

LHV Group

Updated 2020 Financial Plan
April 21, 2020

The assumptions for key drivers are presented in the comments



Financial plan assumptions

- Emergency situation lasts until summer with slow economic recovery afterwards. Double-digit economic recession
- Grace periods for existing loans without changes in terms and conditions of the loan agreements
- Open credit policy. Loan issuance under new and existing agreements exceeds the decrease in the loan portfolio
- Loan provisions highest in the second quarter, subsequent losses depend on the speed of economic recovery and state measures to support the companies
- Issuance of covered bonds
- Suspension of payments to Pillar II pension funds by the state. Increase of investment volumes

Slight increase of business volumes, strength of the main business lines adds confidence

Financial results, EURt	Updated FP2020	2019	Δ YoY	Previous FP2020	Δ upd. FP
Total revenue, incl.	87,316	73,818	+13,498	95,647	-8,331
Net interest income	62,888	47,388	+15,501	69,706	-6,818
Net fee and commission income	24,306	25,677	-1,371	25,374	-1,068
Total operating expenses	44,773	39,266	+5,507	46,423	-1,650
Earnings before impairment	42,542	34,552	+7,991	49,224	-6,681
Impairment losses on loans	19,357	3,209	+16,148	7,177	+12,181
Earnings before taxes	23,185	31,342	-8,157	42,047	-18,862
Income tax expense	3,954	4,250	-296	6,130	-2,176
Net profit, incl.	19,231	27,092	-7,862	35,917	-16,687
attr. to shareholders	17,586	24,797	-7,211	33,327	-15,741
Business volumes, EURm	Updated FP2020	2019	Δ YoY	Previous FP2020	Δ upd. FP
Deposits from customers	2,985	2,701	+284	3,127	-142
Loans (net)	1,806	1,687	+119	2,165	-359
Assets under management	1,454	1,374	+80	1,576	-122
Key figures	Updated FP2020	2019	Δ YoY	Previous FP2020	Δ upd. FP
Cost / Income ratio (C/I)	51.3%	53.2%	- 1.9 pp	48.5%	+ 2.8 pp
pre-tax ROE*	10.2%	16.2%	- 6.1 pp	18.1%	- 7.9 pp
ROE*	8.4%	14.0%	- 5.6 pp	15.4%	- 7.0 pp
T1 capital adequacy	13.9%	13.9%	- 0.0 pp	13.1%	+ 0.8 pp
Total capital adequacy	17.6%	18.0%	- 0.4 pp	17.5%	+ 0.1 pp

- Business volumes will continue to grow compared to 2019, but growth will be lower than previously planned
- Growth of business volumes ensures the growth of revenues. Both revenues and expenses are lower than previously planned, mostly due to the smaller loan portfolio
- Loan provisions increase significantly, largest losses planned in Q2. The most challenging income statement line to predict
- Financial plan does not include extraordinary income. Success fee of LHV Asset Management is not planned for 2020
- Net profit 19.2 EURm, -7.9 EURm compared with 2019 and -16.7 EURm compared with previous financial plan
- Pre-tax ROE 10.2%
- Capital adequacy and liquidity levels are strong

Deposits and loans projected to stay close current levels, loan provisions increasing

Financial results, EURt	Updated FP2020	2019	Δ YoY	Previous FP2020	Δ upd. FP
Total revenue, incl.	79,123	61,104	+18,019	86,424	-7,301
Net interest income	63,155	47,915	+15,241	69,825	-6,670
Net fee and commission income	15,796	12,808	+2,988	16,430	-634
Total operating expenses	37,925	32,515	+5,410	39,161	-1,236
Earnings before impairment	41,198	28,589	+12,609	47,263	-6,065
Impairment losses on loans	19,357	3,209	+16,148	7,177	+12,181
Earnings before taxes	21,840	25,379	-3,539	40,086	-18,246
Income tax expense	3,110	3,278	-168	5,286	-2,176
Net profit, incl.	18,730	22,102	-3,371	34,801	-16,070
attr. to shareholders	17,086	19,806	-2,720	32,210	-15,124
Business volumes, EURm	Updated FP2020	2019	Δ YoY	Previous FP2020	Δ upd. FP
Deposits from customers	2,997	2,713	+284	3,128	-131
Loans (net)	1,806	1,687	+119	2,165	-359
Key figures	Updated FP2020	2019	Δ YoY	Previous FP2020	Δ upd. FP
Cost / Income ratio (C/I)	47.9%	53.2%	- 5.3 pp	45.3%	+ 2.6 pp
pre-tax ROE*	11.1%	15.8%	- 4.7 pp	19.8%	- 8.7 pp
ROE*	9.6%	14.2%	- 4.6 pp	17.2%	- 7.6 pp
T1 capital adequacy	14.3%	14.0%	+ 0.3 pp	13.4%	+ 0.9 pp
Total capital adequacy	17.7%	17.6%	+ 0.1 pp	17.0%	+ 0.7 pp

- Slower growth of deposits (1% in comparison to end of Q1) due to the increased number of new customers and decrease in customers' activity
- Slower growth of the loan portfolio (4% in comparison to the end of Q1) due to the slower amortization of the loan portfolio caused by grace periods offered, disbursements of existing loan agreements and demand for loans starting to recover at the year end
- Increase in net interest income due to increased loan portfolio. Increase in net fee and commission income due to the financial intermediaries business volumes growth
- Growth of expenses caused by increased personnel expenses. Recruitment processes suspended, cost reduction initiated
- Additional provisions due to deteriorated macroeconomic indicators, credit ratings of larger companies and non-performing loans

LHV Asset Management - forecast

Fund volumes are lower than previously planned

Financial results, EURt	Updated FP2020	2019	Δ YoY	Previous FP2020	Δ upd. FP
Total revenue	8,435	13,189	-4,754	9,256	-822
Total expenses	6,044	6,097	-52	6,310	-266
Earnings before taxes	2,390	7,092	-4,702	2,946	-556
Income tax expense	844	972	-128	844	+0
Net profit	1,546	6,120	-4,574	2,102	-556
Business volumes	Updated FP2020	2019	Δ YoY	Previous FP2020	Δ upd. FP
Assets under management, EURm	1,454	1,374	+80	1,576	-122
Active customers of PII funds, thous.	175	177	-1	177	-2
Key figures	Updated FP2020	2019	Δ YoY	Previous FP2020	Δ upd. FP
Cost / Income ratio (C/I)	71.7%	47.4%	+ 24.3 pp	70.5%	+ 1.1 pp
pre-tax ROE	8.6%	24.6%	- 16.0 pp	10.5%	- 1.9 pp
ROE	5.6%	22.1%	- 16.5 pp	7.5%	- 1.9 pp

- Despite the growth of the customer base in Q1, volume of funds has decreased due to the plunge of stock markets
- Pillar II payments suspension planned as one of the state supplementary budget monetary sources will reduce the previous volume of funds by ca 3% in 2020
- Pensions funds actively managed by LHV are showing best short and long-term yield
- Decrease in stock markets and value of OTC assets causes good base for investments
- Achievement of strong returns and probability of exceeding the benchmark index has improved

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