

LHV Group

Financial plan 2023 update
7 September 2023

The assumptions underlying the forecast of financial results are presented in the comments



LHV Group – forecast

Financial plan assumptions

- Base interest rates have been higher than forecasted, resulting in higher interest income. A gradual increase in interest rates is expected
- The quality of the credit portfolio has remained at a good level. The formation of precautionary allowances for Credit losses
- Faster growth of the credit portfolio in the UK
- Customer activity persists, net fee and commission income affected by the lower level of investment services income
- The macroeconomic situation is complex, and predictability stays low
- Operating expenses are affected by the significantly increased payment rate of the deposit guarantee fund and the expenses of outsourced services
- LHV Varahaldus forecast does not include performance fees

LHV Group – forecast

A strong credit portfolio with higher interest income

Financial results, EURt	2022	Updated FP2023	Δ YoY	Previous FP2023	Δ upd. FP
Total net income, incl.	173,543	299,714	+126,171	270,443	+29,271
Net interest income	129,111	246,390	+117,279	216,005	+30,385
Net fee and commission income	44,900	51,753	+6,853	53,808	-2,055
Total operating expenses	89,638	128,866	+39,228	118,690	+10,176
Earnings before impairment	83,905	170,848	+86,943	151,753	+19,095
Impairment losses	8,052	8,221	+169	24,589	-16,368
Earnings before taxes	75,853	162,627	+86,774	127,164	+35,462
Income tax expense	14,421	22,588	+8,167	18,931	+3,657
Net profit, incl.	61,432	140,039	+78,606	108,233	+31,805
attr. to shareholders	59,808	138,725	+78,917	106,789	+31,935

Business volumes, EURm	2022	Updated FP2023	Δ YoY	Previous FP2023	Δ upd. FP
Deposits from customers	4,901	5,608	+707	5,653	-45
Loans (net)	3,209	3,506	+297	3,428	+78
Assets under management	1,332	1,544	+212	1,570	-27
Fin.intermediaries' payments, mil. pcs	26	41	+14	34	+7

Key figures	2022	Updated FP2023	Δ YoY	Previous FP2023	Δ upd. FP
Cost / Income ratio (C/I)	51.7%	43.0%	- 8.7 pp	43.9%	- 0.9 pp
pre-tax ROE*	20.4%	33.8%	+ 13.4 pp	27.4%	+ 6.4 pp
ROE*	16.5%	29.1%	+ 12.6 pp	23.3%	+ 5.8 pp
T1 capital adequacy	18.4%	18.9%	+ 0.5 pp	18.4%	+ 0.5 pp
Total capital adequacy	21.7%	21.2%	- 0.5 pp	21.5%	- 0.3 pp

- Business volumes of the current plan stays largely at the same level with the previous plan
- Higher net income growth compared to previous year is due to increased business volumes, higher interest rates and an earlier increase in interest income compared to expenses related to liabilities
- In August, LHV Bank started working as a licensed bank in the UK. The business is profitable on an annual basis
- Capital requirements and the number of regulations continue to increase
- The capital growing due to profit earned is invested in the growth of loan portfolios. LHV's capital is amplified in the economy together with the entrepreneur's own financing, reaching up to a tenfold final investment

LHV Bank – forecast

Revenue growth before expense growth

Financial results, EURt	2022	Updated FP2023	Δ YoY	Previous FP2023	Δ upd. FP
Total net income, incl.	161,674	247,941	+86,267	227,337	+20,604
Net interest income	129,489	219,949	+90,460	198,153	+21,796
Net fee and commission income	32,408	27,045	-5,362	29,046	-2,000
Total operating expenses	64,545	83,133	+18,588	76,459	+6,674
Earnings before impairment	97,129	164,807	+67,679	150,877	+13,930
Impairment losses	2,996	7,176	+4,180	24,008	-16,831
Earnings before taxes	94,133	157,631	+63,498	126,870	+30,761
Income tax expense	13,260	20,867	+7,607	17,151	+3,716
Net profit	80,873	136,764	+55,891	109,719	+27,045

Business volumes, EURm	2022	Updated FP2023	Δ YoY	Previous FP2023	Δ upd. FP
Deposits from customers	4,957	5,300	+343	5,197	+102
Loans (net)	3,187	3,454	+267	3,370	+83

Key figures	2022	Updated FP2023	Δ YoY	Previous FP2023	Δ upd. FP
Cost / Income ratio (C/I)	39.9%	33.5%	- 6.4 pp	33.6%	- 0.1 pp
pre-tax ROE*	29.0%	34.7%	+ 5.7 pp	29.6%	+ 5.1 pp
ROE*	24.9%	30.0%	+ 5.1 pp	25.5%	+ 4.5 pp
T1 capital adequacy	19.1%	20.3%	+ 1.2 pp	18.6%	+ 1.7 pp
Total capital adequacy	21.9%	22.3%	+ 0.5 pp	20.7%	+ 1.6 pp

- Rise in interest rates has been higher than we previously expected, and assets price faster than liabilities to new interest levels
- The business volumes of both deposits and loans are growing slightly faster
- The quality of the loan portfolio has remained very strong regardless of the economic situation
- Decrease in net fee and commission income is primarily due to revenue sharing in the financial intermediary sector with LHV Bank and a decrease in the investment services income
- The increase in expenses is slightly higher, primarily due to regulatory-related personnel and IT expenses. The more than two-fold increase in deposit guarantee fund payment also has a significant impact

LHV Varahaldus – forecast

Preparing to accept larger contributions to II pillar

Financial results, EURt	2022	Updated FP2023	Δ YoY	Previous FP2023	Δ upd. FP
Total net income	7,805	9,474	+1,669	9,510	-36
Total operating expenses	7,077	6,953	-124	6,956	-3
Earnings before taxes	728	2,521	+1,793	2,554	-33
Income tax expense	830	488	-342	488	-0
Net profit	-103	2,032	+2,135	2,066	-33
Business volumes	2022	Updated FP2023	Δ YoY	Previous FP2023	Δ upd. FP
Assets under management, EURm	1,332	1,544	+212	1,570	-27
Active customers of PII funds, thous.	131	124	-8	135	-12
Key figures	2022	Updated FP2023	Δ YoY	Previous FP2023	Δ upd. FP
Cost / Income ratio (C/I)	90.7%	73.4%	- 17.3 pp	73.1%	+ 0.2 pp
pre-tax ROE*	3.1%	11.5%	+ 8.4 pp	11.6%	- 0.2 pp
ROE*	-0.4%	9.2%	+ 9.7 pp	9.4%	- 0.2 pp

- Preparing for a new law amendment that will take effect next year, where instead of 2%+4% payment, applications can also be submitted for 4%+4% and 6%+4% payments
- During the first two seasons of the year, 35% fewer clients have exited II pillar compared to the previous year
- Fond volumes are increasing
- LHV pension funds have a clearly distinctive strategy in the market
- Expectation of earning the performance fee has been postponed to 2026 due to temporarily very high benchmark index

LHV Kindlustus – forecast

Business volume growth supports reaching net profit

Financial results, EURt	2022	Updated FP2023	Δ YoY	Previous FP2023	Δ upd. FP
Total net income	1,487	4,878	+3,391	4,574	+304
Total expenses	3,181	4,572	+1,391	4,273	+298
Earnings before taxes	-1,693	307	+2,000	301	+6
Income tax expense	0	0	+0	0	+0
Net profit	-1,693	307	+2,000	301	+6

Business volumes	2022	Updated FP2023	Δ YoY	Previous FP2023	Δ upd. FP
Gross written premiums, EURm	17	32	+15	27	+5

Key figures	2022	Updated FP2023	Δ YoY	Previous FP2023	Δ upd. FP
Cost / Income ratio (C/I)	216.0%	93.7%	- 122.3 pp	93.6%	+ 0.1 pp
Net loss ratio	73.9%	67.9%	- 6.0 pp	66.1%	+ 1.8 pp
Net expense ratio	46.0%	31.8%	- 14.3 pp	32.8%	- 1.0 pp
pre-tax ROE*	-28.7%	6.4%	+ 35.0 pp	5.9%	+ 0.5 pp
ROE*	-28.7%	6.4%	+ 35.0 pp	5.9%	+ 0.5 pp

- The increased revenue base resulting from increased business volumes leads to positive profit
- Sales volumes for vehicle insurance and health insurance are significantly better than planned initially
- The number of customers is in stable growth, supported by increasing synergy in the banking channel
- Infotechnology and internal processes development continues
- The portfolio size achieved in 2023 ensures lower volatility in key ratios

LHV Bank – forecast

Higher profitability through a larger loan portfolio and interest income

Financial results, EURt	2022	Updated FP2023	Δ YoY	Previous FP2023	Δ upd. FP
Total net income, incl.	67	33,544	+33,478	28,487	+5,057
Net interest income	60	27,662	+27,602	7,984	+19,679
Net fee and commission income	0	5,949	+5,949	20,503	-14,554
Total operating expenses	11,737	29,432	+17,694	26,855	+2,577
Earnings before impairment	-11,670	4,113	+15,783	1,632	+2,480
Impairment losses	0	864	+865	581	+283
Earnings before taxes	-11,670	3,249	+14,919	1,051	+2,198
Income tax expense	0	0	+0	0	+0
Net profit	-11,670	3,249	+14,919	1,051	+2,198

Business volumes, EURm	2022	Updated FP2023	Δ YoY	Previous FP2023	Δ upd. FP
Deposits from customers	0	347	+347	501	-154
Loans (net)	22	129	+107	59	+70

Key figures	2022	Updated FP2023	Δ YoY	Previous FP2023	Δ upd. FP
Cost / Income ratio (C/I)	17,572.7%	87.7%	-17,485.0 pp	94.3%	- 6.5 pp
pre-tax ROE*	-56.2%	8.0%	+ 64.2 pp	3.0%	+ 5.0 pp
ROE*	-56.2%	8.0%	+ 64.2 pp	3.0%	+ 5.0 pp

- The banking license obtained, business operations transferred, and new IT system implemented
- The loan volume has been increased as the previous year's target is already being met in September
- The deposit volume has been reduced according to the current situation in the financial intermediaries' deposit base
- Interest income moved from net fee and commission income to interest income. Interest income is higher due to higher interest rates and profit-sharing with LHV Pank compared to the previous financial plan
- Expenses have grown mainly due to higher personnel expenses and IT expenses

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