

LHV GROUP

Presentation to investors – May 2014

LHV

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Investment risk (I)

Summary of risks

Investing in shares issued by LHV Group entails various risks. Every potential investor should thoroughly consider the risks involved, the scope and probability of the risks, and other relevant circumstances. If the risks are realised, investors may lose a part or all of the value of their investments. Below, please find examples of risks which, if realised, may reduce the value of LHV and the shares issued by LHV:

Risk of changes in economic environment

Any deterioration in the economic environment of the countries where LHV operates could have a direct and negative impact on the financial indicators of LHV. Adverse developments on global financial markets could also have a degrading effect on the financial position of LHV. Although LHV constantly monitors developments on both domestic and international markets, it is not possible to precisely forecast the timing or extent of changes in the economic environment.

Credit risk

One of the key activities pursued by LHV Bank, which is owned by LHV Group, is the disbursement of loans. Disbursement of loans entails a risk that borrowers are unable to adhere to the agreed loan schedule and the collateral assets do not necessarily cover all the liabilities. The Bank does establish provisions for covering contingent loan losses, but these may prove insufficient. Beside the payment default of the counterparty, credit risk may be realised in a situation where LHV's financial resources are held at a counterparty, or transactions or settlements are performed via a counterparty.

Investment risk (II)

Summary of risks

Liquidity risk

LHV has a large part of its funding as current liabilities (mainly demand deposits). LHV constantly monitors its liquidity position. Nonetheless, the liquidity reserves may prove insufficient in case of adverse events.

Reputation risk

LHV has implemented internal procedure rules, diligence measures and control mechanisms to comply with both external (legal acts) and internal (internal rules of procedure) requirements as well as to avoid possible abuse or conflicts of interest. Nonetheless, LHV may become a party to a court dispute, supervision procedure or any other situation which entails the realisation of reputation risk and damages the reputation and goodwill. The realisation of reputation risk could have a significant negative impact on LHV's activities and profitability.

Market and operation risk

The volatility of markets and price fluctuations could have a negative impact on LHV's financial indicators and the bank's ability to engage the necessary additional resources. In its daily business activities, LHV is largely dependent on the flawless operation of IT and other systems. Nonetheless, interruptions may occur in the processes of such systems.

Regulatory risk

The financial sector is one of the most regulated areas. Nonetheless, LHV cannot possibly forecast future regulations and changes thereto, or their impact on LHV's activities and financial indicators.

Overview
LHV GROUP

LHV

LHV Group Overview

LHV Group is the largest domestic provider of capital in Estonia. LHV's customers include private persons, SMEs and institutional investors. In addition to Estonia, LHV offers financial services in Lithuania, Finland and Latvia.

For private customers, LHV mainly offers savings and investment services. For business customers, LHV offers smart, flexible financing, along with the management of daily financial affairs.



- LHV's financial services are used by more than 170 000 active customer in Estonia, more than 70 000 in Lithuania, more than 10 000 in Finland and more than a thousand in Latvia.
- LHV employs 250 people.
- LHV has more than 150 shareholders.

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.

All customers and partners of LHV have the option of becoming a future stakeholder in LHV. LHV strives to become a publicly traded company.

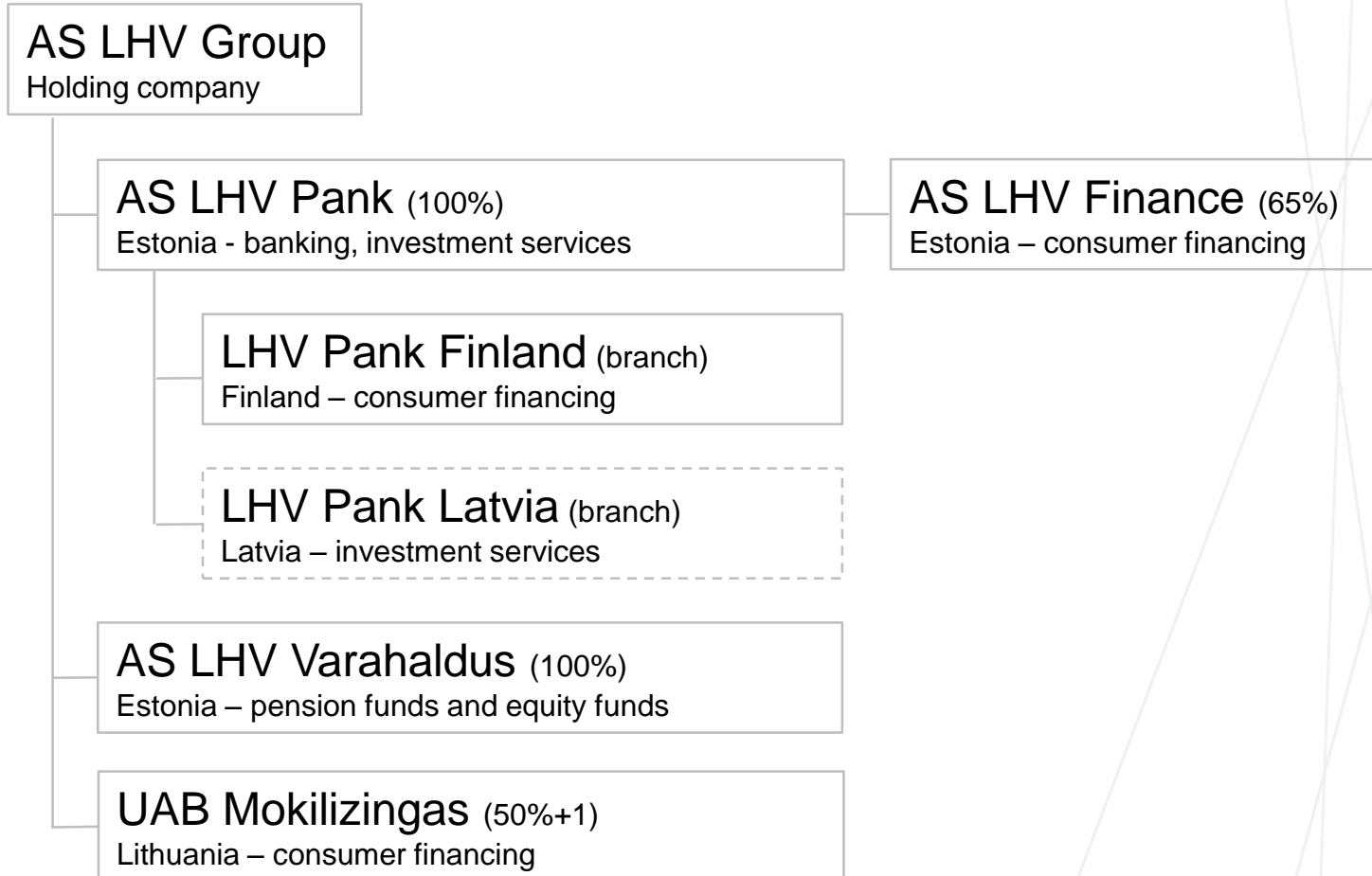
LHV Group **Objectives**

LHV has set its sights on:

- being the best financial service provider to private customers engaged in saving and investment, as well as to SMEs
- serving as an attractive and respected employer, endorsing progress, self-realisation and growth
- pursuing an annual return on equity of over 20%
- becoming a publicly traded company, with the company's shares listed on the local stock exchange

LHV Group

Group structure



LHV Group

Economic results and business volumes

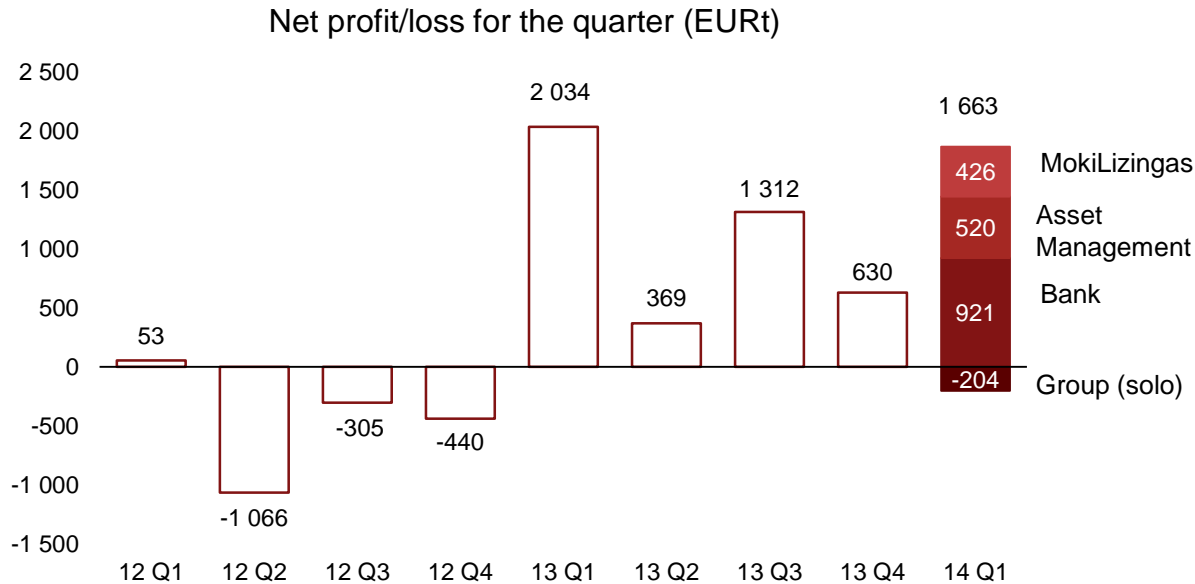
EURt	2009	2010	2011	2012	2013	
Net interest income	614	1 322	3 517	6 057	11 838	
Net fee income	3 930	4 490	5 270	6 489	9 490	
Net financial income	-678	-323	-1 107	819	2 715	
Total income	3 866	5 489	7 680	13 365	24 043	58%
Total expenses	5 344	8 365	13 530	14 048	16 827	33%
Operating profit	-1 478	-2 876	-5 850	-683	7 216	
Loan provisions	0	0	2 607	1 074	2 871	
Profit	-1 478	-2 876	-8 457	-1 757	4 345	

Number / EURt	2009	2010	2011	2012	2013
Private customers	11 294	13 867	18 363	32 450	41 250
Business customers	1 709	2 408	3 800	5 503	7 613
Deposits	32 284	114 189	209 186	280 007	352 852
Loans	9 370	38 073	66 680	106 067	206 768
Fund customers	34 900	45 000	98 100	120 400	138 000
Assets under management	52 894	83 006	144 024	252 830	374 883

- Average annual growth in revenue 58%
- Average annual growth in expenses 33%
- All core business areas profitable since 2013
- 200 new bank customers and 370 new fund customers every week
- Return on equity 16.4% in 2013

LHV Group

Nine quarters – a good start in 2014



- Profit posted in all quarters since the beginning of 2013
- One-off disposal of securities portfolio in 13 Q1 provided a financial income of 1 950 thousand euros
- Group (solo) includes interest income on subordinated securities and the group's management expenses
- Beginning of 2014 stronger than planned. ROE for Q1: 20,6%

Business areas

LHV ASSET MANAGEMENT

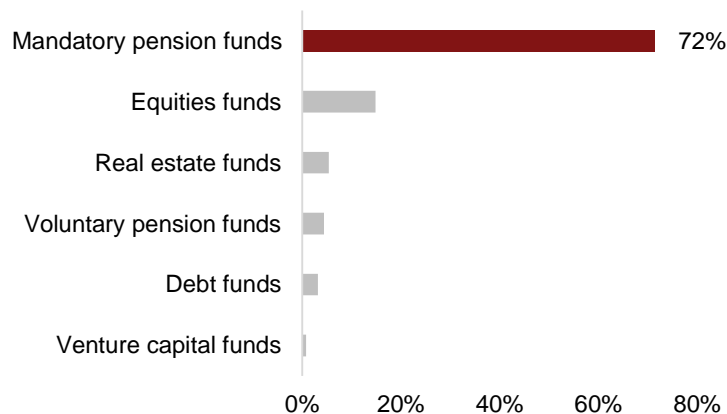
LHV

LHV Asset Management

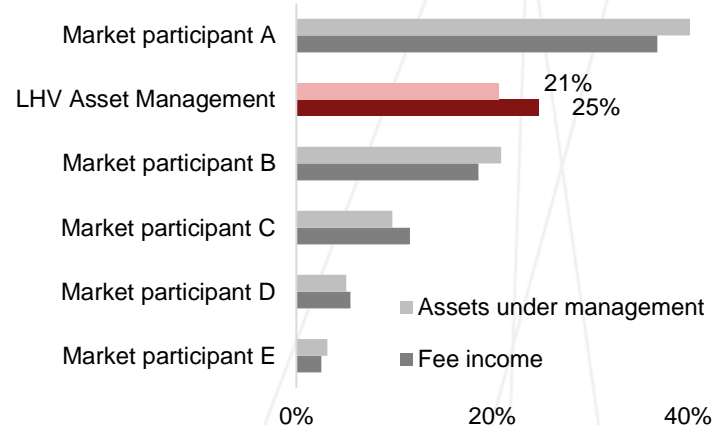
Market overview

- Mandatory pension funds make up ~72% of the investment funds market in Estonia
 - NAV of assets under management: EUR 1,89 billion
 - Number of subscribers to funded pension: 655 000
 - Annual net income from service fees: EUR ~28 million
- LHV Asset Management is primarily focused on the mandatory pension fund business
- **LHV Asset Management earns 25% of the pension market service fees**

Market value of funds, % of total market (June 2013)

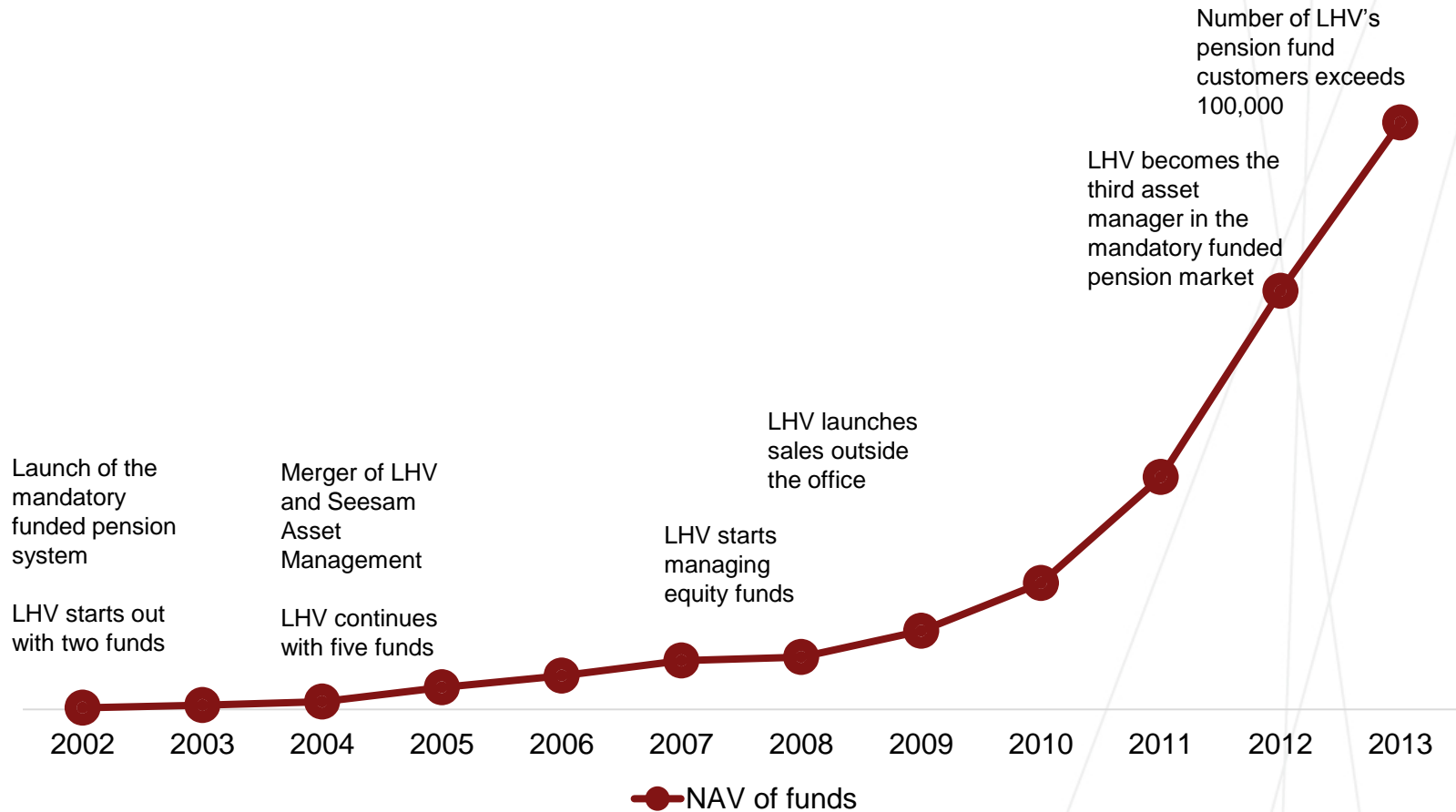


Market shares of mandatory pension funds (May 2014)



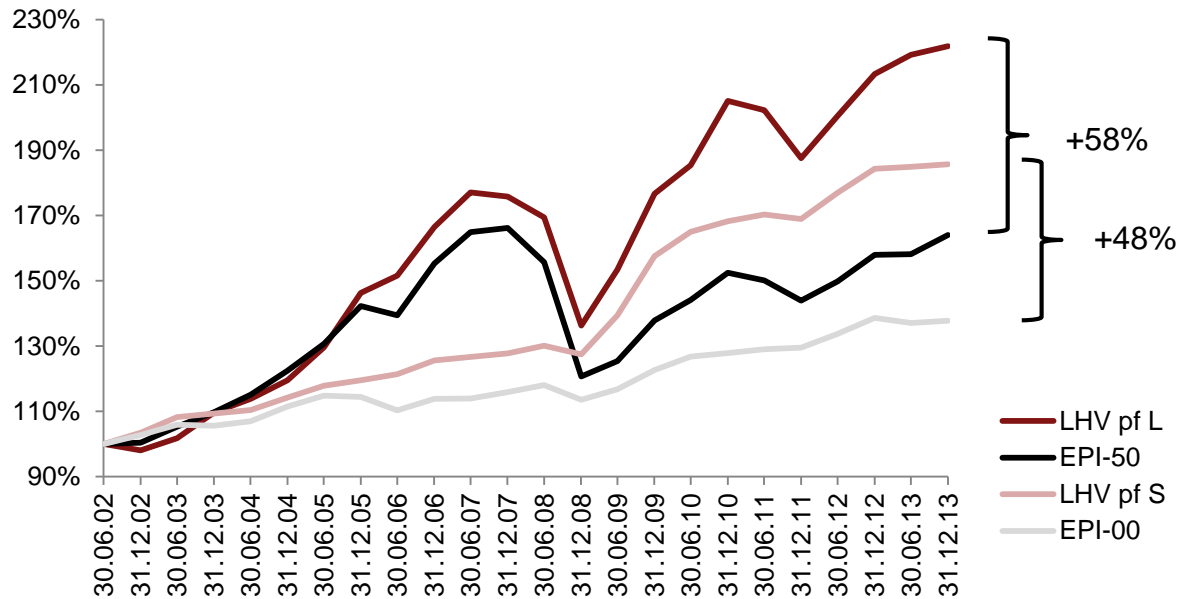
LHV Asset Management

Foundations for a rapid growth



LHV Asset Management

Fund performance – beating all indices



- LHV Pension Fund L (progressive strategy) is 58% above the Estonian pension funds index EPI-50
- LHV Pension Fund S (conservative strategy) is 48% above the Estonian pension funds index EPI-00

Historical rates of return of the fund do not constitute a promise or an indication of the future performance of the fund. The average rates of return of LHV Pensionifond L for the previous two, three, five and ten calendar years are respectively 8.78%, 2.66%, 10.24% and 7.31%. The average rates of return of LHV Pensionifond S for the previous two, three, five and ten calendar years are respectively 4.85%, 3.36%, 7.82% and 5.44%.

LHV Asset Management

Economic results and business volumes

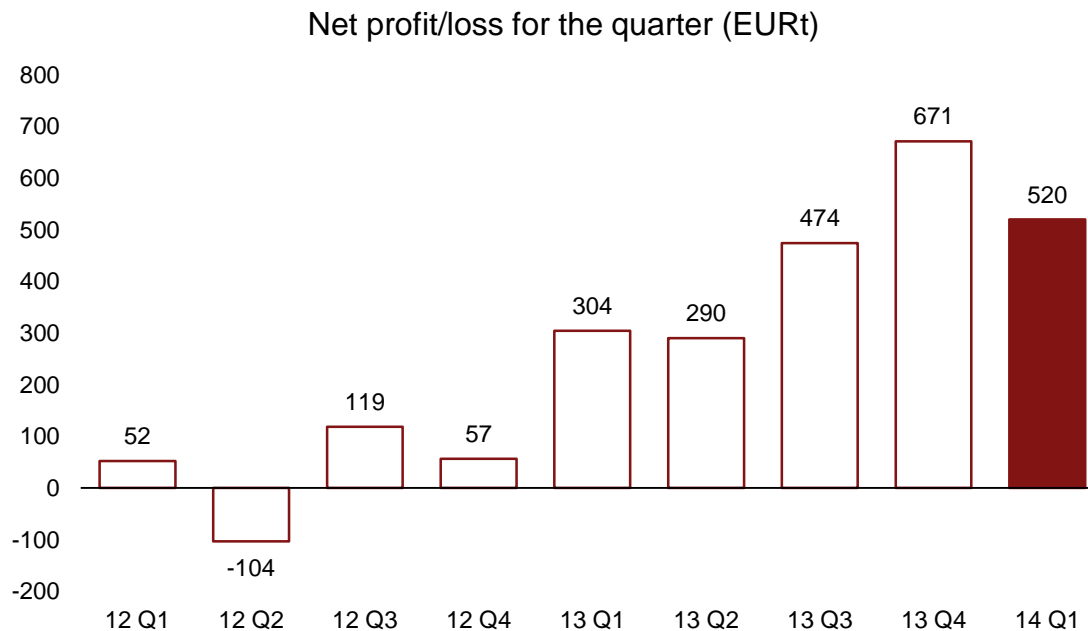
EURt	2009	2010	2011	2012	2013	
Net fee income	948	1 433	2 403	3 831	5 811	
Net financial income	503	241	-341	333	183	
Total income	1 450	1 673	2 062	4 163	5 994	43%
Marketing expenses	905	1 974	2 879	2 448	2 091	
Other expenses	822	844	1 200	1 591	2 162	
Total expenses	1 727	2 817	4 079	4 039	4 253	
Operating profit	-277	-1 144	-2 017	124	1 741	
Profit	-277	-1 144	-2 017	124	1 741	

Number / EURt	2009	2010	2011	2012	2013	
Fund customers	34 900	45 000	98 100	120 400	138 000	
Assets under management	52 894	83 006	144 024	252 830	374 883	62%

- Growth in the NAV of assets under management is in strong correlation with growth in net fee income
- Marketing expenses constitute an investment in business growth, and a very successful one
- Since 2013, Asset Management is able to finance further growth from profit, and needs no additional capital

LHV Asset Management

Nine quarters – a strong and foreseeable trend



- Net fee income is growing rapidly and predictably
- Marketing expenses maintain their previous level
- Management fees of funds expected to drop from next year, but rapid growth will compensate more than adequately
- Return on equity in Q1 2014: 38,2%

LHV Asset Management

Objectives and prospects

LHV Asset Management aims at growing 1,5 times faster than the market in the next three years

- The mandatory funded pension market is still in a stage of strong organic growth
- The volume of mandatory pension funds grew by 30% in 2012 and 20% in 2013. Contributions increase in line with the wage increase, supported by the average increase in pension payments from 2014
- In 2014 - 2017, the state's contribution will be 50% higher for more than a half of LHV's 2nd-pillar customers
- Quicker-than-market growth has been supported by the better long-term returns of LHV pension funds, compared to competitors
- In addition to mandatory pension funds, LHV manages a voluntary pension fund and two equity funds, including the LHV Persian Gulf Fund with a NAV of EUR 68 million

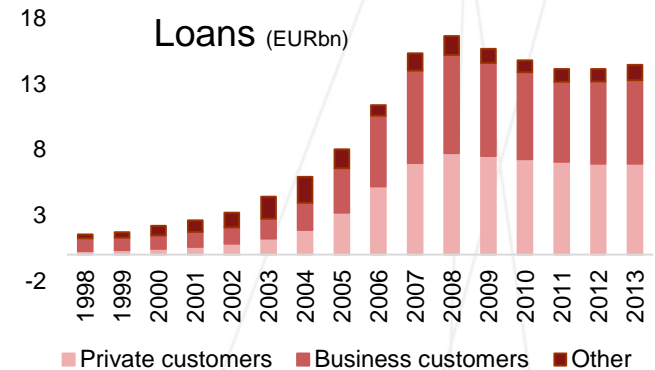
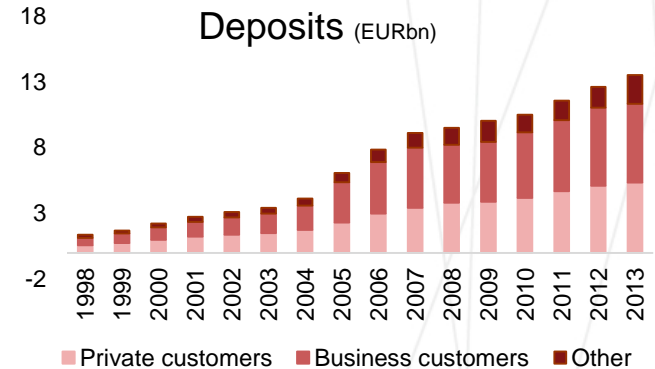
Business areas
LHV BANK

LHV

LHV Bank

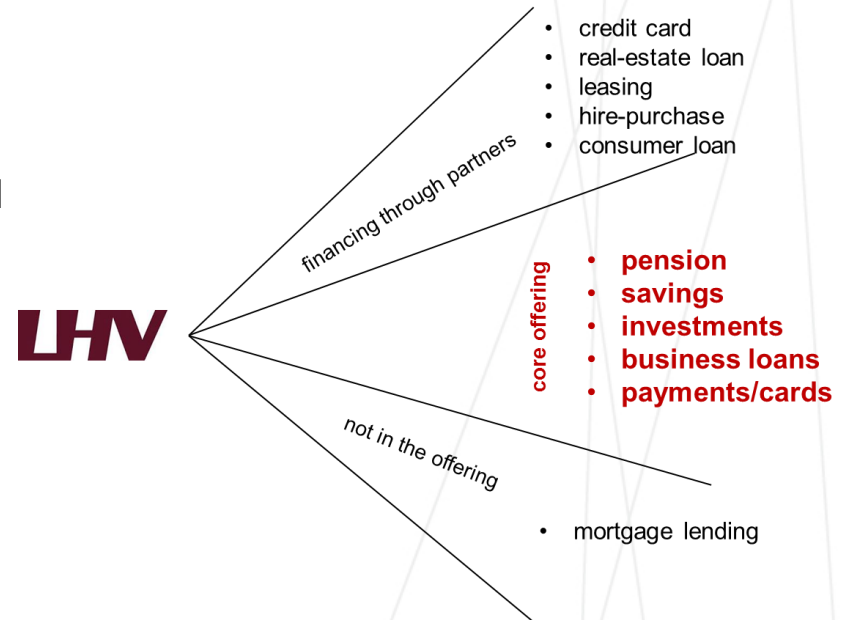
Market overview

- There are 16 credit institutions operating in Estonia (with 8 branches of foreign banks)
- The volume of deposits in the banking market amounts to EUR 13,5 billion
 - Deposits have grown every year over the past 20 years
 - The aggregate market share of the four largest banks is 90%
- The volume of loans in the banking market amounts to EUR 14,4 billion
 - After a 4-year decline, the volumes have, once again, been growing slightly since 2013
 - The aggregate market share of the four largest banks is 91%
- The annual income base of the banking market is approximately EUR 550 million
 - of which net interest income makes up 2/3 and net fee income 1/4
- In 2008 - 2012, the banking market posted a total operating profit (earnings before provisions) of EUR 1,49 billion, with loan losses amounting to EUR 1,06 billion



LHV Bank Position

- **Long-term ambition** – the third largest bank in Estonia
- **Customers** – private persons and SMEs accumulating and investing in financial assets
- **Market** – LHV is an Estonian bank. We will expand to foreign markets when possible
- **Products** – each of our product and service is valuable for the customer
- **Pricing** – our price list is simple
- **Sales and service** – we communicate with customers via modern communication channels
- **Marketing** – we actively market our core products



LHV Bank

Business units

Retail banking

Active and independent private persons, wealthier private persons, SMEs. Everyday banking services, with focus on savings and investments. Communication with customers via electronic channels, sales representatives and telemarketing.

Corporate banking

SMEs (local relationship banking). Mainly financing. Communication with customers via experienced and well-connected business customer managers.

Private banking

Wealthy private persons, entrepreneurs, managers and foreign residents. Mainly deposit, investment and portfolio management. Communication with customers via private banking customer managers.

LHV Finance

Joint venture with the owners of the Euronics retail chain. Hire-purchase for durable goods.

Latvian and Lithuanian brokerage activities

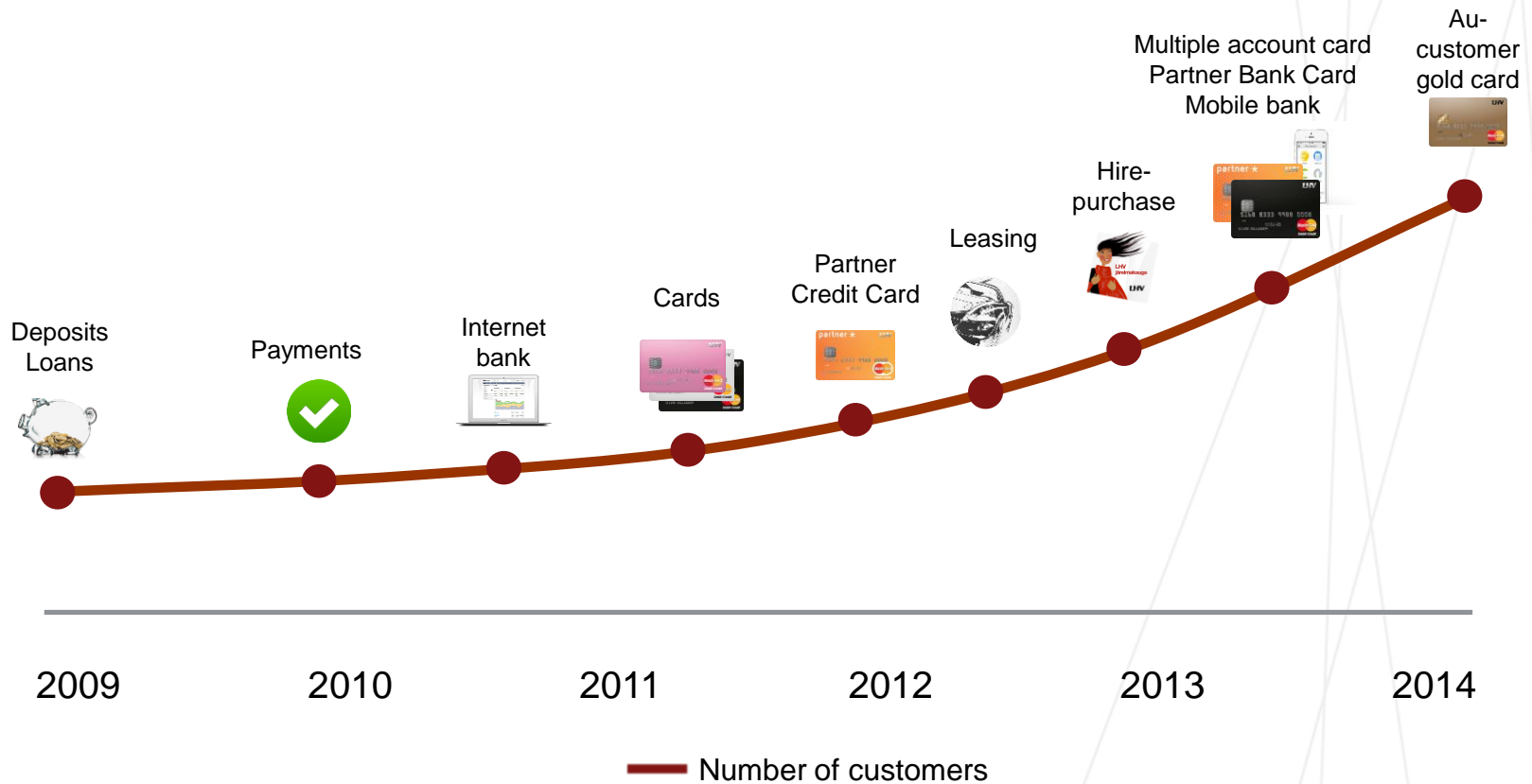
Brokerage services to retail investors. Nearly 500 active customers in Latvia and 1 000 in Lithuania. Activities have been initiated to reorganise the Latvian operations into a branch.

Finnish consumer financing

Loans for the Finnish market. Sales via mediators. A business with a high interest rate and a relatively high credit cost.

LHV Bank

Product portfolio dynamics



LHV Bank

Economic results and business volumes

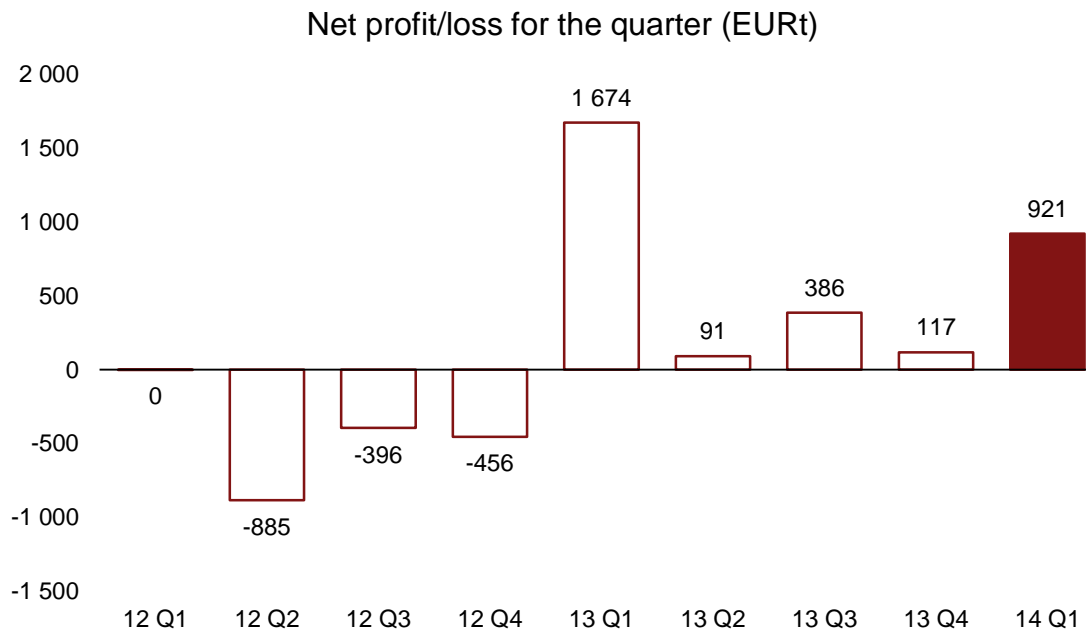
EURt	2009	2010	2011	2012	2013	
Net interest income	587	1 334	3 577	6 209	10 495	
Net fee income	3 000	3 078	2 880	2 665	3 045	
Net financial income	289	268	-887	384	2 342	
Total income	3 876	4 680	5 570	9 258	15 882	42%
Total expenses	3 643	5 543	9 444	9 921	10 995	
Operating profit	233	-863	-3 874	-663	4 887	
Loan provisions	0	0	2 607	1 074	2 619	
Profit	233	-863	-6 481	-1 737	2 268	

Number / EURt	2009	2010	2011	2012	2013
Private customers	11 294	13 867	18 363	32 450	41 250
Business customers	1 709	2 408	3 800	5 503	7 613
Deposits	32 289	114 808	209 355	282 021	356 308
Loans	10 310	38 073	66 680	106 067	204 563

- Within five years, rapidly growing interest income has been created alongside net income from service fees
- Average growth in income in the last five years: 42%
- Loan provisions and loan losses can mainly be attributed to the Finnish consumer financing portfolio
- Engagement of deposits has always been ahead of loan activities

LHV Bank

Nine quarters – a good start in 2014

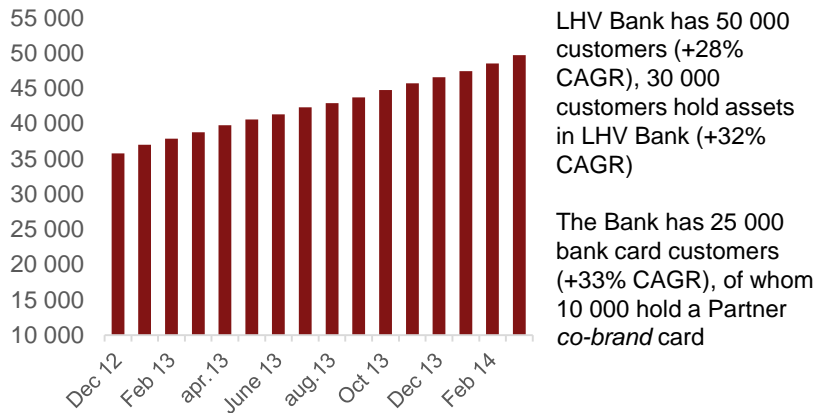


- Growing interest income supports profit growth
- One-off disposal of securities portfolio in 13 Q1 provided a financial income of 1 950 thousand euros
- The first quarter of 2014 exceeds expectations – higher service fee and financial income, lower credit cost
- Return on equity for 2014 Q1: 13,7%

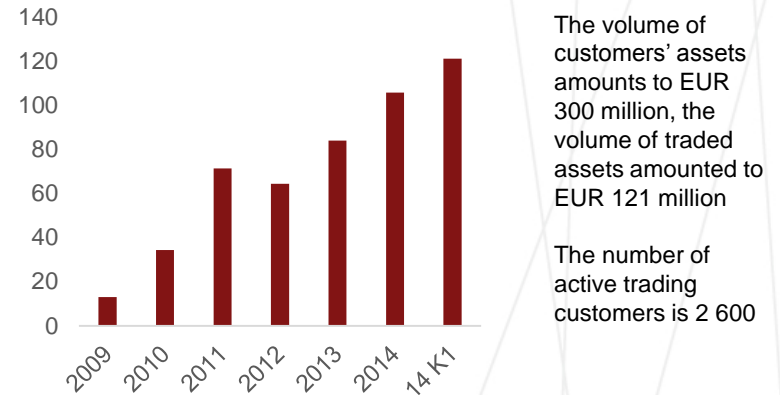
LHV Bank – Retail banking

Business overview

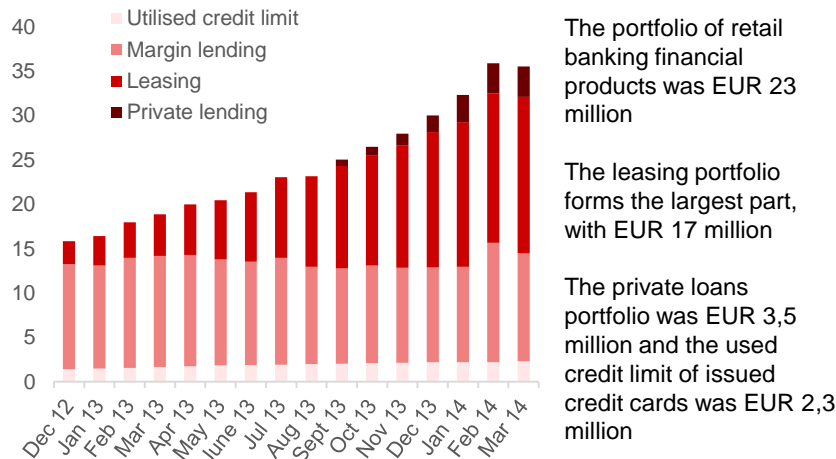
Retail banking customer base (number of customers)



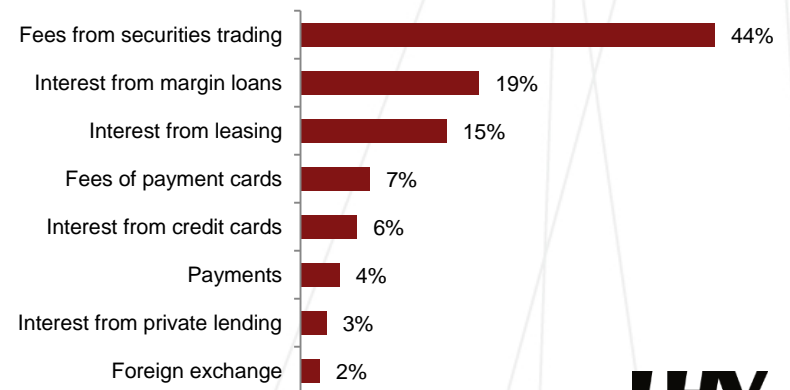
Assets of brokerage-related clients (EURm)



Volumes of retail banking financial products (EURm)



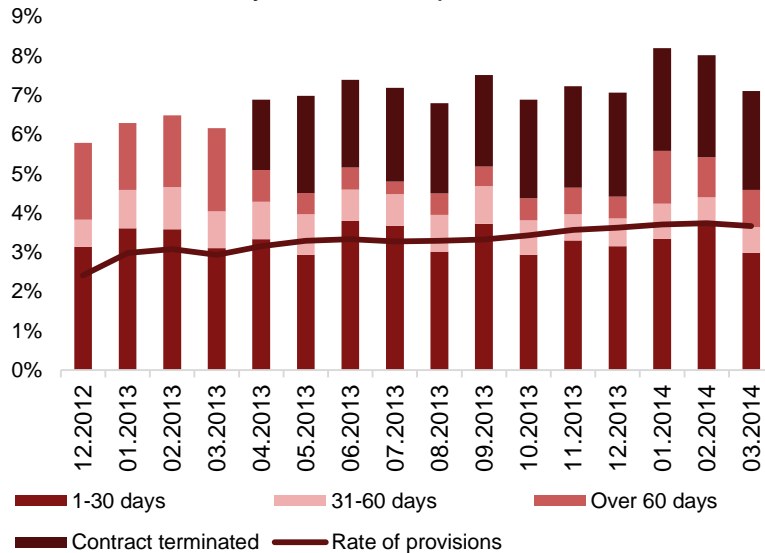
Distribution of income % (2014 Q1)



LHV Bank – Retail banking

Quality of assets

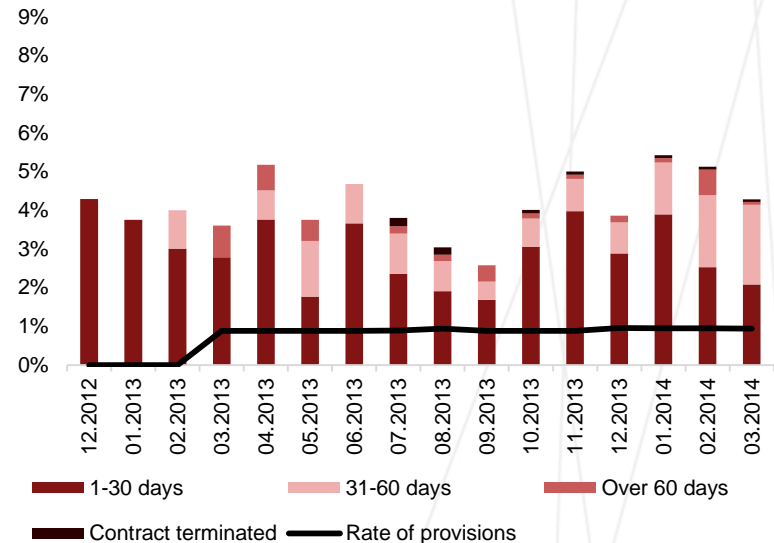
Quality of the card portfolio



The quality of the credit card and the combo-card portfolio is stable, with debts mostly being short-term. A bulk of the short-term debts consists of interest arrears and the annual card fee payables.

Approximately 2,5% of credit card and combo-card credit limit contracts are terminated due to the customer's debt, with the debts transferred to the debt management department for restructuring. The common effectiveness of restructuring is about 50%.

Quality of the leasing portfolio



The quality of the leasing portfolio meets expectations. The share of the debt portfolio is less than 5% and the majority of the debts are overdue for less than 30 days. The leasing e-invoice was introduced in February and had a positive impact on the share of 1-30-day debts.

Long-term debts can mostly be associated with legal persons, with the conclusion of contract restructuring plans.

LHV Bank – Corporate banking

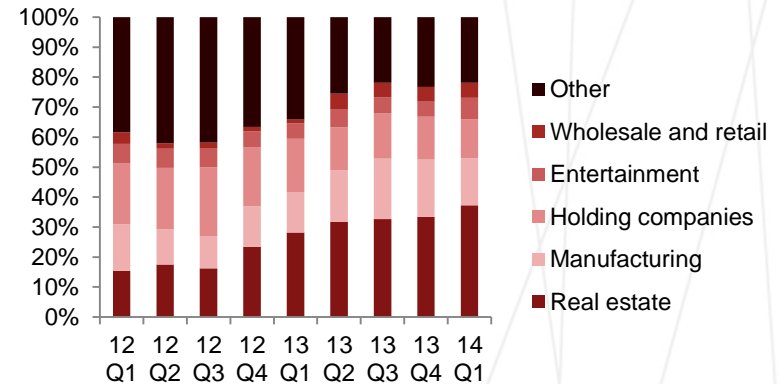
Business overview

Corporate banking customers are small and medium-sized enterprises. 99% of the SMEs have Estonian owners. The average loan amount is EUR 575 000.

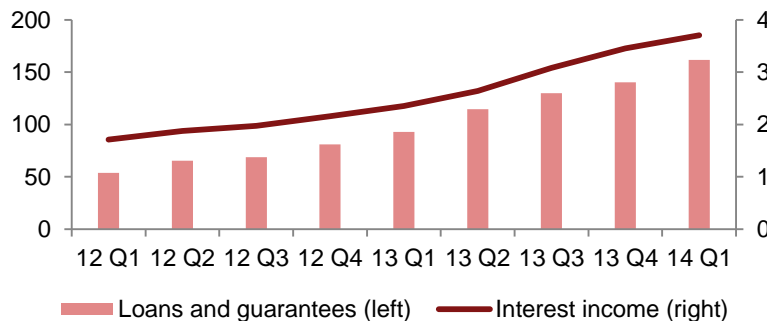
The corporate banking department is staffed by experienced customer managers, with an average banking experience of more than 12 years.

LHV's corporate banking stands out with its service quality, characterised primarily by high transparency, speed of service and direct communication with decision-makers.

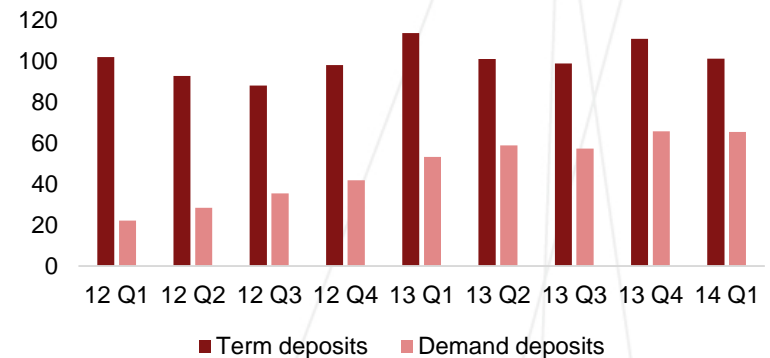
Corporate loan portfolio by fields of activity



Volumes and interest income of corporate loans (EURm)



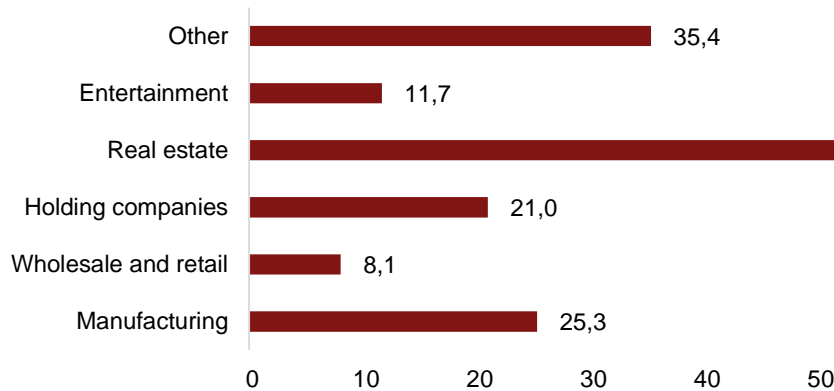
Corporate deposit volumes (EURm)



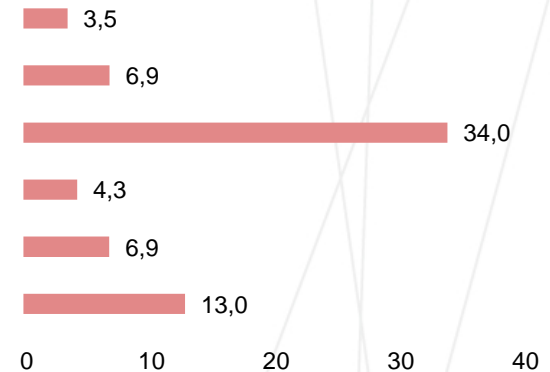
LHV Bank – Corporate banking

Prospects – towards a better balance

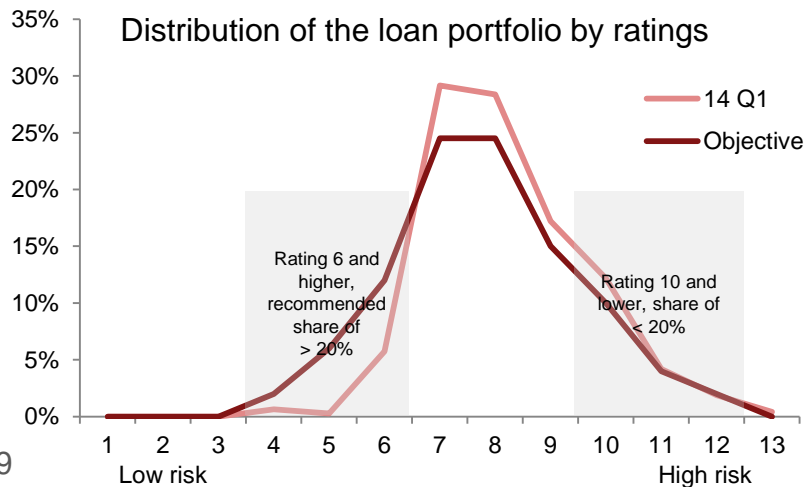
Distribution of the loan portfolio as at 2014 Q1 (EURm)



Growth - 12 months (EURm)



Distribution of the loan portfolio by ratings



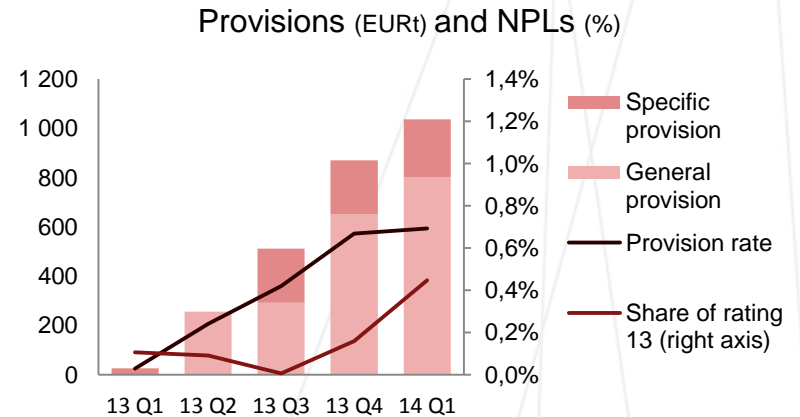
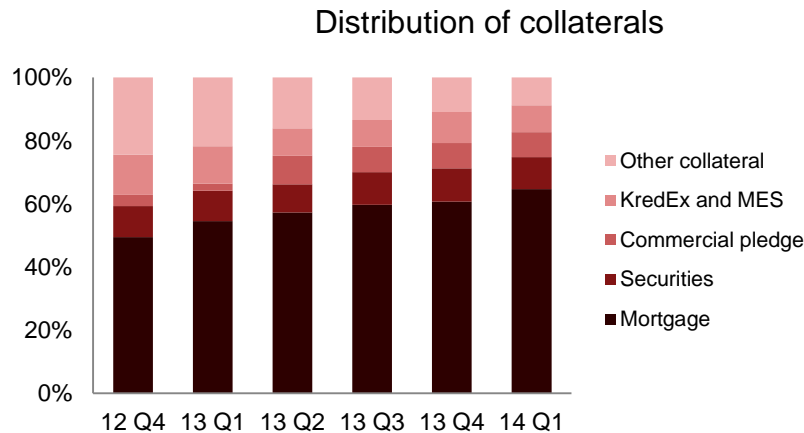
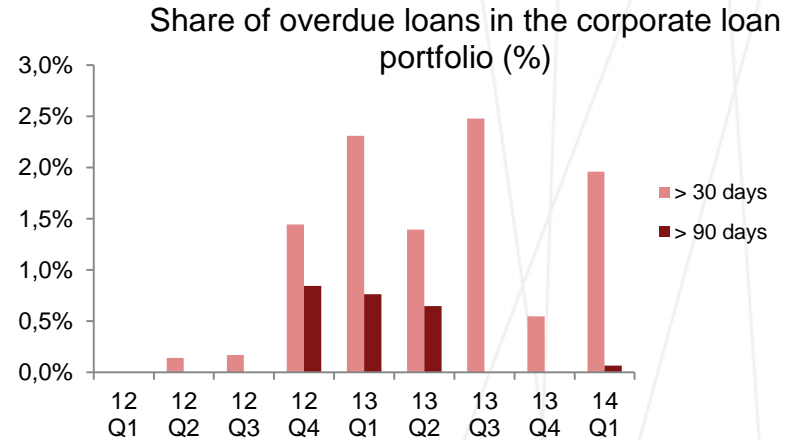
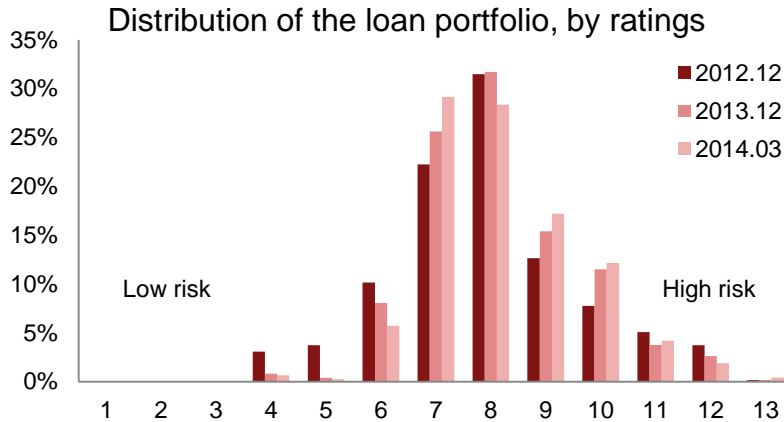
In the case of a steep economic decline, we expect the entire loan portfolio to weaken by an estimated two rating classes. To prevent this, we make an effort to increase the share of customers with stronger ratings (rating class 6 and higher).

Portfolio objective:

- To increase the share of rating classes 4 to 6 to 20% of the loan portfolio (currently 7%)
- No field of activity to form more than 40% of the portfolio
- A direct link between ratings and loan returns (higher-risk loans mean higher returns)

LHV Bank – Corporate banking

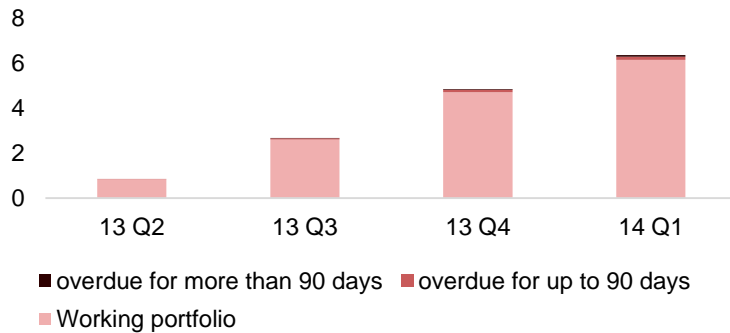
Quality of assets – new portfolio, strong collaterals



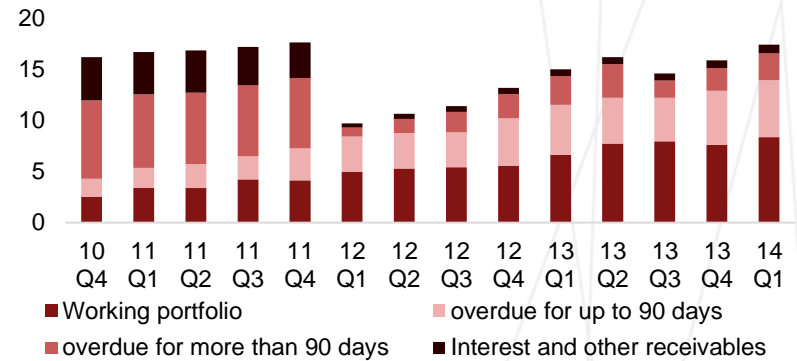
LHV Bank – LHV Finance and LHV Bank Finland

Consumer financing

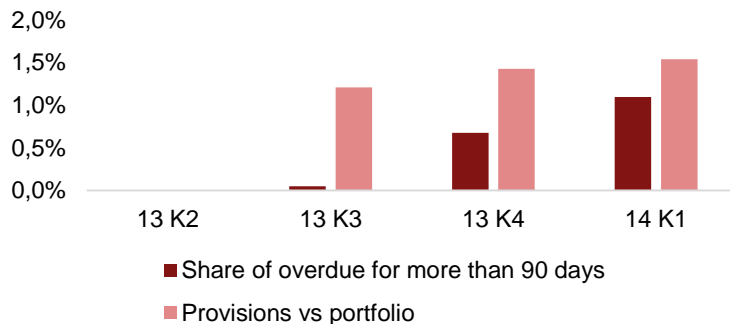
LHV Finance's hire-purchase portfolio (EURm)



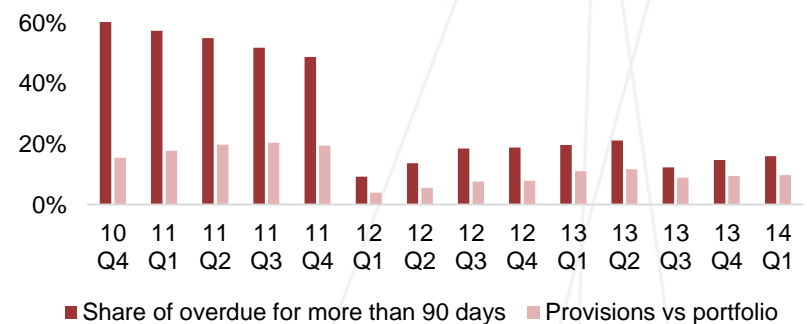
Finnish consumer loan portfolio (EURm)



LHV Finance's over-90-day portfolio, and provisions in proportion to the portfolio



Finnish over-90-day portfolio, and provisions in proportion to the portfolio



LHV Bank

Objectives and prospects

The objective of LHV Bank is to enhance business volumes, whilst maintaining and improving the current risk profile

Objectives for 2014:

- To implement the plan to launch new products and offers
- To increase the deposit portfolio by EUR 50 million
- To increase the financing portfolio by EUR 110 million
- To post a profit of EUR 3,4 million

Business areas

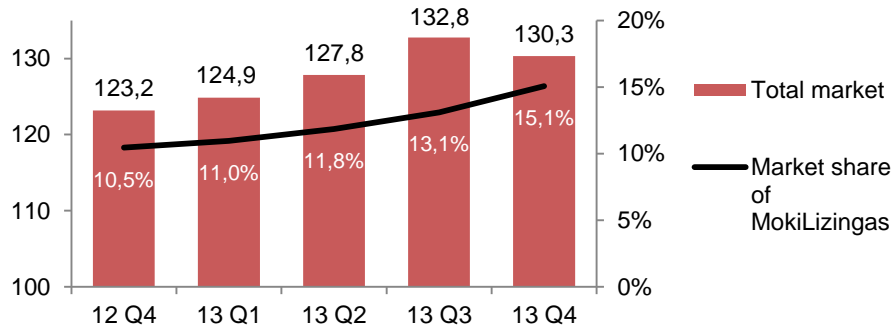
LITHUANIAN BUSINESS

LHV

Lithuanian business

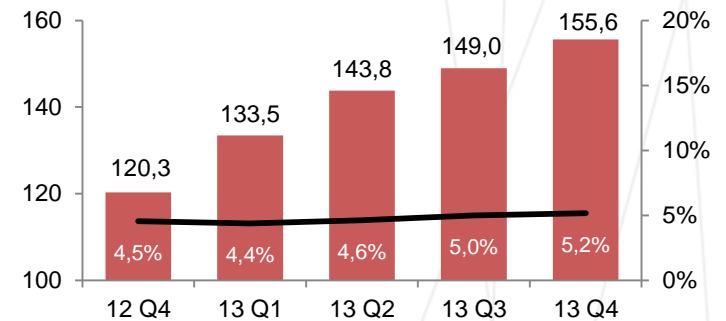
Market overview

Hire-purchase market volume* (EURm)



EURm					
HP new sales*	Average for 2012	13 Q1	13 Q2	13 Q3	13 Q4
Total market	28,3	28,0	37,3	34,2	32,6
MokiLizingas	3,3	4,3	5,4	6,8	7,5
Market share	11,6%	15,2%	14,4%	19,7%	22,9%

Consumer loans market volume** (EURm)



EURm					
CL new sales**	Average for 2012	13 Q1	13 Q2	13 Q3	13 Q4
Total market	44,0	53,3	49,7	46,0	47,4
MokiLizingas	0,7	1,2	1,7	1,9	1,8
Market share	1,7%	2,2%	3,5%	4,1%	3,8%

* Includes car leasing for private persons. Without car leasing, ML's market share is approximately 2 times greater and new sales approximately 1,5 to 2 times higher.

** Does not include credit institutions.

Sources: Lithuanian Banking Union, Central Bank of Lithuania, estimates of MokiLizingas

Lithuanian business – MokiLizingas

Economic results and business volumes

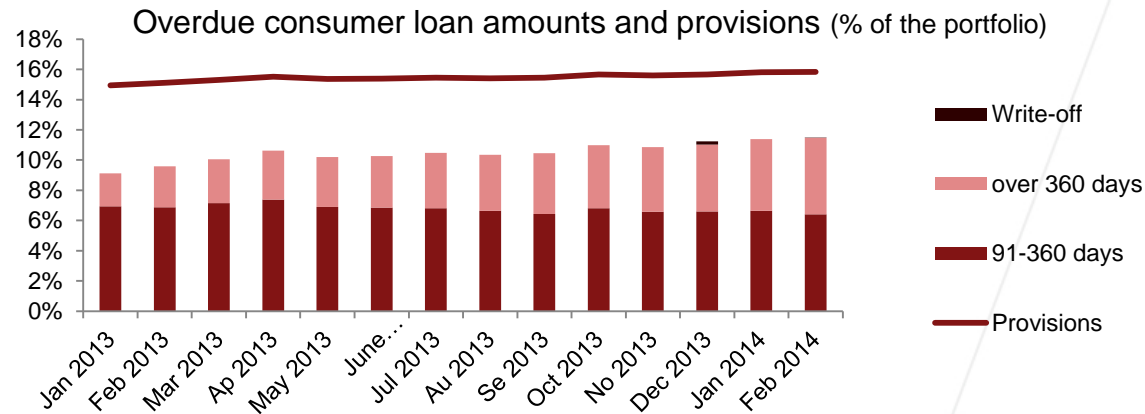
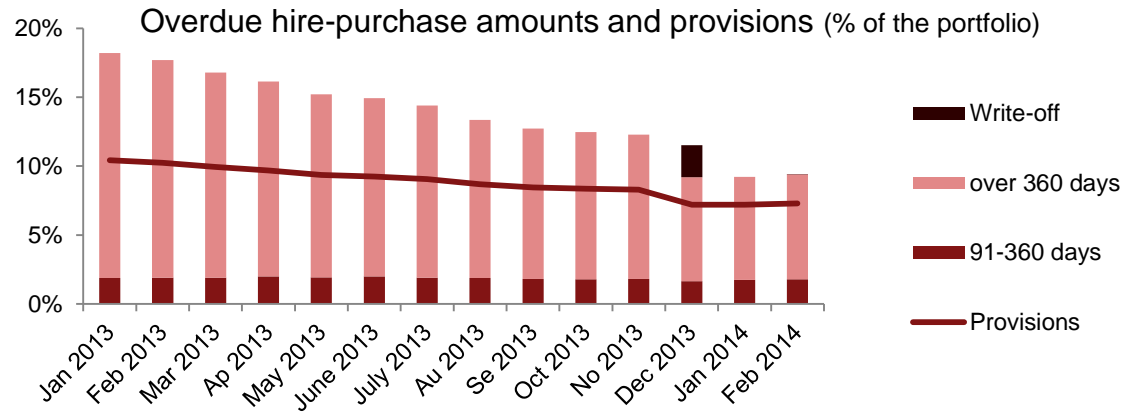
EURt	13 Q3	13 Q4	14 Q1
Net interest income	696	789	829
Net fee income	354	287	249
Net other income	-3	-2	0
Total income	1 046	1 073	1 079
Total expenses	559	813	595
Operating profit	488	261	483
Loan provisions	37	215	2
Income tax	0	83	56
Profit	450	-38	426

EURt	13 Q3	13 Q4	14 Q1
Loans	24 105	26 494	26 072

- LHV consolidates MokiLizingas since July 2013
- Recovery of new sales and careful pricing is boosting interest income
- In the fourth quarter of 2013, restructuring-related costs were incurred, with changes introduced in provisioning methods
- In consumer financing, the year began with low sales but high profitability. The subsequent quarters bring an increase in expenses and new provisions
- Return on equity for 2014 Q1: 49,9%

Lithuanian business - MokiLizingas

Quality of assets – improving and satisfactory



Lithuanian business - Finasta

New business development

- LHV Group together with Razfin has made an offer to the bankruptcy trustee of Snoras Bankas for the purchase of Finasta Bankas and Finasta Asset Management
- The details of the transactions are currently being negotiated
- Finasta Bankas is a small bank focused on investment services
- LHV and Razfin are interested in engaging deposits in the Lithuanian market and in offering financial services to private persons and SMEs over the long-term horizon
- If the transaction is successful, the business activities of MokiLizingas and Finasta will be consolidated into a single company
- The transaction should be completed by the end of June 2014

CAPITALISATION

LHV

Capitalisation

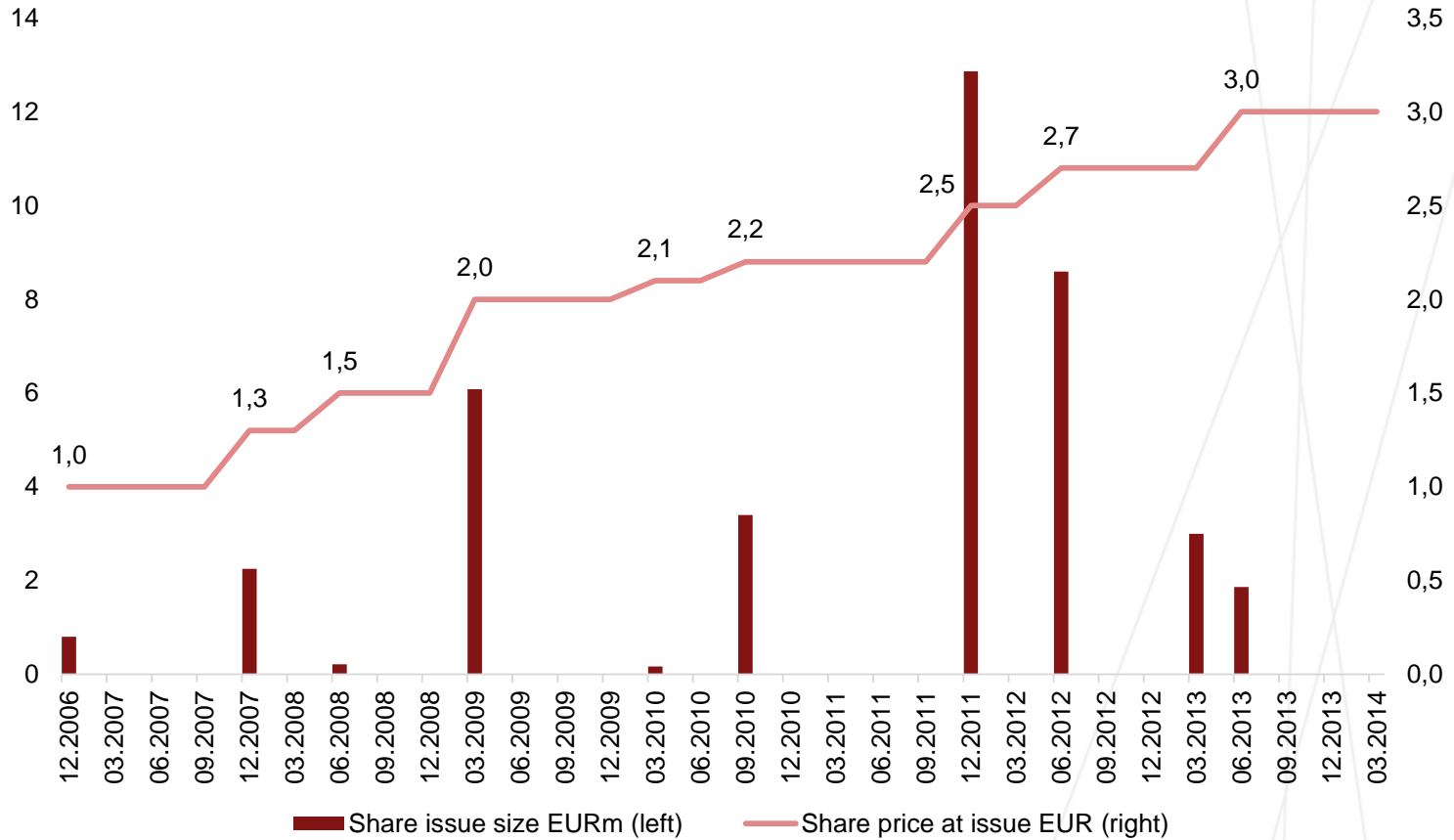
Capital allocation

Data for 2013	Equity EURm	Subordinated loan EURm	Return on equity	Increase of capital requirement	New issue June 2014
Asset Management	5,19	1,55	40%	27%	0,00
Bank	26,87	10,00	11%	63%	12,00
Mokilizingas	3,24	0,00	27%	nm	0,00
LHV Group (consolidated)	31,95	19,64	16%	62%	13,83
LHV Group (cons., part of parent comp.)	30,25	19,64	17%	nm	13,83

- Asset Management, Bank and LHV Group (consolidated) are subject to capital regulation
- In aggregate, the solo capital requirements are higher than consolidated requirements
- Asset Management created more new capital than needed for growth
- The majority of the volume of the new issue will be used for expanding the Bank's activities

Capitalisation

Previous issues and share price



SHAREHOLDERS

LHV

LHV Group

Shareholders – as at 1 May 2014

Shareholder (holding over 1%)	Participation (%)
Rain Lõhmus	34
Andres Viisemann	13
Ambient Sound Investments OÜ	6
Mai Kaarepere	6
Tiina Mõis	5
Heldur Meerits	4
Olaf Herman	3
Tõnis Sildmäe	3
Lembit Lump	2
Raivo Hein	2
Hannes Tamjärv	2
Jaanus Otsa	2
Vello Kunman	2
Rein Kiudsoo	1
Rolf Relander, Rikard Relander	1
Jaak Annus	1

including	Participation (%)
Supervisory Board	66
Staff members	4

