

# LHV Group

Financial plan 2023-2027  
14 February 2023

The assumptions for key drivers are presented in the comments



LHV's historically rapid growth

## 2022 – financing of economy and growth in number of customers

In 2022, LHV loan portfolio increased by 20% to 3.2 EURb. By the end of the year, we provided service for 378,000 bank, 164,000 pension fund and 150,000 insurance customers. LHV Pank is the third largest bank in Estonia. LHV Insurance offers a wide range of products. LHV UK, established in the UK, gained the right to issue loans to businesses and is applying for a banking licence. LHV Group acquired EveryPay AS

### Rapid growth

- Bank customers: +56,500 (18%)
- Loans: +531 million (20%)

### Customer convenience

- Issuing business loans in UK
- Virtual bank card
- Opening of new bank office in Pärnu
- New internet bank design
- Insurance information available in internet bank and mobile bank
- With Growth Account opportunity to buy a fraction of US shares

### Awards

- Bank with the best service – Dive
- Best bank – Euromoney / The Banker
- TOP Estonian Employer 1<sup>st</sup> place – CV-Online
- Estonian Most Desirable Employer 1<sup>st</sup> place – CV Keskus

### LHV Varahaldus

- Actively managed pension funds M, L, and XL were the only II pillar funds in Estonia offering positive rate of return
- The market share of pension funds by volume 31% and by number of customers 25%

### LHV Kindlustus

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

# LHV Group

## Business volumes have multiplied in the past 5 years

Financial results, EURt	2018	2019	2020	2021	2022	
<b>Total revenue, incl.</b>	<b>70,024</b>	<b>73,818</b>	<b>103,547</b>	<b>140,379</b>	<b>173,542</b>	<b>24%</b>
Net interest income	39,770	47,388	68,492	97,319	129,111	
Net fee and commission income	26,002	25,677	33,351	43,478	44,900	
<b>Total expenses</b>	<b>33,807</b>	<b>39,266</b>	<b>43,975</b>	<b>65,183</b>	<b>89,639</b>	<b>23%</b>
<b>Earnings before impairment</b>	<b>36,217</b>	<b>34,552</b>	<b>59,572</b>	<b>75,197</b>	<b>83,903</b>	
Impairment losses	5,269	3,209	10,898	3,948	8,051	
<b>Earnings before taxes</b>	<b>30,947</b>	<b>31,342</b>	<b>48,674</b>	<b>71,249</b>	<b>75,852</b>	
Income tax expense	3,758	4,250	8,827	10,986	14,421	
<b>Net profit</b>	<b>27,190</b>	<b>27,092</b>	<b>39,847</b>	<b>60,263</b>	<b>61,431</b>	<b>23%</b>
Attr. to shareholders	25,237	24,797	37,950	58,261	59,807	
<b>Business volumes, EURm</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	
Deposits from customers	1,422	2,701	4,120	5,808	4,901	
Loans (net)	919	1,687	2,209	2,677	3,209	
Assets under management	1,214	1,374	1,537	1,349	1,332	
<b>Key figures</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	
Cost / income ratio (C/I)	48.3%	53.2%	42.5%	46.4%	51.7%	
pre-tax ROE*	20.4%	16.9%	21.1%	26.0%	20.4%	
ROE*	18.0%	14.6%	17.9%	22.0%	16.5%	
T1 capital adequacy	13.6%	13.9%	15.6%	16.1%	17.5%	
Total capital adequacy	19.4%	18.0%	20.5%	20.0%	20.8%	

- Loans have increased by four times and deposits by three times in the last five years. Volume of funds has increased by 1.2 times
- 5y average increase in revenues 24% and 23% in expenses. During last years investments into LHV UK have affected growth in expenses
- 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 1.7 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 by 2032

**LHV Varahaldus** – Most important institutional investor in Estonia

**LHV Kindlustus** – Reliable insurance partner with the highest customer satisfaction

**LHV UK bank** – Bank focusing on payments and corporate loans

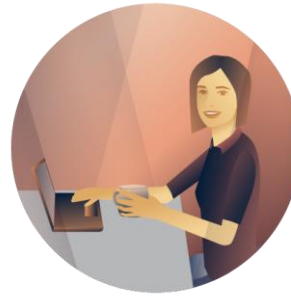
# LHV Group

## Focus on high-quality relationships



### The best service

Euromoney / The best bank in Estonia in 2018-2022  
Dive / The bank with the best customer service in Estonia in 2015-2016, 2018-2023



### The best employer

CV-Online / Top Estonian Employer  
1<sup>st</sup> place in 2022  
CV-Keskus / Estonian Most Desirable Employer  
1<sup>st</sup> place in 2022



### The best investor relations

Nasdaq / The best investor relations in the Baltics  
2019, 2020, 2023

# LHV Group

## Long-term goals

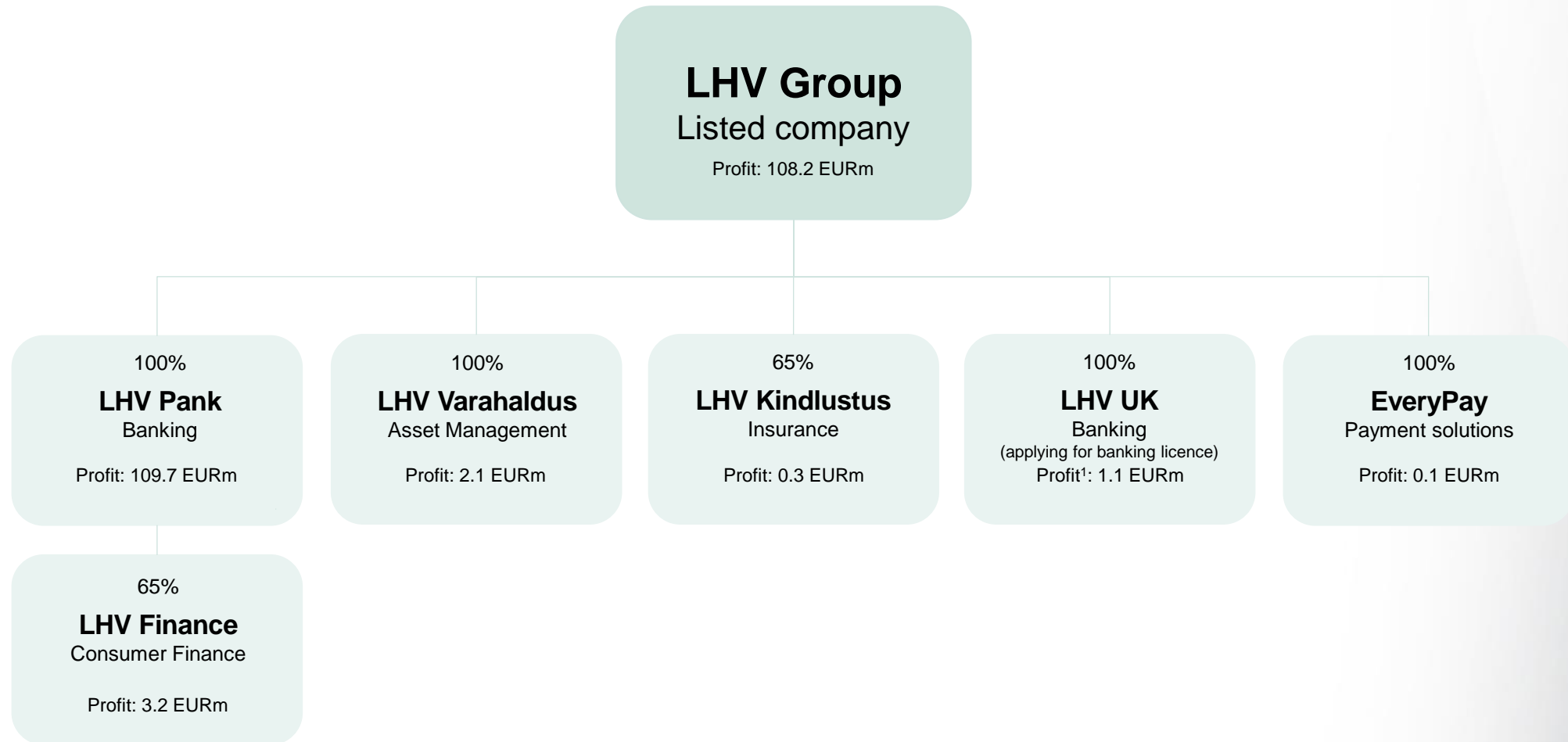
LHV's long-term objective is to offer its stakeholders positive relationships, by being:

- 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 to employees that offers high satisfaction and the possibility to grow and realize their potential;
- transparent company 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



Projected profits for 2023

<sup>1</sup> For LHV UK assumption that banking licence is obtained in spring 2023. Right to issue loans to businesses in UK starting from November 2022

# LHV Group – financial plan for 2023

## Increasing business volumes and starting business operations in UK

Financial results, EURt	2022	FP2023	Δ YoY	Δ %
<b>Total revenue, incl.</b>	<b>173,542</b>	<b>270,443</b>	<b>+96,901</b>	<b>+56%</b>
Net interest income	129,111	216,005	+86,893	+67%
Net fee and commission income	44,900	53,808	+8,908	+20%
<b>Total expenses</b>	<b>89,639</b>	<b>118,690</b>	<b>+29,050</b>	<b>+32%</b>
<b>Earnings before impairment</b>	<b>83,903</b>	<b>151,753</b>	<b>+67,851</b>	<b>+81%</b>
Impairment losses	8,051	24,589	+16,538	+205%
<b>Earnings before taxes</b>	<b>75,852</b>	<b>127,164</b>	<b>+51,312</b>	<b>+68%</b>
Income tax expense	14,421	18,931	+4,510	+31%
<b>Net profit</b>	<b>61,431</b>	<b>108,233</b>	<b>+46,802</b>	<b>+76%</b>
Attr. to shareholders	59,807	106,789	+46,982	+79%
<b>Business volumes, EURm</b>	<b>2022</b>	<b>FP2023</b>	<b>Δ YoY</b>	<b>Δ %</b>
Deposits from customers	4,901	5,653	+752	+15%
Loans (net)	3,209	3,428	+220	+7%
Fin.intermediaries' payments, mil. pcs	26	34	+8	+30%
Assets under management	1,332	1,570	+238	+18%
<b>Key figures</b>	<b>2022</b>	<b>FP2023</b>	<b>Δ YoY</b>	
Cost / Income ratio (C/I)	51.7%	43.9%	- 7.8 pp	
pre-tax ROE*	20.4%	27.4%	+ 7.1 pp	
ROE*	16.5%	23.3%	+ 6.8 pp	
T1 capital adequacy	17.5%	18.4%	+ 0.9 pp	
Total capital adequacy	20.8%	21.5%	+ 0.7 pp	

- Increase in income in 2023 related to growth in business volumes, no extraordinary income planned. Net interest income affected by increase in base interest rates as well as change in credit quality
- Profitability affected by interest expense of instruments issued to fulfil significantly increased capital requirements, increase in salary expense and input costs due to inflation, recruitment of new employees to support future growth, expenses and investments in LHV UK to build up the organisation
- Impairment losses are increasing on a forward-looking basis
- Volume of financial intermediaries' deposits stabilising, retail customers' deposits growing

# LHV Group – long-term financial plan for 2023-2027

## Continuation of strong growth despite the changes in business environment

Financial results, EURt	2023	2024	2025	2026	2027	
<b>Total revenue, incl.</b>	<b>270,443</b>	<b>301,598</b>	<b>331,618</b>	<b>382,829</b>	<b>438,257</b>	<b>20%</b>
Net interest income	216,005	233,733	238,476	275,598	320,804	
Net fee and commission income	53,808	66,895	91,546	105,256	115,062	
<b>Total expenses</b>	<b>118,690</b>	<b>132,327</b>	<b>146,544</b>	<b>162,522</b>	<b>183,607</b>	<b>15%</b>
<b>Earning before impairment</b>	<b>151,753</b>	<b>169,272</b>	<b>185,074</b>	<b>220,306</b>	<b>254,649</b>	
Impairment losses	24,589	31,035	21,972	25,080	25,509	
<b>Earnings before taxes</b>	<b>127,164</b>	<b>138,237</b>	<b>163,102</b>	<b>195,226</b>	<b>229,140</b>	
Income tax expense	18,931	21,190	24,958	30,152	42,517	
<b>Net profit</b>	<b>108,233</b>	<b>117,047</b>	<b>138,144</b>	<b>165,074</b>	<b>186,623</b>	<b>25%</b>
Attr. to shareholders	106,789	114,858	133,190	158,733	178,448	
<b>Business volumes, EURm</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	
Deposits from customers	5,653	7,401	8,707	10,111	11,573	
Loans (net)	3,428	3,933	4,627	5,433	6,305	
Fin.intermediaries' payments, mil. pcs	34	36	38	39	41	
Assets under management	1,570	1,743	1,933	2,140	2,368	
<b>Key figures</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	
Cost / income ratio (C/I)	43.9%	43.9%	44.2%	42.5%	41.9%	
pre-tax ROE*	27.4%	24.1%	23.9%	24.7%	25.3%	
ROE*	23.3%	20.4%	20.2%	20.8%	20.4%	
T1 capital adequacy	18.4%	18.8%	18.6%	18.5%	18.3%	
Total capital adequacy	21.5%	21.9%	21.9%	22.1%	21.3%	

- Assumptions: higher uncertainty due to geopolitical risks, energy crisis, and inflation, base interest rates peak in 2023 and gradually decrease afterwards, stable dividend policy, performance fee for LHV Varahaldus from year 2024
- Organic growth in all major business volumes during next 5 years. Volume of loans is expected to increase by 2 times, deposits by 2.4 times and funds' volume by 1.8
- Increase in total revenue faster than in expenses, significantly affected by income in UK and increase in interest rates. Expenses mainly impacted by an increase in staff costs. Increasing impairment losses due to changes in business environment
- Each year achieving ROE target of 20%



# LHV Pank – financial plan for 2023

## Increasing volumes and expanding services in all business lines

### Retail banking

- Activation of customers
- Increasing customer base all over Estonia
- Increasing market share of home loans
- Volume growth and additions to investment services
- 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

### Banking Services

- Development of the UK business operations
- Gradual transfer of Banking Services to LHV UK

# LHV Pank – financial plan for 2023

## Increase in business volumes along with strong results

Financial results, EURt	2022	FP2023	Δ YoY	Δ %
<b>Total revenue, incl.</b>	<b>161,674</b>	<b>227,337</b>	<b>+65,663</b>	<b>+41%</b>
Net interest income	129,487	198,153	+68,666	+53%
Net fee and commission income	32,408	29,046	-3,362	-10%
<b>Total expenses</b>	<b>64,548</b>	<b>76,459</b>	<b>+11,912</b>	<b>+18%</b>
<b>Earnings before impairment</b>	<b>97,126</b>	<b>150,877</b>	<b>+53,751</b>	<b>+55%</b>
Impairment losses	2,995	24,008	+21,013	+702%
<b>Earnings before taxes</b>	<b>94,131</b>	<b>126,870</b>	<b>+32,739</b>	<b>+35%</b>
Income tax expense	13,259	17,151	+3,892	+29%
<b>Net profit, incl.</b>	<b>80,872</b>	<b>109,719</b>	<b>+28,847</b>	<b>+36%</b>
attr. to shareholders	78,656	108,381	+29,725	+38%
<b>Business volumes, EURm</b>	<b>2022</b>	<b>FP2023</b>	<b>Δ YoY</b>	<b>Δ %</b>
Deposits from customers	4,957	5,197	+240	+5%
Loans (net)	3,187	3,370	+183	+6%
<b>Key figures</b>	<b>2022</b>	<b>FP2023</b>	<b>Δ YoY</b>	
Cost / Income ratio (C/I)	39.9%	33.6%	- 6.3 pp	
pre-tax ROE*	29.0%	29.6%	+ 0.6 pp	
ROE*	24.9%	25.5%	+ 0.6 pp	
T1 capital adequacy	17.7%	18.6%	+ 1.0 pp	
Total capital adequacy	20.4%	20.7%	+ 0.3 pp	

- Financing of customers continues. Loan portfolio growth slower than in previous years. Increase in Corporate Banking loans of 144 EURm and home loans of 31 EURm
- Increase in net interest income resulting from growth in loan volumes, incl. from loans issued last year, and increase in base interest rates
- Decrease in net fee and commission income mainly from Banking Services profit sharing with LHV UK and decreasing volumes in investment services
- Increase in expenses mostly due to higher staff costs and IT costs
- Impairment losses increase as customers' credit risk indicators worsen and portfolios grow



# LHV Varahaldus – financial plan for 2023

Funds' volume and number of customers growing, profitable even without performance fee

Financial results, EURt	2022	FP2023	Δ YoY	Δ %
Total revenue	7,805	9,510	+1,705	+22%
Total expenses	7,077	6,956	-121	-2%
Earnings before taxes	728	2,554	+1,826	+251%
Income tax expense	830	488	-342	-41%
Net profit	-103	2,066	+2,168	na
Business volumes	2022	FP2023	Δ YoY	Δ %
Assets under management, EURm	1,332	1,570	+238	+18%
Active customers of PII funds, thous.	131	135	+4	+3%
Key figures	2022	FP2023	Δ YoY	
Cost / Income ratio (C/I)	90.7%	73.1%	- 17.5 pp	
pre-tax ROE*	3.1%	11.6%	+ 8.6 pp	
ROE*	-0.4%	9.4%	+ 9.8 pp	

- Impact of the pension reform has passed – organic growth of funds' volume, at the beginning of 2023 added compensation for meanwhile suspended contributions, and return of funds' further on
- Higher revenues along with higher funds' volume, cost base remains on 2022 level
- Unique investment strategy – M, L, and XL continue to have distribution between different asset classes, Indeks with higher share of developing markets, Roheline clearly distinct from the alternatives
- Performance fee starting from 2024 resulting from high returns of funds

# LHV Kindlustus – financial plan for 2023

## Growth in business volumes supports becoming profitable

<b>Financial results, EURt</b>	<b>2022</b>	<b>FP2023</b>	<b>Δ YoY</b>	<b>Δ %</b>
<b>Total revenue</b>	<b>1,487</b>	<b>4,574</b>	<b>+3,087</b>	<b>+208%</b>
<b>Total expenses</b>	<b>3,181</b>	<b>4,273</b>	<b>+1,092</b>	<b>+34%</b>
<b>Earnings before taxes</b>	<b>-1,693</b>	<b>301</b>	<b>+1,994</b>	<b>na</b>
Income tax expense	0	0	+0	na
<b>Net profit, incl.</b>	<b>-1,693</b>	<b>301</b>	<b>+1,994</b>	<b>na</b>
attr. to shareholders	-1,101	196	+1,296	na
<b>Business volumes</b>	<b>2022</b>	<b>FP2023</b>	<b>Δ YoY</b>	<b>Δ %</b>
Gross Premiums, EURm	17	27	+10	+58%
<b>Key figures</b>	<b>2022</b>	<b>FP2023</b>	<b>Δ YoY</b>	
Cost / Income ratio (C/I)	216.0%	93.6%	- 122.4 pp	
Net loss ratio	73.9%	66.1%	- 7.8 pp	
Net expense ratio	46.0%	32.8%	- 13.3 pp	
pre-tax ROE*	-28.7%	5.9%	+ 34.6 pp	
ROE*	-28.7%	5.9%	+ 34.6 pp	

- Net profit resulting from growing income due to increasing business volumes
- Increasing synergy in bank channels
- Expanding product selection with loan and accident insurance for private persons and extending property and liability insurance for companies
- Number of customers reaches 158 thousand
- Development of IT and internal processes continues
- Fast and smooth claims handling with highest customer satisfaction continues being priority



# LHV UK – financial plan for 2023

## Starting business operations

<b>Financial results, EURt</b>	<b>2022</b>	<b>FP2023</b>	<b>Δ YoY</b>
<b>Total revenue, incl.</b>	<b>67</b>	<b>28,487</b>	<b>+28,420</b>
Net interest income	60	7,984	+7,924
Net fee and commission income	0	20,503	+20,503
<b>Total expenses</b>	<b>11,737</b>	<b>26,855</b>	<b>+15,118</b>
<b>Earnings before impairment</b>	<b>-11,670</b>	<b>1,632</b>	<b>+13,303</b>
Impairment losses	0	581	+582
<b>Earnings before taxes</b>	<b>-11,670</b>	<b>1,051</b>	<b>+12,721</b>
Income tax expense	0	0	+0
<b>Net profit</b>	<b>-11,670</b>	<b>1,051</b>	<b>+12,721</b>
<b>Business volumes, EURm</b>	<b>2022</b>	<b>FP2023</b>	<b>Δ YoY</b>
Deposits from customers	0	501	+501
Loans (net)	22	59	+37
<b>Key figures</b>	<b>2022</b>	<b>FP2023</b>	<b>Δ YoY</b>
Cost / Income ratio (C/I)	17,572.7%	94.3%	-1 7478.4 pp
pre-tax ROE*	-56.2%	3.0%	+ 59.2 pp
ROE*	-56.2%	3.0%	+ 59.2 pp

- Assumed that banking licence obtained in spring 2023. Afterwards gradual transfer of Banking Services from LHV Pank to LHV UK. At the same time recruiting and development of IT systems
- Increase in net interest income resulting from growth in loan volume and funds deposited in central bank
- Net fee and commission income earned from services offered to Banking Services customers and profit sharing in LHV Pank
- Increase in expenses mostly due to higher staff costs and IT costs

# LHV Group

## 5 year targets

**LHV Pank**  
Second largest bank

**LHV UK**  
International business with a  
rapid growth

**6,700 / 3,100 EURm**  
Growth in group's  
deposits and loans

**1000 EURm**  
Growth in assets under  
management of pension funds

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