

LHV Group

Financial plan 2022-2026
15 February 2022

The assumptions for key drivers are presented in the comments



2021 – rapid growth and higher customer activity

The assets of LHV increased by 1.4 times in 2021 to 6.8 EURb. By the end of the year, we had serviced 321,000 bank, 170,000 pension fund and 143,000 insurance customers. LHV Bank is the third largest bank in Estonia. LHV Insurance offers a wide range of products. LHV UK, established in the UK, is applying for a banking licence.

Rapid growth

- Bank customers: +63,200 (24%)
- Loans: +468 million (21%)
- Deposits: +1,688 million (41%)
- UK customers' payments: +11.3 mil pcs (70%)

Customer convenience

- Reduction of transaction fees for foreign shares
- Pension Investment Account
- Crypto asset trading service
- Opportunity for companies to open an account in mobile app and online bank

Awards

- Bank with the best service – Dive
- Best bank – Euromoney / The Banker
- Best employer in the financial sector – CV-Online

Asset Management

- Impact of the pension reform smaller than expected
- Best performing pension fund Indeks
- Actively managed funds with good return

Insurance

- Wide selection of insurance products
- High customer satisfaction with claims handling

Business volumes have multiplied in the past 5 years

Financial results, EURt	2017	2018	2019	2020	2021	
Total income, incl.	58,523	70,024	73,818	103,547	140,379	23%
Net interest income	35,502	39,770	47,388	68,492	97,319	
Net fee and commission income	22,180	26,002	25,677	33,351	43,478	
Total expenses	31,945	33,807	39,266	43,975	65,183	18%
Operating profit	26,578	36,217	34,552	59,572	75,197	
Impairment losses on loans	3,154	5,269	3,209	10,898	3,948	
Earnings before taxes	23,424	30,947	31,342	48,674	71,249	
Income tax expense	1,248	3,758	4,250	8,827	10,986	
Net profit	22,176	27,190	27,092	39,847	60,263	25%
Attr. to shareholders	19,601	25,237	24,797	37,950	58,261	
Business volumes, EURm	2017	2018	2019	2020	2021	
Deposits	1,537	1,422	2,701	4,120	5,808	
Loans (net)	732	919	1,687	2,209	2,677	
Assets under management	1,103	1,214	1,374	1,537	1,349	
Key figures	2017	2018	2019	2020	2021	
Cost / income ratio (C/I)	54.6%	48.3%	53.2%	42.5%	46.4%	
pre-tax ROE*	18.8%	20.4%	16.9%	21.1%	26.0%	
ROE*	17.8%	18.0%	14.6%	17.9%	22.0%	
T1 capital adequacy	14.0%	13.6%	13.9%	15.6%	15.1%	
Total capital adequacy	18.3%	19.4%	18.0%	20.5%	19.0%	

- Loans have increased by five times in the last five years. Deposits have grown by 7.5 times. Volume of funds has increased by 1.4 times, despite the negative impact of pension reform
- 5y average increase in revenues 23% and expenses 18%
- All-time high customer activity in 2021. Rapid organic growth in loans and regular customers' deposits. Record volumes in private banking
- Financing sources have been diversified and capital raised to support growth. Group's lending activity is conservatively financed with deposits. Volume of deposits exceeds loans by 3 EURb

Strategy

LHV Group

Mission and strategy

Our mission is better access to financial services and capital.

LHV Pank – Largest and most profitable bank in Estonia

LHV Varahaldus – Most important institutional investor in Estonia

LHV Kindlustus – Reliable insurance partner with the highest customer satisfaction

LHV UK bank – Most flexible partner for financial intermediaries in the UK



LHV Group

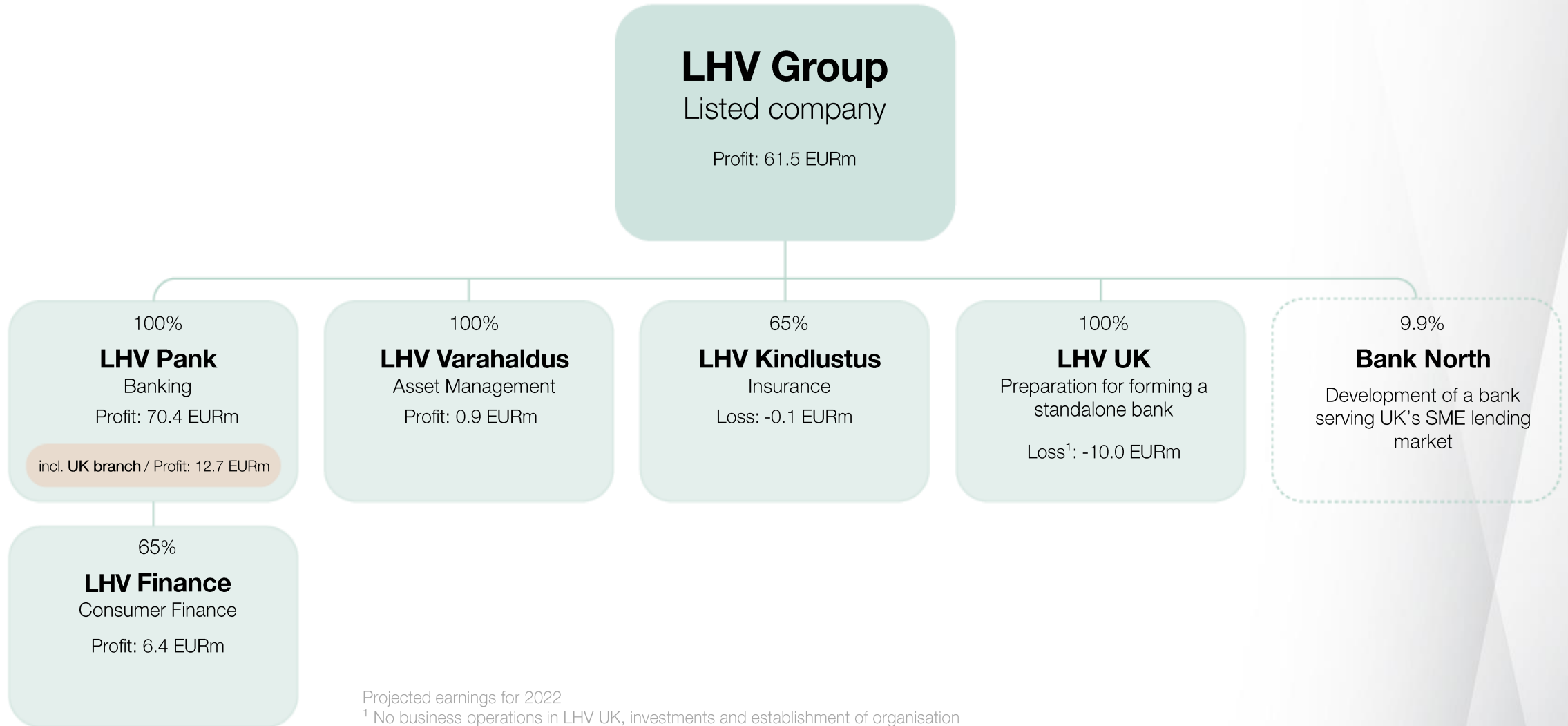
Long-term goals

LHV's long-term objective is to offer its stakeholders positive relationships, by being:

- the top financial service provider when it comes to customer service;
- the most engaged and flexible financial service provider for international financial intermediaries;
- an attractive employer that offers LHV's employees high satisfaction and the possibility to grow and realize their potential;
- transparent for investors, offering an annual ROE as high as 20%;
- a company with the best management practices, positive social impacts and climate goals.

Financial projection and action plan

LHV Group Structure



LHV Group – financial plan for 2022

Increasing business volumes and investments in the UK

Financial results, EURt	FP2022	2021	Δ YoY	Δ %
Total revenue, incl.	166,838	140,379	+26,459	+19%
Net interest income	110,483	97,319	+13,164	+14%
Net fee and commission income	54,973	43,478	+11,495	+26%
Total operating expenses	83,889	65,183	+18,706	+29%
Earnings before impairment	82,949	75,197	+7,753	+10%
Impairment losses on loans	9,246	3,948	+5,298	+134%
Earnings before taxes	73,703	71,249	+2,454	+3%
Income tax expense	12,210	10,986	+1,224	+11%
Net profit	61,493	60,263	+1,230	+2%
Attr. to shareholders	59,250	58,261	+989	+2%
Business volumes, EURm	FP2022	2021	Δ YoY	Δ %
Deposits from customers	6,109	5,808	+302	+5%
Loans (net)	3,097	2,677	+420	+16%
Fin.intermediaries' payments, mil. pcs	38	27	+10	+37%
Assets under management	1,389	1,349	+40	+3%
Key figures	FP2022	2021	Δ YoY	
Cost / Income ratio (C/I)	50.3%	46.4%	+3,8 pp	
pre-tax ROE*	19.4%	26.0%	-6,5 pp	
ROE*	16.7%	22.0%	-5,3 pp	
T1 capital adequacy	16.3%	15.1%	+1,2 pp	
Total capital adequacy	20.5%	19.0%	+1,5 pp	

- Increase in revenues in 2022 related to growth in business volumes, no extraordinary income planned
- Profitability affected by the expenses and investments made for obtaining a banking licence and starting with business operations in LHV UK
- Volume of financial intermediaries' deposits stabilising, retail customers' deposits growing
- Volume of Asset Management funds starts to grow after the pension reform in 2021. No performance fee planned for year 2022
- Solid capital adequacy. Continuing with the preparations for submitting internal ratings-based approach application

LHV Group – long-term financial plan for 2022-2026

Continuation of strong growth

Financial results, EURt	2022	2023	2024	2025	2026	
Total income, incl.	166,838	199,800	231,993	272,523	312,379	17%
Net interest income	110,483	127,182	147,176	171,096	198,229	
Net fee and commission income	54,973	70,930	82,975	98,894	111,239	
Total expenses	83,889	94,303	102,680	107,624	115,265	12%
Operating profit	82,949	105,497	129,313	164,899	197,114	
Impairment losses on loans	9,246	12,738	15,204	17,033	18,752	
Earnings before taxes	73,703	92,759	114,109	147,866	178,361	
Income tax expense	12,210	13,720	15,937	19,399	22,575	
Net profit	61,493	79,040	98,172	128,467	155,786	21%
Attr. to shareholders	59,250	75,988	93,894	122,489	148,222	
Business volumes, EURm	2022	2023	2024	2025	2026	
Deposits	6,109	6,841	7,504	8,301	8,912	
Loans (net)	3,097	3,674	4,296	4,905	5,520	
Fin.intermediaries' payments, mil. pcs	38	59	80	101	132	
Assets under management	1,389	1,522	1,675	1,793	1,935	
Key figures	2022	2023	2024	2025	2026	
Cost / income ratio (C/I)	50.3%	47.2%	44.3%	39.5%	36.9%	
pre-tax ROE*	19.4%	20.2%	20.8%	22.3%	22.3%	
ROE*	16.7%	17.8%	18.5%	20.1%	20.2%	
T1 capital adequacy	16.3%	15.9%	16.2%	17.1%	18.2%	
Total capital adequacy	20.5%	19.7%	19.4%	19.0%	19.8%	

- Assumptions: recovery from health crisis, increase in business volumes, raising base interest rates, 6-month Euribor positive from year 2025, stable dividend policy, performance fee for Asset Management from year 2023
- Organic growth in all major business volumes during next 5 years. Volume of loans is expected to increase by 2 times, deposits by 1.5 times, funds' volume is expected to recover to previous highest levels in 2024
- Increase in revenues significantly faster than in expenses. Expenses mainly impacted by an increase in staff costs. Profit increasing by 2.5 times
- Reaching 20% pre-tax ROE* and ROE* in years 2023 and 2025, respectively

Increasing volumes in all business lines

Retail banking

- Increase in customer base all over Estonia
- Increase in market share for home loans
- Volume growth and additions to investment services
- Activation of customers
- Improvement of mobile and internet banking
- Best service in every channel

Corporate banking

- Increase in corporate loans portfolio
- Continuation of internal ratings-based approach (IRB) project

Financial intermediaries business line

- Development of the UK business operations
- Development of payment systems
- Widening the network of correspondent banks
- Improvement of currency exchange service
- Development of card issuance service
- Development of risk organisation and strengthening of the business development team

LHV Bank – 2022 financial plan

Increase in business volumes along with strong results

Financial results, EURt	FP2022	2021	Δ YoY	Δ %
Total revenue, incl.	153,937	127,894	+26,043	+20%
Net interest income	110,931	97,662	+13,269	+14%
Net fee and commission income	42,253	31,172	+11,081	+36%
Total operating expenses	62,978	49,339	+13,639	+28%
Earnings before impairment	90,959	78,555	+12,404	+16%
Impairment losses on loans	9,246	3,948	+5,298	+134%
Earnings before taxes	81,713	74,607	+7,106	+10%
Income tax expense	11,312	10,556	+755	+7%
Net profit, incl.	70,401	64,051	+6,350	+10%
attr. to shareholders	68,114	61,761	+6,352	+10%
Business volumes, EURm	FP2022	2021	Δ YoY	Δ %
Deposits from customers	6,155	5,847	+308	+5%
Loans (net)	3,097	2,677	+420	+16%
Key figures	FP2022	2021	Δ YoY	
Cost / Income ratio (C/I)	40.9%	38.6%	+ 2.3 pp	
pre-tax ROE*	25.9%	30.6%	- 4.7 pp	
ROE*	22.3%	26.2%	- 4.0 pp	
T1 capital adequacy	15.6%	14.9%	+ 0.7 pp	
Total capital adequacy	19.0%	17.5%	+ 1.5 pp	

- Increase in net interest income resulting from growth in loan volumes, incl. from loans issued last year
- Increase in net fee and commission income mainly from increasing volumes in financial intermediaries', acquiring and investment services business lines
- Financial intermediaries' deposits stabilising on 2 EURb level
- Increase in corporate loans of 170 EURm and home loans of 183 EURm
- Increase in expenses mostly due to higher staff costs
- Loan provisions grow along with the volume of loan portfolio, provision rate on a longer-term average level

LHV Varahaldus – 2022 financial plan

Funds' volume continues to grow, less impact from customers leaving II pillar

Financial results, EURt	FP2022	2021	Δ YoY	Δ %
Total revenue	8,625	11,952	-3,327	-28%
Total expenses	6,867	10,015	-3,149	-31%
Earnings before taxes	1,758	1,936	-178	-9%
Income tax expense	830	1,241	-411	-33%
Net profit	928	695	+233	+34%
Business volumes	FP2022	2021	Δ YoY	Δ %
Assets under management, EURm	1,389	1,349	+40	+3%
Active customers of PII funds, thous.	129	138	-9	-6%
Key figures	FP2022	2021	Δ YoY	
Cost / Income ratio (C/I)	79.6%	83.8%	- 4.2 pp	
pre-tax ROE	7.3%	7.1%	+ 0.2 pp	
ROE	3.9%	2.5%	+ 1.3 pp	

- Revenues lower as funds' volume decreased in September last year, also, no performance fee has been forecasted for year 2022
- Cost base lower due to lower amortisation arising from customers leaving II pillar
- In the largest actively managed funds we seek investment opportunities in all asset classes, in order to earn highest return. Distribution of asset classes in the portfolio close to long-term goal
- Volume of funds continues growing despite a slightly decreasing customer base

LHV Kindlustus – 2022 financial plan

Rapid growth in business volumes

Financial results, EURt	FP2022	2021	Δ YoY	Δ %
Total revenue	2,884	1,073	+1,811	+169%
Total expenses	3,012	1,894	+1,118	+59%
Earnings before taxes	-129	-822	+693	-84%
Income tax expense	0	1	-1	-100%
Net profit	-129	-823	+694	-84%
attr. to shareholders	-84	-535	+451	-84%
Business volumes	FP2022	2021	Δ YoY	Δ %
Gross Premiums, EURm	11,504	6,747	+4,757	+71%
Key figures	FP2022	2021	Δ YoY	
Cost / Income ratio (C/I)	104.5%	176.6%	- 72.2 pp	
Net loss ratio	56.4%	48.7%	+ 7.8 pp	
Net expense ratio	47.2%	87.7%	- 40.4 pp	
pre-tax ROE	-2.0%	-11.7%	+ 9.7 pp	
ROE	-2.0%	-11.7%	+ 9.7 pp	

- Rapid growth in revenue base resulting from increasing business volumes in all sales channels and product types
- Expanding product selection with health and accident insurance for private individuals and property and liability insurance for companies
- Number of customers reaches 158 thousand
- Development of IT and internal processes continues
- Increase in expenses mainly due to staff costs and development of new products
- Highest customer satisfaction with claims handling continues being priority

LHV Group
5 year targets

LHV Pank

Bank with the best service

LHV UK

International business with a
rapid growth

3,100 / 2,800 EURm

Growth in deposits and loans

105 mil

Growth in the number of UK
customers' payments

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