Increase in fund volumes

**800 / 600 EURm**

Growth in deposits and loans

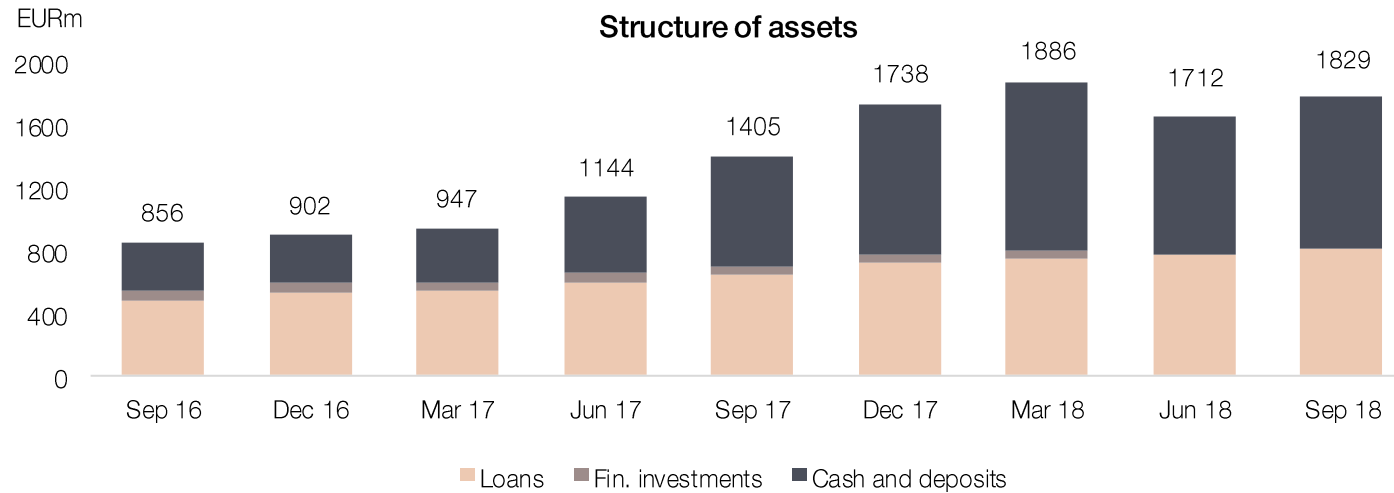
**LHV Asset Management**

Best long-term return

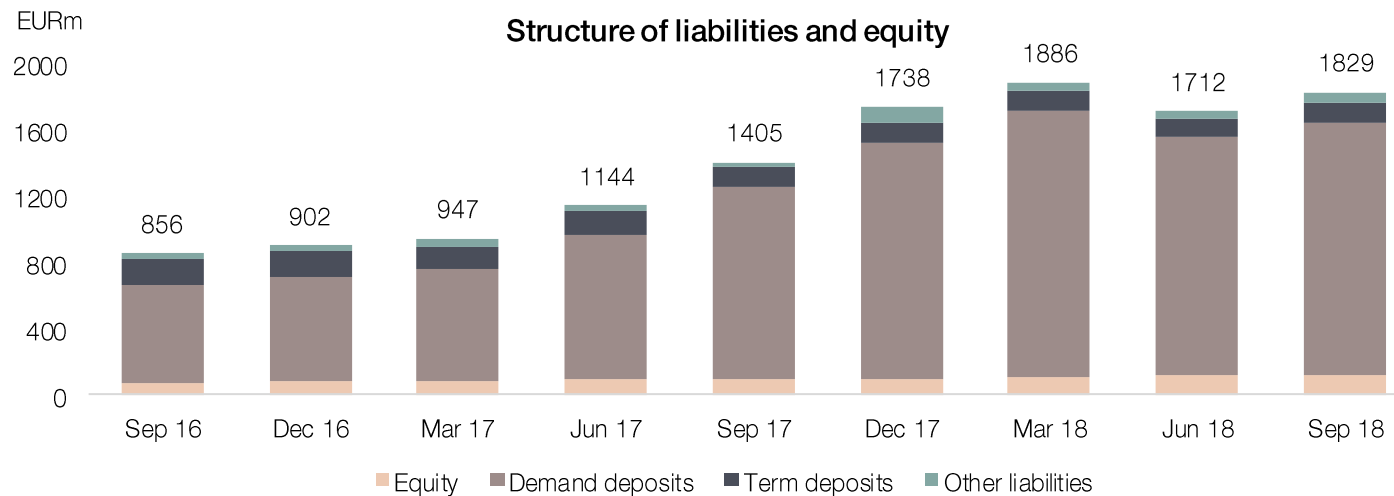
# Risk & capital

# LHV Group

## Balance sheet structure

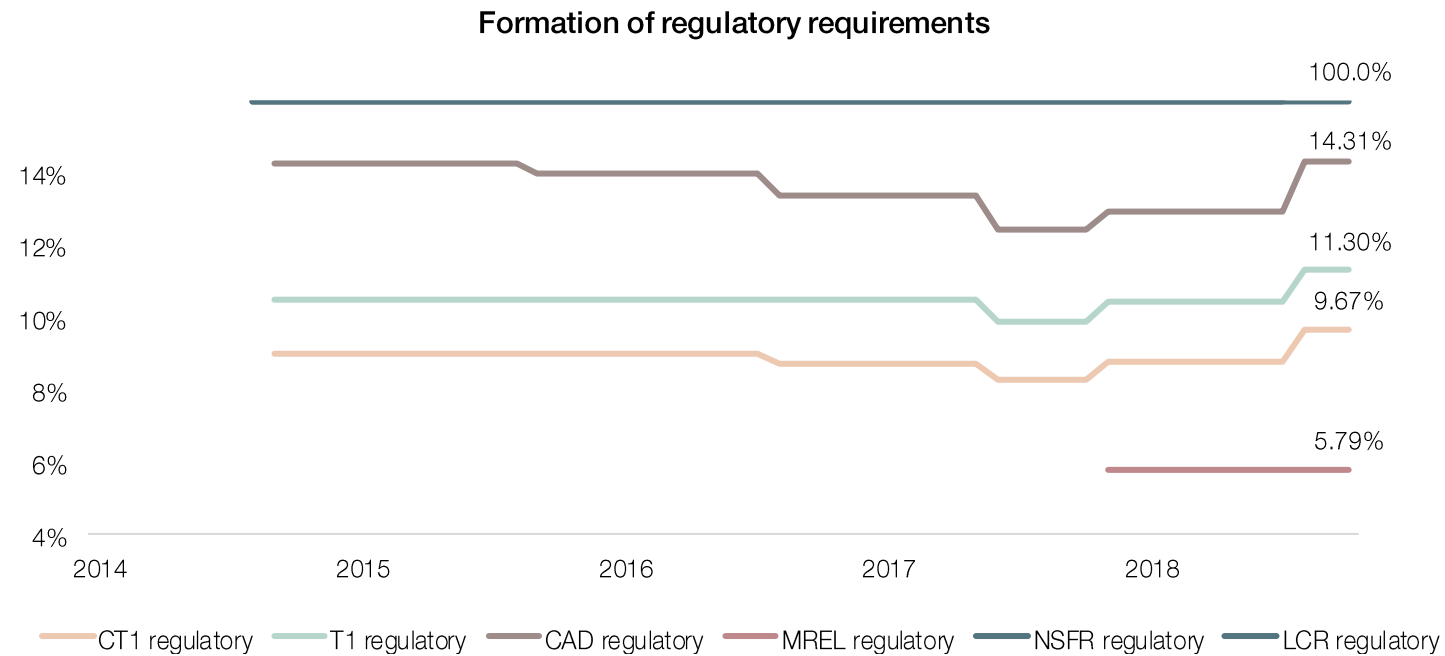


- LHV runs knowingly very simple balance sheet – liabilities almost in full amount customer deposits and assets loans or liquidity
- 95% of balance sheet is euro based
- Liquidity portfolio consist 95% of deposits with ECB and some smaller amount of liquid bonds



# LHV Group

## Regulative requirements



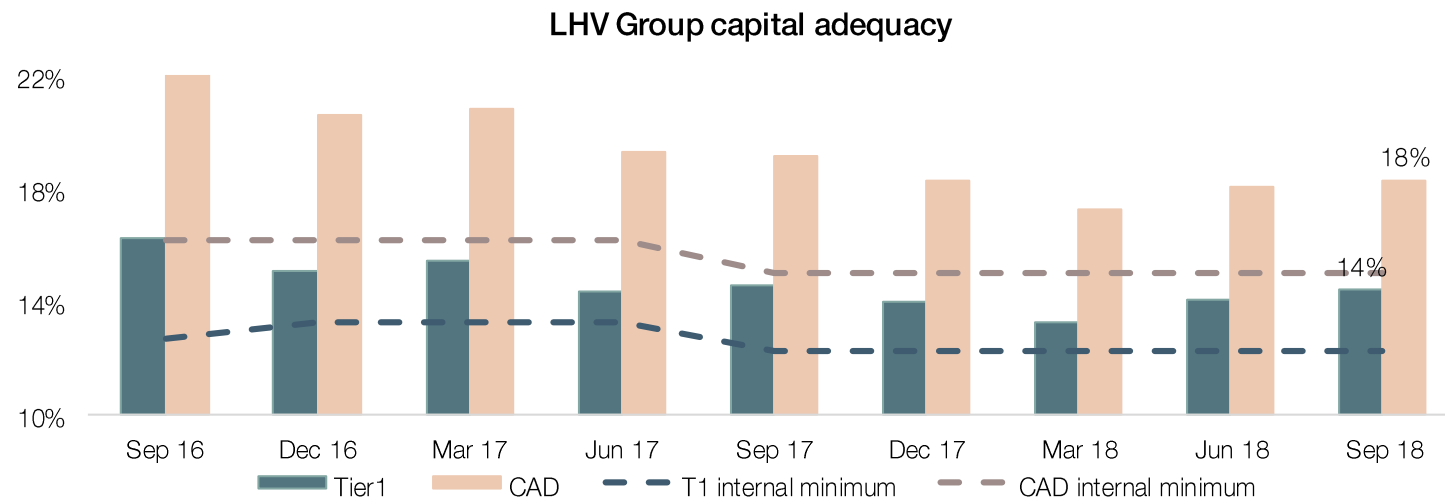
- Regulatory environment is getting more strict by adding additional or increasing capital related buffers
- Latest additions were increases in Pillar II and O-SII buffers
- All EU level regulations regarding capital are taken over without transition time

# LHV Group

## Risk tolerance: capital

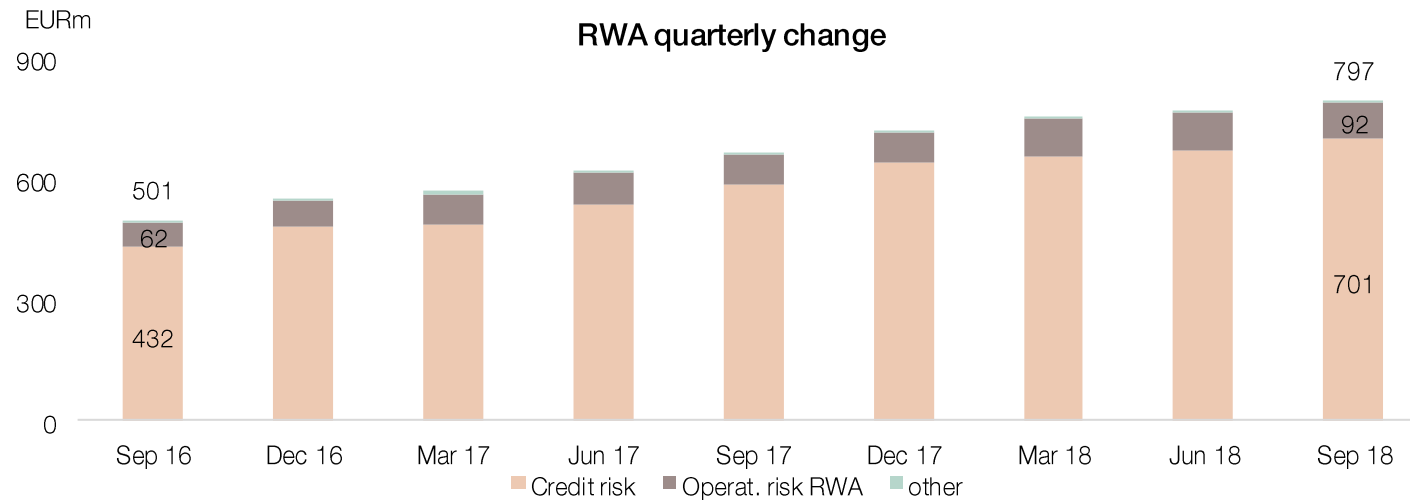
Category	Measures	Risk tolerance		Actual 30.09.2018		Main risk management tools
		Group	Bank	Group	Bank	
Capital	Capital adequacy (CAD)	min 15.50%	min 15.50%	18.31%	16.56%	Limits
	Capital adequacy (Tier 1)	min 12.10%	min 12.10%	14.44%	13.87%	
	Capital adequacy (CET 1)	min 10.40%	min 10.40%	14.44%	13.87%	
	Leverage ratio	min 3.5%	min 3.5%	6.22%	5.61%	
	MREL	min 6.08%	NA	8.54%	7.40%	

- LHV has set all internal capital adequacy and leverage targets on the same level for Group, Bank consolidated and Bank solo
- MREL is measured only on Group level
- All targets are reported on monthly bases and followed in simplified models on daily bases



# LHV Group

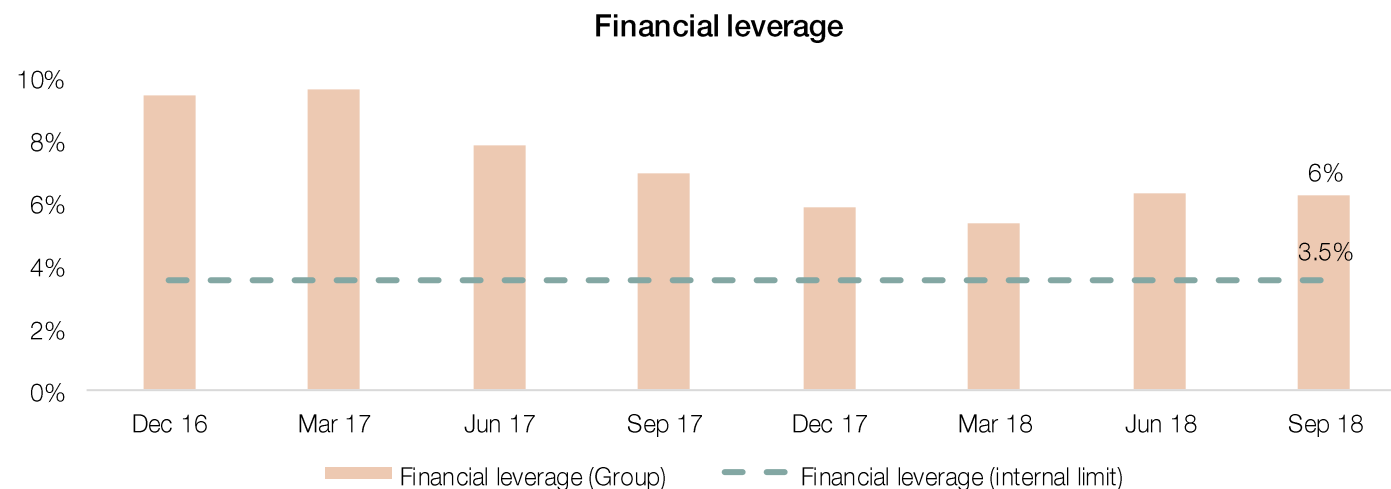
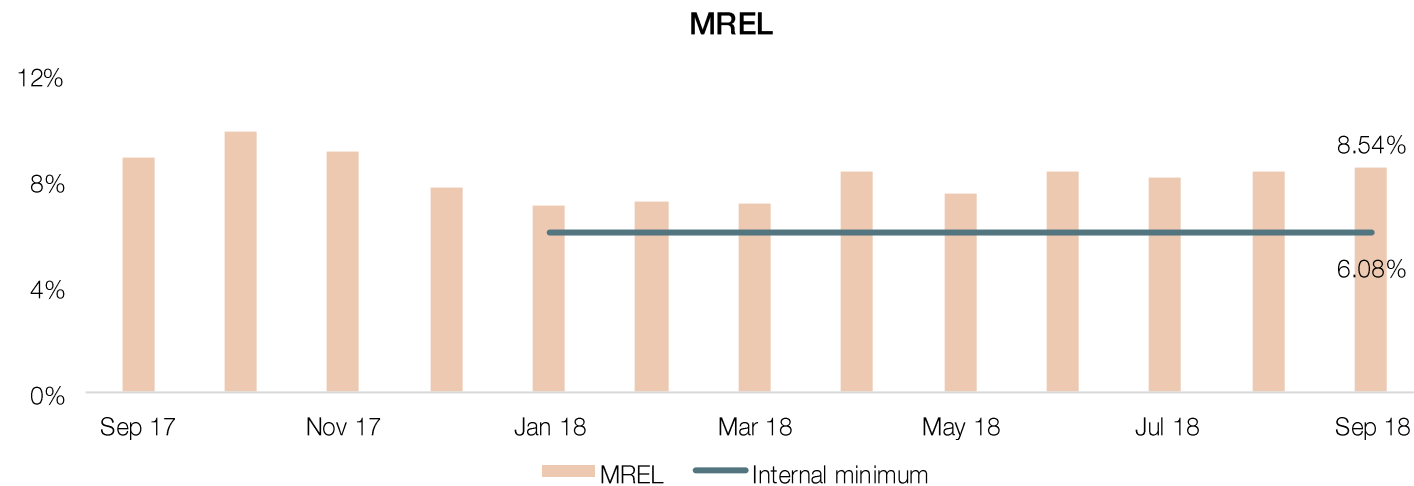
## Risk weighted assets



- RWA is calculated based on standard approach as this is most conservative
- 95% of RWA consists of credit risk and this has increased in correlation to portfolio growth
- Bank exposures to market risk is very limited

# LHV Group

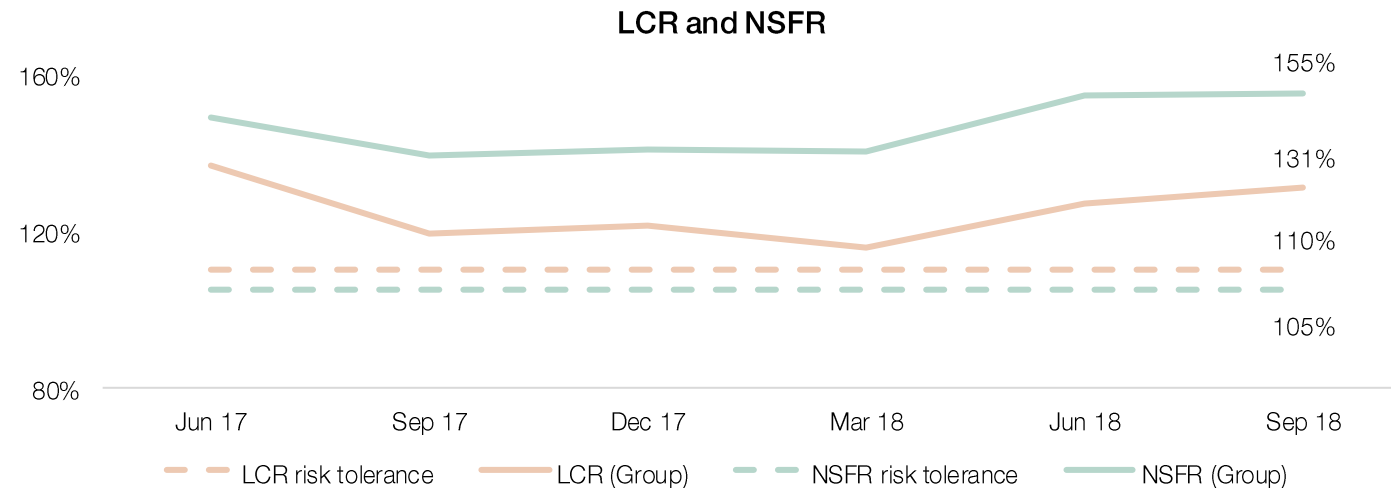
## MREL and leverage ratio



- MREL is new ratio set by FSA from 1st of January 2018. This is hardest ratio to manage as there doesn't exist eligible liabilities in Estonian banking market. LHV has initiated discussions to set up suitable credit lines
- Financial leverage is not limiting LHV in current business model



# LHV Group Liquidity



- LHV is running very conservative approach in liquidity. Almost whole funding is retail deposit based and very limited amounts of interbank funding
- Excluding financial intermediates deposits which are covered 100% with liquidity bank prefers to keep LCR ratio above 180%

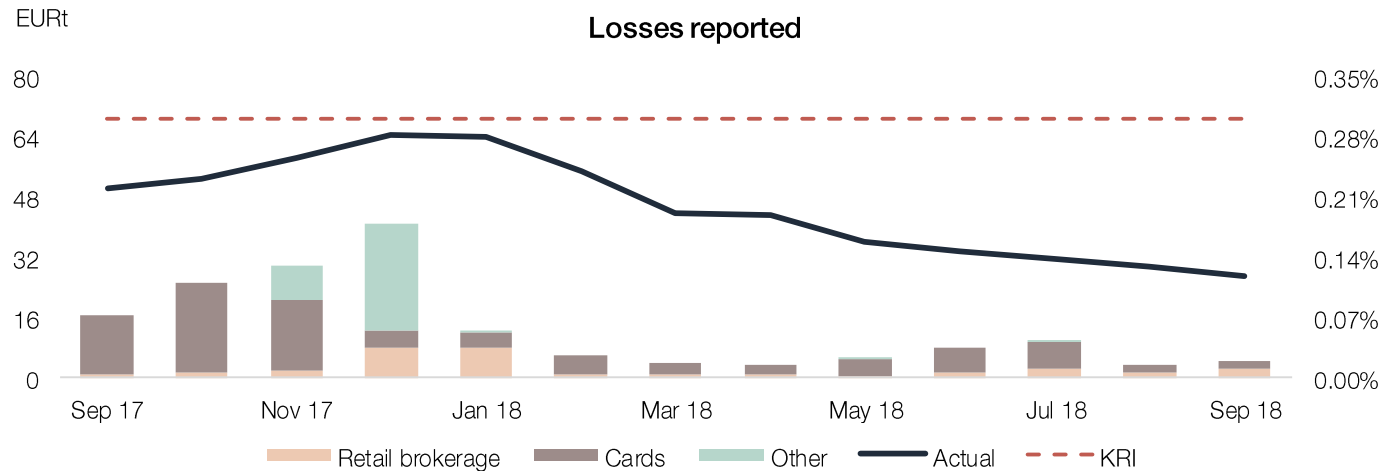
# LHV Group

## Anti Money Laundering (AML)

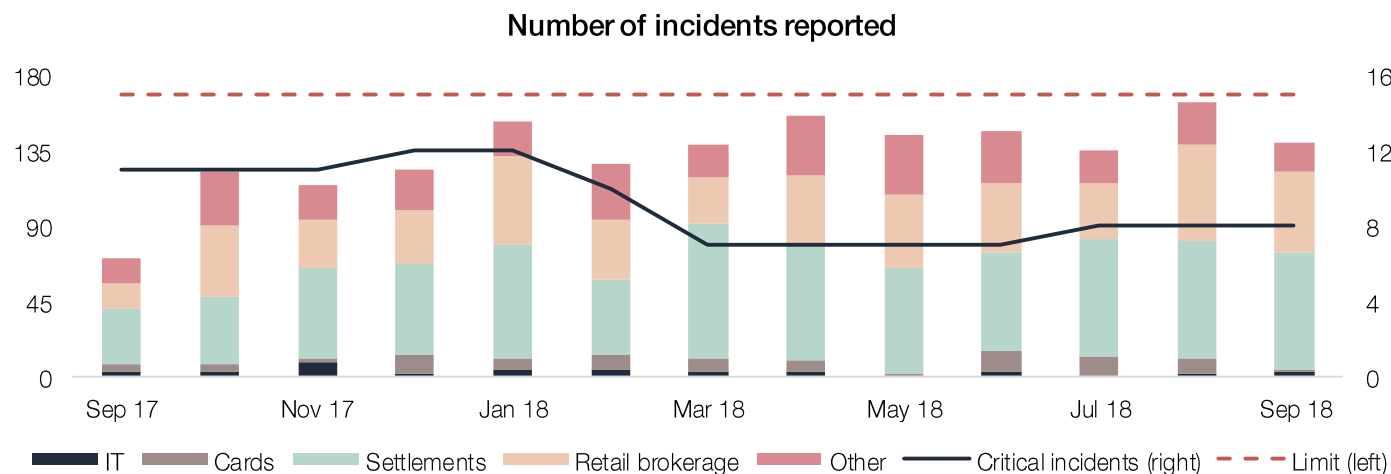
- Estonia is second in Basel AML index 2018 after Finland
- LHV has been taking zero tolerance regarding money laundering and is investing heavily into ALM processes and software
- In KYC process we visit and control riskier customer's internal processes, which is followed similar controls on regular bases
- All customer's suspicious activities need to be clarified and could be reason for immediate termination of customer relationship
- LHV is reviewing regularly the whole customer base and terminates customer relationship with all off-shore customers (unless there is clear reason for off-shore structure)

# LHV Group

## Operational risk



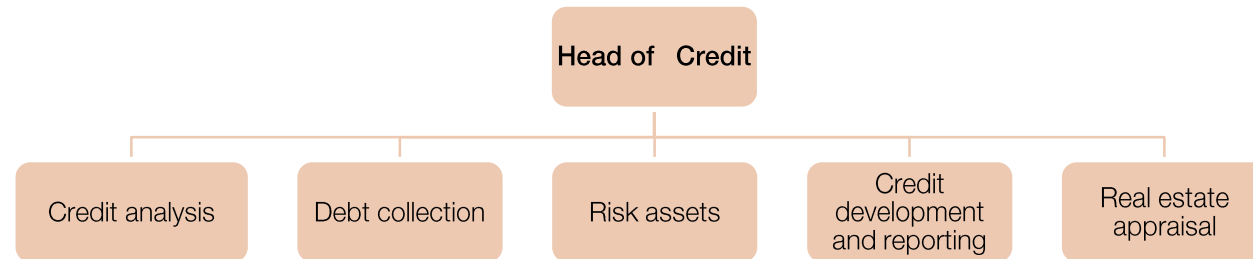
- Most of operational risk incidents / losses are related to cards of retail brokering mistakes
- After implementing 3D secure in December 2017 cards losses have dropped 3-4 times. Skimming is still the issue
- Other losses are mostly related with human errors in retail brokering mistakes, as all customer trades over the phone are executed manually in different platforms
- IT systems downtimes



# Credit Risk and Asset Quality

# Risk management tools and monitoring

## Structure of credit risk department



### Tools and early warning

- Monitoring of early warnings indicators
- Watch list
- Risk report
- Risk tolerance report
- Daily monitoring of tax arrears

### Risk assessment models

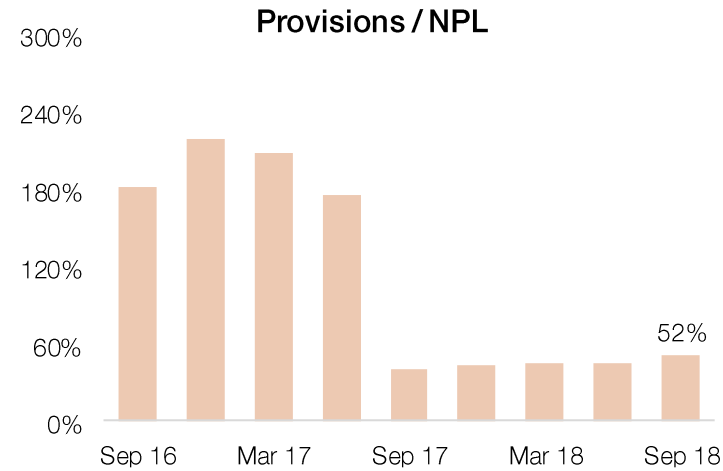
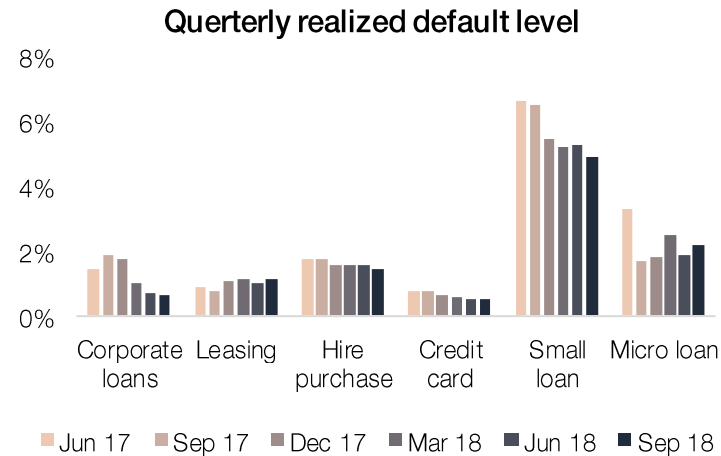
- Rating models (business loans, leasing and credit limits > 250 EURt)
- Scoring models (retail portfolio, incl. private and mortgage loans; business loans and leasing exposures < 250 EURt)

### Decision-making bodies

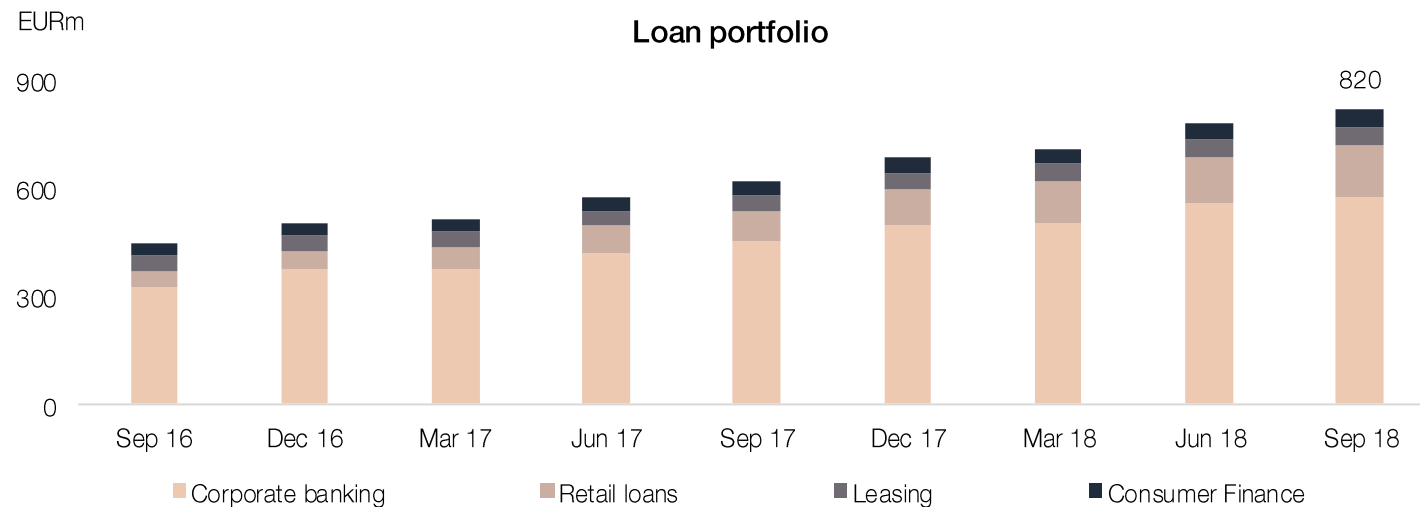
- Credit committee
- Retail banking credit committee (decisions up to 250 EURt)

# LHV Bank

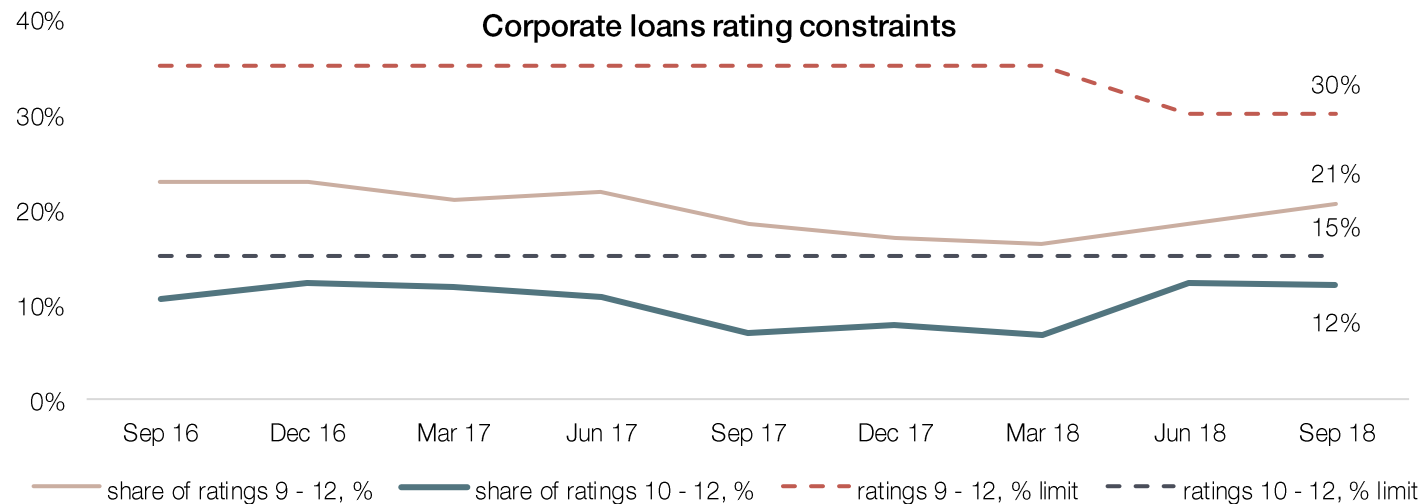
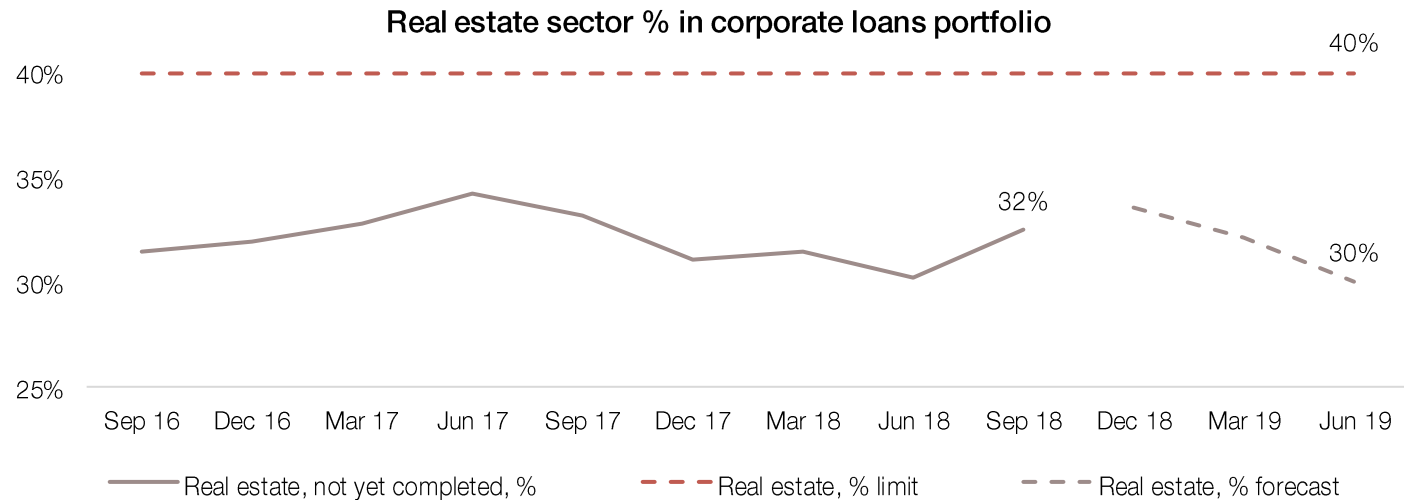
## Good quality of credit portfolio



- Declining trend of default rates in most portfolios
- No defaults in private and mortgage loan portfolios
- Provisions / NPL rate has been stable last 4 quarters. Decline in Q3 2017 was related to one larger corporate loan customer
- We use EBA definition of non-performing exposures



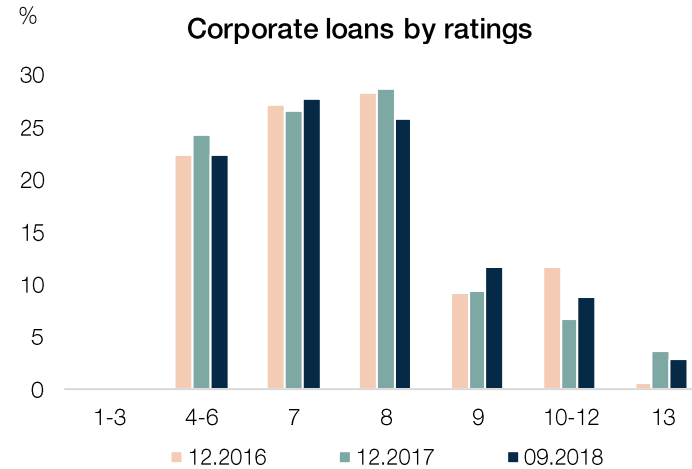
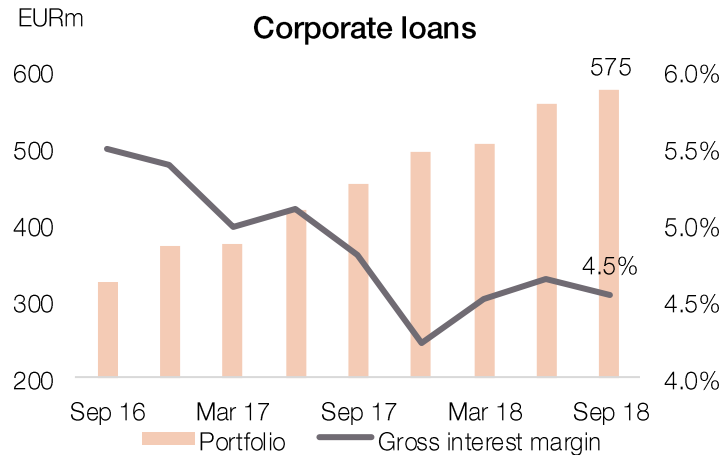
## Concentration risk and portfolio constraints



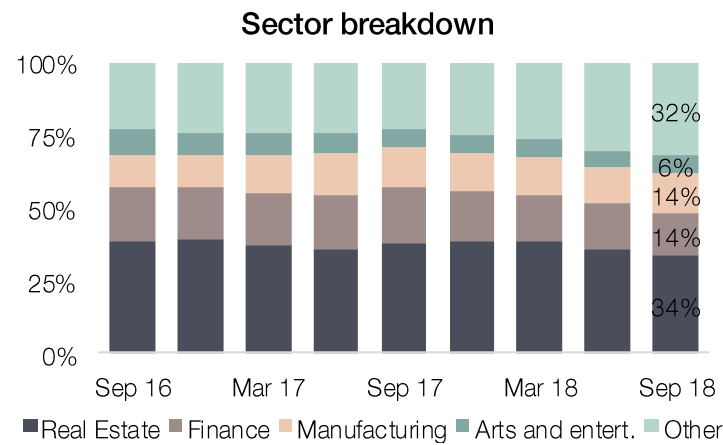
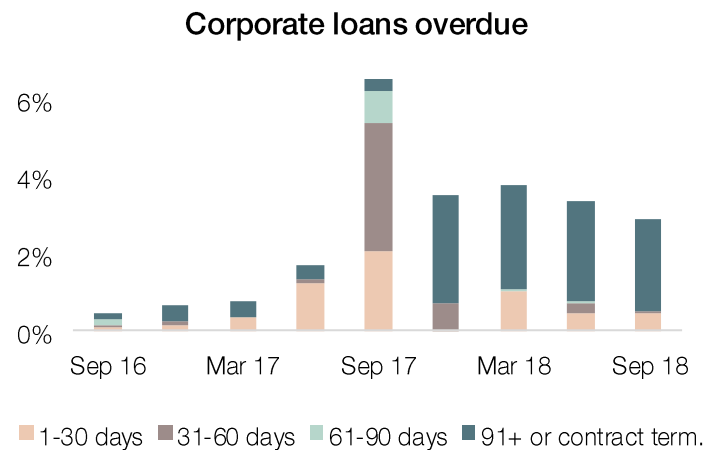
- Separate limits and constraints have been set for the largest sector and riskier rating grades in corporate banking portfolio
- The share of the largest sector (real estate activity without developments in final stage) has remained and will remain below the set limit in the near future
- Two metrics for riskier rating grades: 9-12 and 10-13 (below investment grade ratings). Risk tolerance levels were tightened in 06/2018. Actual levels below the limits

# LHV Bank

## Corporate loans



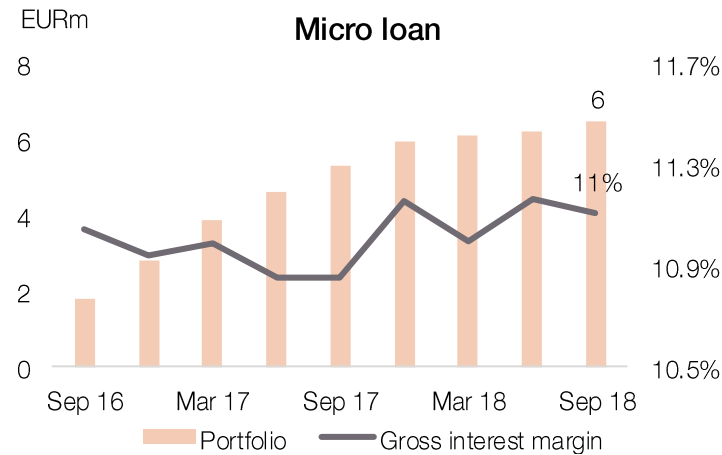
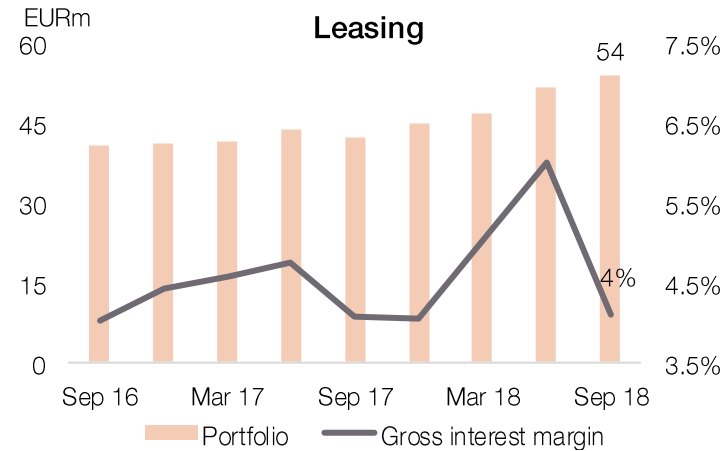
- Strong continuing growth in recent years (annually 30-32%)
- Share of real estate loans has been stable, incl. share of developments in final stage with lower risk (average share of total portfolio 6%)
- Share of loans with maturity 7-10 years has decreased and 3-5 years increased



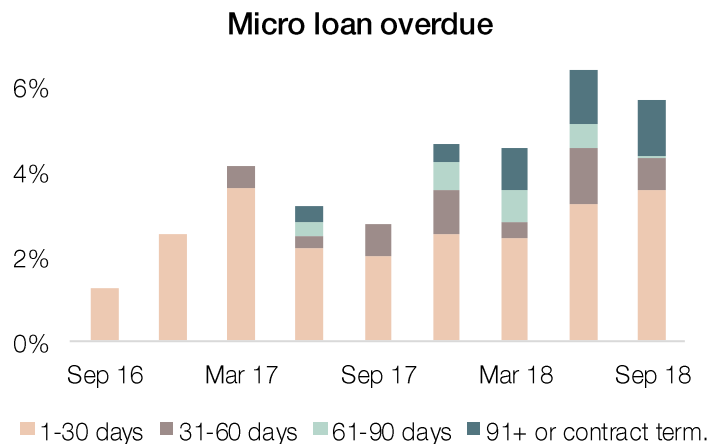
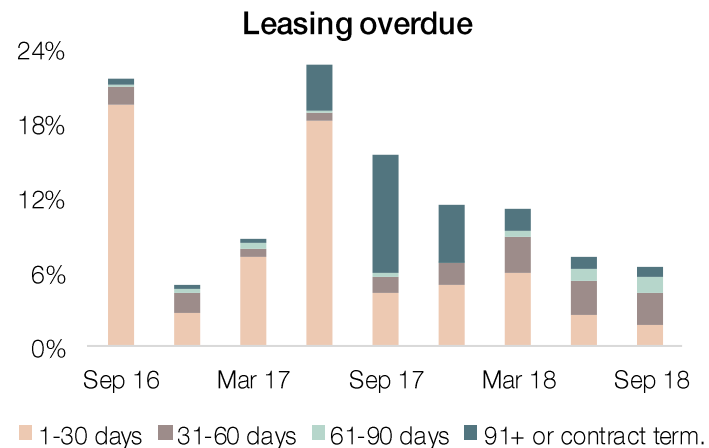


# LHV Bank

## Leasing and SME loans

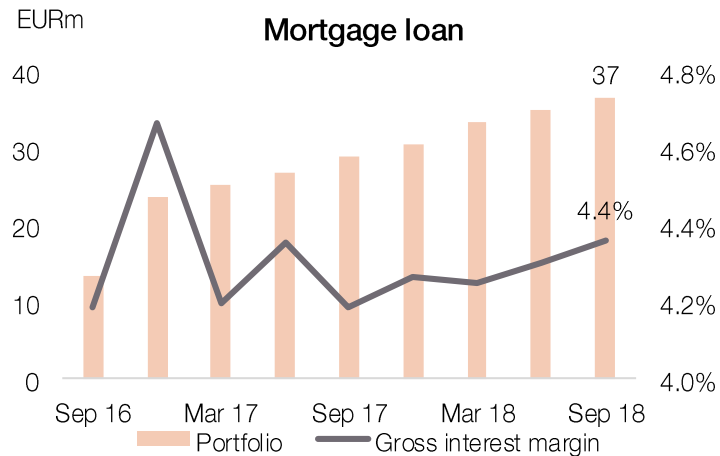
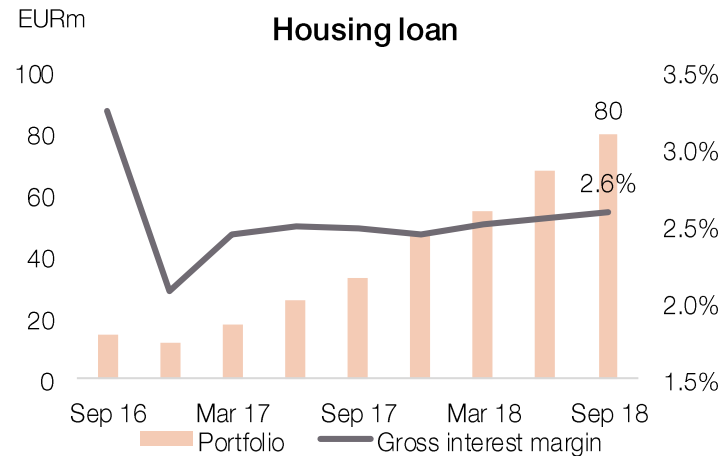


- Leasing and SME loans are smaller credit portfolios to cover all client segments
- Leasing had single large client default in Q2 2017, no actual losses were taken by bank
- SME loans product was introduced in 2016 and product credit quality remains much better than expected

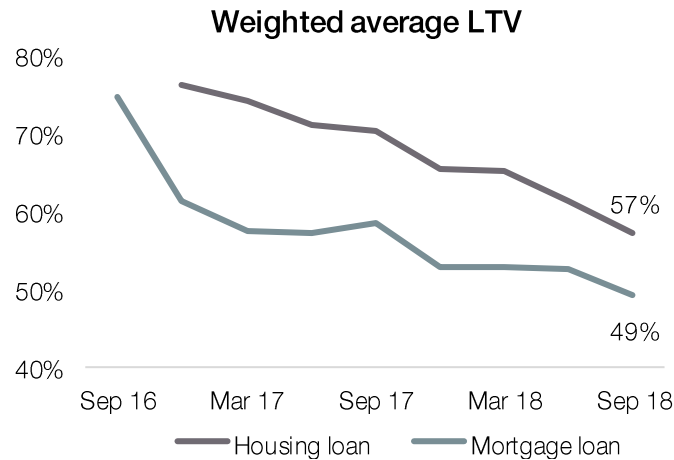
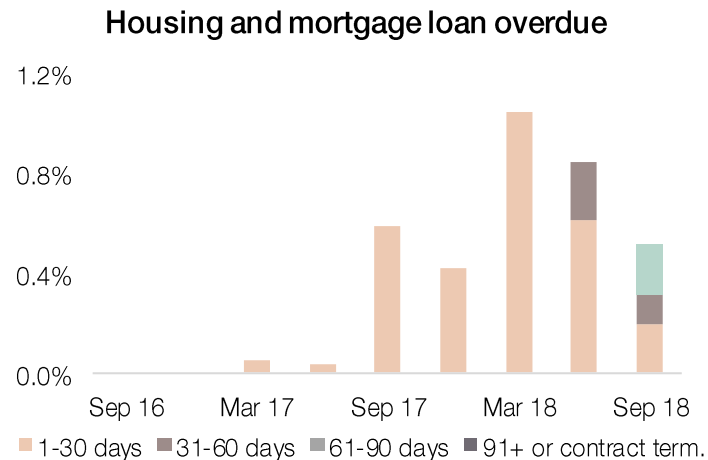


# LHV Bank

## Private loans

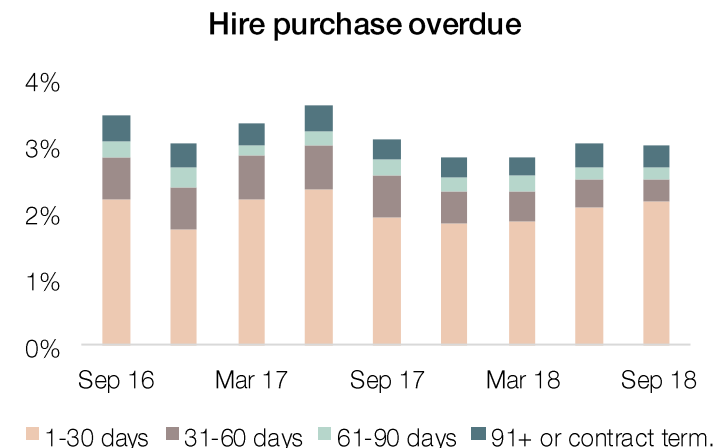
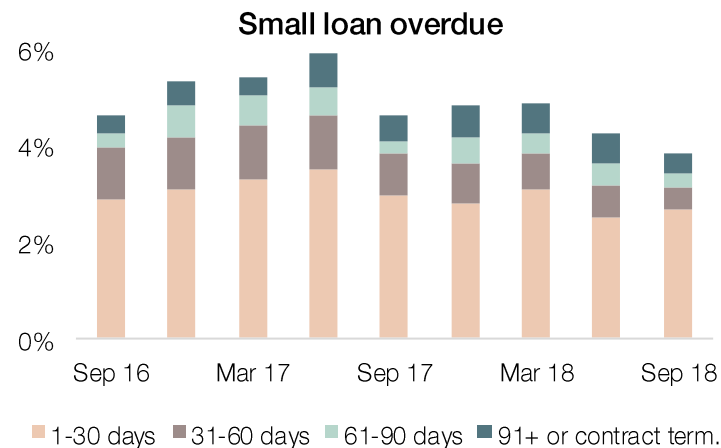
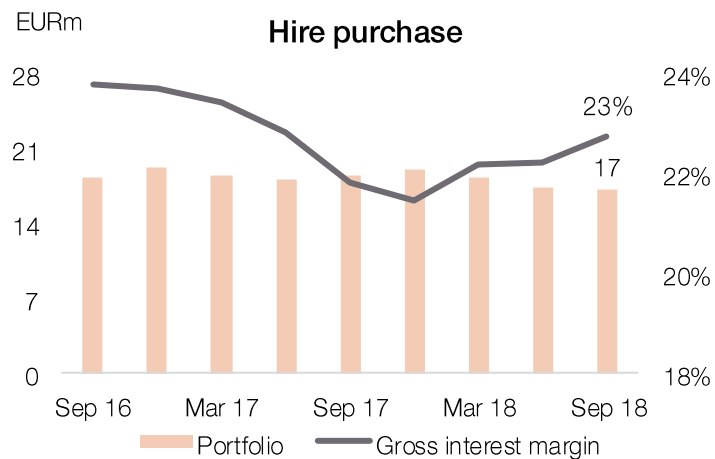
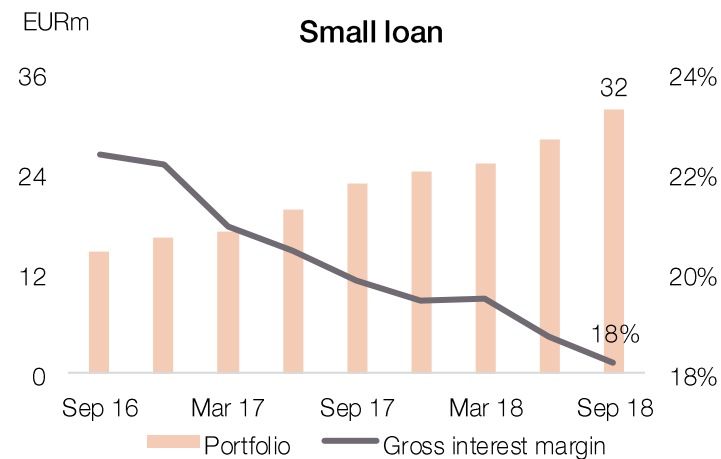


- LHV deliberately waited with introduction of housing loans. Product was implemented Q3 2016 and has been highly successful
- LHV has around 10% on market new sales and we expect to be able to keep that level
- The credit quality is extremely good and most of the loans are given out with low LTV's



# LHV Bank

## Small loan and hire purchase



- Consumer loans are showing still good growth opportunity especially in small loans category
- The margins for small loans have decreased as we introduced higher quality sub products „car loan“ and „repairment loan“
- Both products have good credit quality. LHV sells more than 91 days overdue loans to third parties specializing in workouts

# Interest and market risk

## Interest and market risk

Category	Measures	Risk tolerance		Actual 30.09.2018		Main risk management tools
		Group	Bank	Group	Bank	
Market risk	Change of economic capital due to 200 bp shift in interest curve (% own funds)	max 9% NOF	max 9% NOF	0%	0%	Limits Diversification Mitigation
	Total loss (% own funds)	max 10% NOF	max 10% NOF	2.3%	2.2%	

- LHV runs very conservative risk taking approach in market risks. Bank doesn't take speculative positions in equity trading nor in FX. Very limited trading positions, which are mainly directly related to customer activity
- Interest risk in the banking book is low. Almost all loans are given with floating interest rate, where base interest can't be negative.
- Based on different scenarios of interest rates increase or decrease LHV will not lose money in any of the changing interest rate scenarios

# Social responsibility

# Social responsibility

## Community

- We organise regular, free-of-charge “Investor school” seminars for those interested in investing - 3,400 participants in 2017
- We have set up a library of investment and economic literature – more than 1,000 different publications are available to lend to our customers
- We manage the LHV financial portal and the forum set up for discussing investment-related subjects and sharing information
- Since 2007, we have published the free-of-charge journal “Investeeri”, addressing various topics related to entrepreneurship and investing – the circulation of a single edition is between 45,000 and 52,000 copies

.. and many more

## Social responsibility

# Environment

- We do not manage a broad office network – we are located in Tallinn, Tartu and London
- We offer our services through electronic channels
- We are moving towards paperless document management, the provision of electronic customer agreements and the so-called FollowMe Printing System
- We have replaced the use of water machines in our offices with drinking tap water
- We have developed solutions for holding meetings through electronic communication to reduce transport volumes

.. and many more



# Social responsibility

## Sponsorship

- LHV Pank takes social responsibility seriously
- We do all we can to support activities and initiatives which contribute to the development of Estonian society
- In the case of our sponsorship projects, we prefer long-term and substantial cooperation
- We are willing to contribute to the realisation of innovative ideas helping to make life in Estonia better



The Estonian Football  
Association



The Gazelle movement



Estonian Music Days

.. and many more

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