

# LHV Group

September 2020

# Subordinated bond issue

## Key risks related to bonds, offering and listing

The purpose of the presentation is to provide insight into subordinated bond issue intended by AS LHV Group (hereinafter **LHV Group**) and to provide background information for the purpose of making investment decision. Offering period will be 16 –25 September 2020.

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 required) 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 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 of the company

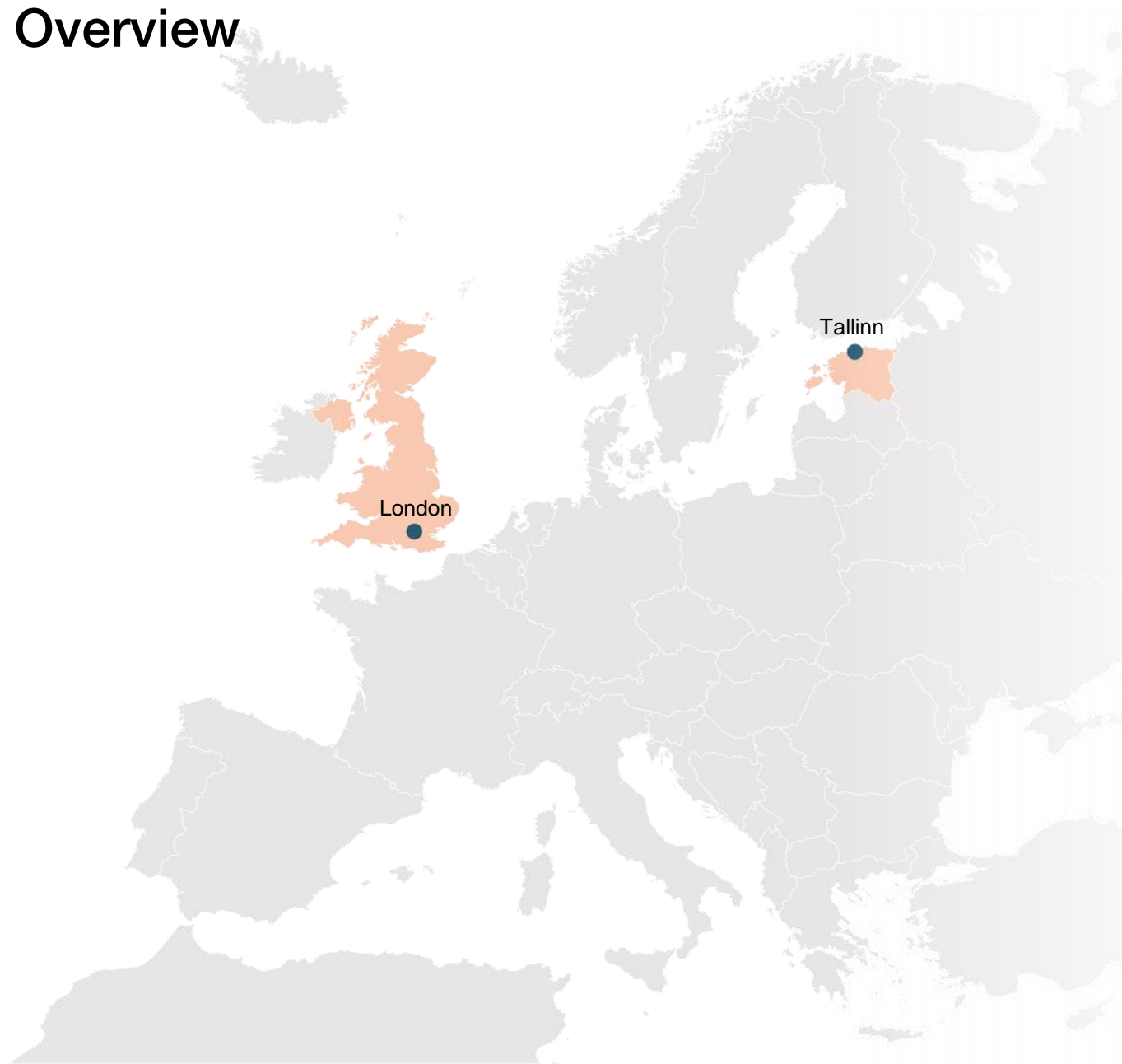
Topics covered

## 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
- ESG responsibility

# LHV home markets

## Overview



## ESTONIA

**Member** of EU, NATO and OECD

**Estonia in different world indexes:**

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

**GDP per capita (2019):**

- 21,300 EUR

**Country rating**

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

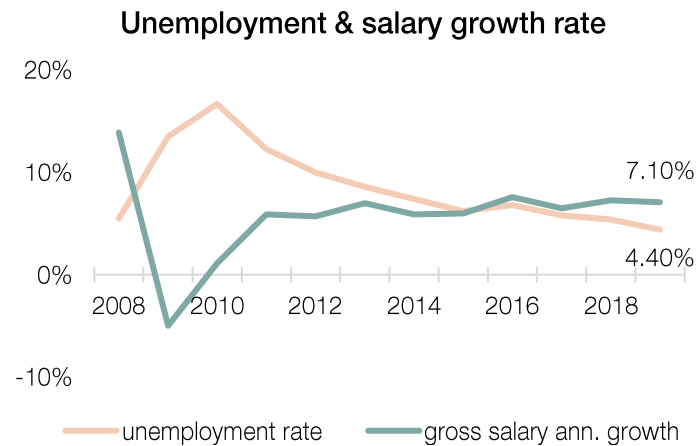
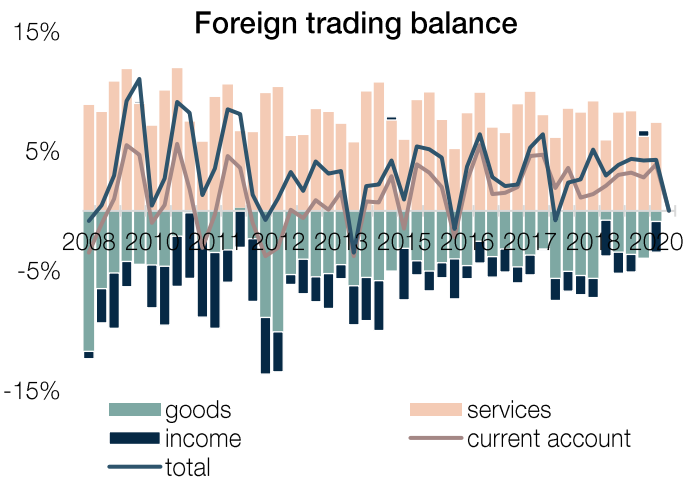
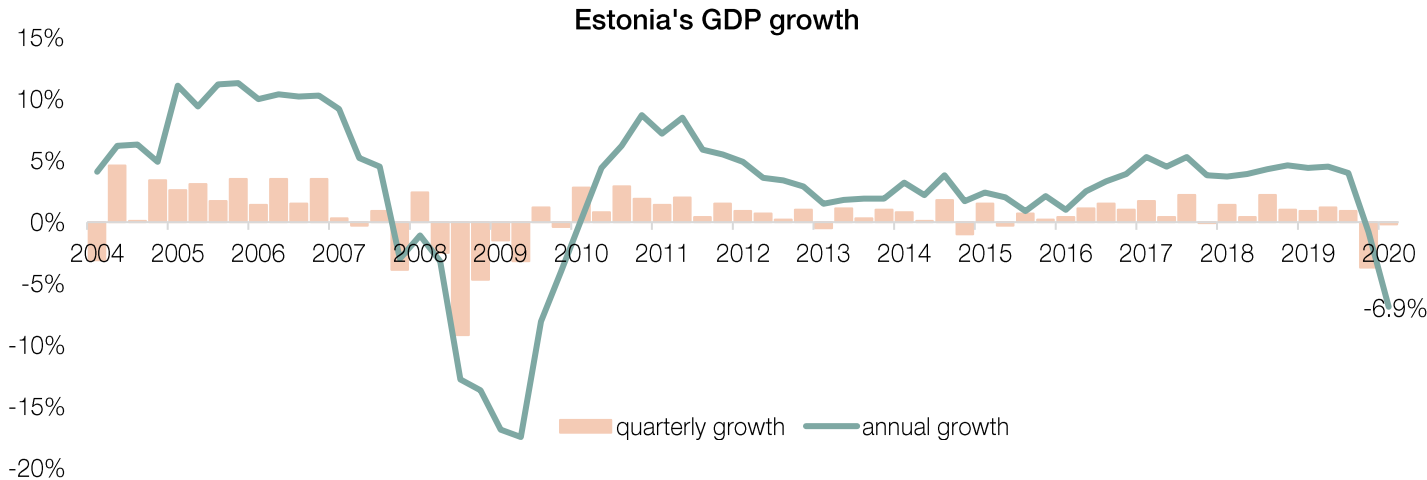
**e-Estonia**

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

# Business environment

# Business environment

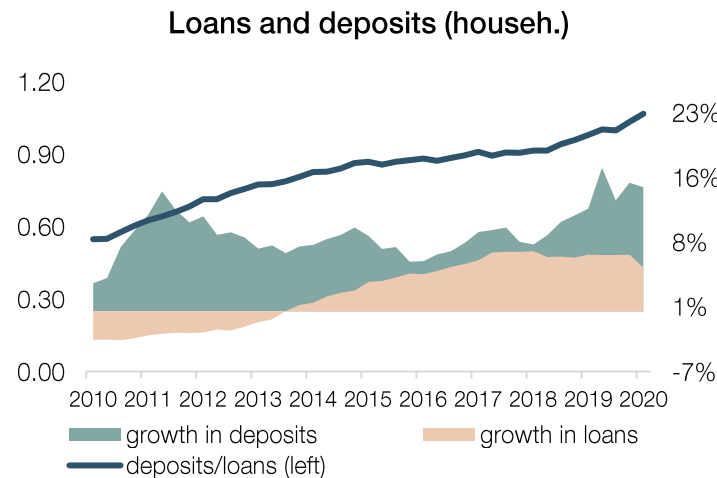
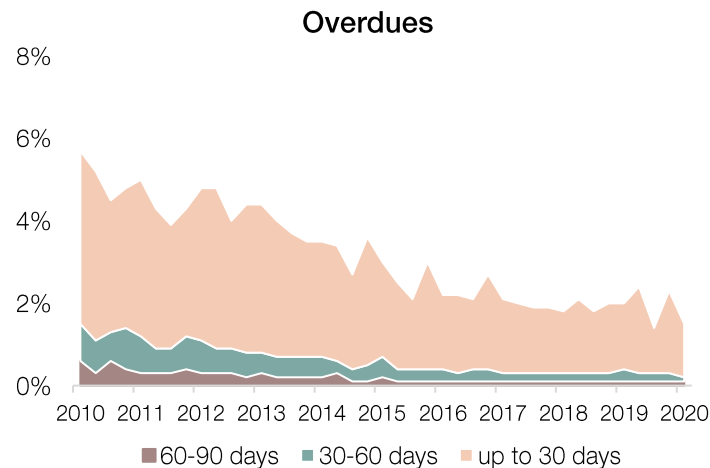
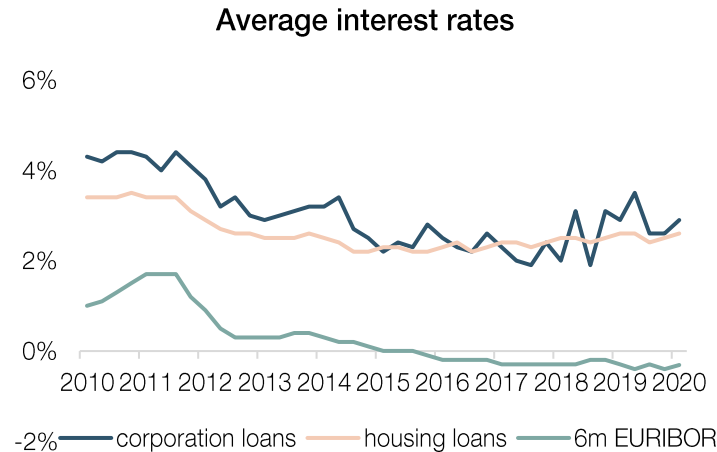
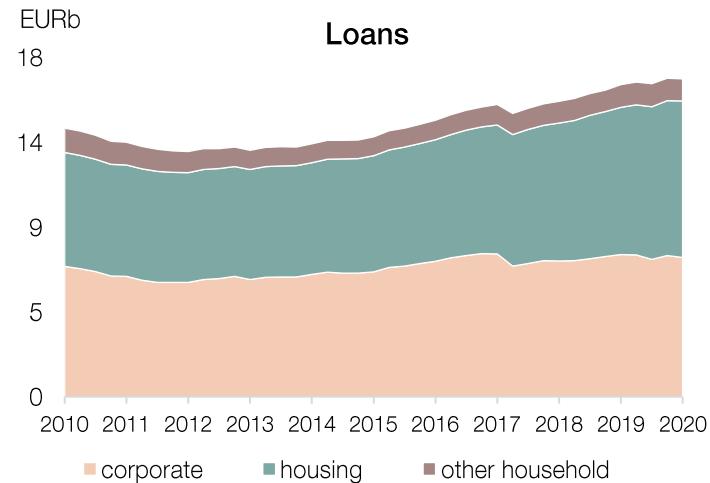
## COVID-19 effects will be offset by an increase in the country's debt level



- COVID-19 will have a significant negative impact on the economy. In the short term, this has led to a recession and a decline in investment and trade
- Estonia is in a good position to recover its economy. The largely balanced budget and foreign trade so far, as well as the low level of public debt, allow for an increase in the country's debt level on favorable terms. The government's fiscal policy is encouraging a good recovery
- The main risks are related to external factors. The economy is open to the growth prospects of trading partners

# Business environment

## Estonia's financial sector indicators are strong

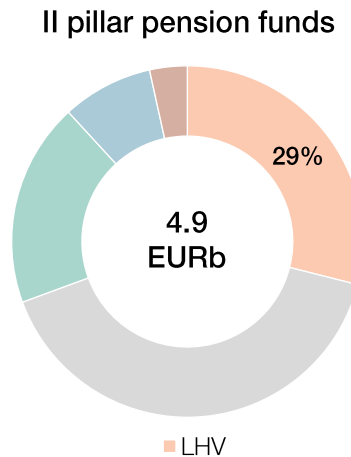
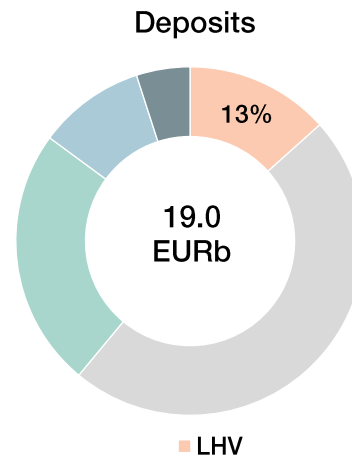
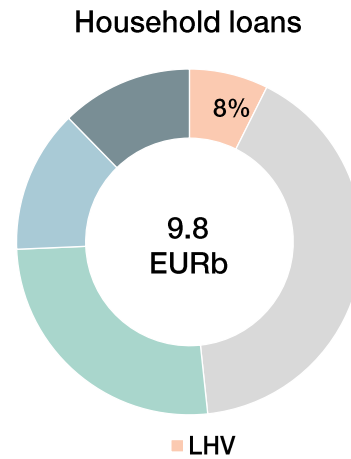
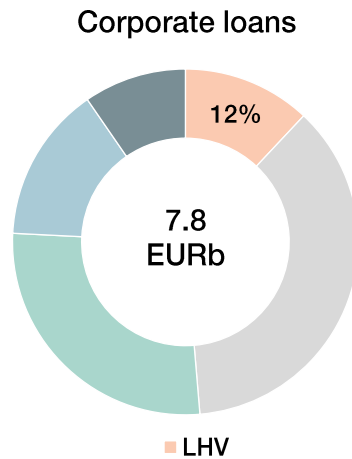


- The loan balance has recovered above previous peaks, with all major loan types growing
- Household financial health has remained strong so far. The growth of deposits has been constantly faster than the growth of loans, the deposit-loan ratio has more than doubled in ten years
- COVID-19 led to increased use of grace periods, with a fifth of businesses and 5% of households using it. In most cases we expect that scheduled payments will resume after grace periods end
- The share of overdue loans is low, long-term debts are largely covered by provisions



# Business environment

## Market share in Estonia as of June 2020

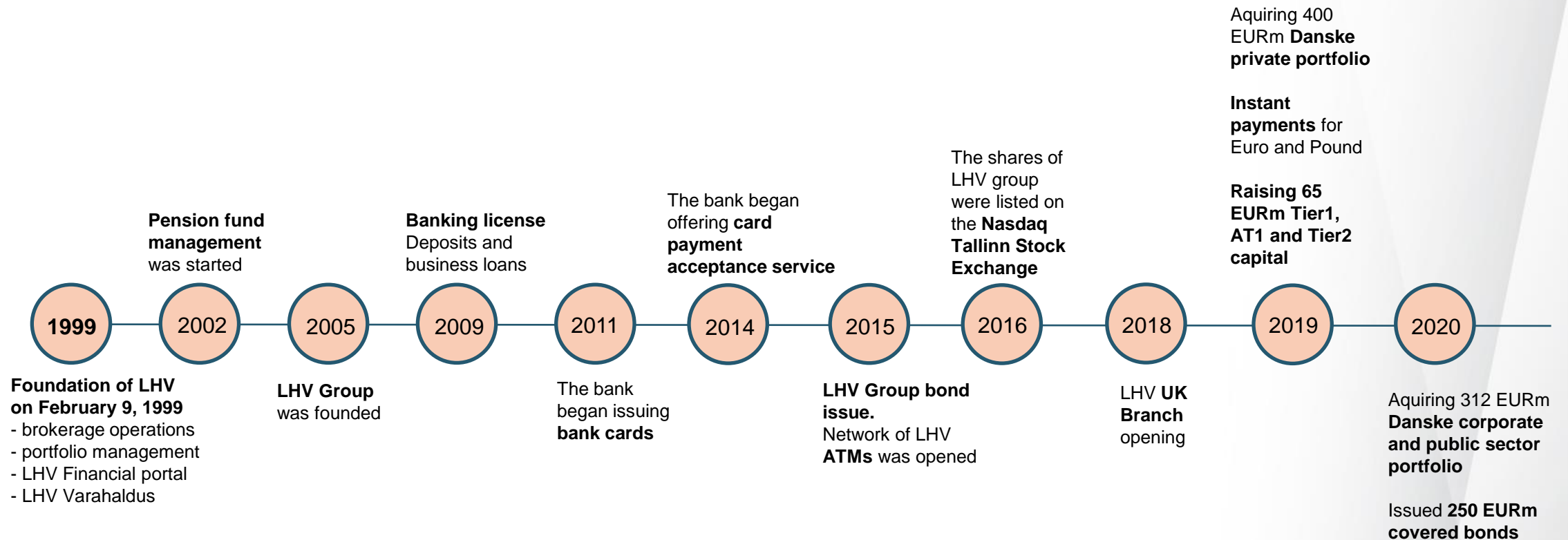


- Market share of deposits has increased rapidly, in the future we expect growth from Estonian companies and private persons. Payment intermediaries' deposits are more volatile
- Market share growth in Pillar II pension funds depends highly on the pension funds performance
- Regarding loans we expect increase that is continuously higher than the market average, however ensuring high quality of the credit portfolio
- Market share of new sales of household loans is 18%. At portfolio level LHV has achieved 8%, after offering home loans for a few years only

# LHV Group – overview

# LHV Group

## Timeline overview



LHV Group

## **LHV Group today**

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

**Most inclusive financial services provider for international financial intermediaries**

Fourth-largest bank in Estonia

Second-largest pension fund manager in Estonia

Ca 5.6 EURb of customer assets, incl.

- 2.7 EURb – customer deposits
- 1.4 EURb – assets under management
- 1.5 EURb – customer securities

LHV Group

## 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

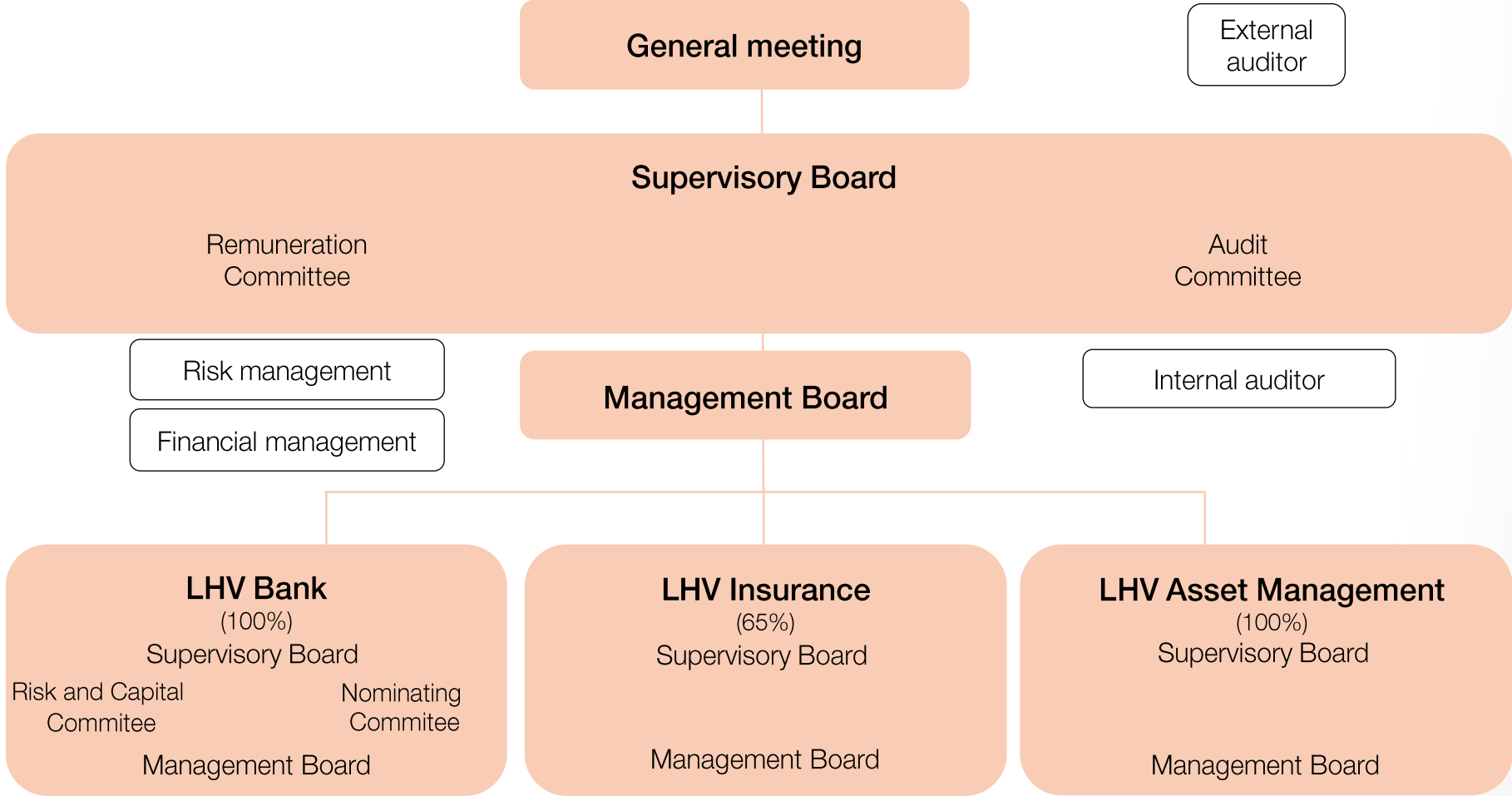
LHV is a publicly traded company. LHV welcomes all customers and partners as owners and investors, inviting them to participate in the effort of building a jointly held business

# LHV Group Structure



# LHV Group

## Corporate governance





# LHV Group

## Supervisory Board



**Rain Lõhmus** is one of the founders of LHV and the chairman of the supervisory board of AS LHV Group. He is a member of the supervisory boards of AS LHV Pank and Kodumaja AS. He is the owner and member of the management board of AS Lõhmus Holding, Lõhmus Capital OÜ and LHV CAPITAL I PTE LTD and the owner of OÜ Merona Systems. Additionally, he is the management board member and one of the owners of Zerospotnrg OÜ and Umblu Records OÜ. Rain Lõhmus graduated from the Tallinn University of Technology (TalTech) and the management program of Harvard Business School



**Andres Viisemann** is one of the founders of LHV and the manager of LHV pension funds. He is a member of the supervisory boards of AS LHV Group, AS LHV Pank and AS LHV Varahaldus. He also belongs to the supervisory boards of AS Fertilitas and Rocca al Mare Kooli SA. He is also the owner and member of the management board of Viisemann Holdings OÜ. Andres Viisemann graduated from the University of Tartu and obtained a Master's degree at INSEAD in International Business Management



**Tiina Mõis** is a member of the supervisory board of AS LHV Group and AS LHV Pank. She also belongs to the supervisory board of Rocca al Mare Kooli SA. She is the owner and management board member of AS Genteel. Tiina Mõis graduated from the Tallinn University of Technology (TalTech)



**Heldur Meerits** is the supervisory board member of AS LHV Group and AS LHV Pank. He is also a member of the supervisory boards of Kodumaja AS and AS Smart City Group and the foundations SA Põltsamaa Ühisgümnaasiumi Toetusfond, SA Dhama and SA Tähelaps. Heldur Meerits is also the owner and a member management board of the companies established for the management of personal economic interests, AS Amalfi and AS Altamira. Heldur Meerits graduated from the Faculty of Economics and Business Administration of the University of Tartu



**Raivo Hein** is a member of the supervisory boards of AS LHV Group and AS LHV Pank. Also, he belongs to the supervisory board of AS Puumarket. He is the owner and a member of management board of OÜ Kakssada Kakskümmend Volti and a management board member of OÜ Saarte Sillad and several other companies established for the management of personal investments. Raivo Hein graduated from the Tallinn University of Technology (TalTech)



**Tauno Tats** is a supervisory board member of AS LHV Group. Also, he is a member of the supervisory boards of EFTEN Kinnisvarafond AS, AS Ecomet Invest and OÜ Eesti Killustik and a member of management board of Ammende Hotell OÜ. He is a management board member and one of the owners at Ambient Sound Investments OÜ as well as a management board member of companies established for the management of investments of the aforementioned companies. Tauno Tats graduated from the Tallinn University of Technology (TalTech)



**Sten Tamkivi** is a supervisory board member of AS LHV Group. He belongs to the supervisory boards of ASI Private Equity AS and Kistler-Ritso Eesti SA. In addition, he is the owner and management board member of Seikatsu OÜ and Osaluste Hellalt Hoidmise OÜ and a management board member of Topia OÜ. Sten Tamkivi graduated from the Stanford University Graduate School of Business

# LHV Group Management



Madis Toomsalu is a member of the management board of AS LHV Group and the chairman of the supervisory boards of AS LHV Pank, AS LHV Varahaldus and AS LHV Kindlustus. He is also member of the management board of MTÜ FinanceEstonia. Madis Toomsalu has obtained a Bachelor's degree in business management from the Tallinn University of Technology (TalTech) in 2009 and a Master's degree in 2011 in public sector finance.

# LHV Group

## Committees

### Audit Committee



**Kristel Aarna** works as CFO of AS TV Play Baltics since 2011. And before that was the chief controller of Swedbank Baltic Banking. Previously she has been the head of financial advisory services at KPMG Baltics AS and worked also at Eesti Pank and CVS Caremark Corporation. She is also the owner and member of the management board of IKA Konsult OÜ. Kristel Aarna has a Bachelor's degree from the Faculty of Economics of the University of Tartu and Master's degree in Business Administration from the Bentley University Graduate School of Business



**Urmas Peiker** works as CFO of AS TV Play Baltics since 2011. And before that was the chief controller of Swedbank Baltic Banking. Previously she has been the head of financial advisory services at KPMG Baltics AS and worked also at Eesti Pank and CVS Caremark Corporation. She is also the owner and member of the management board of IKA Konsult OÜ. Kristel Aarna has a Bachelor's degree from the Faculty of Economics of the University of Tartu and Master's degree in Business Administration from the Bentley University Graduate School of Business



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### Remuneration Committee



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# LHV Group 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 renowned 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

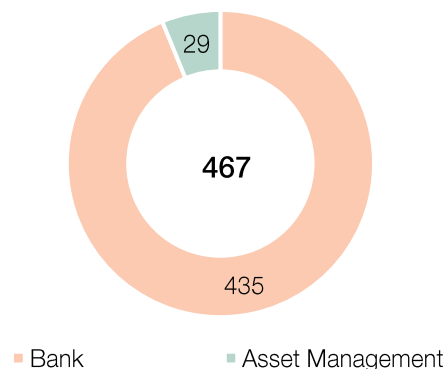


In February of 2019, the Management Board, along with the Audit Committee, organised a competition for selecting an auditor to audit the annual reports for 2020–2022. Within the competition, an invitation was sent to the three largest auditing firms and among the two firms that submitted an offer, the decision was made to select KPMG Baltics OÜ, who was appointed to be the auditor of the Group's companies for the financial years 2020–2022 at the 13 March 2019 annual general meeting of shareholders

# LHV Group

## Employees and motivation

LHV employees 06/2020



### Estonia's Most Desirable Employer 2020

(CV Keskus)

1. Telia Eesti
2. Eesti Energia
3. LHV Pank
4. Transferwise Ltd Eesti filiaal
5. Cleveron
6. Elisa Eesti
7. Swedbank
8. Pipedrive
9. Bolt Technology
10. Playtech Estonia

- 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 from 2016
- In July 2019, share capital increased by 237,594 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 2017	300	5.33	1,458	69
For 2018	511	4.90	2,209	86
For 2019	453	5.96	2,444	106
<b>Total</b>	<b>1,264</b>			

# Investor information

# Investor information

## Share information as of June 30, 2020

### 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	28,819,092

### TOP 5 shareholders:

Name of shareholder	Number of shares (m)	Participation (%)
Rain Lõhmus & related companies	6.7	23.4
Andres Viisemann related companies	2.8	9.7
Ambient Sound Investments OÜ	1.7	5.7
Krenno OÜ	1.2	4.2
Tiina Mõis related companies	1.1	3.8

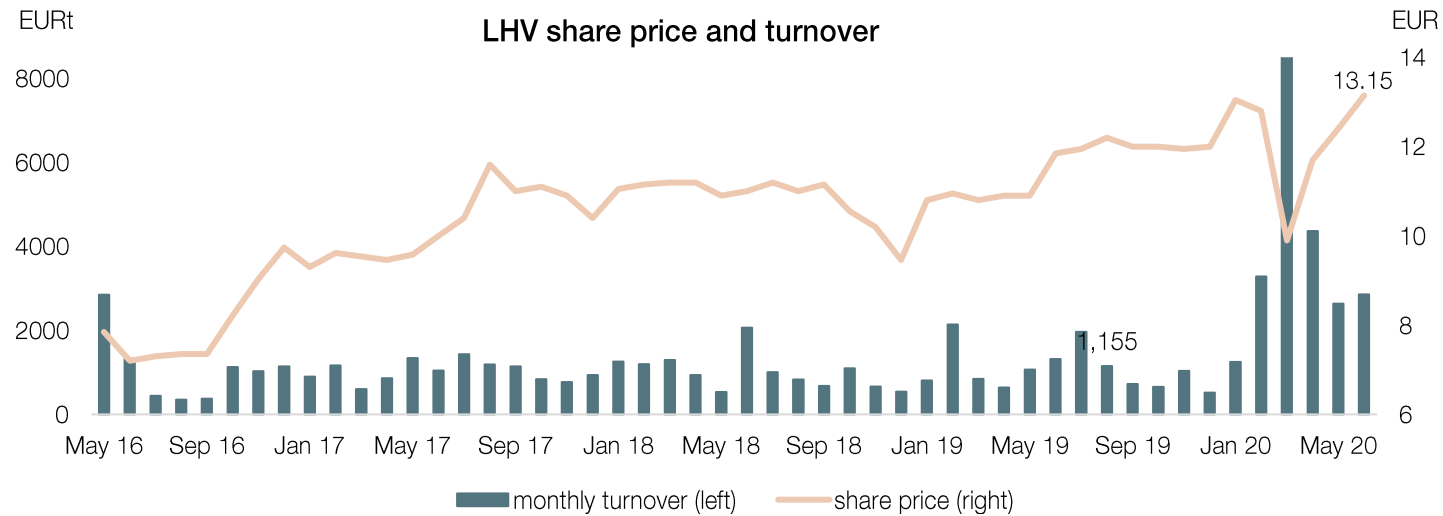


As of June 30, 2020, AS LHV Group had 9,692 shareholders:

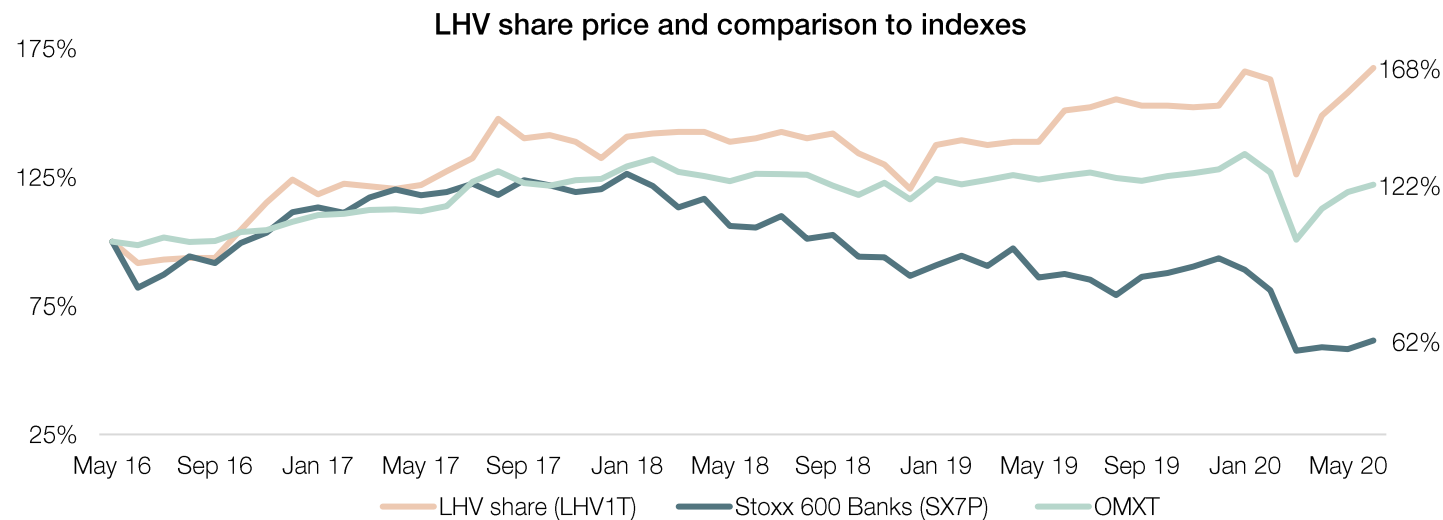
- 48% of shares were held by members of the Supervisory Board and Management Board, and related parties
- 52% of shares were held by Estonian entrepreneurs and investors, and related parties

# Investor information

## Share information



- Closing share price 13.15 EUR in the end of June 2020
- Market capitalization based on closing price of June 30, 2020 is 379 EURm
- 52 weeks range: 9.60 – 14.95 EUR
- 6m 2020: 2 million shares traded with 22,888 trades





# Investor information

## Existing subordinated bonds

### LHV Group 6.50% subordinated bond

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

### LHV Group 8.00% AT1 bond

ISIN	EE3300111780
Total number of securities	200
<b>Nominal value (EUR)</b>	<b>100,000</b>
Issue value (EUR)	20,000,000
Listing date	26.06.2019
Maturity date	unfixed
<b>Coupon rate (annual)</b>	<b>8.00%</b>
Coupon frequency	quarterly

### LHV Group 6.00% subordinated bond

ISIN	EE3300111558
Ticker	LHVB060028A
Total number of securities	40,000
<b>Nominal value (EUR)</b>	<b>1,000</b>
Issue value (EUR)	40,000,000
Listing date	03.12.2018
Maturity date	28.11.2028
<b>Coupon rate (annual)</b>	<b>6.0%</b>
Coupon frequency	quarterly

### LHV Group 9.50% AT1 bond

ISIN	EE3300001668
Total number of securities	150
<b>Nominal value (EUR)</b>	<b>100,000</b>
Issue value (EUR)	15,000,000
Listing date	26.05.2020
Maturity date	unfixed
<b>Coupon rate (annual)</b>	<b>9.50%</b>
Coupon frequency	quarterly

# **New subordinated bond issue and risks**

## Bond issue and risks

# Bonds programme and securities overview

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

ISIN	EE3300001791
Total number of securities	25,000-35,000
Nominal value	1,000 EUR
Issue value	25 – 35 EURm
Listing date	1 October 2020
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

The list of banks and investment firms authorised to operate as custodians who are entitled to accept subscriptions are listed on the website of Nasdaq CSD SE (<https://nasdaqcsd.com/list-of-account-operators/>)

The offering period is 16 – 25 September 2020

- 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
- The prospectus is available on the following web page: <https://investor.lhv.ee/en/bonds/>

# 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**

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 deposit, investing and financing 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 savings will reach to LHV customers through affordable pricing of everyday services

### **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 2020, Euromoney declared LHV the best bank in Estonia third time in a row**

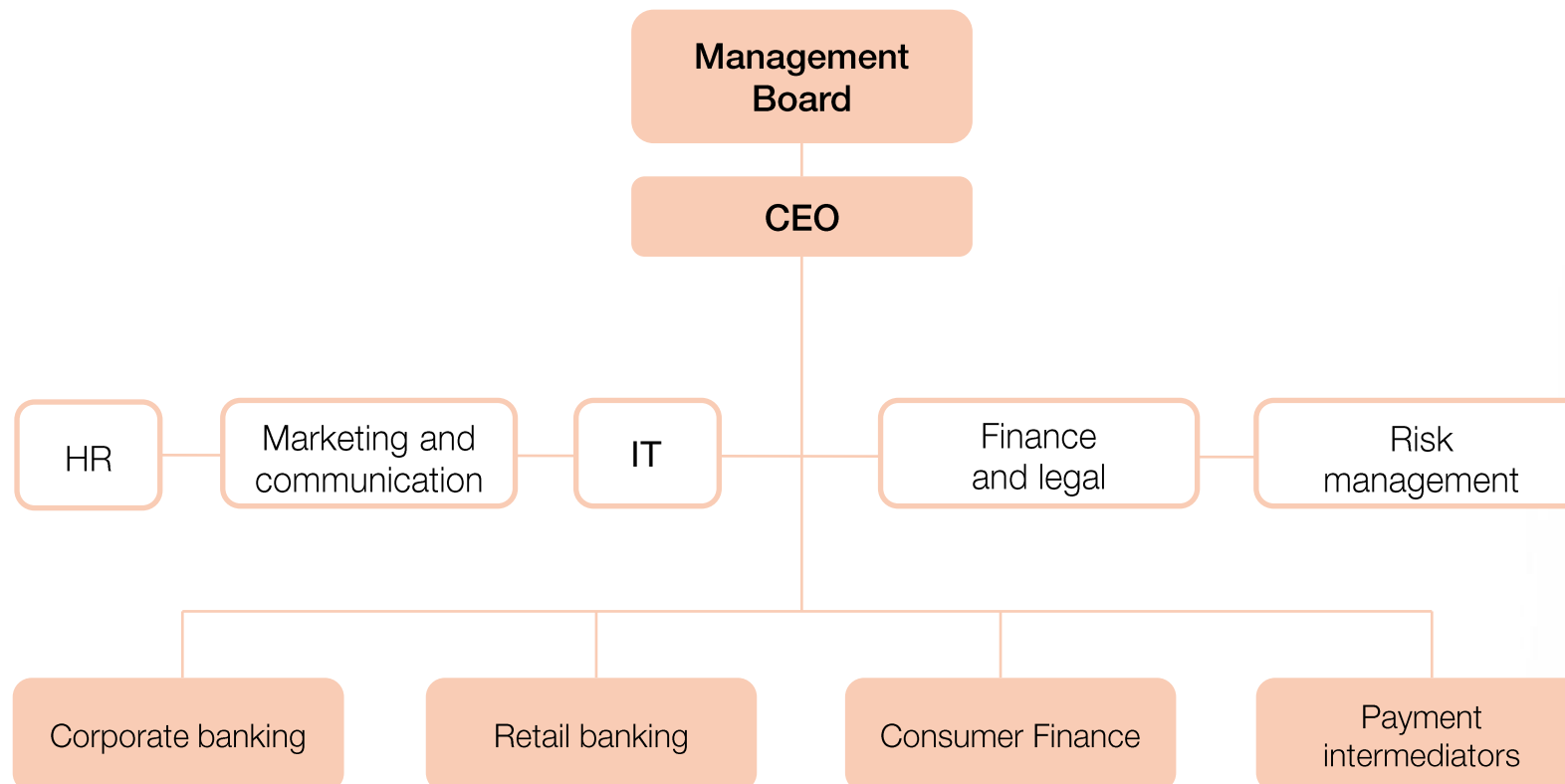
**In January 2019, survey company Dive concluded that LHV is offering the best service in Estonian banking**



**LHV**

# 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

## Committees

### Risk and Capital Committee



**Rain Lõhmus** is one of the founders of LHV and the chairman of the supervisory board of AS LHV Group. He is a member of the supervisory board of AS LHV Pank. In addition, he belongs to the supervisory boards of AS Arco Vara, Kodumaja AS and Thermory AS. He is the owner and member of the management board of AS Lõhmus Holding and the owner of OÜ Merona Systems. Additionally, he is the management board member and one of the owners of Zerospotnrg OÜ and Umblu Records OÜ. Rain Lõhmus graduated from the Tallinn University of Technology (TalTech) and the management program of Harvard Business School



**Andres Viisemann** is one of the founders of LHV and the manager of LHV pension funds. He is a member of the supervisory boards of AS LHV Group, AS LHV Pank and AS LHV Varahaldus. He also belongs to the supervisory boards of AS Fertilitas and Rocca al Mare Kooli SA. He is also the owner and member of the management board of Viisemann Holdings OÜ. Andres Viisemann graduated from the University of Tartu and obtained a Master's degree at INSEAD in International Business Management



**Tiina Mõis** is a member of the supervisory board of AS LHV Group and AS LHV Pank. She also belongs to the supervisory boards of AS Baltika and Rocca al Mare Kooli SA. She is the owner and management board member of AS Genteel. Tiina Mõis graduated from the Tallinn University of Technology (TalTech)



**Madis Toomsalu** is a member of the management board of AS LHV Group and the chairman of the supervisory boards of AS LHV Pank , AS LHV Varahaldus and AS LHV Kindlustus. He is also member of the management board of MTÜ FinanceEstonia. Madis Toomsalu has obtained a Bachelor's degree in business management from the Tallinn University of Technology (TalTech) in 2009 and a Master's degree in 2011 in public sector finance

### Nominating Committee



**Madis Toomsalu** is a member of the management board of AS LHV Group and the chairman of the supervisory boards of AS LHV Pank , AS LHV Varahaldus and AS LHV Kindlustus. He is also member of the management board of MTÜ FinanceEstonia. Madis Toomsalu has obtained a Bachelor's degree in business management from the Tallinn University of Technology (TalTech) in 2009 and a Master's degree in 2011 in public sector finance



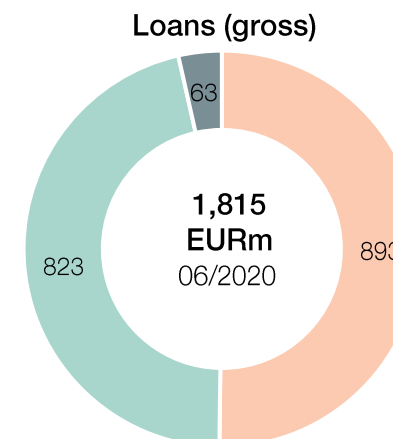
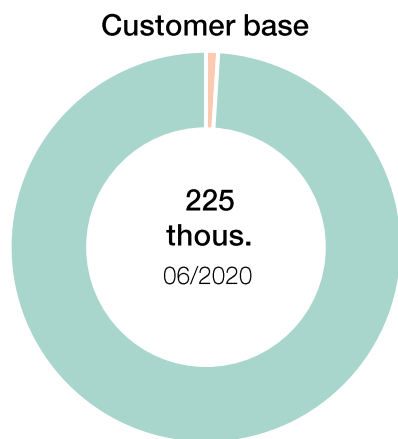
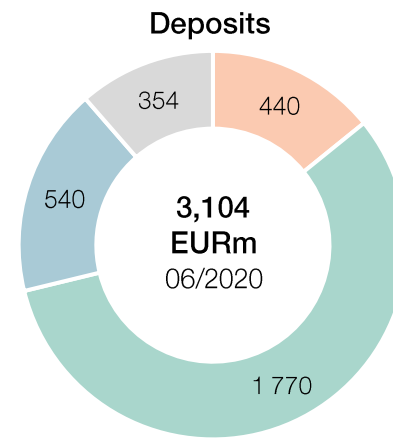
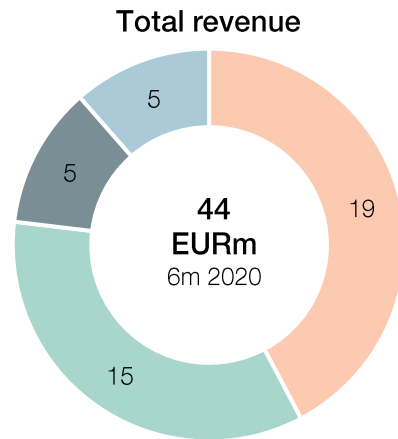
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# LHV Bank

## Business volumes

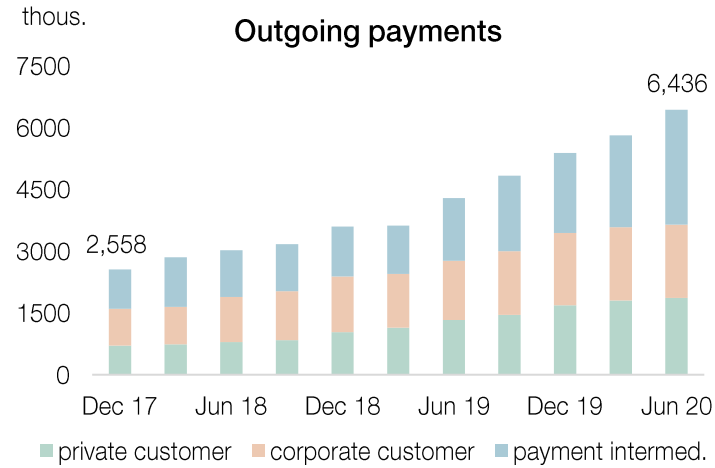
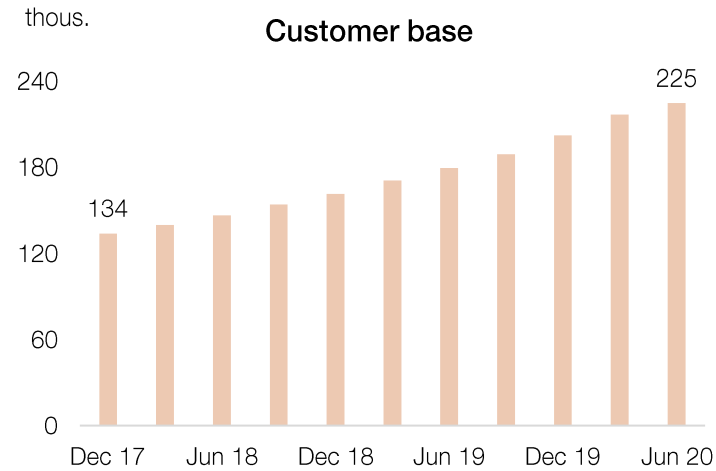


■ Corporate banking ■ Retail banking ■ Consumer Finance ■ Payment intermediators

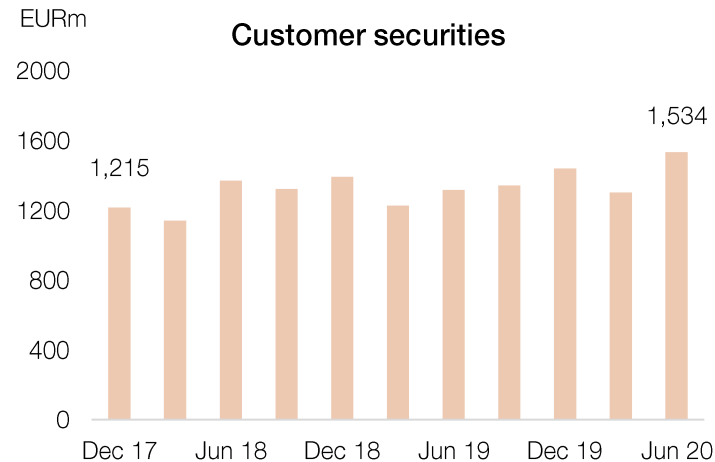
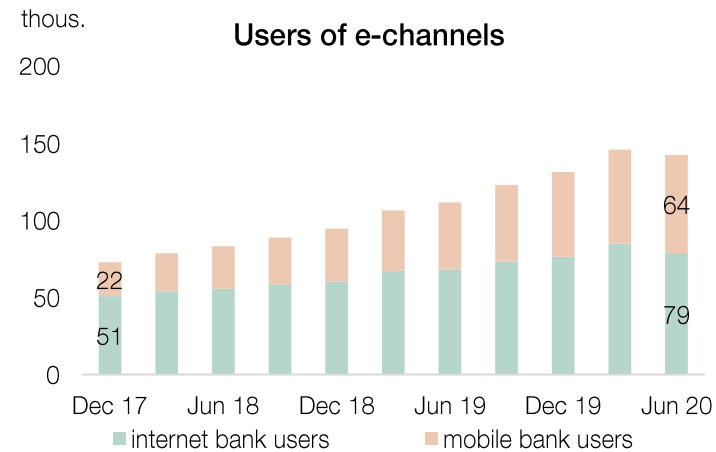
- Bank is deposit funded mainly through current account deposits from retail bank and in smaller extent through term deposits through deposit platforms. Payment intermediators' deposits are not used for financing loan portfolio
- Bank started with mortgages only 3 years ago.
- Corporate banking has been mainly based on lending
- Revenues have solid distribution between different business lines

# LHV Bank

## Business volumes

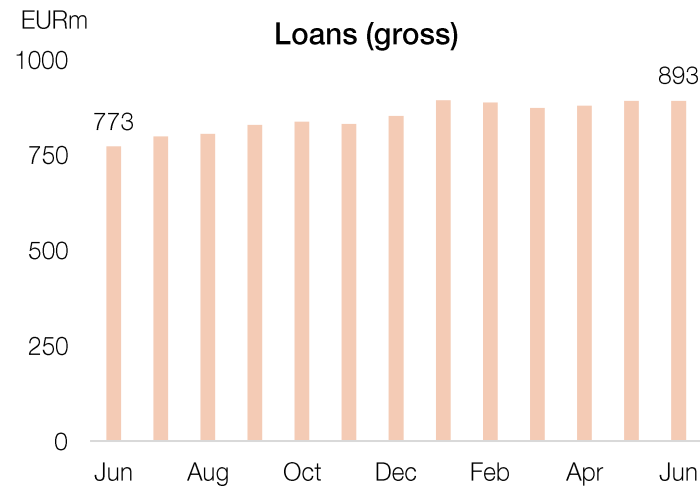
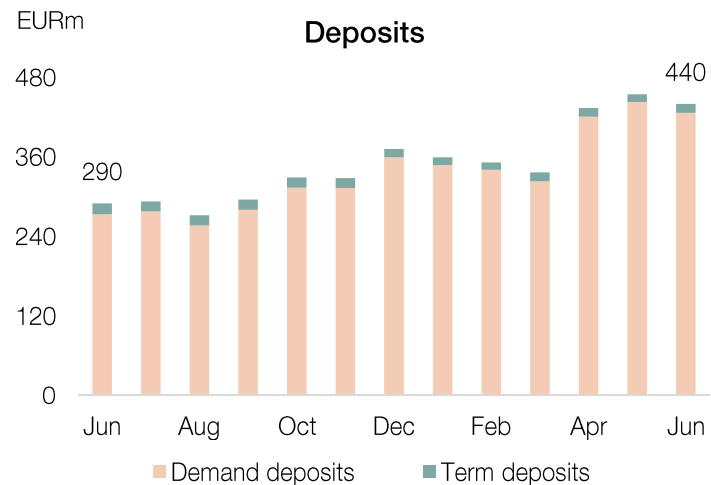


- Bank's business has been growing years with solid speed
- Customer base doubled in three years, same with share of active customers
- Payments volume has increased 2.5 times in same time period



# LHV Bank

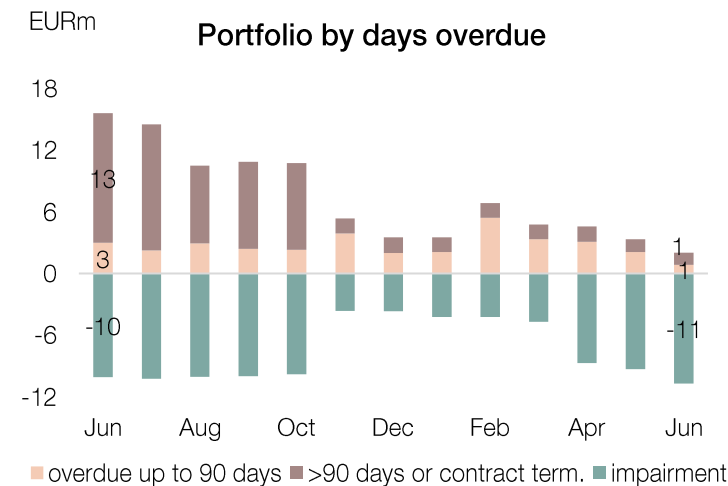
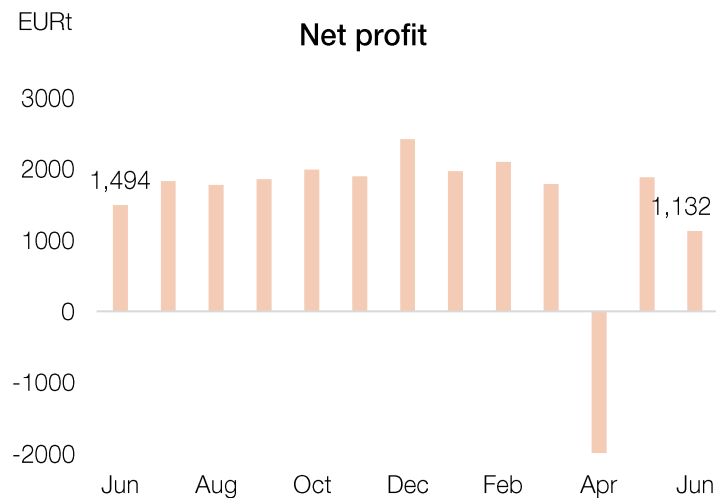
## Corporate banking



- Corporate banking loans have been growing fast. The portfolio diversification has steadily been growing

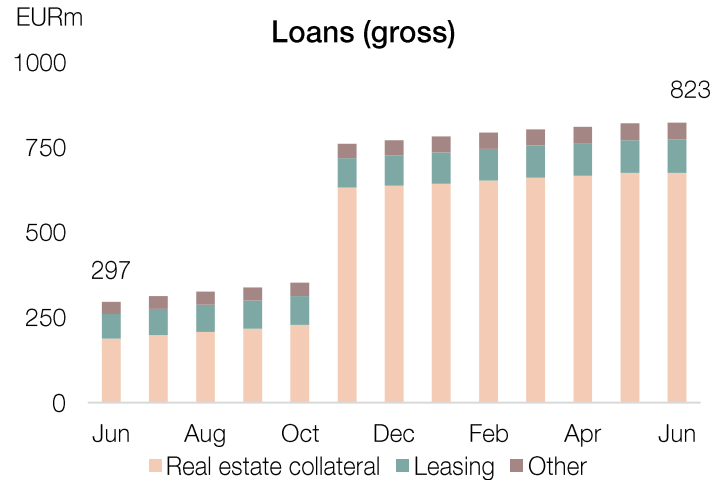
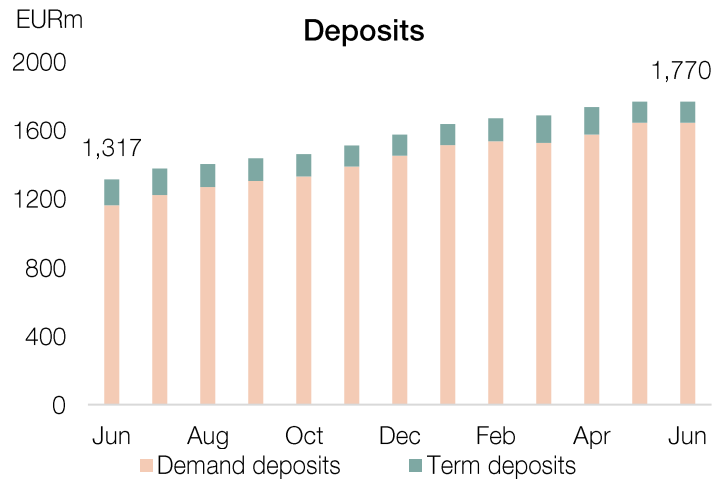
- Corporate deposits are growing, but volatility remains high due to some larger transactions

- Profitability fluctuations are due to irregular incomes from institutional banking or credit impairments

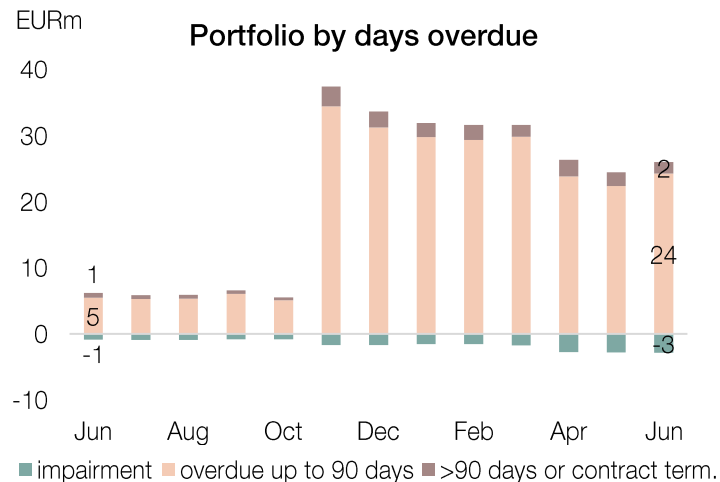
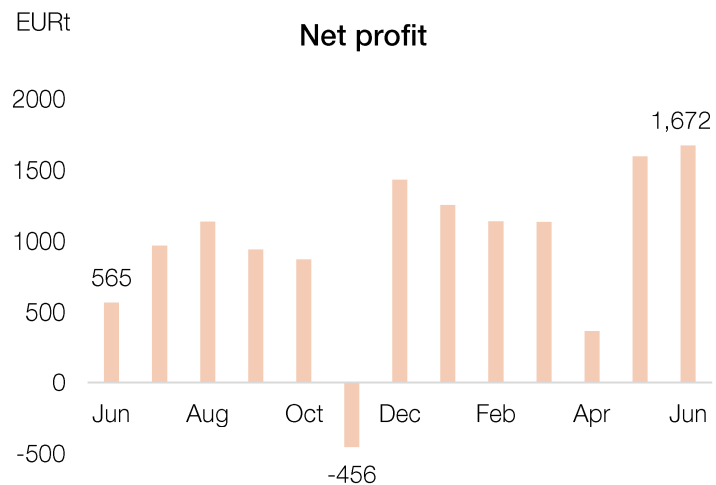


# LHV Bank

## Retail banking

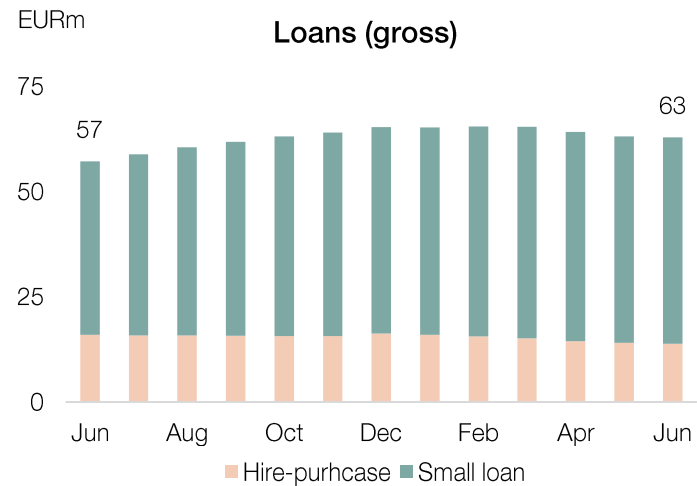
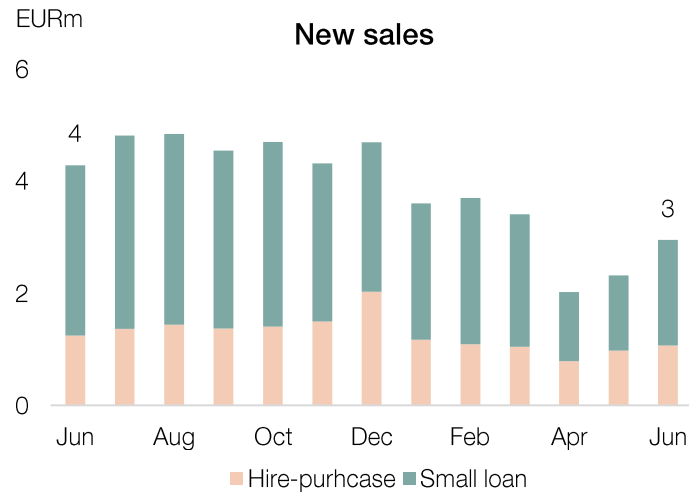


- Both deposits and loans are increasing along with number of customers
- Share of active customers is growing
- Largest growing loan portfolio is mortgages

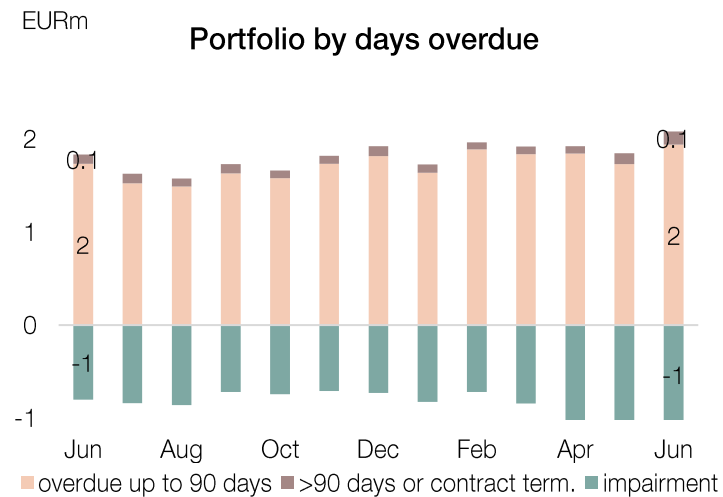
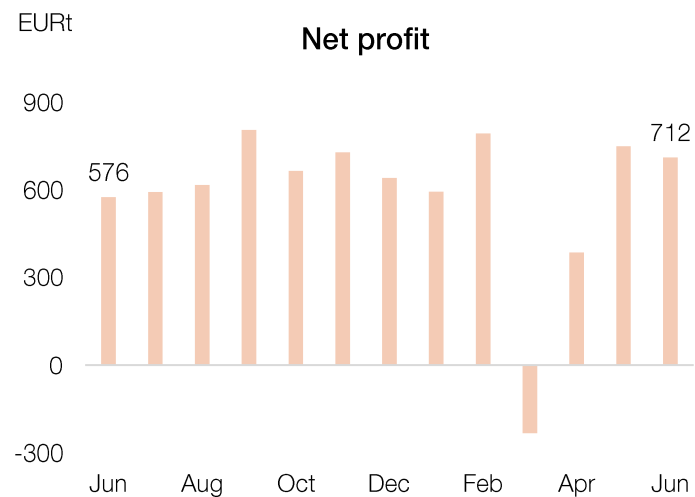


# LHV Bank

## Consumer finance

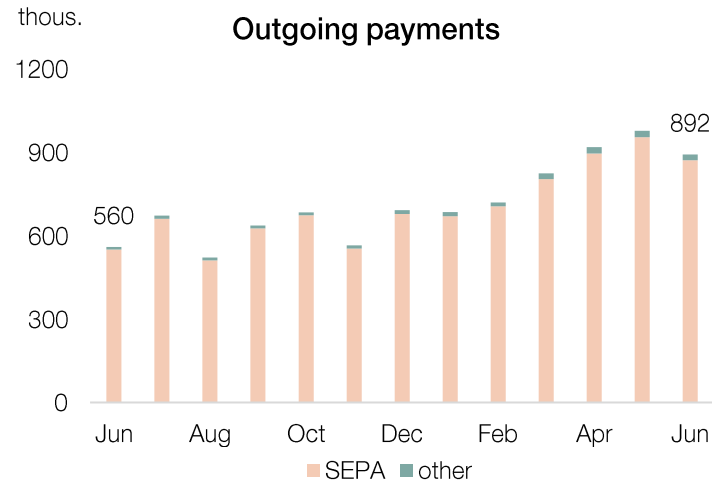
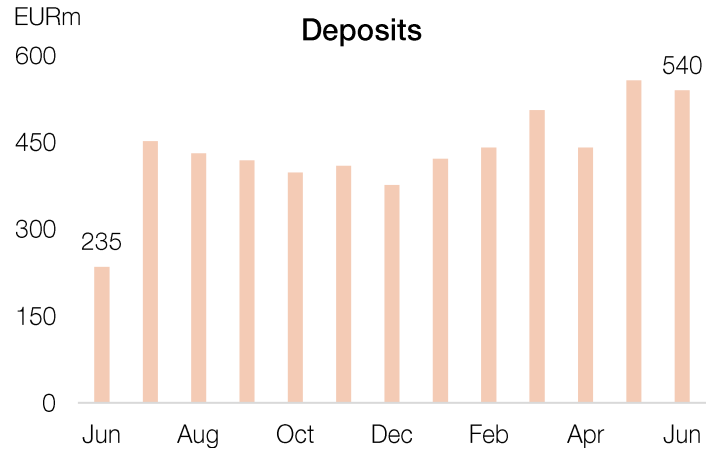


- Consumer finance is carried out by LHV Finance, which is the subsidiary of LHV Bank
- Portfolio is increasing mainly due to different consumer loan products
- Credit quality of the portfolio is very good
- LHV Finance is paying dividends that also generate corporate income tax expense

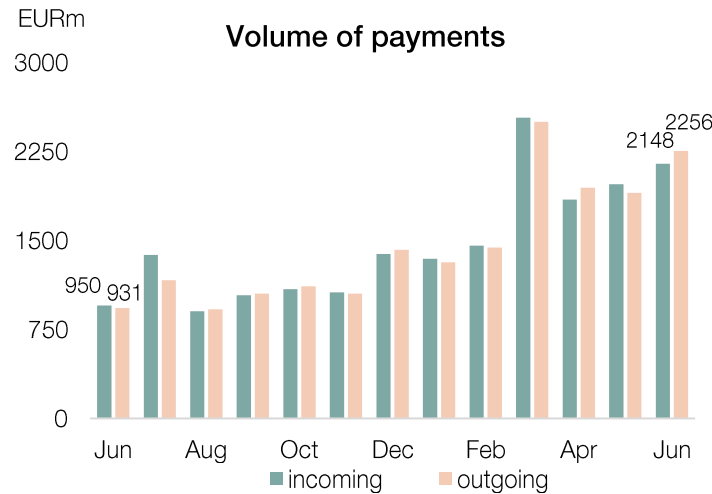
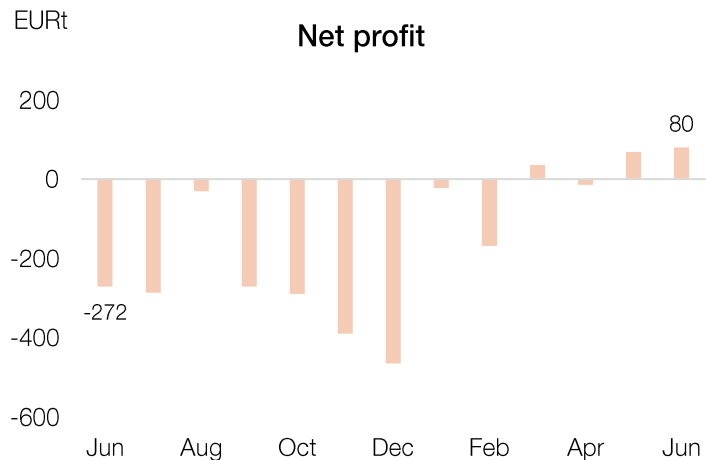


# LHV Bank

## 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





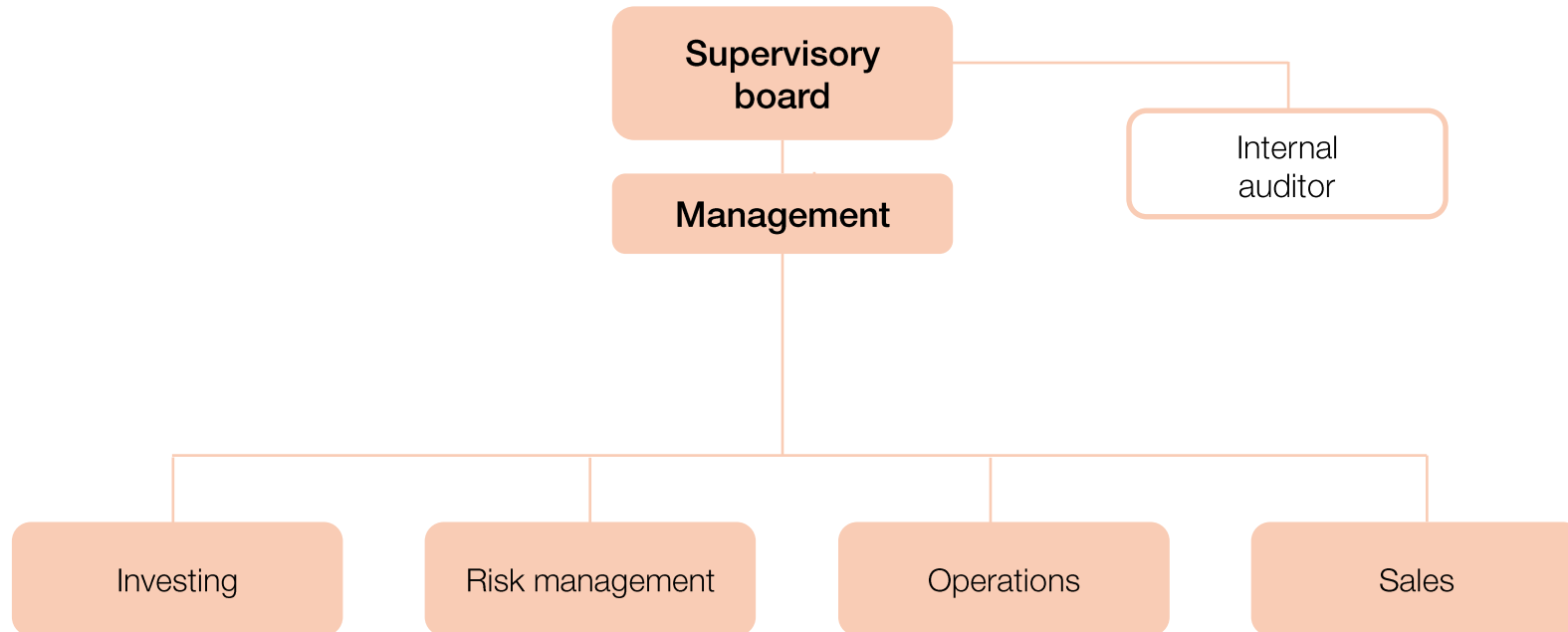
# LHV Asset Management

# 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)
- LHV Varahaldus is the second largest fund management company in Estonia based on the volume of managed funds
- As of June 2020, LHV Varahaldus has 195 thousand pension fund customers

# LHV Asset Management Structure



# LHV Asset Management Management



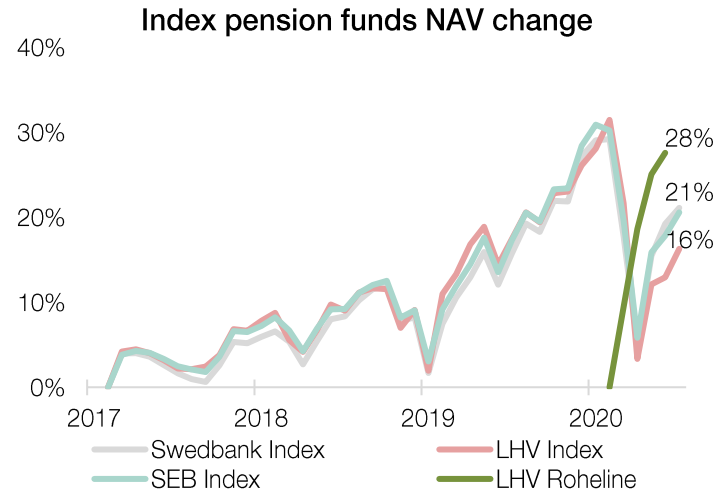
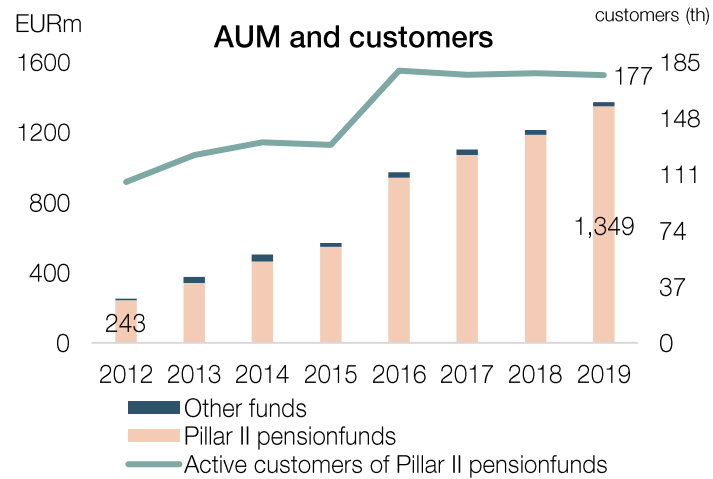
**Vahur Vallistu** is the Chairman of the Management Board of LHV Asset Management since June 2019. Before assuming his current position, he worked in Project Financing department at Swedbank. Vahur Vallistu graduated from the Stockholm School of Economics in Riga in 2011 with a degree in Economics and Business Management. In 2019, Vahur Vallistu graduated from the University of Tartu with an MBA degree in Business and Technology Management. Vahur Vallistu is CFA® (Chartered Financial Analyst) charterholder and member of Supervisory Board of SA Haridussõprade toetusfond



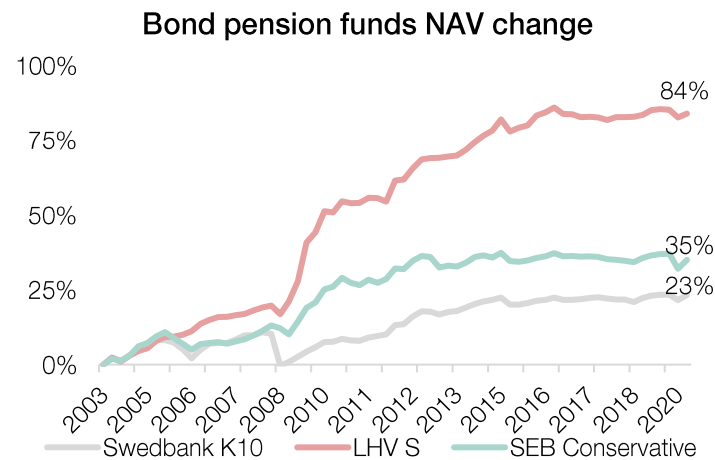
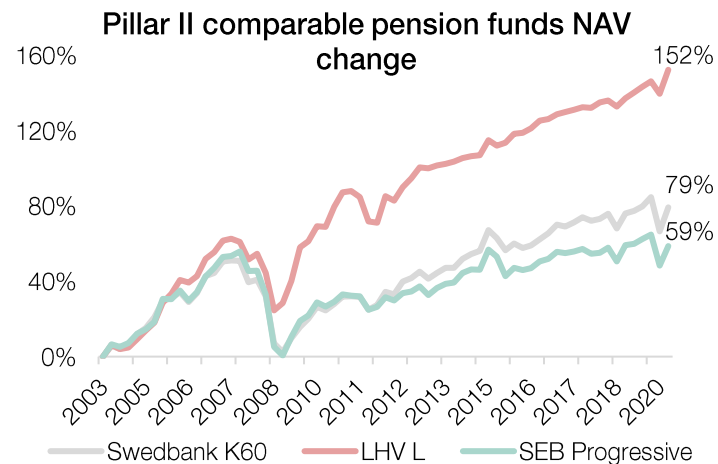
**Joel Kukemelk** is a Member of the Management Board of LHV Asset Management, Fund Manager of LHV Pension Fund Index and LHV Pension Fund Index. In 2010, he acquired cum laude Master's degree from the University of Tartu in Economics. Since 2016 Joel Kukemelk is a CFA® (Chartered Financial Analyst) 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

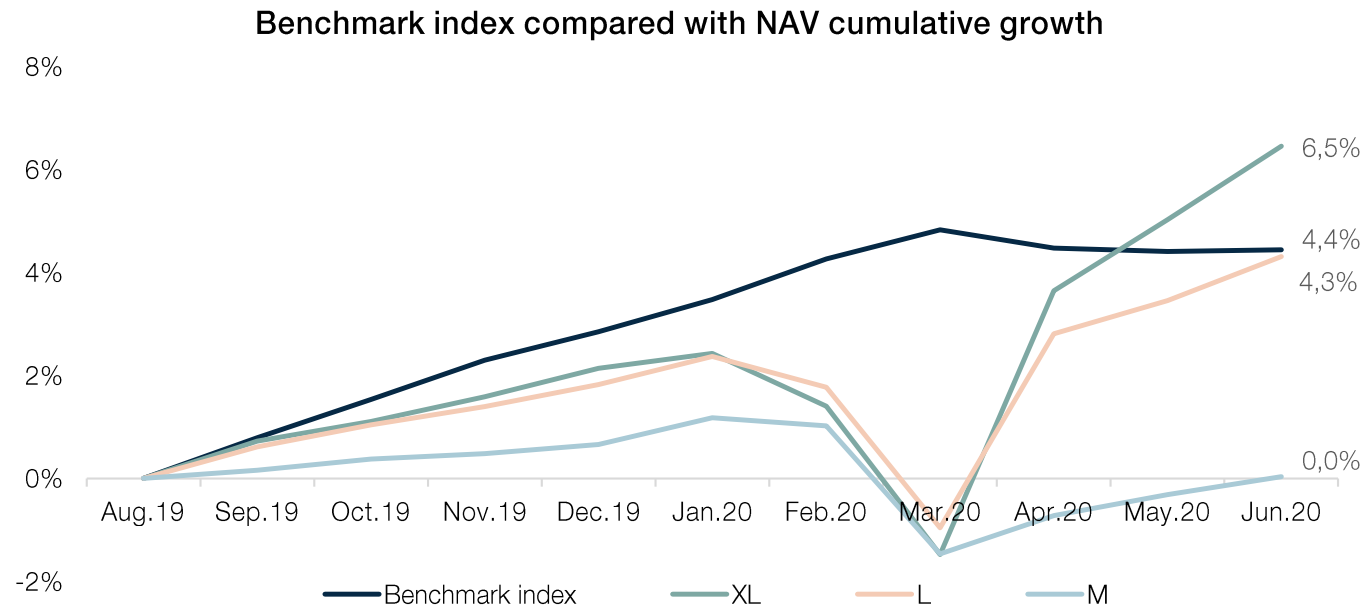


- LHV pension funds are market leaders in terms of long-term returns
- LHV funds invest the most locally and into alternatives
- LHV merged with Danske Capital (Estonia) in 2016
- AUM has increased by 11% YoY. Funded pension system is relatively young in Estonia and experiencing a moderate growth rate
- The reform of the II pillar system will affect the volume of funds in coming years



# LHV Asset Management

## Performance of actively managed funds against a benchmark index



- The rapid growth of the benchmark index of the success fee declined in April and has remained since close to 4.5%
- XL outperformed the benchmark index by more than 2% at the end of June, while L was only 0.1% behind
- Social tax collection has turned out to be higher than expected in the beginning of third quarter, but is still below fund returns

# 5 year financial results

## Business volumes have multiplied in past 5 years

Financial results, EURt	2015	2016	2017	2018	2019	
<b>Total income, incl.</b>	<b>41,265</b>	<b>50,558</b>	<b>58,523</b>	<b>70,024</b>	<b>73,818</b>	<b>16%</b>
Net interest income	23,232	29,976	35,502	39,770	47,388	
Net fee and commission	14,665	19,186	22,180	26,002	25,677	
<b>Total expenses</b>	<b>24,241</b>	<b>28,914</b>	<b>31,945</b>	<b>33,807</b>	<b>39,266</b>	<b>13%</b>
<b>Operating profit</b>	<b>17,024</b>	<b>21,644</b>	<b>26,578</b>	<b>36,217</b>	<b>34,552</b>	
Impairment losses on loans	1,367	1,480	3,154	5,269	3,209	
<b>Earnings before taxes</b>	<b>15,656</b>	<b>20,164</b>	<b>23,424</b>	<b>30,947</b>	<b>31,342</b>	
<b>Income tax expense</b>	<b>869</b>	<b>270</b>	<b>1,248</b>	<b>3,758</b>	<b>4,250</b>	
<b>Net profit, incl.</b>	<b>14,787</b>	<b>19,894</b>	<b>22,176</b>	<b>27,190</b>	<b>27,092</b>	<b>16%</b>
attr. to shareholders	13,705	17,816	19,601	25,237	24,797	
<b>Business volumes, EURt</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	
Deposits	617	777	1,537	1,422	2,701	
Loans (net)	410	538	732	919	1,687	
Assets under management	570	974	1,103	1,214	1,374	
<b>Key figures</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	
Cost / income ratio (C/I)	58.7%	57.2%	54.6%	48.3%	53.2%	
pre-tax ROE*	22.9%	20.8%	18.6%	20.9%	16.2%	
ROE*	21.8%	20.7%	17.6%	18.4%	14.0%	
CT1 capital adequacy	16.0%	15.1%	14.0%	13.6%	13.9%	
Total capital adequacy	23.4%	20.7%	18.3%	19.4%	18.0%	

- Both deposits and loans have more than quadrupled in the past five years. Funds volume has more than doubled
- 5y average increase in revenues 16% and expenses 13%
- In 2019, record growth in loans and regular customer deposits. Record volumes in pension funds and private banking. Customer activity at all time high
- Group lending activity has been conservatively financed by deposits. Amount of deposits exceeds amount of loans by 1 EURb
- Pre-tax ROEs in 2019 were impacted by non-recurring costs related to Danske deal

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



# Financial plan 2020

## Slight increase of business volumes, strength of the main business lines adds confidence

Financial results, EURt	Updated FP2020	2019	Δ YoY	Δ %
<b>Total revenue, incl.</b>	<b>87,316</b>	<b>73,818</b>	<b>+13,498</b>	<b>+18%</b>
Net interest income	62,888	47,388	+15,501	+33%
Net fee and commission income	24,306	25,677	-1,371	-5%
<b>Total operating expenses</b>	<b>44,773</b>	<b>39,266</b>	<b>+5,507</b>	<b>+14%</b>
<b>Earnings before impairment</b>	<b>42,542</b>	<b>34,552</b>	<b>+7,991</b>	<b>+23%</b>
Impairment losses on loans	19,357	3,209	+16,148	+503%
<b>Earnings before taxes</b>	<b>23,185</b>	<b>31,342</b>	<b>-8,157</b>	<b>-26%</b>
Income tax expense	3,954	4,250	-296	-7%
<b>Net profit, incl.</b>	<b>19,231</b>	<b>27,092</b>	<b>-7,862</b>	<b>-29%</b>
attr. to shareholders	17,586	24,797	-7,211	-29%

Business volumes, EURm	Updated FP2020	2019	Δ YoY	
Deposits from customers	2,985	2,701	+284	+11%
Loans (net)	1,806	1,687	+119	+7%
Assets under management	1,454	1,374	+80	+6%

Key figures	Updated FP2020	2019	Δ YoY
Cost / Income ratio (C/I)	51.3%	53.2%	- 1.9 pp
pre-tax ROE*	10.2%	16.2%	- 6.1 pp
ROE*	8.4%	14.0%	- 5.6 pp
T1 capital adequacy	13.9%	13.9%	- 0.0 pp
Total capital adequacy	17.6%	18.0%	- 0.4 pp

- Business volumes will continue to grow compared to 2019, but growth will be lower than previously planned
- Growth of business volumes ensures the growth of revenues. Both revenues and expenses are lower than previously planned, mostly due to the smaller loan portfolio
- Loan provisions increase significantly, largest losses planned in Q2. The most challenging income statement line to predict
- Financial plan does not include extraordinary income. Success fee of LHV Asset Management is not planned for 2020
- Net profit 19.2 EURm, -7.9 EURm compared with 2019 and -16.7 EURm compared with previous financial plan
- Pre-tax ROE 10.2%
- Capital adequacy and liquidity levels are strong

# Financial results 6m 2020

# LHV Group – comparison with financial plan

## Net profit exceeds financial plan by +3.2 EURm

Financial results, EURt	9 quarters	Q2-20	YTD20	YTD19	FP YTD	Δ FP
Net interest income		15,545	31,868	22,573	31,625	+244
Net fee and commission income		6,188	12,696	12,838	12,066	+630
Other income		305	-48	373	-118	+70
<b>Total revenue</b>		<b>22,039</b>	<b>44,516</b>	<b>35,784</b>	<b>43,573</b>	<b>+944</b>
<b>Total expenses</b>		<b>10,661</b>	<b>21,835</b>	<b>18,508</b>	<b>22,214</b>	<b>-379</b>
<b>Earnings before impairment</b>		<b>11,378</b>	<b>22,681</b>	<b>17,276</b>	<b>21,359</b>	<b>+1,322</b>
Impairment losses on loans		7,672	8,683	1,649	10,704	-2,021
Income tax expense		156	2,964	2,963	2,803	+162
<b>Net income</b>		<b>3,550</b>	<b>11,034</b>	<b>12,665</b>	<b>7,852</b>	<b>+3,182</b>
attr. to the owners of the parent		2,935	10,014	11,788	7,088	+2,926
<b>Business volumes, EURm</b>	<b>9 quarters</b>	<b>Q2-20</b>	<b>YTD20</b>	<b>YTD19</b>	<b>FP YTD</b>	<b>Δ 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>9 quarters</b>	<b>Q2-20</b>	<b>YTD20</b>	<b>YTD19</b>	<b>FP YTD</b>	<b>Δ FP</b>
Cost / income ratio (C/I)		48.4%	49.0%	51.7%	51.0%	- 1.9 pp
pre-tax ROE*		6.0%	12.4%	18.4%	9.5%	+ 2.9 pp
ROE*		5.7%	9.8%	15.0%	7.0%	+ 2.8 pp
T1		15.4%	15.4%	14.0%	14.1%	+ 1.3 pp
CAD		19.3%	19.3%	19.2%	17.9%	+ 1.4 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

# LHV Bank – comparison with financial plan

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

Financial results, EURt	9 quarters	Q2-20	YTD20	YTD19	FP YTD	Δ FP
Net interest income		15,541	31,789	23,081	31,539	+250
Net fee and commission income		4,089	8,422	5,712	7,844	+579
Other income		-184	-219	155	100	-319
<b>Total revenue</b>		<b>19,446</b>	<b>39,993</b>	<b>28,948</b>	<b>39,483</b>	<b>+510</b>
<b>Total expenses</b>		<b>8,814</b>	<b>18,246</b>	<b>15,250</b>	<b>18,789</b>	<b>-544</b>
<b>Earnings before impairments</b>		<b>10,632</b>	<b>21,747</b>	<b>13,698</b>	<b>20,694</b>	<b>+1,053</b>
Impairment losses on loans		7,672	8,683	1,649	10,704	-2,021
Income tax expense		156	2,120	1,990	1,958	+162
<b>Net income</b>		<b>2,805</b>	<b>10,944</b>	<b>10,059</b>	<b>8,031</b>	<b>+2,913</b>
attr. to the owners of the parent		<b>2,158</b>	<b>9,893</b>	<b>9,182</b>	<b>7,267</b>	<b>+2,626</b>
<b>Business volumes, EURm</b>	<b>9 quarters</b>	<b>Q2-20</b>	<b>YTD20</b>	<b>YTD19</b>	<b>FP YTD</b>	<b>Δ 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
Customers, thous.		249	249	208		
<b>Key figures</b>	<b>9 quarters</b>	<b>Q2-20</b>	<b>YTD20</b>	<b>YTD19</b>	<b>FP YTD</b>	<b>Δ FP</b>
Cost / income ratio (C/I)		45.3%	45.6%	52.7%	47.6%	- 2.0 pp
pre-tax ROE*		5.2%	13.6%	16.7%	10.4%	+ 3.1 pp
ROE*		4.8%	11.4%	14.1%	8.5%	+ 3.0 pp
T1		14.7%	14.7%	14.8%	13.9%	+ 0.8 pp
CAD		18.2%	18.2%	18.9%	17.4%	+ 0.8 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

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

# LHV Asset Management – comparison with financial plan

## Net profit exceeds financial plan by +0.3 EURm

Financial results, EURt	9 quarters	Q2-20	YTD20	YTD19	FP YTD	Δ FP
<b>Total revenue</b>		2,100	4,273	7,126	4,222	+51
<b>Total expenses</b>		1,595	3,160	2,993	3,035	+125
<b>EBIT</b>		505	1,113	4,133	1,187	-74
Net financial income		481	154	182	-244	+399
Income tax expense		0	844	972	844	+0
<b>Net profit</b>		986	423	3,343	98	+325
<b>Business volumes</b>	<b>9 quarters</b>	<b>Q2-20</b>	<b>YTD20</b>	<b>YTD19</b>	<b>FP YTD</b>	<b>Δ 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>9 quarters</b>	<b>Q2-20</b>	<b>YTD20</b>	<b>YTD19</b>	<b>FP YTD</b>	<b>Δ FP</b>
Cost / income ratio (C/I)		76.0%	73.9%	42.0%	71.9%	+ 2.1 pp
pre-tax ROE		15.9%	9.3%	31.5%	7.0%	+ 2.4 pp
ROE		15.9%	1.6%	12.2%	0.4%	+ 1.2 pp
Market share by no of customers		24.4%	24.4%	24.8%	24.0%	+ 0.4 pp
Market share by volume		29.0%	29.0%	29.1%	29.5%	- 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

LHV Group  
**6 months 2020**

**11 EURm**

Net profit

**12.4%**

Pre-tax ROE

**Growth in business  
volumes**

Acquisition of Danske portfolio

**22,400**

Bank customers increase

# Financial projection 2020-2024



# LHV Group – long-term forecast for 2020-2024

## Capital enhancing quality growth in all business segments

Financial results, EURt	2020	2021	2022	2023	2024	
<b>Total income, incl.</b>	<b>87 316</b>	<b>117 852</b>	<b>140 048</b>	<b>165 941</b>	<b>191 471</b>	<b>22%</b>
Net interest income	62 888	86 391	104 311	124 624	144 173	
Net fee and commission income	24 306	30 905	35 153	40 688	46 620	
<b>Total expenses</b>	<b>44 773</b>	<b>56 115</b>	<b>57 968</b>	<b>63 706</b>	<b>69 773</b>	<b>12%</b>
<b>Operating profit</b>	<b>42 542</b>	<b>61 737</b>	<b>82 080</b>	<b>102 236</b>	<b>121 698</b>	
Impairment losses on loans	19 357	10 633	12 810	15 018	17 316	
<b>Earnings before taxes</b>	<b>23 185</b>	<b>51 103</b>	<b>69 270</b>	<b>87 218</b>	<b>104 381</b>	
Income tax expense	3 954	7 731	9 306	11 593	13 741	
<b>Net profit, incl.</b>	<b>19 231</b>	<b>43 372</b>	<b>59 964</b>	<b>75 625</b>	<b>90 641</b>	<b>47%</b>
attr. to shareholders	17 586	40 313	56 373	71 496	86 026	
<b>Business volumes, EURm</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	
Deposits	2 985	3 830	4 427	5 209	6 004	
Loans (net)	1 806	2 706	3 229	3 754	4 304	
Assets under management	1 454	1 395	1 571	1 761	1 967	
<b>Key figures</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	
Cost / income ratio (C/I)	51,3%	47,6%	41,4%	38,4%	36,4%	
pre-tax ROE*	10,2%	20,5%	22,2%	23,4%	23,4%	
ROE*	8,4%	16,1%	19,1%	20,1%	20,2%	
CT1 capital adequacy	13,9%	13,2%	14,0%	14,8%	15,8%	
Total capital adequacy	17,6%	18,1%	18,3%	18,9%	19,5%	

- Assumptions: growth in business volumes, interest rates remain negative, stable dividend policy, no success fee planned from Asset Management
- Organic growth of all significant business volumes for 5 years. Both loan and deposit volumes are expected to double, the impact of pension reform to be overcome in one year
- Increase in revenues is expected to be significantly faster than growth in expenses. Expenses impacted by increase in tax expense. Conservative loan impairments forecast
- Raise of capital through issuance of bonds in 2020 and 2021
- Reaching to 20% ROE\* in 2021

\* 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

**700 EURm**

Increase in fund volumes

**3,000 / 2,400 EURm**

Growth in deposits and loans

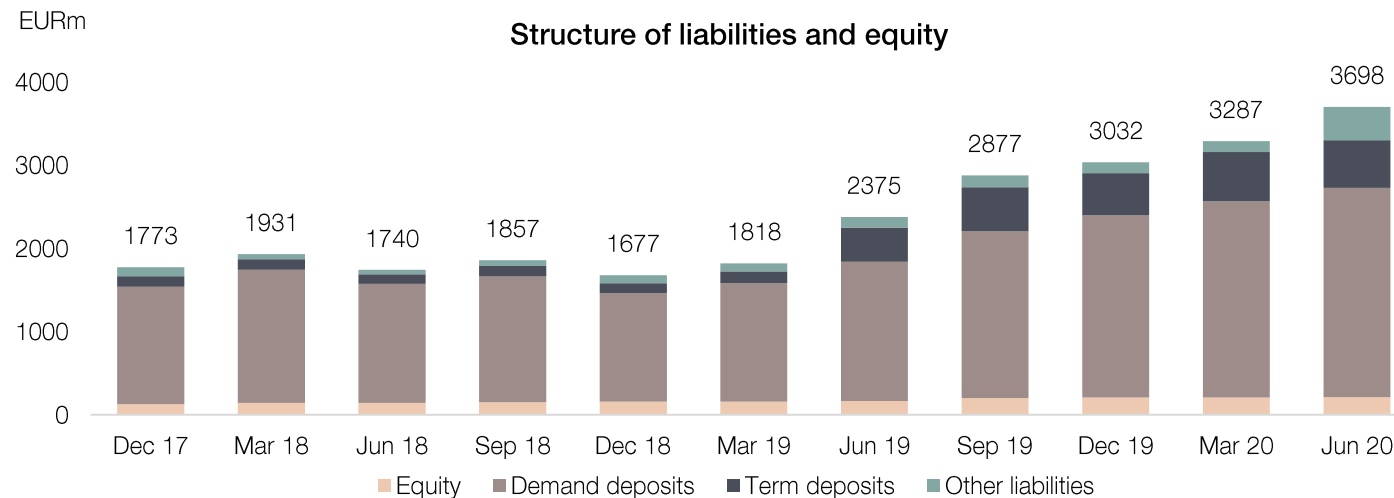
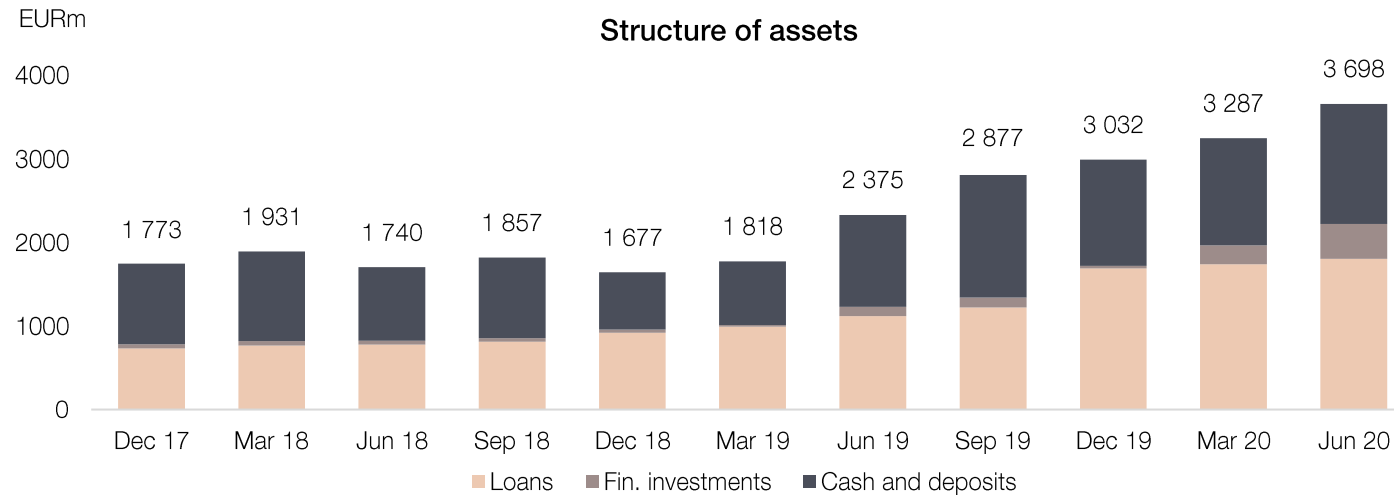
**LHV Asset Management**

Enhancing current best long-term return

# Risk & capital

# LHV Group

## Balance sheet structure

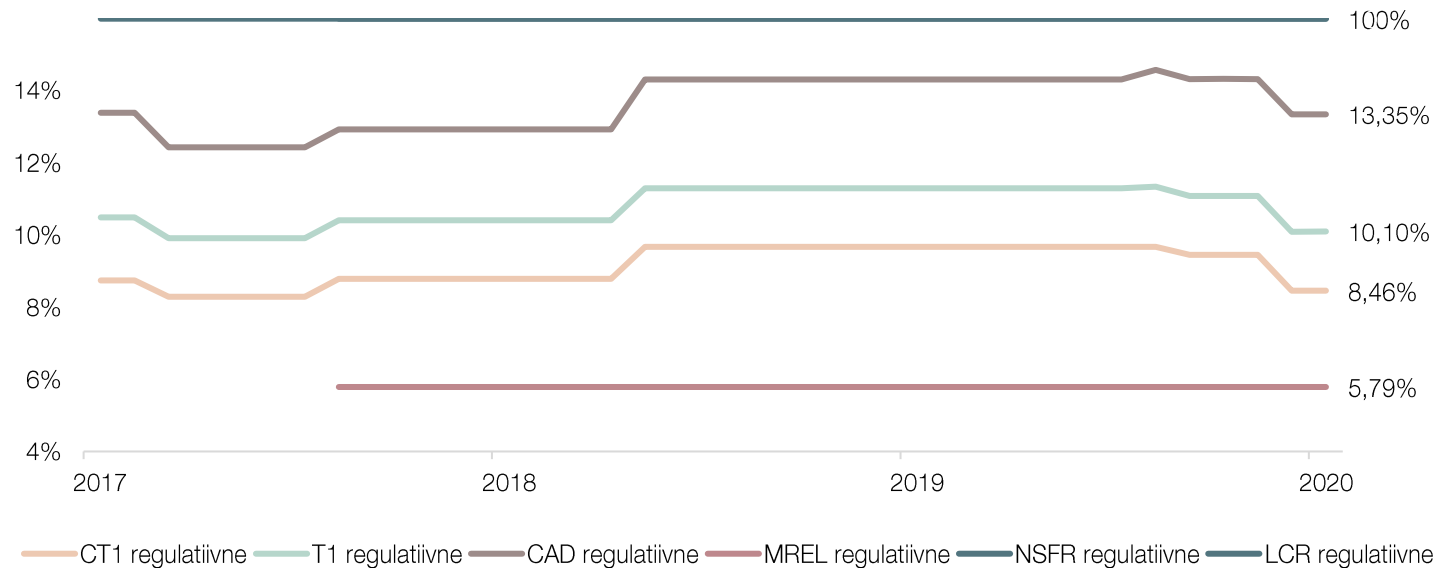


- LHV runs knowingly very simple balance sheet – liabilities are composed almost in full amount by customer deposits and assets by loans or liquidity
- 95% of balance sheet is euro based
- Liquidity portfolio consist 95% of deposits with ECB and some smaller amount of liquid bonds

# LHV Group

## Regulative requirements

Regulatiivsete piirmäärade muutumine



- 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

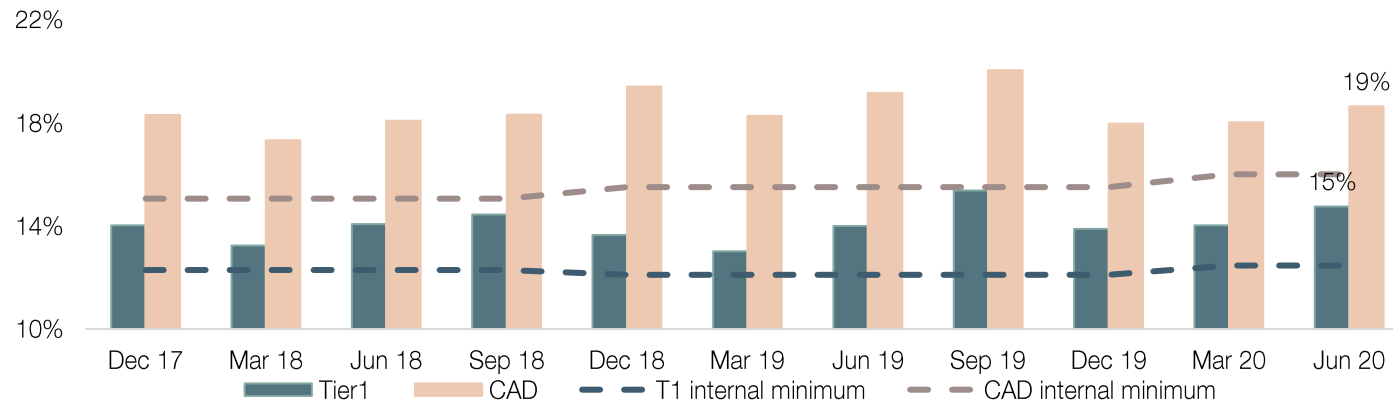
# LHV Group

## Risk tolerance: capital

Category	Measures	Risk tolerance		Actual 30.06.2020		Main risk management tools
		Group	Bank	Group	Bank	
Capital	Capital adequacy (CAD)	min 16.00%	min 16.00%	18.63%	17.12%	Limits
	Capital adequacy (Tier 1)	min 12.46%	min 12.46%	14.75%	13.64%	
	Capital adequacy (CET 1)	min 10.63%	min 10.63%	12.29%	11.58%	
	Leverage ration	min 3.5%	min 3.5%	5.68%	5.06%	
	MREL	min 6.08%	NA	7.70%	6.89%	

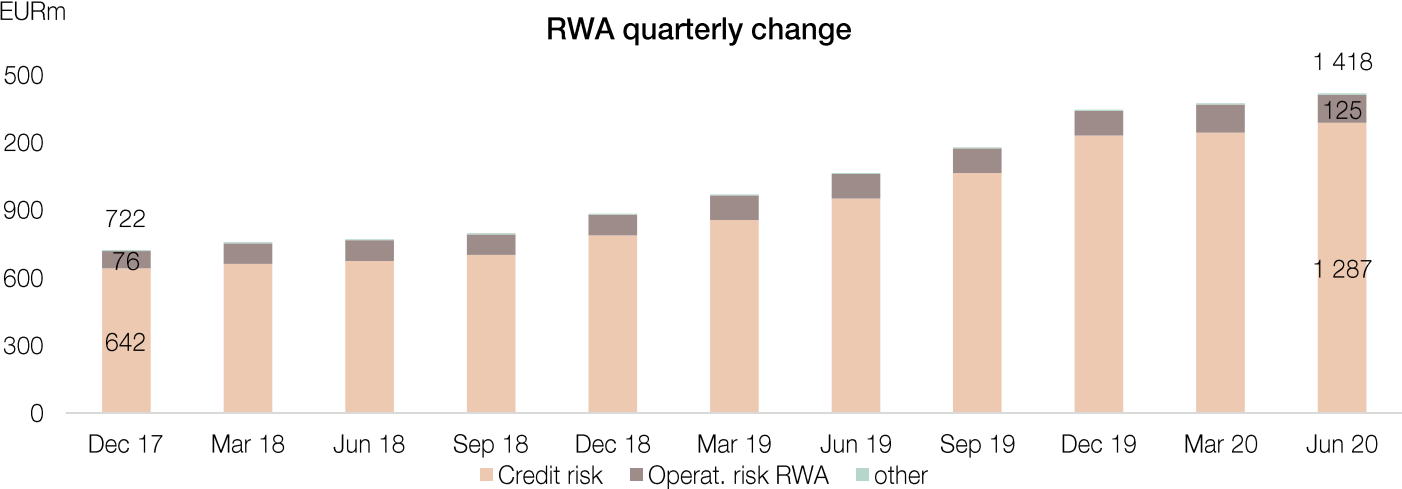
- LHV has set all internal capital adequacy and leverage targets on the same level for Group, Bank consolidated and Bank solo
- MREL is measured only on Group level
- All targets are reported on monthly bases and followed in simplified models on daily bases

LHV Group capital adequacy



# LHV Group

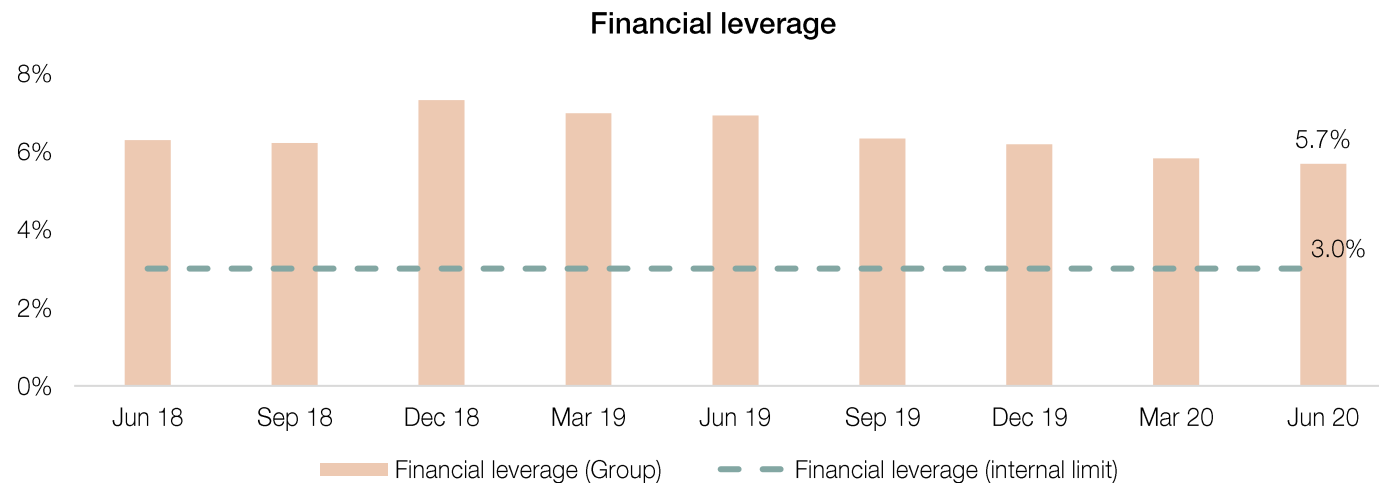
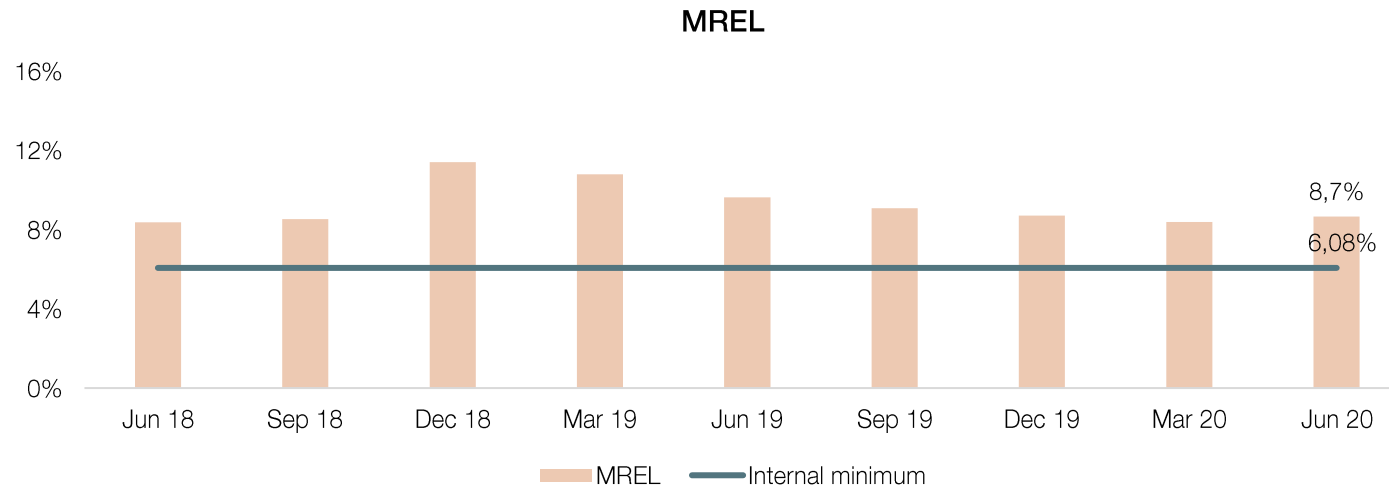
## Risk weighted assets (RWA)



- RWA is calculated based on standard approach as this is the 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

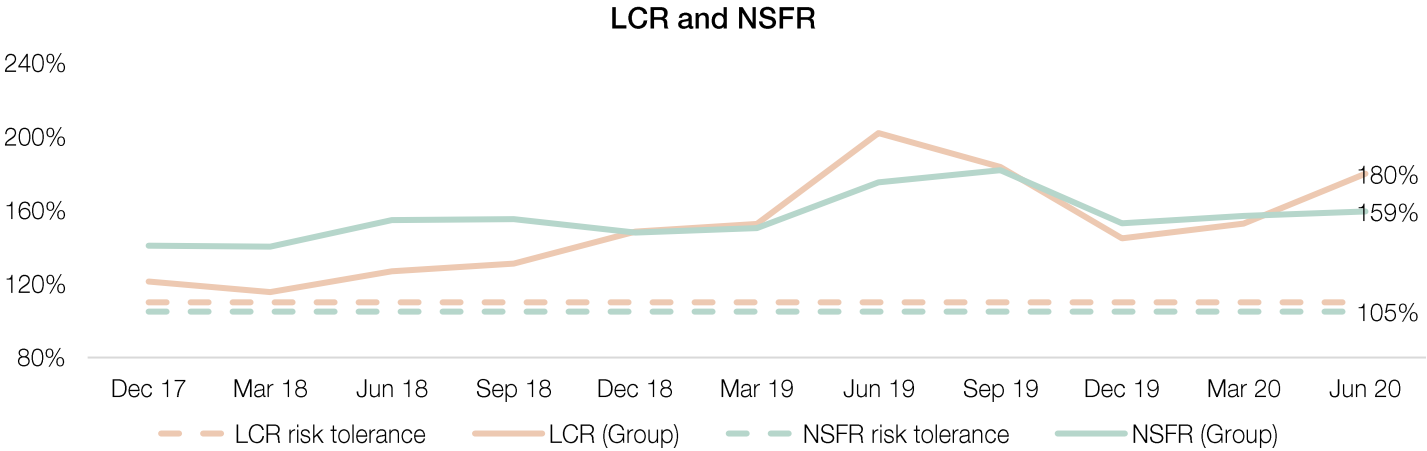
## MREL and leverage ratio



- As of January 2018 FSA set MREL for LHV Group as a new Prudential norm. In the summer of 2021 the MREL rate will increase and the calculation methodology will change
- The management of the limit is complicated due to lack of eligible liabilities in the Estonian Banking market. LHV works to find suitable liabilities
- Financial leverage is not limiting LHV in current business model



# LHV Group Liquidity

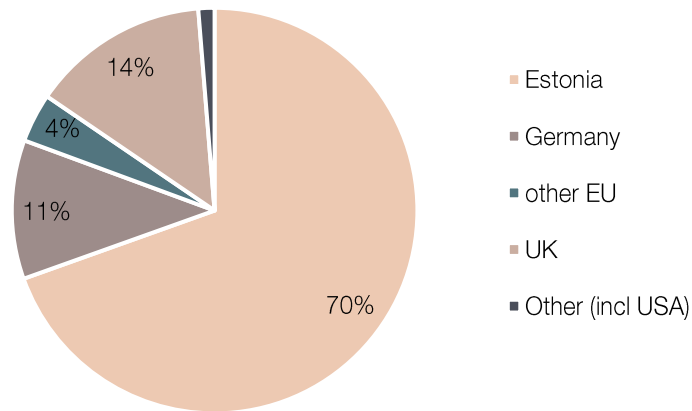


- LHV is running very conservative approach in liquidity. Almost whole funding is retail deposit based with very limited amounts of interbank funding
- With exclusion of financial intermediates, whose deposits are 100% covered with liquidity, bank prefers to keep LCR ratio above 180%

# LHV Group

## Anti Money Laundering (AML)

Deposits from customers by country  
as of June 30, 2020



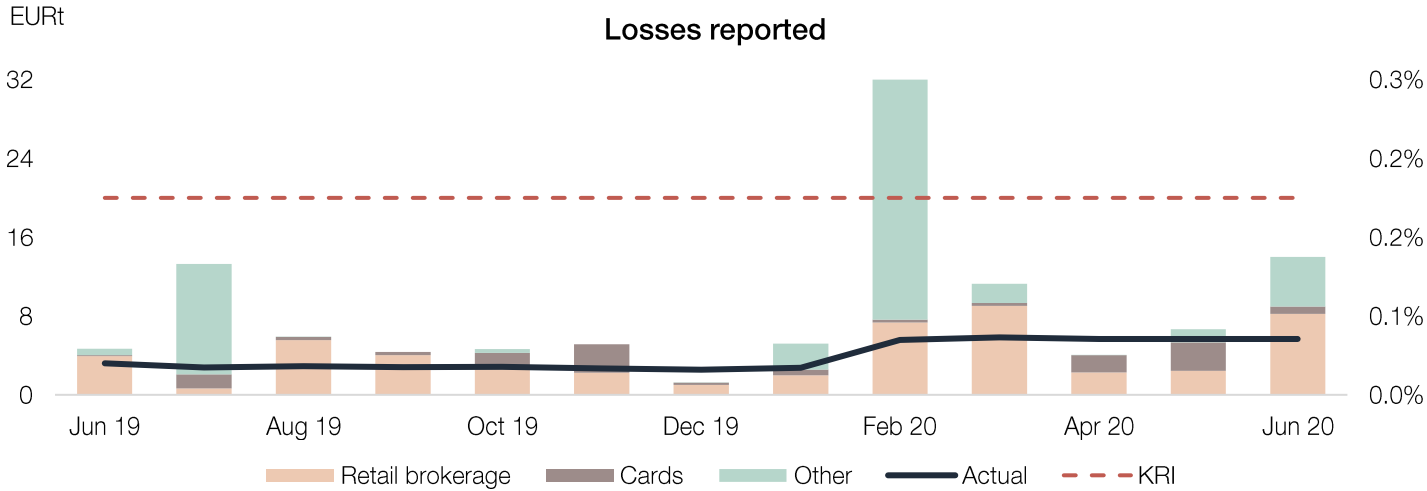
### Financial intermediaries

- According to LHV Bank's Customer Acceptance Principles all payment service providers and virtual asset service providers are considered as high-risk customers
- Enhanced customer due diligence is always applied to such customers
- Establishing customer relationship is approved at the Board level
- All financial intermediaries are assessed and evaluated based on similar principles as correspondent relations, including in-depth on-site visits

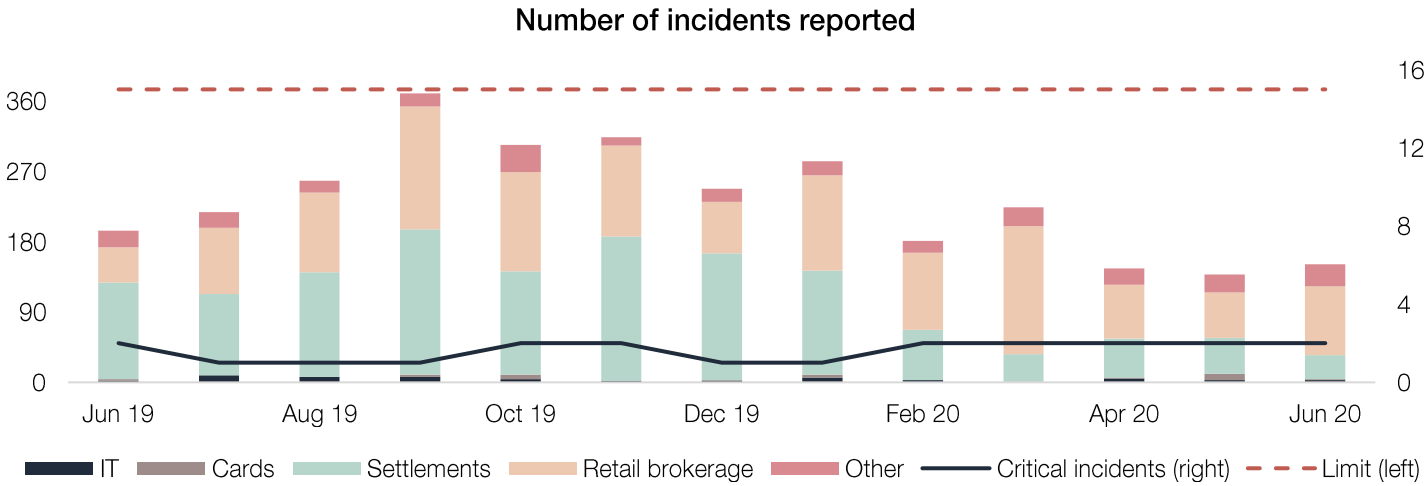
- LHV has zero tolerance regarding money laundering and is invested heavily in ALM processes and software
- LHV limits deposit volumes of non-resident customers. The limit was temporarily increased for funding the acquisition of Danske Bank A/S Estonian Branch portfolio from deposit platforms (mainly from German customers). UK customers mainly represent financial intermediaries.
- In KYC process we visit and control riskier customers' internal processes, which are followed by similar controls on regular bases
- All customers' suspicious activities need to be clarified and unbecoming behaviour is grounds for an immediate termination of a customer relationship

# LHV Group

## Operational risk



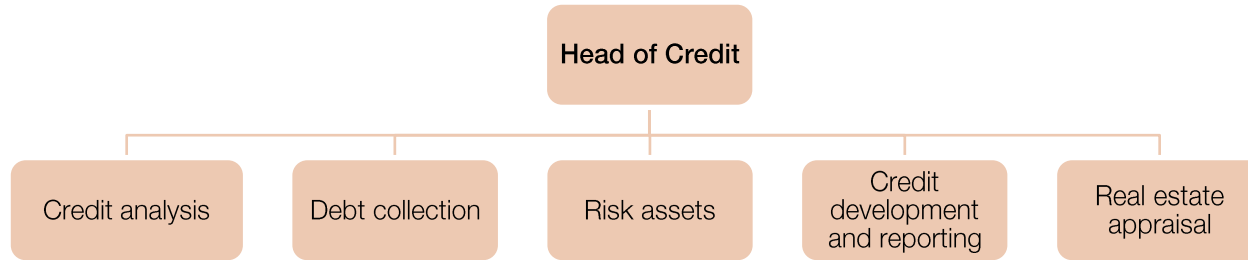
- Most of operational risk incidents / losses were related to cards. Following 3D secure implementation in December 2017 losses from cards have dropped 3-4 times. Skimming is still the issue
- Other losses are mostly related to errors in retail brokerage, as all customer trades over the phone are executed manually in different platforms



# 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

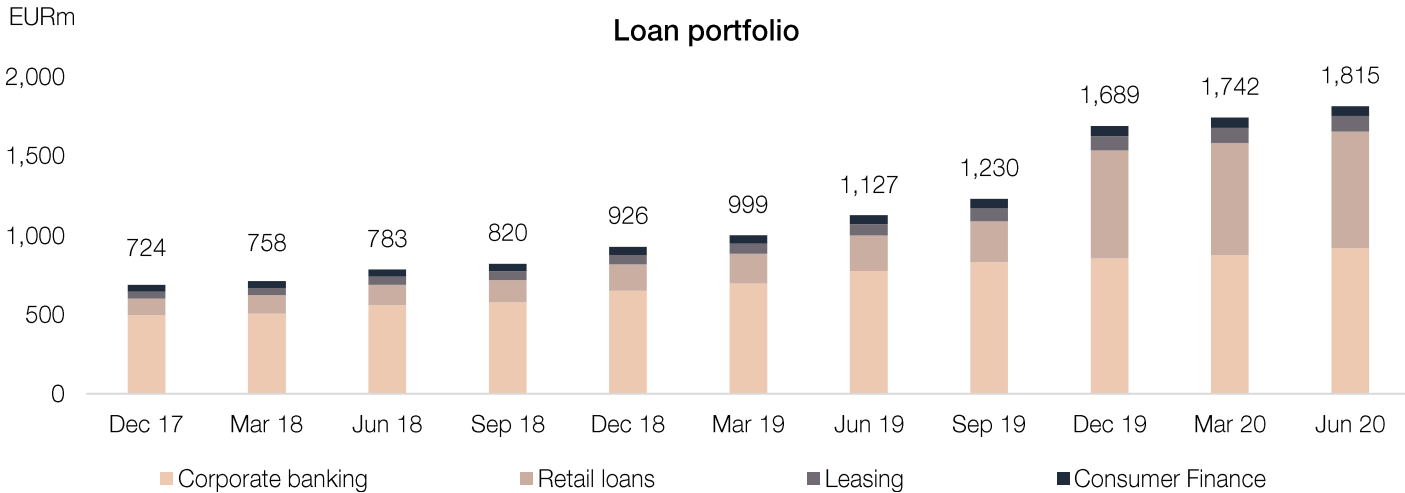
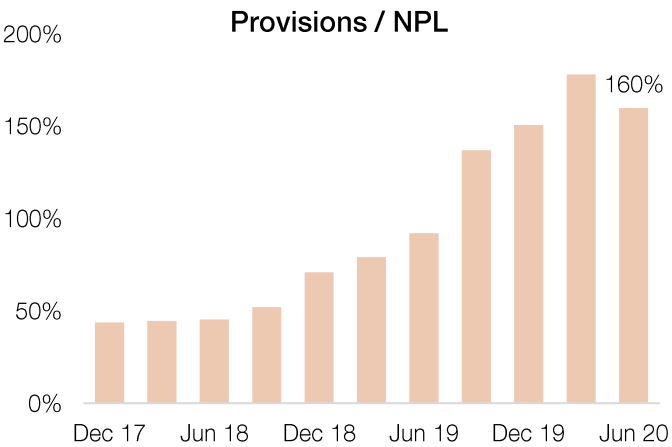
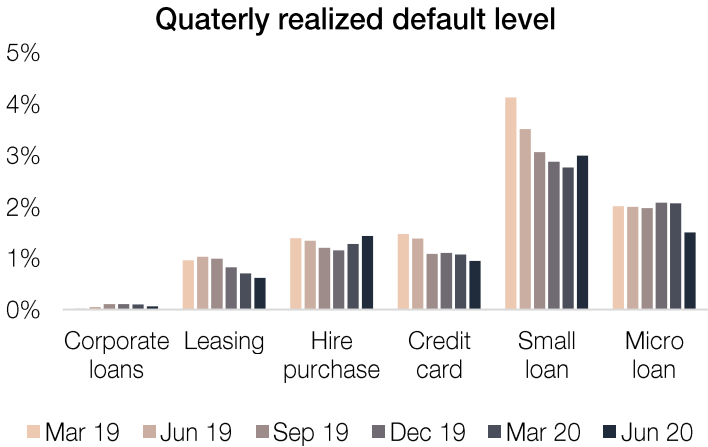
- Rating models (business loans, leasing and credit limits > 500 EURt)
- Scoring models (retail portfolio, incl. private and mortgage loans; business loans and leasing exposures < 500 EURt)

## Decision-making bodies

- Credit committee
- Retail banking credit committee (decisions up to 500 EURt)

# LHV Bank

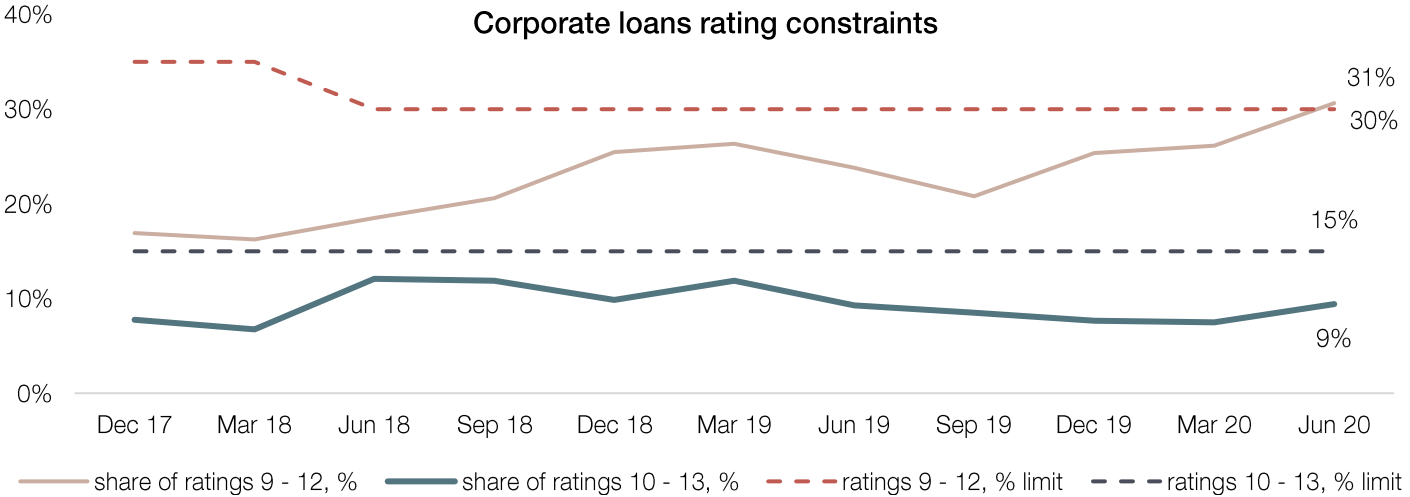
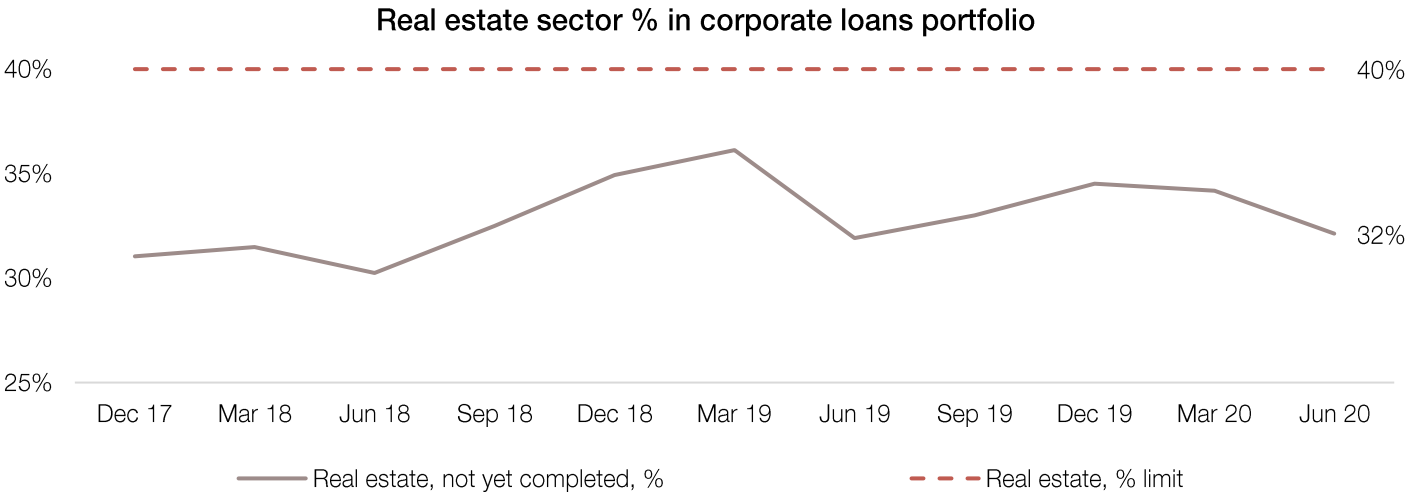
## Good quality of credit portfolio



- Declining trend of default rates in most portfolios
- No defaults in private and home loan portfolios
- Provisions / NPL rate has improved significantly after solving one larger case in 2019
- EBA definition of non-performing exposures is used



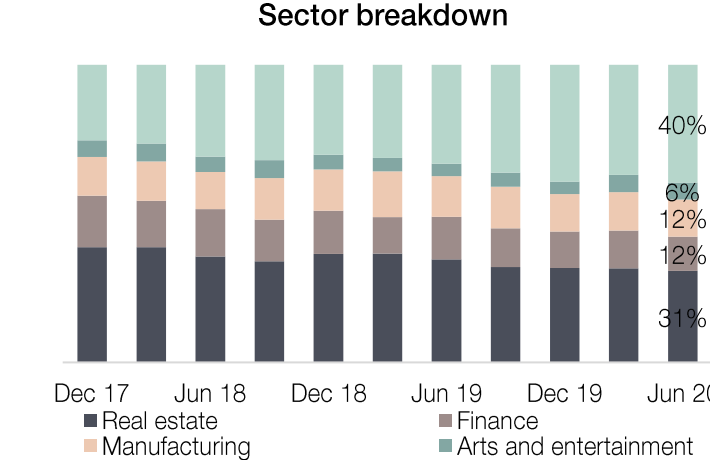
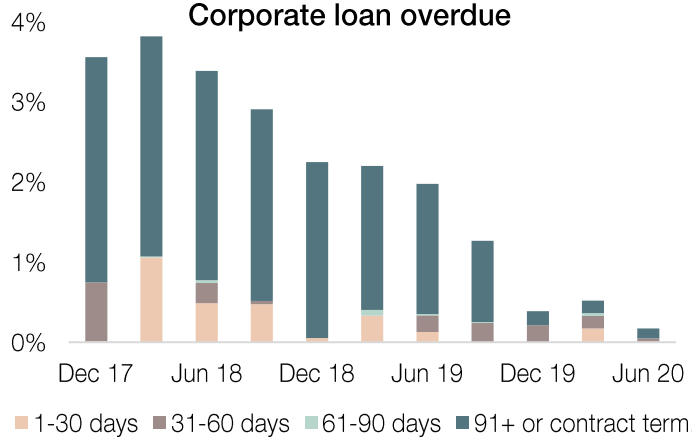
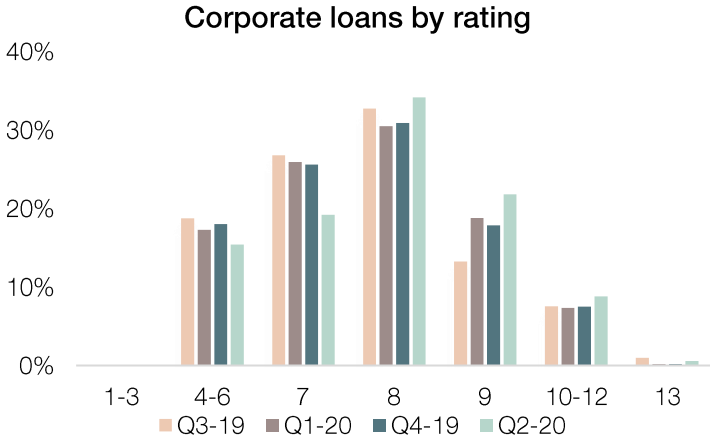
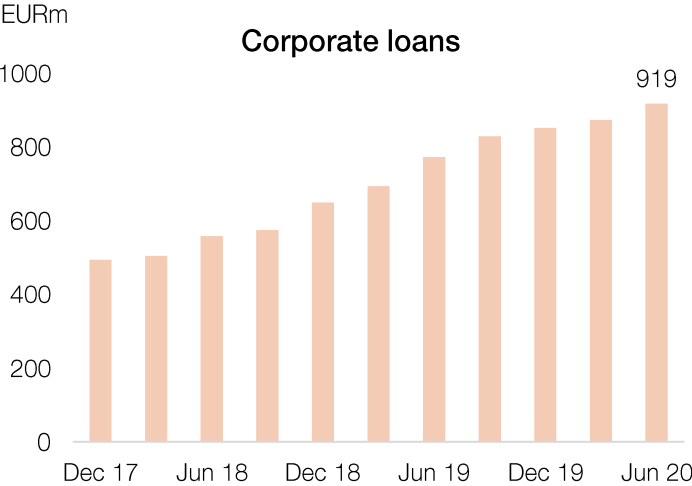
# Concentration risk and portfolio constraints



- 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: 9-13 and 10-13 (below investment grade ratings). Risk tolerance levels were tightened in 06/2018. Actual levels below the limits

# LHV Bank

## Corporate loans

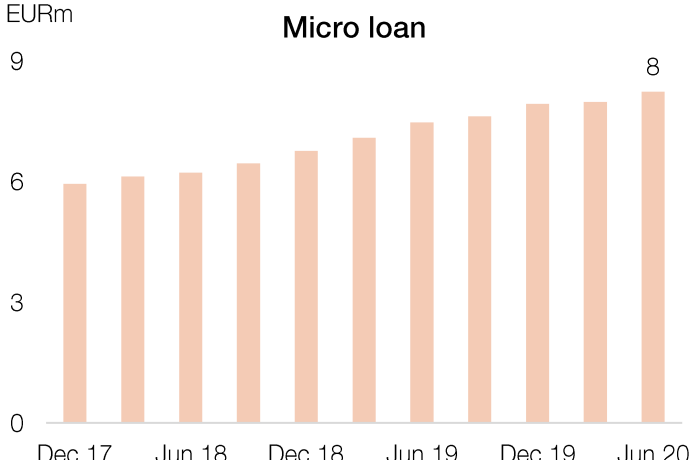
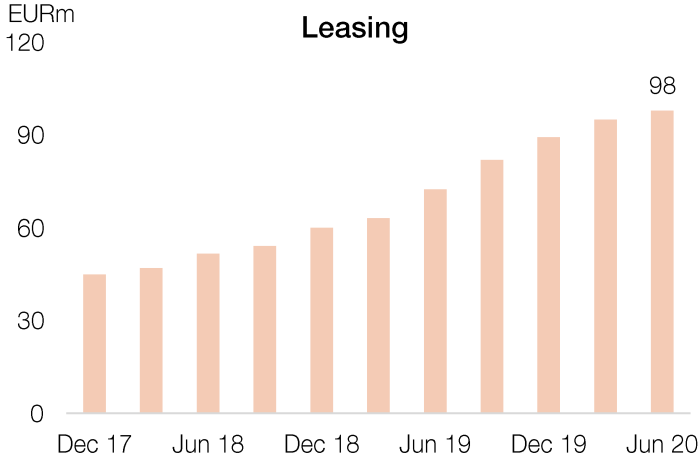


- Strong continuing growth in recent years
- Share of real estate loans has been stable, incl. share of developments in final stage with lower risk
- Share of loans with better rating has increased

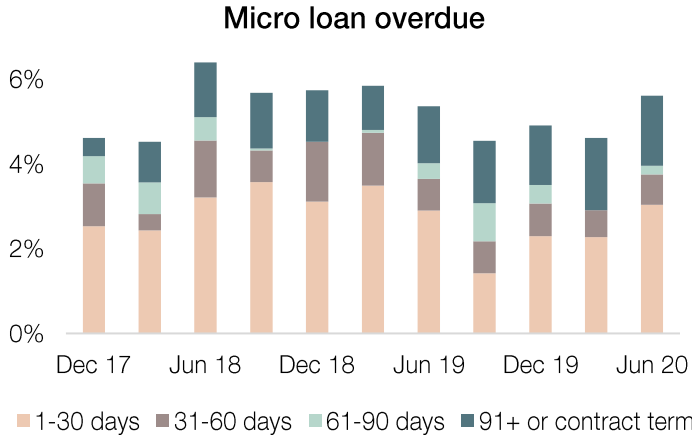
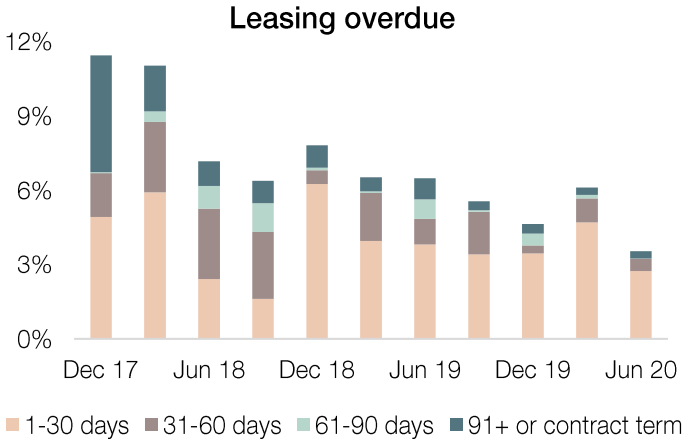


# LHV Bank

## Leasing and SME loans

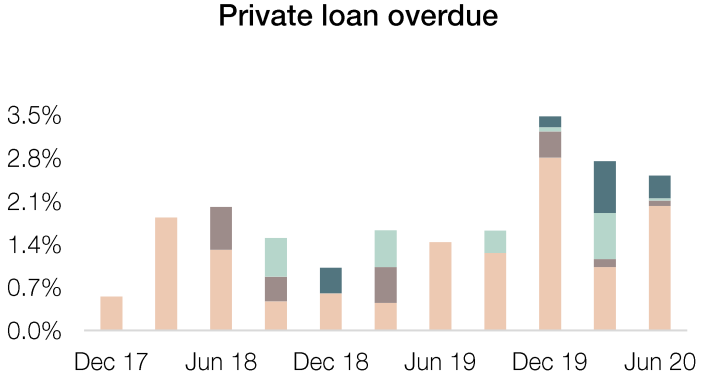
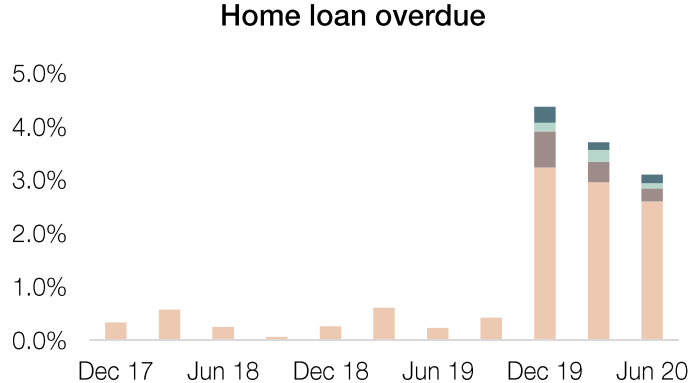
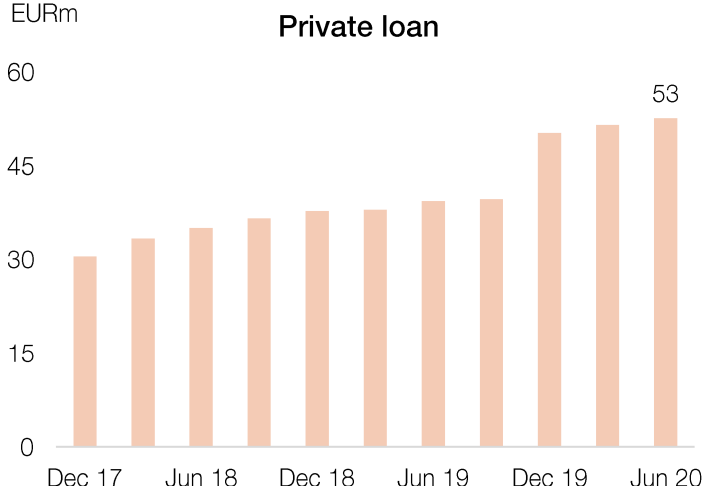
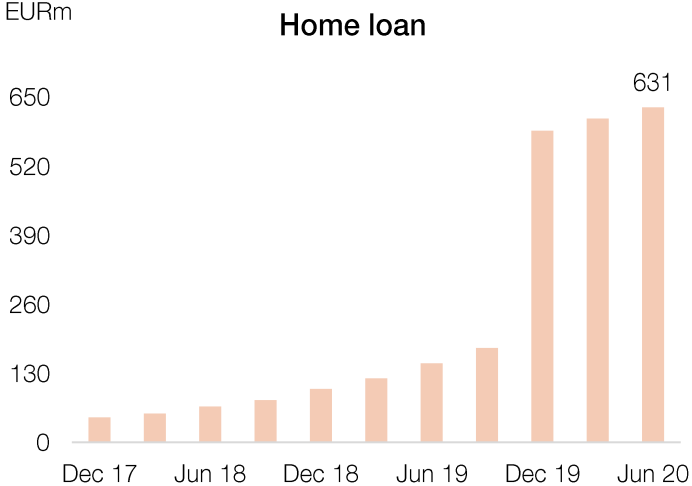


- Leasing and SME loans are smaller credit portfolios to cover all client segments
- SME loans product was introduced in 2016 and product credit quality remains much better than expected



# LHV Bank

## Private loans



Legend: 1-30 days (orange), 31-60 days (grey), 61-90 days (light green), 91+ or contract term. (dark blue)

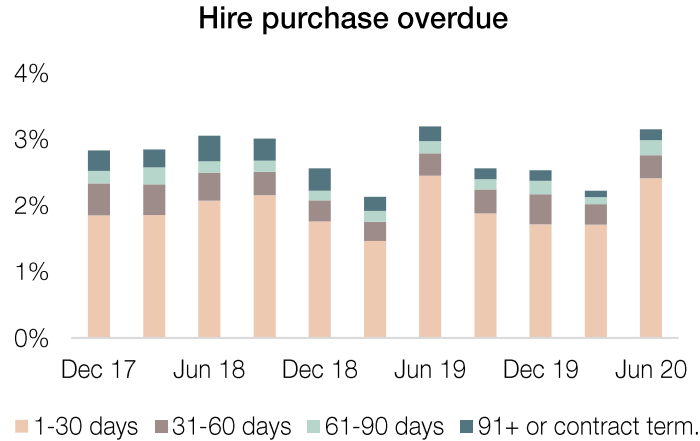
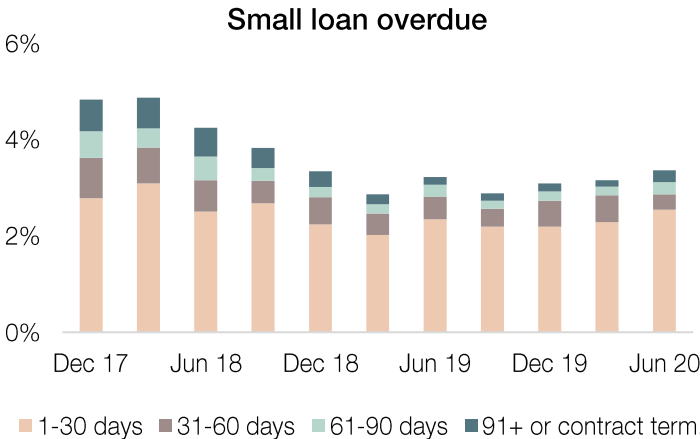
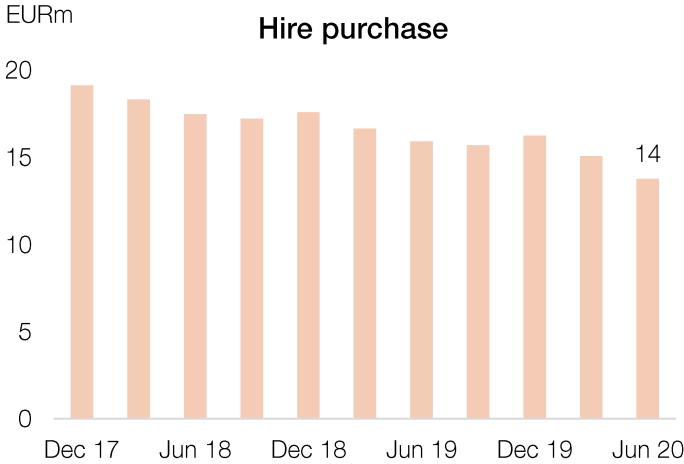
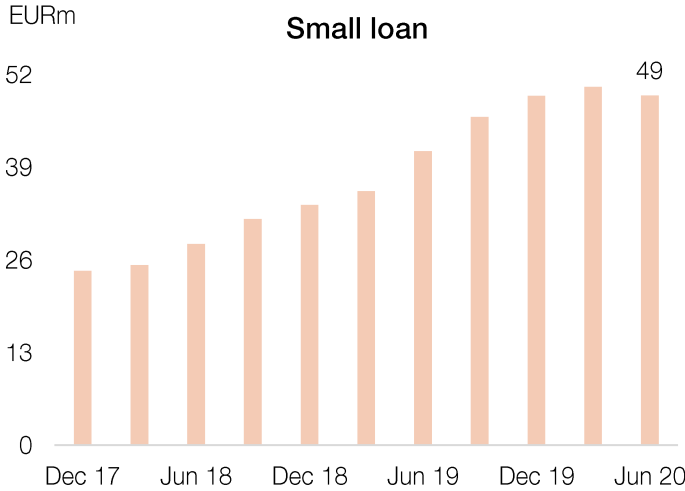
Legend: 1-30 days (orange), 31-60 days (grey), 61-90 days (light green), 91+ or contract term. (dark blue)

- LHV deliberately waited with introduction of housing loans. Product was implemented Q3 2016 and has been highly successful
- LHV has around 18% of market share in new sales and we expect it to grow up to 25%
- 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 30.06.2020		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% NOV	max 9% NOV	0.0%	0.0%	Limits Diversification Mitigation
	Total loss (% own funds)	max 10% NOV	max 10% NOV	1.3%	1.2%	

- 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

# ESG responsibility

# ESG responsibility

## Environment

### **LHV desires to operate sustainably and meet the climate targets**

- We have signed the UN Principles for Responsible Banking and plan to meet all requirements for signatories
- Contributing to achieving the goals of the Paris Climate Agreement
- We support Estonia's goal of attaining a climate-neutral economy by 2050
- We are open to the opportunities afforded by the new economy
- Working with external stakeholders to bring about more positive change (i.e., Estonian Banking Association, Green Tiger)
- We follow green office principles
- Our CO<sub>2</sub> footprint in 2019 was 1210 tonnes and we strive to make our office activity carbon-neutral by 2022

## ESG responsibility

### **Social**

**Our business is always conducted with integrity, transparency, and ethics in mind, with emphasis on fair dealing and respect towards our partners, clients, and employees**

- We support cultural and economic development of local communities
- We stand for the equal opportunities of people and companies active in the economy
- Build the confidence of our customers toward LHV as a non-discriminatory financial services provider
- We encourage financial literacy and economic knowledge-sharing with offering free investing seminars, a library and sponsoring the investor community
- We want to provide our people with best working environment as one of the top employers in Estonia
- Continuously improve our competencies in the field of ESG



# ESG responsibility

## Sponsorship

LHV supports advancement of music or arts, education, sports, and community events – projects that enlarge Estonia



Estonian Football  
Association



EY Entrepreneur of the  
year



Estonian Music Days



Rally Estonia

**INVESTEERIMISFESTIVAL 2020**

Investment Festival

.. and many more

**Madis Toomsalu**  
Managing Director  
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**Meelis Paakspuu**  
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