

# LHV Group

Financial plan 2020-2024  
February 11, 2020

The assumptions for key drivers are presented in the comments



**LHV historically rapid growth**

## 2019 – the year of double growth

The assets of LHV Pank doubled in 2019 reaching 3 EURb. By the end of the year, we have serviced 202,000 customers and became the third largest bank in Estonia with 10% market share in daily banking. Bank acquired Danske private customers loan portfolio and increased the amount of ATMs to 125

### Rapid growth

- Bank customers: +40,800 (25%)
- Loans: + 768 million (84%)
- Deposits: + 1,279 million (90%)
- Funds: + 160 million (13%)

### Customer convenience

- 125 ATMs
- Mobile bank upgrade (customer onboarding, loan applications, securities trading, ordering cards)
- LHV joined real-time Faster Payments scheme for pound payments

### Awards

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

### Asset Management

- Alternative investments
- Yield of Index Fund +25%

### Other

- Acquisition of Danske private customers loan portfolio
- Capital raised in amount of 65 EURm
- High credit rating of LHV Pank

## Business volumes have multiplied in past 5 years

Financial results, EURt	2015	2016	2017	2018	2019	
<b>Total income, incl.</b>	<b>41 265</b>	<b>50 558</b>	<b>58 523</b>	<b>70 024</b>	<b>73 818</b>	<b>16%</b>
Net interest income	23,232	29,976	35,502	39,770	47,388	
Net fee and commission	14,665	19,186	22,180	26,002	25,677	
<b>Total expenses</b>	<b>24 241</b>	<b>28 914</b>	<b>31 945</b>	<b>33 807</b>	<b>39 266</b>	<b>13%</b>
<b>Operating profit</b>	<b>17,024</b>	<b>21,644</b>	<b>26,578</b>	<b>36,217</b>	<b>34,552</b>	
Impairment losses on loans	1,367	1,480	3,154	5,269	3,209	
<b>Earnings before taxes</b>	<b>15,656</b>	<b>20,164</b>	<b>23,424</b>	<b>30,947</b>	<b>31,342</b>	
<b>Income tax expense</b>	<b>869</b>	<b>270</b>	<b>1,248</b>	<b>3,758</b>	<b>4,250</b>	
<b>Net profit, incl.</b>	<b>14 787</b>	<b>19 894</b>	<b>22 176</b>	<b>27 190</b>	<b>27 092</b>	<b>16%</b>
attr. to shareholders	13,705	17,816	19,601	25,237	24,797	
<b>Business volumes, EURt</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	
Deposits	617	777	1,537	1,422	2,701	
Loans (net)	410	538	732	919	1,687	
Assets under management	570	974	1,103	1,214	1,374	
<b>Key figures</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	
Cost / income ratio (C/I)	58,7%	57,2%	54,6%	48,3%	53,2%	
pre-tax ROE*	22,9%	20,8%	18,6%	20,9%	16,2%	
ROE*	21,8%	20,7%	17,6%	18,4%	14,0%	
CT1 capital adequacy	16,0%	15,1%	14,0%	13,6%	13,9%	
Total capital adequacy	23,4%	20,7%	18,3%	19,4%	18,0%	

- Both deposits and loans have more than quadrupled in the past five years. Funds volume has more than doubled
- 5y average increase in revenues 16% and expenses 13%
- In 2019, record growth in loans and regular customer deposits. Record volumes in pension funds and private banking. Customer activity at all time high
- Group lending activity has been conservatively financed by deposits. Amount of deposits exceeds amount of loans by 1 EURb
- Pre-tax ROEs in 2019 were impacted by non-recurring costs related to Danske deal

# Strategy

LHV Group

## **LHV Group today**

**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

5,6 billion euro 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

### The most capable partner for financial intermediaries

- Platform for payment services
- Export of financial services

### Investment = LHV

- Complete product portfolio
- Custody and trading of Baltic shares free of charge

### High-yield pension funds

- The most important institutional investor
- Alternative investments

**LHV**

BEST BANK IN CUSTOMER SERVICE  
THE MOST ATTRACTIVE EMPLOYER – 2nd PLACE  
BEST INVESTOR RELATIONS

**LHV**

# Financial projection and action plan



## Rapid increase in main business revenues through increased business volumes

Financial results, EURt	FP2020	2019	Δ aasta	Δ %
<b>Total revenue, incl.</b>	<b>95,647</b>	<b>73,818</b>	<b>+21,829</b>	<b>+30%</b>
Net interest income	69,706	47,388	+22,318	+47%
Net fee and commission income	25,374	25,677	-303	-1%
<b>Total operating expenses</b>	<b>46,423</b>	<b>39,266</b>	<b>+7,157</b>	<b>+18%</b>
<b>Earnings before impairment</b>	<b>49,224</b>	<b>34,552</b>	<b>+14,672</b>	<b>+42%</b>
Impairment losses on loans	7,177	3,209	+3,967	+124%
<b>Earnings before taxes</b>	<b>42,047</b>	<b>31,342</b>	<b>+10,705</b>	<b>+34%</b>
Income tax expense	6,130	4,250	+1,880	+44%
<b>Net profit, incl.</b>	<b>35,917</b>	<b>27,092</b>	<b>+8,825</b>	<b>+33%</b>
attr. to shareholders	33,327	24,797	+8,530	+34%
<b>Business volumes, EURm</b>	<b>FP2020</b>	<b>2019</b>	<b>Δ aasta</b>	<b>Δ %</b>
Deposits from customers	3,127	2,701	+426	+16%
Loans (net)	2,165	1,687	+478	+28%
Assets under management	1,576	1,374	+202	+15%
<b>Key figures</b>	<b>FP2020</b>	<b>2019</b>	<b>Δ aasta</b>	
Cost / Income ratio (C/I)	48.5%	53.2%	- 4.7 pp	
pre-tax ROE*	18.1%	16.2%	+ 1.9 pp	
ROE*	15.4%	14.0%	+ 1.4 pp	
T1 capital adequacy	13.1%	13.9%	- 0.8 pp	
Total capital adequacy	17.5%	18.0%	- 0.5 pp	

- Increase in revenues in 2020 due to business volumes growth, no extraordinary income as well as no success fees planned for Asset Management. Issuance of covered bonds planned to reduce funding expenses
- If current credit cycle persists, we might expect lower loan provisions. With growing business volumes we have conservatively projected higher loan impairments
- EBT 42 EURm (+34%), pre-tax ROE 18.1%. Net profit 35.9 EURm (+33%). ROE 15.4%
- Solid capital adequacy. Further development of internal ratings-based approach (IRB) for credit risk calculation. C/I is showing a good downward trend

# LHV Group – long-term forecast for 2020-2024

## Capital enhancing quality growth in all business segments

Financial results, EURt	2020	2021	2022	2023	2024	
<b>Total income, incl.</b>	<b>95,647</b>	<b>117,852</b>	<b>140,048</b>	<b>165,941</b>	<b>191,471</b>	<b>19%</b>
Net interest income	69,706	86,391	104,311	124,624	144,173	
Net fee and commission income	25,374	30,905	35,153	40,688	46,620	
<b>Total expenses</b>	<b>46,423</b>	<b>56,115</b>	<b>57,968</b>	<b>63,706</b>	<b>69,773</b>	<b>11%</b>
<b>Operating profit</b>	<b>49,224</b>	<b>61,737</b>	<b>82,080</b>	<b>102,236</b>	<b>121,698</b>	
Impairment losses on loans	7,177	10,633	12,810	15,018	17,316	
<b>Earnings before taxes</b>	<b>42,047</b>	<b>51,103</b>	<b>69,270</b>	<b>87,218</b>	<b>104,381</b>	
Income tax expense	6,130	7,731	9,306	11,593	13,741	
<b>Net profit, incl.</b>	<b>35,917</b>	<b>43,372</b>	<b>59,964</b>	<b>75,625</b>	<b>90,641</b>	<b>26%</b>
attr. to shareholders	33,327	40,313	56,373	71,496	86,026	
<b>Business volumes, EURm</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	
Deposits	3,127	3,830	4,427	5,209	6,004	
Loans (net)	2,165	2,706	3,229	3,754	4,304	
Assets under management	1,576	1,395	1,571	1,761	1,967	
<b>Key figures</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	
Cost / income ratio (C/I)	48.5%	47.6%	41.4%	38.4%	36.4%	
pre-tax ROE*	18.1%	20.5%	22.2%	23.4%	23.4%	
ROE*	15.4%	16.1%	19.1%	20.1%	20.2%	
CT1 capital adequacy	13.1%	13.2%	14.0%	14.8%	15.8%	
Total capital adequacy	17.5%	18.1%	18.3%	18.9%	19.5%	

- Assumptions: stable economic environment, growth in business volumes, interest rates remain negative, stable dividend policy, no success fee planned from Asset Management
- Organic growth of all significant business volumes for 5 years. Both loan and deposit volumes are expected to double, the impact of pension reform to be overcome in one year
- Increase in revenues is expected to be significantly faster than growth in expenses. Expenses impacted by increase in tax expense. Conservative loan impairments forecast
- Raise of capital through issuance of bonds in 2020 and 2021
- Reaching to 20% ROE\* in 2021

## **Increasing volumes in all business segments**

### **Retail banking**

- Increase of customer base all over Estonia
- Increase of market share for home loans
- Investment services for everyone
- Improvement of mobile banking

### **Corporate banking**

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

### **Financial intermediaries business line**

- Expansion of the UK branch
- Launch of the payment systems
- Development of indirect membership / agency banking service
- Improvement of currency exchange service
- Development of card issuance service
- Launch of working capital lending
- Expansion of customer segments

# LHV Banking - forecast

## A surge in profit through increased business volumes and efficiency

Financial results, EURt	FP2020	2019	Δ aasta	Δ %
<b>Total revenue, incl.</b>	<b>86,424</b>	<b>61,104</b>	<b>+25,320</b>	<b>+41%</b>
Net interest income	69,825	47,915	+21,911	+46%
Net fee and commission income	16,430	12,808	+3,622	+28%
<b>Total operating expenses</b>	<b>39,161</b>	<b>32,515</b>	<b>+6,646</b>	<b>+20%</b>
<b>Earnings before impairment</b>	<b>47,263</b>	<b>28,589</b>	<b>+18,674</b>	<b>+65%</b>
Impairment losses on loans	7,177	3,209	+3,967	+124%
<b>Earnings before taxes</b>	<b>40,086</b>	<b>25,379</b>	<b>+14,707</b>	<b>+58%</b>
Income tax expense	5,286	3,278	+2,008	+61%
<b>Net profit, incl.</b>	<b>34,801</b>	<b>22,102</b>	<b>+12,699</b>	<b>+57%</b>
attr. to shareholders	32,210	19,806	+12,404	+63%
<b>Business volumes, EURm</b>	<b>FP2020</b>	<b>2019</b>	<b>Δ aasta</b>	<b>Δ %</b>
Deposits from customers	3,128	2,713	+415	+15%
Loans (net)	2,165	1,687	+478	+28%
<b>Key figures</b>	<b>FP2020</b>	<b>2019</b>	<b>Δ aasta</b>	
Cost / Income ratio (C/I)	45.3%	53.2%	- 7.9 pp	
pre-tax ROE*	19.8%	15.8%	+ 3.9 pp	
ROE*	17.2%	14.2%	+ 3.0 pp	
T1 capital adequacy	13.4%	14.0%	- 0.6 pp	
Total capital adequacy	17.0%	17.6%	- 0.6 pp	

- Increase in regular customers deposits by 565 EURm, financial intermediaries' deposits by 224 EURm. Returning deposits obtained through deposit platforms, decrease by 373 EURm. Issuance of 250 EURm in covered bonds
- Growth of corporate loans by 209 EURm, home loans by 157 EURm and financial intermediaries' loans by 70 EURm
- Increase in net interest income due to loan portfolio growth, incl last year. Growth in net fee and commission income due to financial intermediaries' business volumes growth
- Increase in expenses mostly due to higher labour costs
- Loan provisions are conservative
- Increase of loan volumes requires 29 EURm additional capital

# LHV Asset Management - forecast

## Fund volumes continue to grow, management fees decline more

Financial results, EURt	FP2020	2019	Δ aasta	Δ %
<b>Total revenue</b>	<b>9,256</b>	<b>13,189</b>	<b>-3,933</b>	<b>-30%</b>
<b>Total expenses</b>	<b>6,310</b>	<b>6,097</b>	<b>+213</b>	<b>+3%</b>
<b>Earnings before taxes</b>	<b>2,946</b>	<b>7,092</b>	<b>-4,146</b>	<b>-58%</b>
Income tax expense	844	972	-128	-13%
<b>Net profit</b>	<b>2,102</b>	<b>6,120</b>	<b>-4,018</b>	<b>-66%</b>
<b>Business volumes</b>	<b>FP2020</b>	<b>2019</b>	<b>Δ aasta</b>	<b>Δ %</b>
Assets under management, EURm	1,576	1,374	+202	+15%
Active customers of PII funds, thous.	177	177	+1	+0%
<b>Key figures</b>	<b>FP2020</b>	<b>2019</b>	<b>Δ aasta</b>	
Cost / Income ratio (C/I)	70.5%	47.4%	+ 23.2 pp	
pre-tax ROE	10.5%	24.6%	- 14.1 pp	
ROE	7.9%	22.1%	- 14.2 pp	

- From September 2019 LHV II pillar pension funds management fees decreased by ca 40%, additional decrease in February by ca 15%
- The drop in management fees and, consequently, profitability is offset by the possibility to take a success fee in case of very good investment results. Success fees are not included in 2020 financial plan
- Focus on alternative investments, but, considering the pension reform, in more cautious way

LHV Group  
**5 year targets**

**LHV Bank**

Bank with the best service

**600 EURm**

Increase in fund volumes

**3300 / 2600 EURm**

Growth in deposits and loans

**LHV Asset Management**

Further increase of the best performance

## **Madis Toomsalu**

LHV Group juhatuse liige  
[madis.toomsalu@lhv.ee](mailto:madis.toomsalu@lhv.ee)

## **Meelis Paakspuu**

LHV Group finantsjuht  
[meelis.paakspuu@lhv.ee](mailto:meelis.paakspuu@lhv.ee)