

LHV Group

Updated 2020 Financial Plan
October 22, 2020

The assumptions for key drivers are presented in the comments



Financial plan assumptions

- The economic situation has been better than anticipated in the financial plan published in April. In long term, uncertainty remains high
- The effects of the crisis are lower than anticipated as we have cancelled or postponed several costs / investments. The effect of IAS 12 on the recognition of income tax on dividends expected to be paid in the following year has been added
- The grace periods for existing loans have started to end and majority of the customers go back to regular payment schedules
- Mainly model-based loan provisions were the largest in the Q2, further possible provisions are related to the progress of specific customers
- In October we took over the corporate and local municipalities loan portfolio from Danske Bank which we financed with negative interest rate through TLTRO III programme
- The suspension of payments to Pillar II pension funds remains modest. Increase of investment volumes

Business volumes are growing at a good pace, all core businesses are profitable

Financial results, EURt	Updated FP2020	2019	Δ YoY	Previous FP2020	Δ upd. FP
Total revenue, incl.	95,395	73,818	+21,577	87,316	+8,079
Net interest income	69,251	47,388	+21,863	62,888	+6,362
Net fee and commission income	25,703	25,677	+27	24,306	+1,397
Total operating expenses	43,749	39,266	+4,483	44,773	-1,024
Earnings before impairment	51,646	34,552	+17,095	42,542	+9,104
Impairment losses on loans	11,950	3,209	+8,740	19,357	-7,408
Earnings before taxes	39,697	31,342	+8,354	23,185	+16,512
Income tax expense	7,085	4,250	+2,836	3,954	+3,131
Net profit, incl.	32,611	27,092	+5,519	19,231	+13,380
attr. to shareholders	30,106	24,797	+5,309	17,586	+12,520
Business volumes, EURm	Updated FP2020	2019	Δ YoY	Previous FP2020	Δ upd. FP
Deposits from customers	3,301	2,701	+600	2,985	+316
Loans (net)	2,227	1,687	+540	1,806	+421
Assets under management	1,531	1,374	+157	1,454	+78
Key figures	Updated FP2020	2019	Δ YoY	Previous FP2020	Δ upd. FP
Cost / Income ratio (C/I)	45.9%	53.2%	- 7.3 pp	51.3%	- 5.4 pp
pre-tax ROE*	16.6%	16.2%	+ 0.4 pp	10.2%	+ 6.4 pp
ROE*	14.0%	14.0%	+ 0.0 pp	8.4%	+ 5.6 pp
T1 capital adequacy	12.9%	13.9%	- 1.0 pp	13.9%	- 1.0 pp
Total capital adequacy	17.3%	18.0%	- 0.6 pp	17.6%	- 0.2 pp

- Business volumes are growing in Q4
- The growth of business volumes ensures the growth of revenues. Revenues are higher than in the previous plan, but costs have been reduced
- The quality of the loan portfolio is significantly better compared to the spring plan, leading to lower discounts
- Financial plan does not include extraordinary income. Success fee of LHV Asset Management is not planned for 2020
- Net profit 32.2 EURm, up 5.5 EURm compared to 2019 and 13.4 EURm higher compared to the previous plan
- Pre-tax ROE 16.6%
- Capital adequacy and liquidity levels are strong

The growth of loans and deposits increases profitability

Financial results, EURt	Updated FP2020	2019	Δ YoY	Previous FP2020	Δ upd. FP
Total revenue, incl.	86,650	61,104	+25,546	79,123	+7,527
Net interest income	69,575	47,915	+21,661	63,155	+6,420
Net fee and commission income	17,030	12,808	+4,222	15,796	+1,234
Total operating expenses	36,411	32,515	+3,896	37,925	-1,514
Earnings before impairment	50,239	28,589	+21,650	41,198	+9,041
Impairment losses on loans	11,950	3,209	+8,740	19,357	-7,408
Earnings before taxes	38,289	25,379	+12,910	21,840	+16,449
Income tax expense	5,851	3,278	+2,573	3,110	+2,741
Net profit, incl.	32,438	22,102	+10,336	18,730	+13,708
attr. to shareholders	29,933	19,806	+10,127	17,086	+12,847
Business volumes, EURm	Updated FP2020	2019	Δ YoY	Previous FP2020	Δ upd. FP
Deposits from customers	3,318	2,713	+605	2,997	+321
Loans (net)	2,227	1,687	+540	1,806	+421
Key figures	Updated FP2020	2019	Δ YoY	Previous FP2020	Δ upd. FP
Cost / Income ratio (C/I)	42.0%	53.2%	- 11.2 pp	47.9%	- 5.9 pp
pre-tax ROE*	18.5%	15.8%	+ 2.6 pp	11.1%	+ 7.4 pp
ROE*	16.1%	14.2%	+ 1.8 pp	9.6%	+ 6.4 pp
T1 capital adequacy	13.4%	14.0%	- 0.6 pp	14.3%	- 1.0 pp
Total capital adequacy	16.6%	17.6%	- 1.0 pp	17.7%	- 1.0 pp

- The growth of deposits is related to the addition of new customers and customer activity, which is at an all-time high level
- Half of the record growth of the loan portfolio is due to the acquisition of Danske's good quality corporate and local municipalities loan portfolio
- The bank has significantly changed its financing structure by issuing covered bonds and raising funds through TLTRO, significantly reducing interest expenses
- Increase in net interest income due to increased loan portfolio. Increase in net fee and commission income due to increased market volatility and the growth of financial intermediaries business volumes
- The share of overdues in the loan portfolio is very low further and further possible provisions are related to the progress of specific customers

LHV Asset Management - forecast

Positivity in the markets increases the revenue base

Financial results, EURt	Updated FP2020	2019	Δ YoY	Previous FP2020	Δ upd. FP
Total revenue	9,056	13,189	-4,133	8,435	+622
Total expenses	6,266	6,097	+170	6,044	+222
Earnings before taxes	2,790	7,092	-4,302	2,390	+400
Income tax expense	844	972	-128	844	+0
Net profit	1,946	6,120	-4,175	1,546	+400
Business volumes	Updated FP2020	2019	Δ YoY	Previous FP2020	Δ upd. FP
Assets under management, EURm	1,531	1,374	+157	1,454	+78
Active customers of PII funds, thous.	184	177	+7	175	+9
Key figures	Updated FP2020	2019	Δ YoY	Previous FP2020	Δ upd. FP
Cost / Income ratio (C/I)	69.2%	47.4%	+ 21.8 pp	71.7%	- 2.5 pp
pre-tax ROE	10.0%	24.6%	- 14.6 pp	8.6%	+ 1.4 pp
ROE	7.0%	22.1%	- 15.1 pp	5.6%	+ 1.4 pp

- LHV actively managed pension funds are showing again the best short and long-term returns, which has contributed to the growth of the number of customers
- AUM growth has exceeded expectations due to good fund returns and growth of active customers
- Achievement of strong returns and probability of exceeding the success fee benchmark index has improved

Madis Toomsalu

LHV Group Managing Director
madis.toomsalu@lhv.ee

Meelis Paakspuu

LHV Group CFO
meelis.paakspuu@lhv.ee