

# LHV Group

Financial plan 2019-2023  
July 25, 2019

The assumptions for key drivers are presented in the comments



# Strategy

## **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

4.8 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

- Strong growth in home loans
- Beneficial everyday banking
- ATM network covering whole Estonia
- Best service

## First choice in investment services

- Complete product portfolio, investor education

## Relevant partner for financial intermediaries

- Comprehensive product portfolio
- Real-time pound payments

## Pension funds with best returns

- Development of Estonian capital markets

**LHV**

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

**LHV**

**Historically rapid growth**

**LHV**

## LHV Group

# Business volumes have multiplied in past 5 years

Financial results, EURt	2014	2015	2016	2017	2018	6m 2019	
<b>Total income, incl.</b>	<b>33,600</b>	<b>41,265</b>	<b>50,558</b>	<b>58,523</b>	<b>70,024</b>	<b>35,784</b>	<b>20%</b>
Net interest income	20,343	23,232	29,976	35,502	39,770	22,573	
Net fee and commission	12,772	14,665	19,186	22,180	26,002	12,838	
<b>Total expenses</b>	<b>21,738</b>	<b>24,241</b>	<b>28,914</b>	<b>31,945</b>	<b>33,807</b>	<b>18,508</b>	<b>12%</b>
<b>Operating profit</b>	<b>11,862</b>	<b>17,024</b>	<b>21,644</b>	<b>26,578</b>	<b>36,217</b>	<b>17,276</b>	
Impairment losses on loans	2,644	1,367	1,480	3,154	5,269	1,649	
<b>Earnings before taxes</b>	<b>9,218</b>	<b>15,656</b>	<b>20,164</b>	<b>23,424</b>	<b>30,947</b>	<b>15,627</b>	
<b>Income tax expense</b>	<b>-449</b>	<b>869</b>	<b>270</b>	<b>1,248</b>	<b>3,758</b>	<b>2,963</b>	
<b>Net profit, incl.</b>	<b>9,667</b>	<b>14,787</b>	<b>19,894</b>	<b>22,176</b>	<b>27,190</b>	<b>12,664</b>	<b>30%</b>
attr. to shareholders	9,203	13,705	17,816	19,601	25,237	11,788	
<b>Business volumes, EURb</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>6m 2019</b>	
Deposits	459	617	777	1,537	1,422	2,083	
Loans (net)	316	410	538	732	919	1,118	
Assets under management	504	570	974	1,103	1,214	1,294	
<b>Key figures</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>6m 2019</b>	
Cost / income ratio (C/I)	64.7%	58.7%	57.2%	54.6%	48.3%	51.7%	
pre-tax ROE*	20.3%	22.9%	20.8%	18.6%	20.9%	18.4%	
ROE*	21.4%	21.8%	20.7%	17.6%	18.4%	15.0%	
CT1 capital adequacy	17.6%	16.0%	15.1%	14.0%	13.6%	14.0%	
Total capital adequacy	22.8%	23.4%	20.7%	18.3%	19.4%	19.2%	

- 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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**6 month 2019 in brief**

**12.7 EURm**

Net profit

**19.8%**

pre-tax ROE

**Best bank in Estonia**

Euromoney

**8,600**

Bank customer increase

# Financial projection 2019-2023



## LHV Group – long-term forecast

# Capital enriching high-value and high-quality growth in all business areas

Financial results, EURt	2019	2020	2021	2022	2023	
<b>Total revenue, incl.</b>	<b>72,899</b>	<b>95,889</b>	<b>116,206</b>	<b>135,105</b>	<b>154,918</b>	<b>21%</b>
Net interest income	48,150	66,708	80,010	93,105	105,516	
Net fee and commission inco	24,216	28,786	35,872	41,696	49,088	
<b>Total operating expenses</b>	<b>37,525</b>	<b>42,420</b>	<b>47,264</b>	<b>51,744</b>	<b>56,387</b>	<b>11%</b>
<b>Operating profit</b>	<b>35,374</b>	<b>53,469</b>	<b>68,942</b>	<b>83,361</b>	<b>98,531</b>	
Impairment losses on loans	5,742	8,291	10,417	12,328	13,959	
<b>Earnings before taxes</b>	<b>29,631</b>	<b>45,178</b>	<b>58,525</b>	<b>71,033</b>	<b>84,572</b>	
Income tax	4,059	5,973	8,494	9,913	12,049	
<b>Net profit, incl.</b>	<b>25,572</b>	<b>39,204</b>	<b>50,031</b>	<b>61,119</b>	<b>72,523</b>	<b>30%</b>
attr. to shareholders	23,482	36,980	47,472	58,315	69,559	
<b>Business volumes, EURm</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	
Deposits from customers	2,605	2,968	3,390	3,902	4,443	
Loans (net)	1,751	2,101	2,517	2,898	3,282	
Assets under management	1,407	1,663	1,946	1,893	1,962	
<b>Key figures</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	
Cost / income ratio (C/I)	51.5%	44.2%	40.7%	38.3%	36.4%	
pre-tax ROE*	15.6%	19.9%	22.0%	22.6%	22.6%	
ROE*	13.4%	17.3%	18.8%	19.4%	19.4%	
CT1 capital adequacy	13.5%	14.2%	14.2%	15.5%	16.2%	
Total capital adequacy	17.6%	17.9%	18.4%	19.3%	19.5%	

- The new forecast accounts for the following changes:
  - Acquisition of Danske private client loan portfolio
  - faster loans volume growth
  - Euribor decline
  - capital requirements caused by volumes
- All significant business volumes grow over five years: deposits grow by 3,021 EURm, loans grow by 2,363 EURm and pension funds grow by 748 EURm. Volume of loans and deposits would double within two years
- Pre-tax return on equity will remain at 20% level, except for the year 2019 influenced by the Danske transaction costs

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**5 year targets**

**LHV Bank**

Best bank in customer service

**750 EURm**

Increase in fund volumes

**3,000 / 2,400 EURm**

Growth in deposits and loans

**LHV Asset Management**

Enhancing current best long-term return

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