

# LHV Group

Financial plan 2018-2022  
February 13, 2018

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

## **Mission and vision**

### **We are helping to raise Estonian capital**

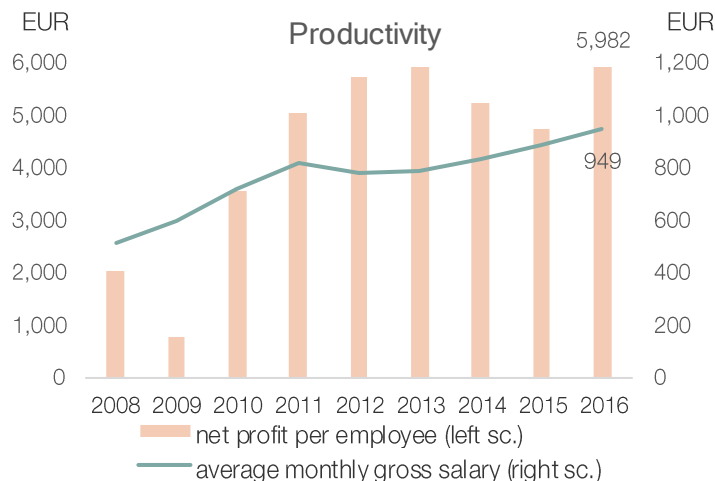
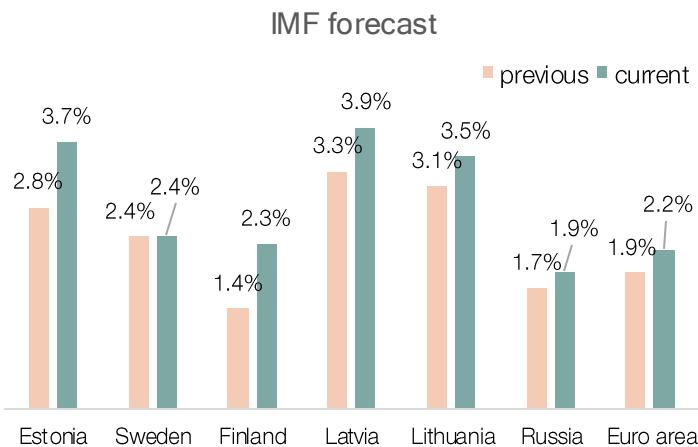
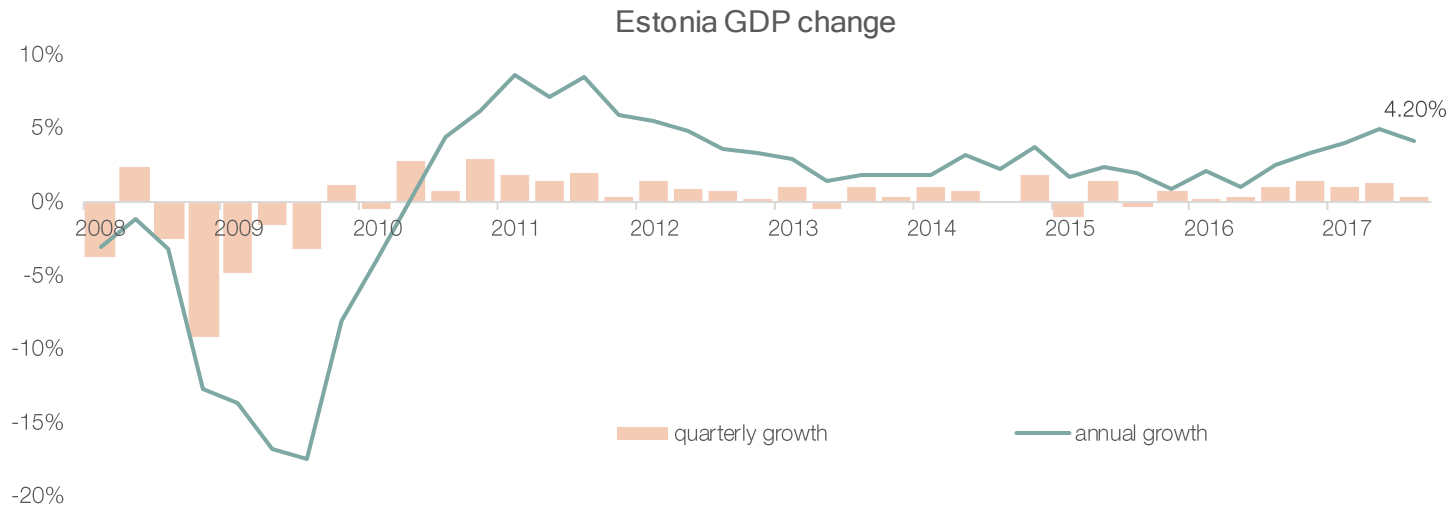
Our mission is to give a new boost to human and financial capital growth in Estonia. We implement our strategic strengths – both investment and business experience – to ensure that Estonian capital helps to build a modern and viable financial group that helps Estonian businesses and people to save and invest and that is an international and relevant partner for companies developing financial technologies

### **We dare to think big**

Our vision is Estonia where people and businesses dare to think big, engage in enterprise and invest in the future. We have a vision that Estonian people and businesses have wide horizons; and are able to overcome the limits of country borders and outdated perceptions; that Estonian businesses have the ability to use foreign labor and apply new technologies to sell their products and services all over the world

# Business environment

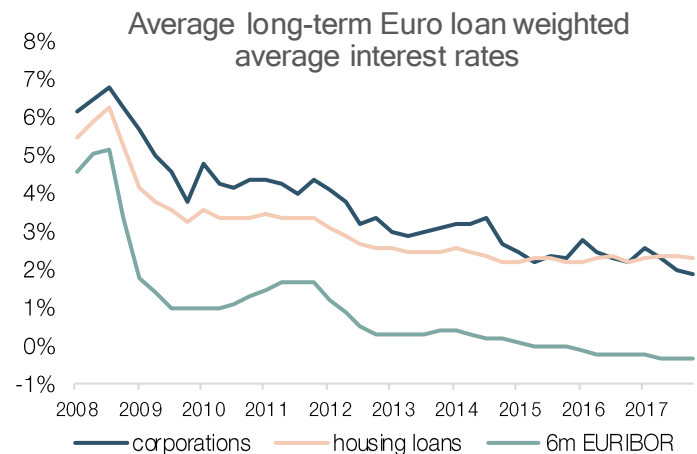
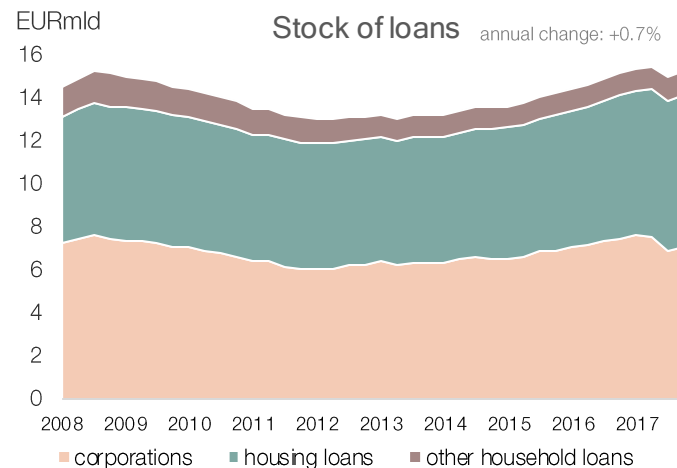
## Economic outlook is good



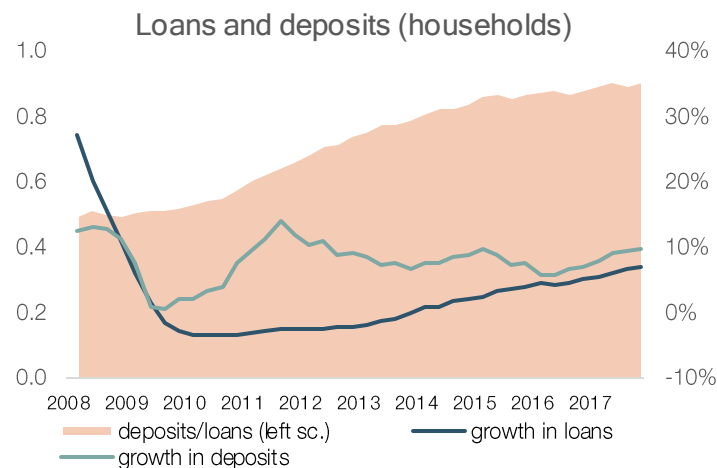
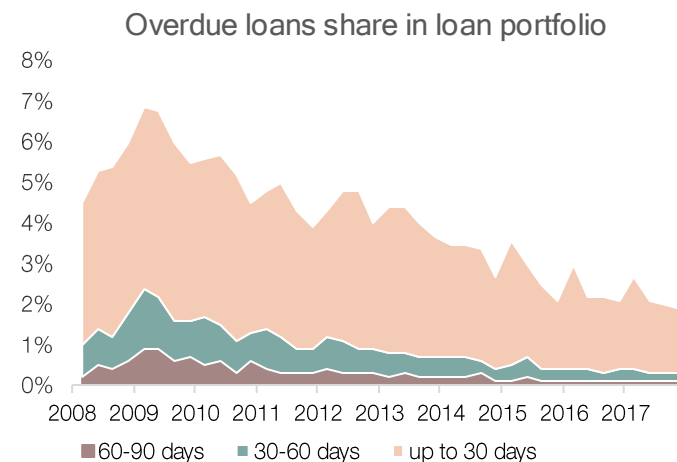
- Estonia has reached from below potential performance period to strong economic growth outlook. All economic sectors are growing
- Rather balanced budget and foreign trade and low level of public sector debt are maintaining low domestic risk. Main risks are related to external factors
- Productivity is starting to increase in despite of wage growth
- The economic growth outlook of all of the main trading partners has improved

# Business environment

## Estonia's financial sector indicators are strong



- Stock of loans is recovering towards previous peaks. All important loan types are increasing
- Financial health of the households is stronger. Deposits have consistently increased more than loans; deposit/loan ratio has improved and more than doubled during last 10 years



- Euribor is remaining at all-time lowest levels. Housing loans margin has stabilized, downward tendency among corporate loan margins is likely to stabilize as well
- Share of overdue loans in portfolio is low, bad debts are mostly covered with provisions

**Strong trends set the future**

## Multiple times volume growth in past 5 years

Financial results, EURt	2013	2014	2015	2016	2017	
<b>Total income, incl.</b>	<b>24,033</b>	<b>33,600</b>	<b>41,265</b>	<b>50,558</b>	<b>58,523</b>	<b>25%</b>
Net interest income	11,838	20,343	23,232	29,976	35,502	
Net fee and commission	9,426	12,772	14,665	19,186	22,180	
<b>Total expenses</b>	<b>16,743</b>	<b>21,738</b>	<b>24,241</b>	<b>28,914</b>	<b>31,945</b>	<b>18%</b>
<b>Operating profit</b>	<b>7,290</b>	<b>11,862</b>	<b>17,024</b>	<b>21,644</b>	<b>26,578</b>	
Impairment losses on loans	2,872	2,644	1,367	1,480	3,154	
<b>Earnings before taxes</b>	<b>4,428</b>	<b>9,218</b>	<b>15,656</b>	<b>20,164</b>	<b>23,424</b>	
Income tax expense	83	-449	869	270	1,248	
<b>Net profit</b>	<b>4,345</b>	<b>9,667</b>	<b>14,787</b>	<b>19,894</b>	<b>22,176</b>	
<b>Business volumes, EURt</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	
Deposits	353	458	617	777	1,537	
Loans (net)	207	316	410	538	732	
Assets under management	376	504	570	974	1,103	
<b>Key figures</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	
Cost / income ratio (C/I)	69.7%	64.7%	58.7%	57.2%	54.6%	
ROE*	16.5%	21.4%	21.8%	20.7%	17.6%	
CT1 capital adequacy	15.3%	17.6%	16.0%	15.1%	14.0%	
Total capital adequacy	23.0%	22.8%	23.4%	20.7%	18.3%	

- Deposits have grown more than 4x in the past five years. Loan portfolio increased more than three times. Funds volume tripled
- 5y average increase in revenues: 25% and expenses: 18%
- In 2017, record growth in deposits and loans. Record volumes in pension funds and private banking. Client activity higher at all time high
- Group loan activity has been conservatively financed by deposits. Amount of deposits exceeds loans by 805 EURm
- ROE (incl extraordinary income) of last two financial years has been 17.6% and 20.7%

LHV Group  
**2017 in brief**

**194 EURm**

Loan portfolio growth

**17.6%**

ROE

**170 EURm**

Investment decisions to Estonia

**21,000**

Bank customer increase



## Strong trends drive the new year

### Customer convenience

- Ca 5% of new customers via video recognition
- Sharp rise in the number of mobile banking users
- Smart-ID
- Chatbot
- Additional ATMs
- 1000 interfaces via LHV Connect
- „Payroll“ solution

### New / complementary products

- Pension fund investments in Estonia
- Private banking offering
- Rapid growth in Home loan
- Car and repair loans
- Home insurance
- Stock Shark / Börsihai competition
- Financial intermediation business segment

**LHV**

BEST BANK IN CUSTOMER SERVICE  
EMPLOYER OF DREAMS – 8th PLACE  
SYSTEMATICALLY IMPORTANT CREDIT INSTITUTION  
NASDAQ BALTIC MARKET AWARDS – BEST MEMBER

# Financial plan 2018

# LHV Group - forecast

## Profitable growth as key target

Financial results, EURt	FP2018	2017	Δ YoY	Δ %
<b>Total revenue, incl.</b>	<b>70,401</b>	<b>58,523</b>	<b>+11,878</b>	<b>+20%</b>
Net interest income	46,101	35,502	+10,599	+30%
Net fee and commission income	23,920	22,180	+1,741	+8%
<b>Total operating expenses</b>	<b>36,582</b>	<b>31,945</b>	<b>+4,636</b>	<b>+15%</b>
<b>Earnings before impairment</b>	<b>33,819</b>	<b>26,578</b>	<b>+7,241</b>	<b>+27%</b>
Impairment losses on loans	5,579	3,154	+2,425	+77%
<b>Earnings before taxes</b>	<b>28,240</b>	<b>23,424</b>	<b>+4,816</b>	<b>+21%</b>
Income tax expense	3,923	1,248	+2,676	+214%
<b>Net profit</b>	<b>24,316</b>	<b>22,176</b>	<b>+2,140</b>	<b>+10%</b>
<b>Business volumes, EURm</b>	<b>FP2018</b>	<b>2017</b>	<b>Δ YoY</b>	<b>Δ %</b>
Deposits from customers	1,344	1,537	-193	-13%
Loans (net)	916	732	+184	+25%
Assets under management	1,269	1,103	+166	+15%
<b>Key figures</b>	<b>FP2018</b>	<b>2017</b>	<b>Δ YoY</b>	
Cost / Income ratio (C/I)	52.0%	54.6%	-2.6 pp	
ROE (attr. to owners)	16.1%	17.6%	-1,6 pp	
CT1 capital adequacy	13.2%	14.0%	-0,8 pp	
Total capital adequacy	16.6%	18.3%	-1,7 pp	
ROA	1.4%	1.6%	-0,2 pp	

- Increase in revenues is expected to be significantly faster than cost growth. Increase in interest income to from growth in loan portfolio
- Loan impairments increase by 1.8x. In case of stable credit cycle continuing, lower loan impairments are expected
- Significant influence of the implementation of banking tax. Together with tax on dividends, total increase of tax expense more than 3 times reaching 3.9 EURm
- EBT 28.3 EURm (+21%). Pre-tax ROE 17.5%\*
- Net profit 24.3 EURm (+10%). ROE 16.1%, incl. rapid growth in tax expense and investments related to financial intermediation business segment
- Capital adequacy strong, C/I is expressing a good downward trend



## **Development of existing and new business segments**

### **Increasing customer base and activity**

- opening bank accounts for substantial payment collectors
- special promotions for youngsters
- development of the Business Account / Ettevõtluskonto

### **Supplementation of e-channels**

- account opening via electronical channels
- renewal of internet bank
- upgrading the mobile bank regarding becoming a client, applying for credit products and transactions with securities

### **Development of payment services**

- joining the real-time Euro Payments System
- joining the real-time Pound Payments System
- development of APIs

### **Opening a branch in the UK**

- team building
- customer service

## Revenue growth from increase in business volumes and client activity

Financial results, EURt	FP2018	2017	Δ YoY	Δ %
<b>Total revenue, incl.</b>	<b>47,723</b>	<b>39,521</b>	<b>+8,202</b>	<b>+21%</b>
Net interest income	38,618	31,134	+7,484	+24%
Net fee and commission income	8,942	7,696	+1,246	+16%
<b>Total operating expenses</b>	<b>24,887</b>	<b>20,415</b>	<b>+4,472</b>	<b>+22%</b>
<b>Earnings before impairment</b>	<b>22,835</b>	<b>19,105</b>	<b>+3,730</b>	<b>+20%</b>
Impairment losses on loans	4,363	3,585	+778	+22%
<b>Earnings before taxes</b>	<b>18,472</b>	<b>15,521</b>	<b>+2,952</b>	<b>+19%</b>
Income tax expense	2,371	0	+2,371	na
<b>Net profit</b>	<b>16,102</b>	<b>15,521</b>	<b>+581</b>	<b>+4%</b>

Business volumes, EURm	FP2018	2017	Δ YoY	Δ %
Deposits from customers	1,344	1,551	-207	-13%
Loans (net)	898	719	+179	+25%

Key figures	FP2018	2017	Δ YoY
Cost / Income ratio (C/I)	52.2%	51.7%	+0.5 pp
ROE (attr. to owners of the parent)	13.5%	16.0%	-2.5 pp
CT1 capital adequacy	13.3%	13.3%	-0.0 pp
Total capital adequacy	16.0%	16.2%	-0.2 pp
ROA	1.0%	1.2%	-0.2 pp

- Increase in deposits by 100 EURm, decrease in financial intermediaries' deposits by 300 EURm. Loan growth 180 EURm, incl. corporate loans 80 EURm, retail loans 64 EURm and Mobilizingas 36 EURm
- Increase in net interest income from loan portfolio growth. Growth in net fee and commission income due to increase in activity of financial intermediaries
- Cost and loan impairments growth conservative. Income tax additions
- Increasing loan volumes require up to 17 EURm additional capital

# LHV Asset Management - forecast

## Increasing fund volumes bring lower service fees for customers

Financial results, EURt	FP2018	2017	Δ YoY	Δ %
Total revenue, incl.	14,203	13,421	+781	+6%
Total expenses	5,965	6,664	-698	-10%
Earnings before taxes	8,237	6,758	+1,480	+22%
Income tax expense	1,095	951	+144	+15%
Net profit	7,142	5,807	+1,336	+23%
<b>Business volumes</b>	<b>FP2018</b>	<b>2017</b>	<b>Δ YoY</b>	<b>Δ %</b>
Assets under management, EURm	1,269	1,103	+166	+15%
Active customers of PII funds, thous.	176	177	-1	-0%
<b>Key figures</b>	<b>FP2018</b>	<b>2017</b>	<b>Δ YoY</b>	
Cost / Income ratio (C/I)	42.0%	50.1%	-8.1 pp	
ROE	31.8%	31.0%	+0.8 pp	
ROA	28.5%	27.2%	+1.3 pp	

- Implementation of IFRS 15 – selling costs going forward are capitalized and amortized\*
- Fund volumes increase by 15%. II pillar pension fund management fee decreases by 6%
- Establishment of new Estonian-focused II pillar pension fund. Fund returns vary from 0.5% to 4.5%
- According to the plan, 4.4 EURm dividend is paid to parent and share capital is reduced by 1.2 EURm\*\*

\*Financial reporting is subject to IFRS 15 starting from FY 2018, historic periods presented without changes

\*\*Decision regarding capital changes will be made later during the FY depending on the actual results of LHV Asset Management

# Financial projection 2018-2022

# LHV Group – long-term forecast

## Capital enhancing quality growth in all business segments

Financial results, EURt	2018	2019	2020	2021	2022	
<b>Total income, incl.</b>	<b>70,401</b>	<b>83,138</b>	<b>97,559</b>	<b>109,147</b>	<b>123,090</b>	<b>15%</b>
Net interest income	46,101	55,525	65,610	74,271	84,952	
Net fee and commission income	23,920	27,203	31,534	34,455	37,715	
<b>Total expenses</b>	<b>36,582</b>	<b>40,616</b>	<b>43,791</b>	<b>47,199</b>	<b>50,458</b>	<b>8%</b>
<b>Operating profit</b>	<b>33,819</b>	<b>42,522</b>	<b>53,767</b>	<b>61,948</b>	<b>72,633</b>	
Impairment losses on loans	5,579	7,419	8,041	8,058	9,012	
<b>Earnings before taxes</b>	<b>28,240</b>	<b>35,103</b>	<b>45,726</b>	<b>53,890</b>	<b>63,621</b>	
Income tax expense	3,923	5,667	6,966	8,422	9,480	
<b>Net profit</b>	<b>24,316</b>	<b>29,436</b>	<b>38,760</b>	<b>45,468</b>	<b>54,141</b>	
<b>Business volumes, EURt</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	
Deposits	1,344	1,521	1,714	1,923	2,154	
Loans (net)	916	1,093	1,240	1,362	1,510	
Assets under management	1,269	1,479	1,713	1,967	2,243	
<b>Key figures</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	
Cost / income ratio (C/I)	52.0%	48.9%	44.9%	43.2%	41.0%	
ROE*	16.1%	16.2%	18.3%	18.3%	18.9%	
pre-tax ROE*	17.5%	17.6%	19.5%	19.5%	19.8%	
CT1 capital adequacy	13.2%	13.1%	13.9%	15.6%	17.3%	
Total capital adequacy	16.6%	16.7%	17.4%	18.8%	20.2%	

- Assumptions: stable economy, growth in business volumes, euribor increase, capitalization&amortization of Asset Management selling costs, decrease in fund management fees in line with the increase in volumes, persistence in dividend policy, banking tax
- Growth in all important business volumes during 5 years: deposits by 800 EURm, loans by 600 EURm, funds by 1000 EURm
- Increase in revenues is expected to be significantly faster than growth in expenses. Costs impacted by tax costs increase. Forecast rather conservative regarding loan impairments
- Raise of capital by bond issues in 2019 and 2020
- Moving towards ROE of 20%



# LHV Group

## 5 year targets

### **LHV Bank**

Best bank in customer service

### **1 billion EUR**

Increase in fund volumes

### **800 / 600 EURm**

Growth in deposits and loans

### **LHV Asset Management**

Best long-term return

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