

Company AS LHV Group  
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## Attachments:

- ASLHV-10001477311-en.pdf (<http://oam.fi.ee/en/download?id=3687>)
- ASLHV-10001477313-et.pdf (<http://oam.fi.ee/en/download?id=3688>)

## Currency

Title LHV Group financial plan 2019 and five-year financial forecast

LHV Group announces its current year financial forecast. According to the financial plan, the group's revenues will increase by 5% and consolidated net profit by 1% in 2019. Unlike 2018, LHV does not forecast large one-off revenues for this year, but instead, a decent growth of ordinary business.

For 2019, LHV estimates a 29% increase of the loan portfolio and 31% increase in consolidated deposits. LHV expects 16% growth in the volume of managed funds. The LHV Group's forecast of pre-tax profit for the current year is EUR 32.4 million (+5% compared to 2018).

Key figures	FP2019	2018	?
Loans (EUR million)	1181	919	+29%
Deposits (EUR million)	1863	1422	+31%
Assets under management (EUR million)	1407	1214	+16%
Cost/income ratio (C/I)	49.8%	48.3%	+1.6 pp
ROE (pre-tax; attr. To owners)	18.3%	20.9%	-2.6 pp
Capital adequacy	19.0%	19.4%	-0.4 pp

Comment of Madis Toomsalu, the CEO of LHV Group:

"LHV's rapid growth continues in 2019. According to the financial plan, the loans will be up by EUR 262 million, deposits by EUR 441 million and funds'



volumes by EUR 193 million. We expect strong growth in the customer base and improved activity of customers in 2019.

The group's profit will increase by EUR 0.2 million in 2019, compared to 2018, however as the basis for comparison, last year included several one-off revenues, which have not been included in the next years' forecasts. At the same time, the profit for the last year was increased by the sales proceeds of Mokilizingas in the amount of EUR 2.9 million. Also, the revenues of institutional banking have been forecast at EUR 1.5 million lower compared to the previous year and a decrease in the pre-tax profit of LHV Varahaldus in the amount of EUR 0.8 million resulting from the reduced rates of fees of pension funds. From the expenditures, we see an increase in advance income tax liability calculated for the entire year, which in 2018 was only calculated for the last three quarters, and interest expense related to the increasing volumes of subordinated debt. Apart from the aforesaid highly extraordinary factors, the profit of LHV from the remaining business activity will increase in an approximate amount of EUR 7 million. The latter is the most important indicator when assessing the substantial and long-term growth of LHV's business.

The main activity in 2019 will definitely be the increase and activation of our customer base. We want to speak to a growing number of clients, who care about increasing the share of Estonian capital in the offering of local financial services. From the other side, we have developed into a company that exports financial services - our UK business line is profitable.

In Estonia, we are visible in major cities, issuing home loans and adding new ATMs during the year. We focus on active customers who prioritise electronic channels. We place more emphasis on young people. We want to see a settled customer, whose salary is received in LHV and who uses LHV's bankcard for day-to-day financial operations.

In terms of companies, we will focus on increasing the loan portfolio and the share of trade finance. We are concentrating on customers, for whom it is important that the core of their business activity is understood and that the financing structure is based on it. We continue with a one-step decision-making process, which means that all decisions are made at the site, fast and flexibly.

In the business line of financial service providers, we will continue with supplementing the product portfolio. After joining the real-time pound payment system, LHV will be among the first banks in the world that is able to offer real-time euro as well as pound payments. We will continue to offer accounts, payments, acceptance of card payments, loans and currency services. While increasing our customer base, we continue with offering customer-based solutions.

In pension funds, our priority is achieving the best rate of return for customers. We are changing our investment strategy, focussing more than before on finding private investments. This is facilitated by the new regulation of pension funds, adopted at the end of last year, which will expand the range of



investment strategies and align the motivation of the pension saver, the state and the management company, allowing one to only charge the success fee if a proper annual rate of return is achieved. In our financial plan, we have forecast a success fee starting from 2020, since estimating the success fee (to be implemented from September 2019) for this year is complicated due to the short period of application, as we should precisely forecast both of the variables - the funds' rate of return for the last four months of the year as well as the change in the tax revenue from the social tax on pension insurance, as the reference index."

#### Long-term forecast - the next 5 years

AS LHV Group also discloses the financial plan for the next five years. According to the forecast, the group's revenues will increase by 20% over the next five years on average, while the expenses will increase on average by 11% in a year. Based on the forecast, LHV's consolidated net profit will reach EUR 74 million by 2023.

Key figures	FP2019	FP2020	FP2021	FP2022	FP2023
Pre-tax profit	32.4	42.4	54.8	67.0	86.7
Loans	1181	1448	1786	2094	2409
Deposits	1863	2195	2561	2951	3313
Assets under management	1407	1663	1946	2261	2609
Cost/income ratio	49.8%	45.8%	42.5%	40.0%	36.2%
ROE (pre-tax; attr. To owners)	18.3%	20.8%	22.8%	23.5%	25.4%
Capital adequacy	19.0%	18.9%	19.1%	19.3%	20.0%

(\* Business volumes shown in EUR million)

Comment of Madis Toomsalu, the CEO of LHV Group:

"We have prepared five-year forecasts on a regular basis, however this is the second year of us disclosing them. We are aware that the company or the environment affecting it may change a lot during a five-year period, but as we have managed to exceed our forecasts so far, it gives us assurance to still disclose the forecast. Above all, the announcement of a long-term forecast gives the investors an idea on how we see the long-term trends and results.

One of the assumptions of a five-year financial forecast is continued modest



economic growth. Not estimating the turn of the economic cycle does not mean that we neglect the risks. Our credit decisions and different stress tests consistently consider abrupt stress scenarios; similarly, we consider their potential impact when determining capital buffers. From other main assumptions, we could highlight the growth of business volumes, growing proportion of financial intermediaries business line, rising Euribor based on market forecasts, stable dividend policy, impact of advance income tax and achievement of the success fee of Varahaldus starting from 2020. When considering the revenues of Varahaldus, it is important to stress that in the future, we will recognise the success fee at the end of the year, when we have reasonable assurance about achieving the annualised success fee.

If we point out the more clearly distinguishable three-year forecast, the loan and deposit volumes will double in this period and the funds' volume will increase one-and-a-half times. The estimates of the fourth and fifth year foresee keeping the three-year trend.

We forecast the pre-tax consolidated return on equity of the next five years to be at least 20%, except for in 2019, when the return amounts to 18%, as we have not estimated any success fee of Varahaldus for the last four months. The capitalisation of LHV remains strong; the forecast assumes maximum issue of bonds within the EUR 45 million bond programme."

LHV Group will change the financial plan 2019 if a difference between the planned net profit and the financial plan of more than 10% becomes probable. The company will update the five-year plan again at the beginning of 2020 or, if necessary, together with the changes made to the financial plan of 2019.

To introduce the financial plans to the press, LHV organises a press briefing at 11:00 on 12 February, at the Tallinn office of LHV. Live streaming of the presentation is available on LHV's Facebook page at <https://www.facebook.com/LHVPank/>.

LHV Group is the largest domestic financial group and capital provider in Estonia. LHV Group's key subsidiaries are LHV Pank and LHV Varahaldus. LHV employs over 390 people, and more than 164,000 customers use LHV's banking services. Pension funds managed by LHV have more than 177,000 active clients.

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Attachment

- \* LHVGroup Finantsplan 2019 EN (<https://ml-eu.globenewswire.com/Resource/Download/638d6af5-9f81-474b-a4eb-b43653a8d8f7>)

