

LHV Group

Financial plan 2021-2025
16 February 2021

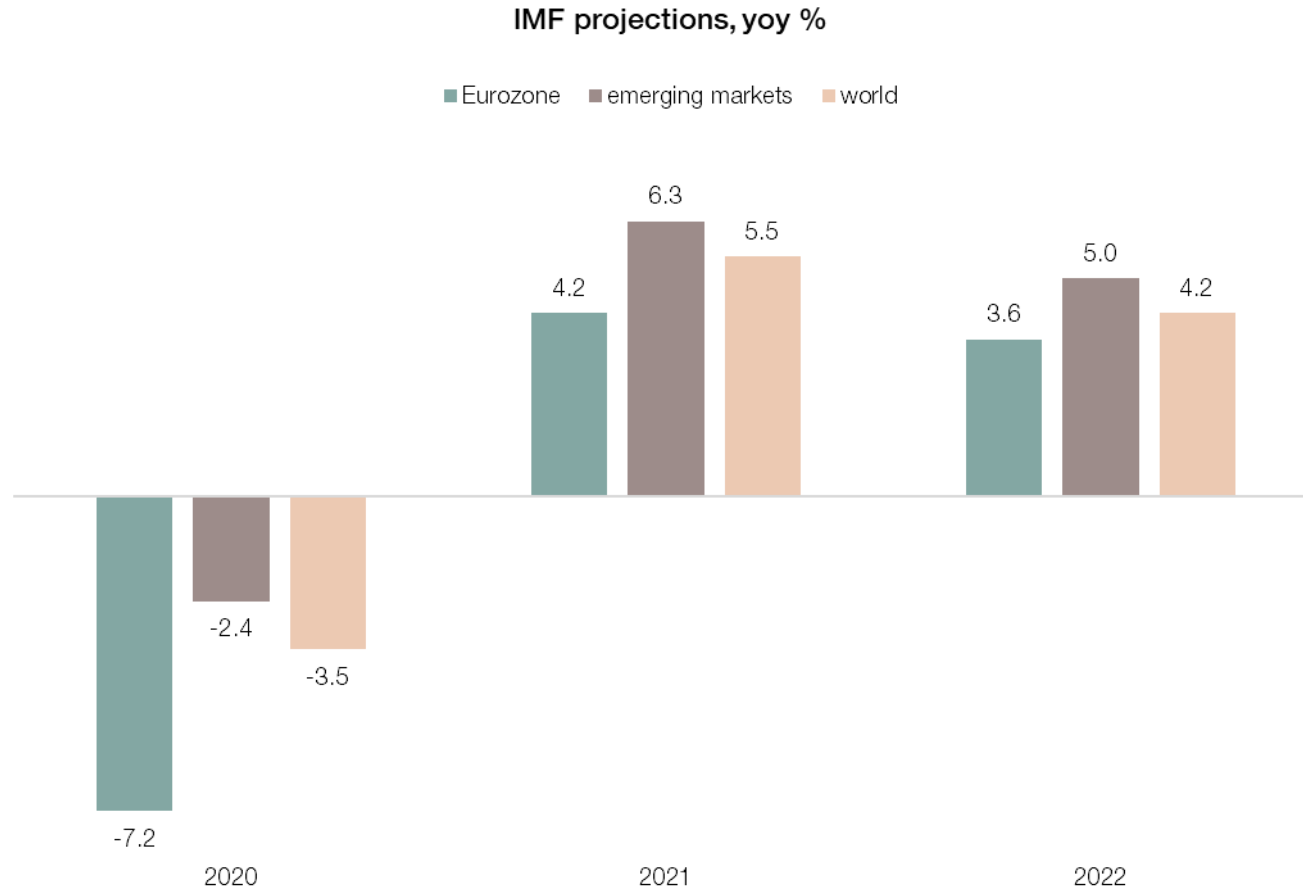
The assumptions for key drivers are presented in the comments



Business Environment

Business Environment

Economic recovery in 2021



- Recovery lead by developing markets, that were hit less by crisis
- Europe one of the worst sufferers of the crisis, economy recovering slightly slower
- A precondition of the forecast is the widespread availability of vaccines by summer of 2021

Business Environment

Merchandise trade on pre-crisis level

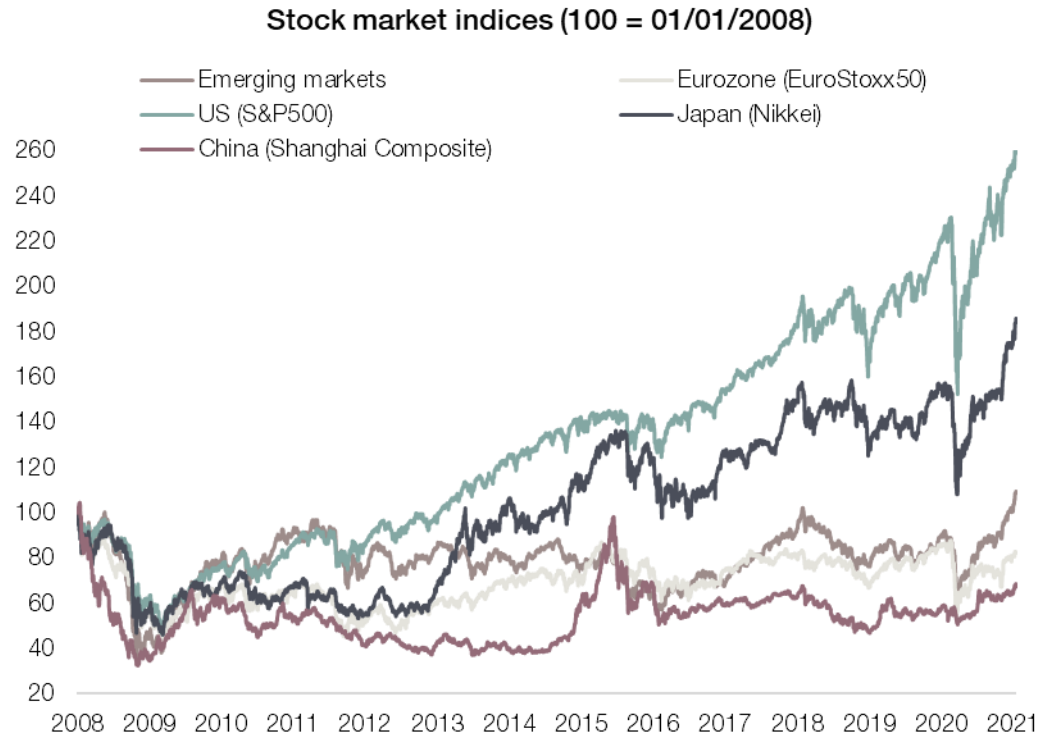


- Export volumes have returned to the level of 2019 year-end
- Faster recovery is hindered by the lack of sea containers, transport prices have risen many times over
- Largest increase in goods transported from Asia to the US and Europe

Source: CPB World Trade Monitor (November 2020)

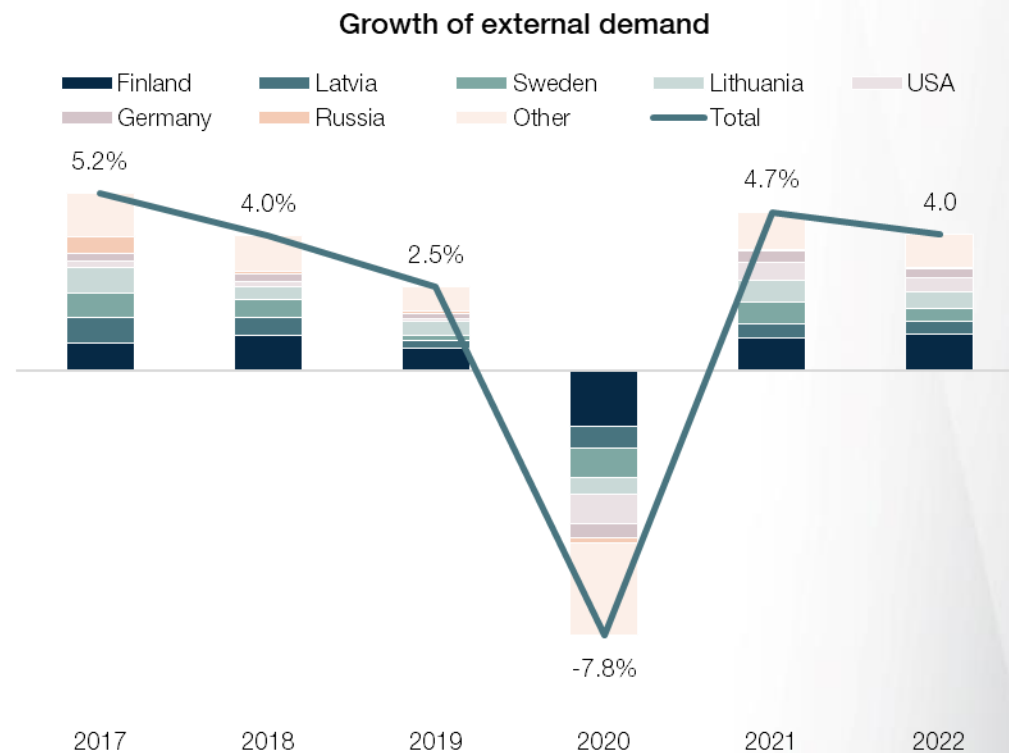
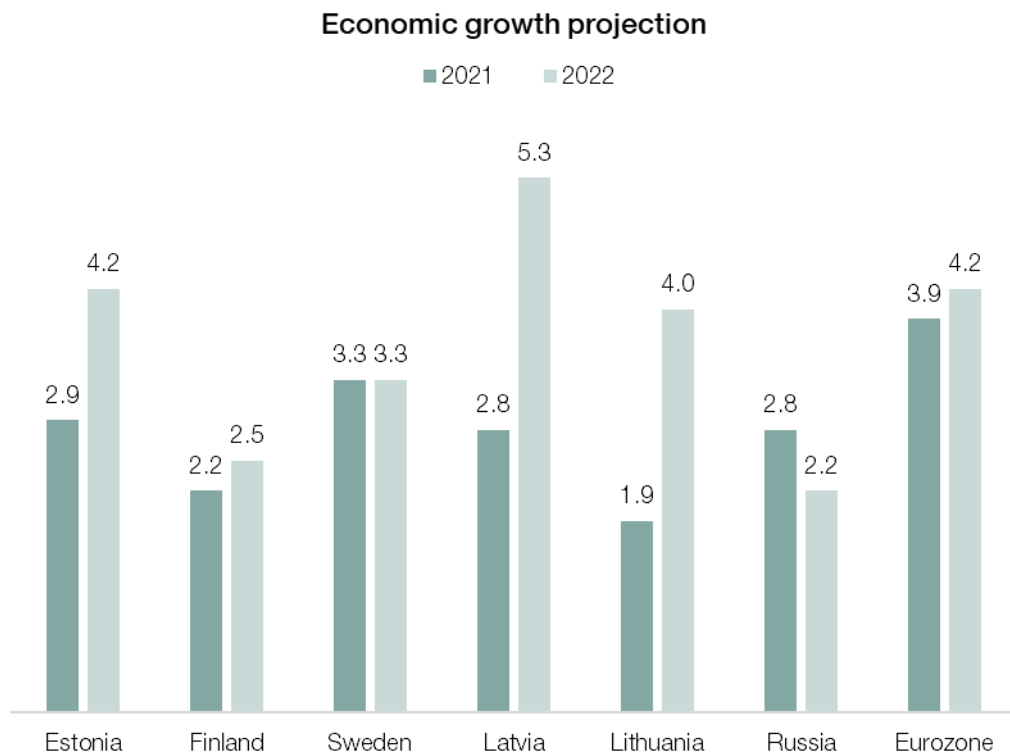
Business Environment

Rise of stock markets in the wake of mild monetary policy



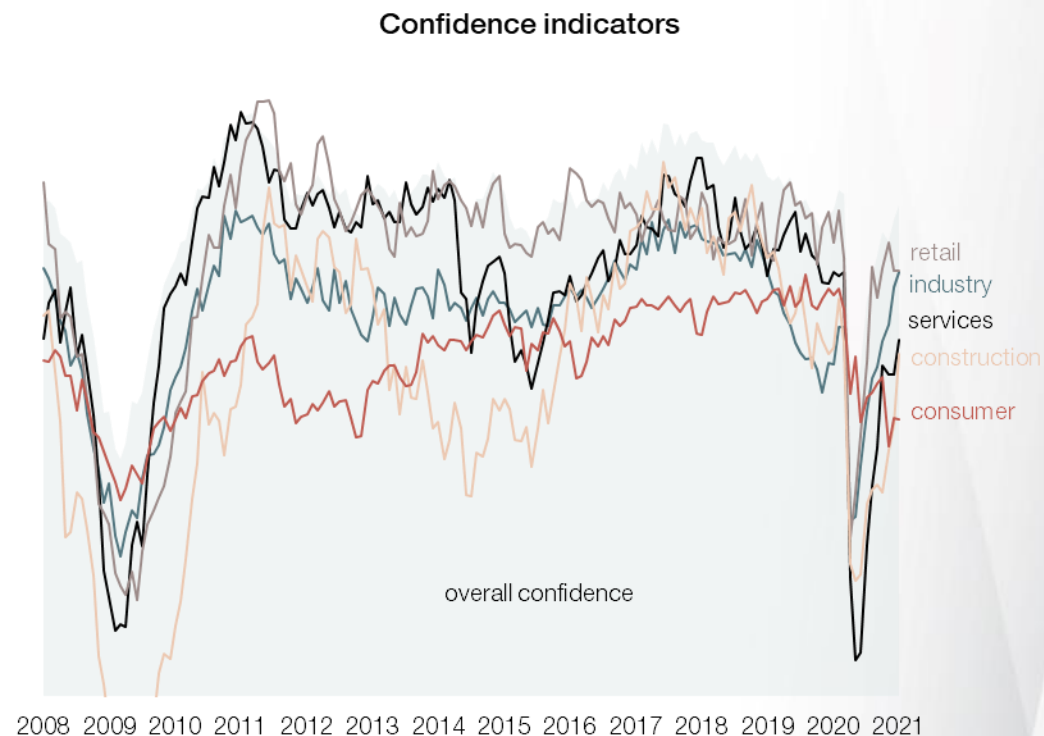
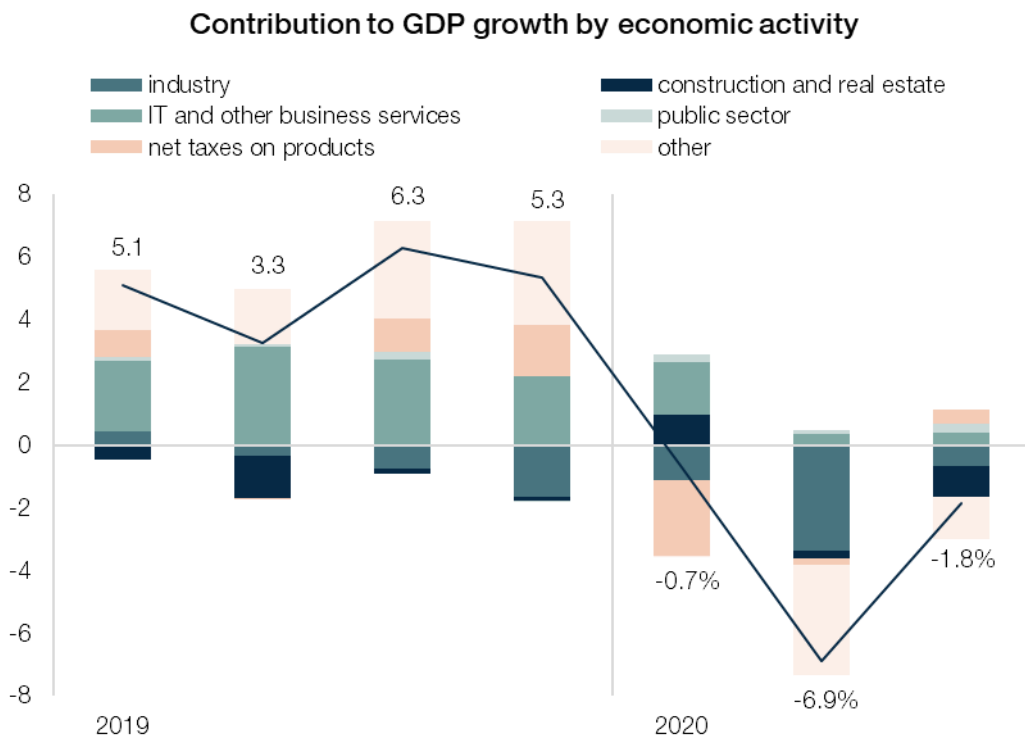
Source: Bloomberg

External demand recovers fast and supports further growth of Estonian economy



Business Environment

Business confidence has nearly recovered

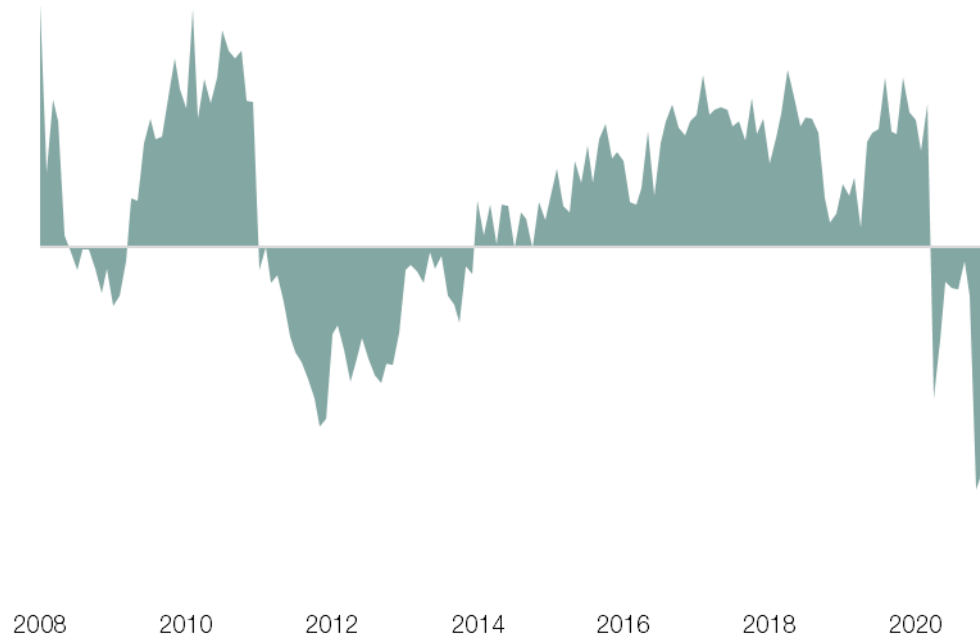


Source: Statistics Estonia, LHV calculations

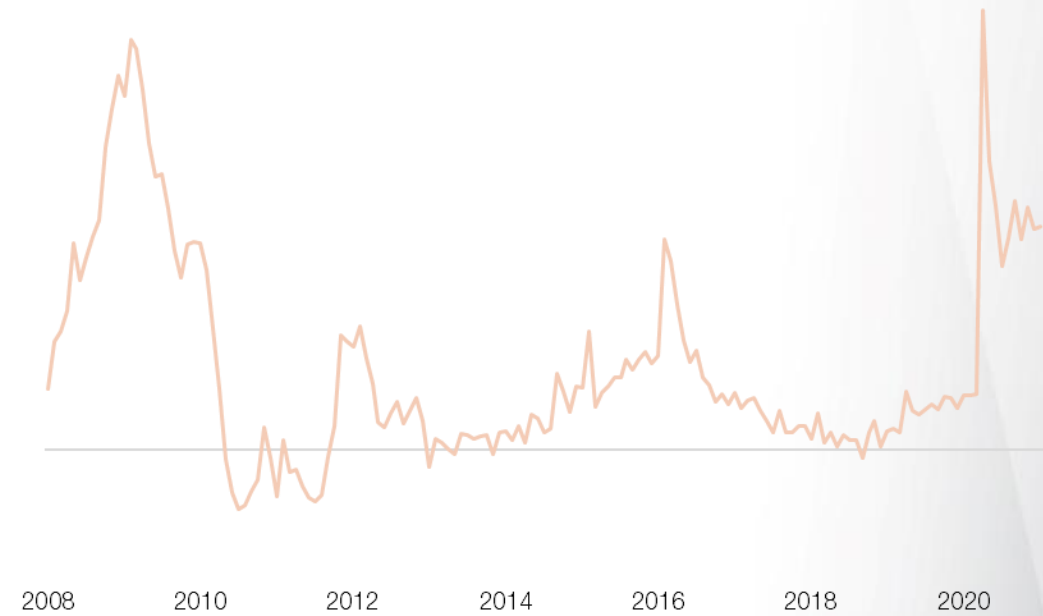
Business Environment

Recovery of consumer confidence has been difficult

Is it the right time to make large purchases?



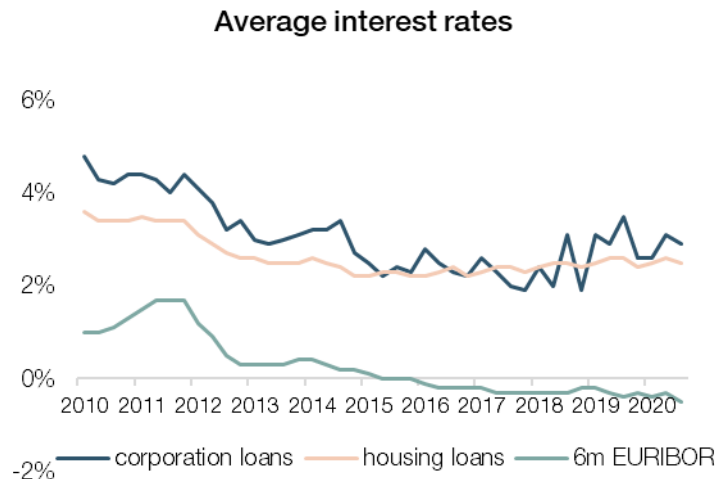
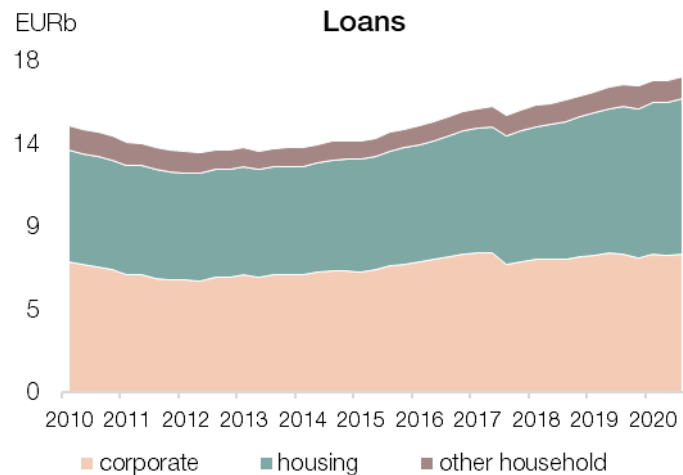
Unemployment expectation in next 12 months



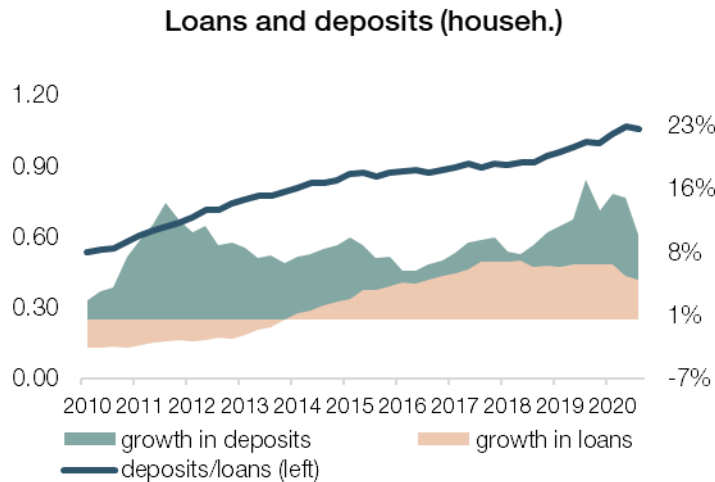
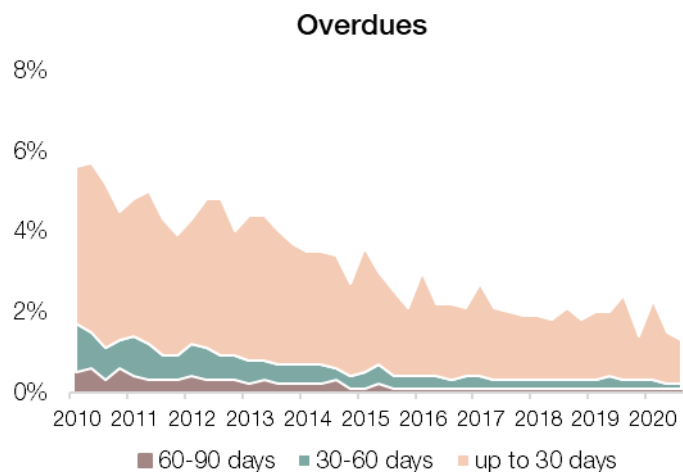
Source: European Commission

Business Environment

Financial sector indicators remain strong



- The loan balance continues to increase, mainly due to home loans
- The financial well being of households remains strong. Growth of deposits has constantly exceeded the growth of loans
- Euribor remains low. The margin for corporate and housing loans is stable
- Percentage of overdue loans is low



Source: Eesti Pank

LHV historically rapid growth

2020 – three remarkable events in addition to strong growth

The assets of LHV increased by 1.6 times in 2020 reaching 5.0 EURb. By the end of the year, we had serviced 259,000 bank and 215,000 pension fund customers. LHV Bank is the third largest bank in daily banking in Estonia with a 10% market share. We acquired Danske corporate credit portfolio, announced the plan to separate the UK business activities and founded LHV Insurance

Rapid growth

- Bank customers: +56,800 (28%)
- Loans: + 522 million (31%)
- Deposits: + 1,419 million (53%)
- Funds: + 163 million (12%)

Customer convenience

- Green financial services
- Reduction of transaction fees for securities
- Apple Pay, Google Pay, virtual ISIC
- Apartment association loans
- Agency Banking

Awards

- Bank with the best service – Dive
- Best bank – Euromoney / The Banker
- Best Green Office

Asset Management

- New funds: Roheline, Roheline Pluss
- Best performing pension fund Roheline
- Actively managed funds with good return

Other

- Issuance of covered bonds
- High credit rating of LHV Bank

Business volumes have multiplied in the past 5 years

Financial results, EURt	2016	2017	2018	2019	2020	
Total income, incl.	50,558	58,523	70,024	73,818	103,547	20%
Net interest income	29,976	35,502	39,770	47,388	68,492	
Net fee and commission	19,186	22,180	26,002	25,677	33,351	
Total expenses	28,914	31,945	33,807	39,266	43,975	11%
Operating profit	21,644	26,578	36,217	34,552	59,572	
Impairment losses on loans	1,480	3,154	5,269	3,209	10,898	
Earnings before taxes	20,164	23,424	30,947	31,342	48,674	
Income tax expense	270	1,248	3,758	4,250	8,827	
Net profit, incl.	19,894	22,176	27,190	27,092	39,847	19%
attr. to shareholders	17,816	19,601	25,237	24,797	37,950	
Business volumes, EURt	2016	2017	2018	2019	2020	
Deposits	777	1,537	1,422	2,701	4,120	
Loans (net)	538	732	919	1,687	2,209	
Assets under management	974	1,103	1,214	1,374	1,537	
Key figures	2016	2017	2018	2019	2020	
Cost / income ratio (C/I)	57.2%	54.6%	48.3%	53.2%	42.5%	
pre-tax ROE*	19.6%	17.6%	20.9%	16.2%	20.5%	
ROE*	20.7%	17.6%	18.4%	14.0%	17.3%	
T1 capital adequacy	15.1%	14.0%	13.6%	13.9%	14.4%	
Total capital adequacy	20.7%	18.3%	19.4%	18.0%	19.3%	

- Both deposits and loans have increased five times in the last five years. Funds' volume has more than doubled
- 5y average increase in revenues 20% and expenses 11%
- In 2020, fast growth in loans and regular customer deposits. Record volumes in pension funds and private banking. Customer activity all-time high
- Financing sources have been diversified. Group lending activity has been conservatively financed by deposits. Amount of deposits exceeds loans by 2 EURb

Strategy

LHV Group

LHV Group today

The largest and fastest growing financial group and capital provider in Estonia

Third-largest bank in daily banking in Estonia

Second-largest pension fund manager in Estonia

6.5 billion euros of customer assets

LHV's home markets are Estonia and the United Kingdom

Fast and profitable growth in Estonia

- Home loans all over Estonia
- Capability to finance all Estonian companies
- Strong e-channels
- Green products

Investment = LHV

- Complete product portfolio
- Custody and trading of Baltic shares free of charge
- Reduction of fees for foreign shares
- Pension Investment Account

The most capable partner for financial intermediaries

- Platform for payment services
- Agency Banking

High-yield pension funds

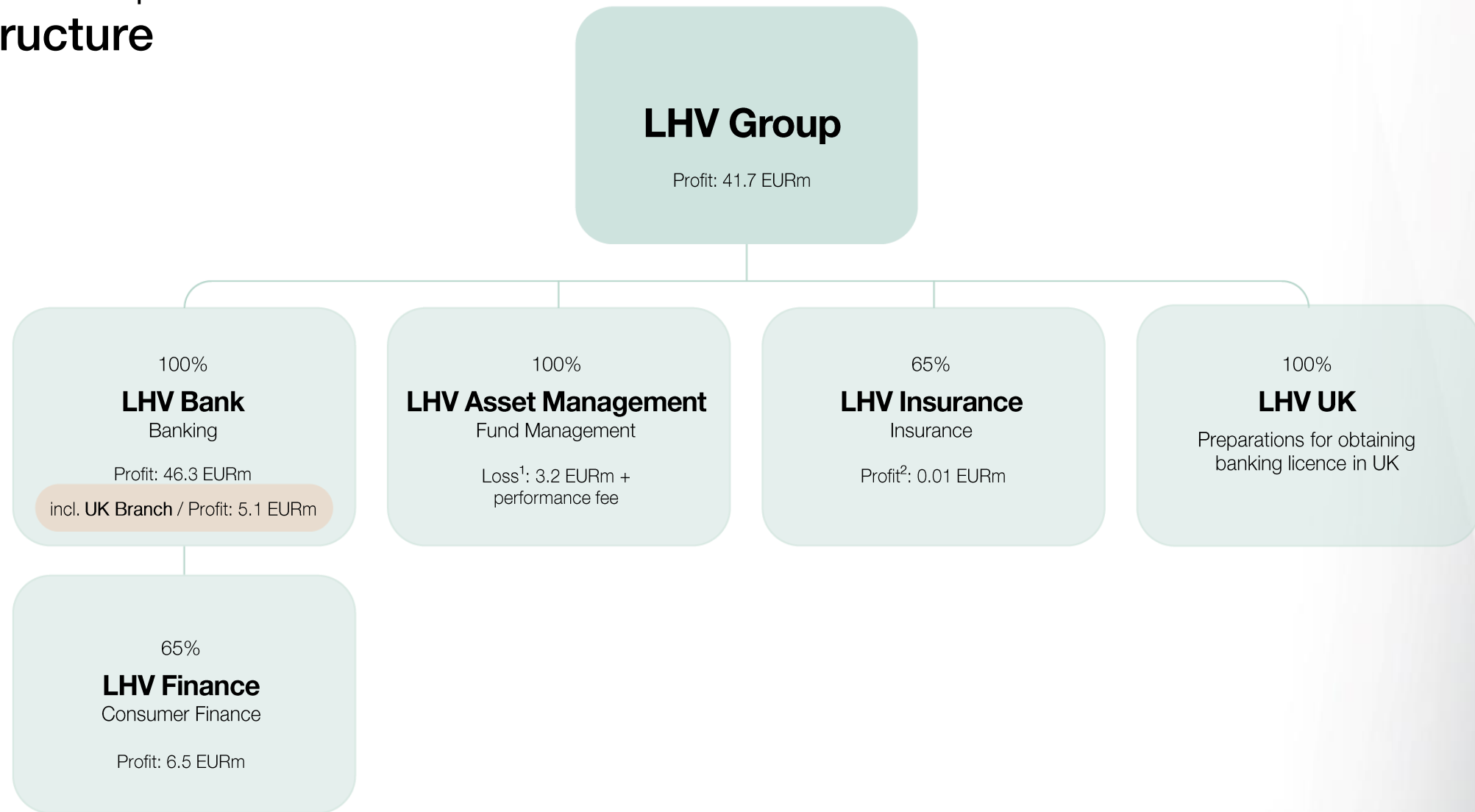
- The most important institutional investor
- Non-listed investments
- Green funds

Insurance

- Leader in innovation and quality on Estonian insurance market
- Easy and fast contract signing and claims handling

Financial projection and action plan

LHV Group Structure



Projected earnings for 2021

¹ Asset Management loss due to additional amortisation arising from customers leaving pension funds. No performance fee has been projected in the financial plan

² Insurance first year in business

LHV Group – forecast for 2021

Rapid increase in main business revenues through increased business volumes

Financial results, EURt	FP2021	2020	Δ YoY	Δ %
Total revenue, incl.	121,498	103,547	+17,951	+17%
Net interest income	87,955	68,492	+19,463	+28%
Net fee and commission income	30,777	33,351	-2,574	-8%
Total operating expenses	60,257	43,975	+16,282	+37%
Earnings before impairment	61,241	59,572	+1,669	+3%
Impairment losses on loans	11,914	10,898	+1,015	+9%
Earnings before taxes	49,327	48,674	+653	+1%
Income tax expense	7,578	8,827	-1,249	-14%
Net profit	41,749	39,847	+1,903	+5%
Net profit w/o amortisation from leaving customers	46,160	39,847	+6,314	+16%
Attr. to shareholders	39,465	37,950	+1,514	+4%
Business volumes, EURm	FP2021	2020	Δ YoY	Δ %
Deposits from customers	4,101	4,120	-19	-0%
Loans (net)	2,604	2,209	+395	+18%
Assets under management	1,221	1,537	-316	-21%
Key figures	FP2021	2020	Δ YoY	
Cost / Income ratio (C/I)	49.6%	42.5%	+ 7.1 pp	
pre-tax ROE*	18.7%	21.0%	- 2.3 pp	
ROE*	15.8%	17.8%	- 2.0 pp	
T1 capital adequacy	14.1%	14.4%	- 0.2 pp	
Total capital adequacy	18.2%	19.3%	- 1.1 pp	

- Increase in revenues in 2021 related to growth in business volumes, no extraordinary income planned. No performance fee planned for Asset Management
- Expenses of Asset Management higher due to additional non-cash amortisation arising from customers leaving the II pillar
- Volume of financial intermediaries' deposits stabilising, retail customers' deposits growing. Additional financing from issuing bonds in the amount of 135 EURm
- Decrease in assets under management due to leaving customers
- Solid capital adequacy. Further development of internal ratings-based approach (IRB) for credit risk calculation



LHV Group – long-term forecast for 2021-2025

Capital enhancing quality growth in all business segments

Financial results, EURt	2021	2022	2023	2024	2025	
Total income, incl.	121,498	138,164	160,270	189,545	223,670	16%
Net interest income	87,955	97,172	111,294	132,368	156,697	
Net fee and commission income	30,777	36,284	42,868	50,302	57,947	
Total expenses	60,257	63,480	68,420	75,344	82,862	8%
Operating profit	61,241	74,683	91,850	114,200	140,808	
Impairment losses on loans	11,914	11,990	13,769	15,808	17,552	
Earnings before taxes	49,327	62,694	78,081	98,392	123,256	
Income tax expense	7,578	8,616	9,983	12,388	14,736	
Net profit	41,749	54,078	68,098	86,004	108,520	27%
Net profit w/o amortisation from leaving customers	46,160	54,598	68,634	86,563	109,105	
Attr. to shareholders	39,465	51,022	64,041	80,669	101,135	
Business volumes, EURm	2021	2022	2023	2024	2025	
Deposits	4,101	4,746	5,284	5,924	6,604	
Loans (net)	2,604	3,058	3,573	4,120	4,690	
Assets under management	1,221	1,385	1,630	1,900	2,138	
Key figures	2021	2022	2023	2024	2025	
Cost / income ratio (C/I)	49.6%	45.9%	42.7%	39.8%	37.0%	
pre-tax ROE*	18.7%	20.5%	21.7%	22.9%	23.9%	
ROE*	15.8%	17.7%	18.9%	20.0%	20.9%	
T1 capital adequacy	14.1%	14.1%	14.3%	15.6%	16.4%	
Total capital adequacy	18.2%	18.6%	18.3%	19.4%	19.4%	

- Assumptions: recovery from health crisis, growth in business volumes, base interest rates remain negative, stable dividend policy. No performance fee planned for Asset Management. Expenses related to UK bank establishment
- Organic growth of all significant business volumes for 5 years. Loan volumes are expected to increase by 2 times, deposits by 1.5 times, fund volumes are expected to recover in 2023
- Increase in revenues is expected to be significantly faster than in expenses. Expenses impacted by increase in tax expense
- Raise of capital through issuance of bonds in 2022 and 2023
- Reaching to 20% pre-tax ROE* in 2022

Increasing volumes in all business segments

Retail banking

- Increase in customer base all over Estonia
- Increase in market share for home loans
- Growth in customers using investment services and Pension Investment Account
- Improvement of mobile banking

Corporate banking

- Increase in corporate loans portfolio
- Further development of internal ratings-based approach (IRB) for credit risk calculation

Financial intermediaries business line

- Expansion of the UK branch
- Development of payment systems
- Improvement of currency exchange service
- Development of card issuance service
- Expansion of customer segments

LHV Bank – 2021 forecast

Strong profit growth through increased business volumes and efficiency

Financial results, EURt	FP2021	2020	Δ YoY	Δ %
Total revenue, incl.	111,167	88,519	+22,647	+26%
Net interest income	88,646	69,046	+19,600	+28%
Net fee and commission income	22,178	18,385	+3,793	+21%
Total operating expenses	45,333	36,268	+9,065	+25%
Earnings before impairment	65,834	52,251	+13,583	+26%
Impairment losses on loans	11,914	10,898	+1,015	+9%
Earnings before taxes	53,920	41,353	+12,567	+30%
Income tax expense	7,578	6,750	+828	+12%
Net profit, incl.	46,343	34,603	+11,739	+34%
attr. to shareholders	44,062	32,514	+11,547	+36%
Business volumes, EURm	FP2021	2020	Δ YoY	Δ %
Deposits from customers	4,118	4,141	-24	-1%
Loans (net)	2,604	2,209	+395	+18%
Key figures	FP2021	2020	Δ YoY	
Cost / Income ratio (C/I)	40.8%	41.0%	- 0.2 pp	
pre-tax ROE*	22.5%	20.5%	+ 2.0 pp	
ROE*	19.4%	17.7%	+ 1.7 pp	
T1 capital adequacy	14.4%	15.3%	- 0.9 pp	
Total capital adequacy	17.5%	18.8%	- 1.2 pp	

- Increase in net interest income resulting from growth of loan volumes, incl. loans given in previous year. Increase in net fee and commission income mainly from growing financial intermediaries business segment
- Financial intermediaries' deposits stabilising on 1 EURb level, deposits through deposit platforms decreasing
- Increase in corporate loans of 203 EURm and mortgage loans of 163 EURm
- Increase in expenses mostly due to higher staff costs
- Loan provisions on ordinary level
- Increase in loan volumes requires 7 EURm additional own funds

LHV Asset Management – 2021 forecast

Profitability negatively affected by amortisation arising from leaving clients

Financial results, EURt	FP2021	2020	Δ YoY	Δ %
Total revenue	8,965	15,578	-6,613	-42%
Total expenses, incl.	10,933	6,389	+4,544	+71%
Amortisation due to leaving customers	4,411	0	+4,411	na
Earnings before taxes	-1,968	9,189	-11,157	na
Income tax expense	1,241	844	+397	+47%
Net profit	-3,209	8,345	-11,554	na
Net profit w/o amortisation from leaving customers	1,202	8,345	-7,143	-86%
Business volumes	FP2021	2020	Δ YoY	Δ %
Assets under management, EURm	1,221	1,537	-316	-21%
Active customers of PII funds, thous.	129	180	-52	-29%
Key figures	FP2021	2020	Δ YoY	
Cost / Income ratio (C/I)	122.0%	42.7%	+ 79.3 pp	
pre-tax ROE	-7.3%	34.0%	- 41.3 pp	
ROE	-11.8%	30.9%	- 42.7 pp	

- Management fees and operating expenses comparable with 2020 level, profitability negatively affected by additional amortisation arising from customers leaving the II pillar
- Decrease in the number of customers and funds' volumes expected
- In actively managed funds we seek investment opportunities in all asset classes, in order to earn highest return
- Financial plan does not include a potential performance fee

LHV Insurance – 2021 forecast

Profitable first year in business

Financial results, EURt	FP2021	2020	Δ YoY	Δ %
Total revenue	2,134	0	+2,134	na
Total expenses	2,124	551	+1,574	+286%
Earnings before taxes	10	-551	+560	na
Income tax expense	0	0	+0	na
Net profit	10	-551	+560	na
attr. to shareholders	6	-358	+364	na
Business volumes	FP2021	2020	Δ YoY	Δ %
Gross Premiums, EURm	13,031	0	+13,031	na
Key figures	FP2021	2020	Δ YoY	
Cost / Income ratio (C/I)	99.5%	nm	na	
pre-tax ROE	0.1%	-48.1%	+ 48.2 pp	
ROE	0.1%	-48.1%	+ 48.2 pp	

- LHV Insurance was granted authorisation in December 2020
- 70,000 customers by the end of 2021. Launching home, casco, MTPL, travel and accident insurance
- Main revenue sources are home and extended warranty insurance. Larger cost groups related to staff and development
- Aim to make a profit during the first year in business

LHV Group
5 year targets

LHV Bank

Bank with the best service

600 EURm

Increase in fund volumes

2,500 / 2,500 EURm

Growth in deposits and loans

LHV Asset Management

Further increase of the
best performance

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