

LHV Group

Financial plan 2019-2023
February 12, 2019

The assumptions for key drivers are presented in the comments



LHV Group today

Largest and fastest growing financial group and capital provider in Estonia

Fourth-largest bank in Estonia

Second-largest pension fund manager in Estonia

4 EURb of customer assets

LHV Group

Strategy

Solid growth in corporate loans

- Best skills in structuring
- Local and swift decision making

Increase in private customer base and activity

- Beneficial everyday banking
- Strong growth in home loans

First choice in investment services

- Complete product portfolio, investor education

Relevant partner for financial intermediaries

- Improvement of the product portfolio

Pension funds with best returns

- Development of Estonian capital markets

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BEST BANK IN CUSTOMER SERVICE
EMPLOYER OF DREAMS – 9th PLACE
BEST INVESTOR RELATIONS
NASDAQ BALTIC AWARDS – BEST MEMBER

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Historically rapid growth

Business volumes have multiplied in past 5 years

Financial results, EURt	2014	2015	2016	2017	2018	
Total income, incl.	33,600	41,265	50,558	58,523	70,024	20%
Net interest income	20,343	23,232	29,976	35,502	39,770	
Net fee and commission	12,772	14,665	19,186	22,180	26,002	
Total expenses	21,738	24,241	28,914	31,945	33,807	12%
Operating profit	11,862	17,024	21,644	26,578	36,217	
Impairment losses on loans	2,644	1,367	1,480	3,154	5,269	
Earnings before taxes	9,218	15,656	20,164	23,424	30,947	
Income tax expense	-449	869	270	1,248	3,758	
Net profit, incl.	9,667	14,787	19,894	22,177	27,190	30%
attr. to shareholders	9,203	13,705	17,816	19,602	25,237	
Business volumes, EURt	2014	2015	2016	2017	2018	
Deposits	458	617	777	1,537	1,422	
Loans (net)	316	410	538	732	919	
Assets under management	504	570	974	1,103	1,214	
Key figures	2014	2015	2016	2017	2018	
Cost / income ratio (C/I)	64.7%	58.7%	57.2%	54.6%	48.3%	
pre-tax ROE*	20.3%	22.9%	20.8%	18.6%	20.9%	
ROE*	21.4%	21.8%	20.7%	17.6%	18.4%	
CT1 capital adequacy	17.6%	16.0%	15.1%	14.0%	13.6%	
Total capital adequacy	22.8%	23.4%	20.7%	18.3%	19.4%	

- Both deposits and loans have more than tripled in the past five years. Funds volume has increased 2.5 times
- 5y average increase in revenues: 20% and expenses: 12%
- In 2018, record growth in loans and regular customer deposits. Record volumes in pension funds and private banking. Customer activity at all time high
- Group loan activity has been conservatively financed by deposits. Amount of deposits exceeds loans by 503 EURm
- Pre-tax ROE has generally been close to 20%

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2018 in brief

27.2 EURm

Net profit

21 %

pre-tax ROE

Best service

Recognition given to LHV Bank
by Dive

112 EURm

Increase in funds volume

Financial plan 2019

Rapid increase in main business revenues, profit increase affected by 2018 reference base

Financial results, EURt	FP2019	2018	Δ YoY	Δ %
Total revenue, incl.	73,238	70,024	+3,214	+5%
Net interest income	48,024	39,770	+8,253	+21%
Net fee and commission income	24,953	26,002	-1,048	-4%
Total operating expenses	36,507	33,807	+2,700	+8%
Earnings before impairment	36,731	36,217	+514	+1%
Impairment losses on loans	4,287	5,269	-982	-19%
Earnings before taxes	32,444	30,947	+1,496	+5%
Income tax expense	5,102	3,758	+1,344	+36%
Net profit, incl.	27,342	27,190	+152	+1%
attr. to shareholders	25,338	25,237	+101	+0%
Business volumes, EURm	FP2019	2018	Δ YoY	Δ %
Deposits from customers	1,863	1,422	+441	+31%
Loans (net)	1,181	919	+262	+29%
Assets under management	1,407	1,214	+193	+16%
Key figures	FP2019	2018	Δ YoY	
Cost / Income ratio (C/I)	49.8%	48.3%	+ 1.6 pp	
pre-tax ROE*	18.3%	20.9%	- 2.6 pp	
ROE*	15.4%	18.4%	- 3.0 pp	
CT1 capital adequacy	13.7%	13.6%	+ 0.1 pp	
Total capital adequacy	19.0%	19.4%	- 0.4 pp	

- Increase in revenues in 2019 due to growing business volumes, no extraordinary income. In 2018, extraordinary income 5 EURm from sale of Mokilizingas and institutional banking. From expenses, increase in advance income tax and interest expense on subordinated bonds. No success fee from Asset Management forecasted in 2019
- Decrease in loan provisions as the prior effect of one large problematic customer is disappearing. In case credit cycle persists, lower loan provisions expected
- EBT 32.5 EURm (+5%), pre-tax ROE* 18.3%. Net profit 27.3 EURm, ROE* 15.4% includes increase in income tax and investments in financial intermediaries business line
- Solid capital adequacy. Business-linked C/I is expressing a good downward trend, previous year income included one-time effects

Increasing business volumes and development of e-channels

Increasing customer base and activity

- expanding ATM network
- providing housing loans all over Estonia
- additional focus on Russian-speaking target group
- development of youth promotions

Increasing loan volumes

- increasing corporate loans portfolio
- increasing housing loan portfolio
- increasing financial intermediaries loan portfolio

Development of financial intermediaries business line

- Building up the branch in UK
- joining the real-time Pound Payments System
- development of APIs

Improvement of e-channels

- development of mobile bank regarding e-recognition, ordering cards, applying for credit, executing securities transactions and applying new payment solutions
- modernizing internet bank
- renewal of investment services and information system
- development of loan processes to achieve higher proportion of faster and more automated decisions

LHV Banking - forecast

Revenue growth from increase in business volumes and customer activity

Financial results, EURt	FP2019	2018	Δ YoY	Δ %
Total revenue, incl.	60,945	51,543	+9,402	+18%
Net interest income	48,954	39,021	+9,933	+25%
Net fee and commission income	12,011	11,103	+908	+8%
Total operating expenses	29,800	25,742	+4,058	+16%
Earnings before impairment	31,145	25,801	+5,344	+21%
Impairment losses on loans	4,287	4,880	-592	-12%
Earnings before taxes	26,857	20,921	+5,936	+28%
Income tax expense	4,129	2,514	+1,616	+64%
Net profit, incl.	22,728	18,407	+4,321	+23%
attr. to shareholders	20,724	16,642	+4,082	+25%

Business volumes, EURm	FP2019	2018	Δ YoY	Δ %
Deposits from customers	1,874	1,448	+426	+29%
Loans (net)	1,181	919	+262	+29%

Key figures	FP2019	2018	Δ YoY
Cost / Income ratio (C/I)	48.9%	49.9%	- 1.0 pp
pre-tax ROE*	17.9%	17.3%	+ 0.6 pp
ROE*	15.3%	15.3%	+ 0.0 pp
CT1 capital adequacy	13.4%	13.6%	- 0.2 pp
Total capital adequacy	17.3%	17.1%	+ 0.2 pp

- Increase in regular customers deposits by 120 EURm, in financial intermediaries' deposits by 306 EURm. Loan growth 262 EURm, incl. corporate loans 110 EURm, housing loans 84 EURm and financial intermediaries' loans 38 EURm
- Increase in net interest income from growing loan portfolio. Growth in net fee and commission income due to increasing business volumes
- Growing business volumes are increasing expenses
- Loan provisions are conservative
- Additional advance income tax of one quarter
- Increasing loan volumes require up to 19 EURm additional capital



LHV Asset Management - forecast

Base amount of management fee will decrease, potential of success fee

Financial results, EURt	FP2019	2018	Δ YoY	Δ %
Total revenue	13,139	13,750	-611	-4%
Total expenses	6,015	5,823	+192	+3%
Earnings before taxes	7,123	7,926	-803	-10%
Income tax expense	972	1,100	-128	-12%
Net profit	6,151	6,826	-675	-10%
Business volumes	FP2019	2018	Δ YoY	Δ %
Assets under management, EURm	1,407	1,214	+193	+16%
Active customers of PII funds, thous.	177	178	-1	-0%
Key figures	FP2019	2018	Δ YoY	
Cost / Income ratio (C/I)	45.8%	41.8%	+ 4.0 pp	
pre-tax ROE	24.7%	35.1%	- 10.4 pp	
ROE	21.3%	30.3%	- 8.9 pp	

- From September, LHV II pillar pension funds base amount will decrease 36% on average
- Successful investments will provide opportunity to earn success fee. It requires changes in funds' documentation. Success fee is not included in 2019 financial plan
- Together with fees, pension funds investment restrictions will loosen
- According to the plan, 4.4 EURm dividend is paid to parent and share capital is reduced by 1.5 EURm*

Financial projection 2019-2023

LHV Group – long-term forecast

Capital enhancing quality growth in all business segments

Financial results, EURt	2019	2020	2021	2022	2023	
Total income, incl.	73,238	90,239	109,379	127,515	153,348	20%
Net interest income	48,024	61,063	77,012	91,437	112,367	
Net fee and commission income	24,953	28,781	32,042	35,774	40,667	
Total expenses	36,507	41,361	46,500	50,964	55,558	11%
Operating profit	36,731	48,878	62,879	76,550	97,791	
Impairment losses on loans	4,287	6,478	8,073	9,531	11,067	
Earnings before taxes	32,444	42,400	54,807	67,020	86,724	
Income tax expense	5,102	5,988	8,514	9,728	12,720	
Net profit, incl.	27,342	36,412	46,293	57,292	74,004	28%
attr. to shareholders	25,338	34,170	43,834	54,672	71,301	
Business volumes, EURm	2019	2020	2021	2022	2023	
Deposits	1,863	2,195	2,561	2,951	3,313	
Loans (net)	1,181	1,448	1,786	2,094	2,409	
Assets under management	1,407	1,663	1,946	2,261	2,609	
Key figures	2019	2020	2021	2022	2023	
Cost / income ratio (C/I)	49.8%	45.8%	42.5%	40.0%	36.2%	
pre-tax ROE*	18.3%	20.8%	22.8%	23.5%	25.4%	
ROE*	15.4%	17.8%	19.3%	20.1%	21.7%	
CT1 capital adequacy	13.7%	14.0%	14.5%	15.3%	16.5%	
Total capital adequacy	19.0%	18.9%	19.1%	19.3%	20.0%	

- Assumptions: stable economic environment, growth in business volumes, euribor increase, success fee from Asset Management starting from 2020, impact of banking tax and persisting dividend policy
- Growth in all important business volumes during 5 years: deposits by 1900 EURm, loans by 1500 EURm, funds by 1400 EURm. Both loan and deposit volumes are expected to double in 3 years
- Increase in revenues is expected to be significantly faster than growth in expenses. Expenses impacted by increase in tax expense. Conservative forecast regarding loan impairments
- Raise of capital by bond issues in 2020 and 2021
- Moving towards 20% ROE* (based on profit attr. to the owners of the parent)



LHV Group
5 year targets

LHV Bank

Best bank in customer service

1400 EURm

Increase in fund volumes

1900 / 1500 EURm

Growth in deposits and loans

LHV Asset Management

Enhancing current best long-term return

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