

Company AS LHV Group
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Attachments:

- ASLHV-10004566571-en.pdf (<http://oam.fi.ee/en/download?id=5171>)
- ASLHV-10004566573-et.pdf (<http://oam.fi.ee/en/download?id=5172>)

Currency

Title LHV Group financial plan for 2021 and the five-year financial forecast

AS LHV Group is hereby disclosing the financial plan for 2021 and the longer, five-year financial forecast. The aim of disclosing the financial plan is to offer investors a transparent overview of the company's plans and growth direction. The financial plan does not include extraordinary revenues.

According to the financial plan, the revenues of the AS LHV Group consolidation group will increase in 2021 by 17% to EUR 121.5 million; costs by 37% to EUR 60.3 million; and net profit by 5% to EUR 41.7 million. The growth of expenses in the amount of EUR 4.4 million is related to the additional depreciation unrelated to cash flows resulting from clients leaving the II pillar pension funds. Without this depreciation, the net profit would increase 16% to EUR 46.2 million. The financial plan does not take into account the potential performance fee earned by LHV Varahaldus.

Key indicators	FF2021	2020	?
Profit before taxes	49.3	48.7	+1%
Net profit	41.7	39.8	+5%
Net profit without the additional depreciation of Varahaldus	46.2	39.8	+16%
Loans (millions of euros)	2604	2209	+18%
Deposits (millions of euros)	4101	4120	-0%
Volume of funds (millions of euros)	1221	1537	-21%



Cost/income ratio	49.6%	42.5%	+7.1 pp
ROE (before taxes; owners' share)	18.7%	21.0%	-2.3 bp
Capital adequacy	18.2%	19.3%	-1.1 pp

(* Business volumes have been presented in millions of euros)

According to the financial plan, LHV's loan portfolio will continue to grow in 2021. The volume of consolidated loans of the Group will increase by EUR 395 million (18%), primarily on the account of corporate loans (+ EUR 203 million) and home loans (+ EUR 163 million). Regarding deposits, the financial plan prescribes maintaining the same level as in 2020, since the volume of deposits of financial intermediaries will stabilise at the level of around EUR 1 billion, while deposits raised via deposit platforms will decrease and the volume of deposits of retail clients will continue to increase. As a source of financing, LHV intends to issue non-preferred senior bonds in the volume of EUR 135 million.

Due to the pension reform entering into force, the volume of funds managed by LHV will decrease in 2021. The financial plan has considered a 29% decrease among active clients, bringing along an EUR 316 million decrease in the volume of funds. The additional nonmonetary depreciation in the amount of EUR 4.4 million, related to the clients leaving the II pillar, will negatively affect the profitability of the company. Without the depreciation and not taking into account the possible performance fee, the profit of LHV Varahaldus would be EUR 1.2 million.

The cost/income ratio of the Group is increasing due to the discount on the intangible assets related to clients leaving the pension funds, and due to important investments. The Group's subsidiary LHV UK Limited is starting its application for a banking licence in the United Kingdom, and the development and introduction of products of AS LHV Kindlustus are actively underway. The aim of LHV Kindlustus is reaching net profit in 2021.

Comment by Madis Toomsalu, Managing Director of the LHV Group:

"LHV will continue as a growth company; our home markets are Estonia and the United Kingdom. Our long-term goal is to offer the best service to our clients - regardless of the client group or service channel - and to be the most co-thinking provider of financial services to international financial intermediaries. For us, transparency and offering a 20% return on equity to investors are important. Socially, we are a company with the best management practices, positive social impacts and climate goals. Despite our strong ambitions, we do not wish to grow at the expense of profitability and risks.

During the next five years, we wish to increase the volume of loans and deposits by EUR 2.5 billion, and funds by EUR 600 million. In addition, we are increasingly focused on international growth, separating our business line for



financial intermediaries. We wish to establish a separate bank in the United Kingdom, but this requires preparations that will take at least a year, and obtaining a licence from the local supervisory authorities.

Quick growth will also characterise 2021, when loan volumes will grow by EUR 400 million. We do not forecast a growth in the volume of deposits for this year, since at the end of 2020, the deposits of financial intermediaries had reached a level where we expect them to stabilise. In contrast to the increase in deposits of regular clients, the volumes of deposits raised from deposit platforms will decrease.

The decrease in the volume of funds is related to clients leaving pension funds in the autumn; we expect fund volumes to recover to the current level in 2023. The increase in net profit is affected in 2021 by the discount on the intangible assets related to clients leaving the pension funds, which is unrelated to cash flows and does not affect own funds. Without it, the profit would be EUR 46.2 million with a yearly growth of 16%. In addition, it is important to note that due to inputs that are difficult to predict, no performance fee, which can be achieved in case of a good rate of return, has been planned for 2021. The performance fee brought EUR 6.2 million into the results of 2020.

We have made efforts so that LHV Pank would have the strongest possible offer to ensure growth. In terms of private persons, we are emphasising increasing the customer base and increasing the client activity. In terms of companies, we will focus on increasing the loan portfolio and the share of trade financing. In the business line of financial intermediaries, we are focusing on preparations for establishing a bank in the United Kingdom. In the case of LHV Kindlustus, we are commencing operation, with the aim of repeating the success of the bank. In the case of pension funds managed by LHV Varahaldus, achieving a long-term rate of return is the priority."

Financial forecast for 2021-2025

AS LHV Group also discloses its financial plan for the next five years. According to the forecast, the Group's revenues will increase by 16% over the next five years on average, while expenses will increase by 8% per year, on average. Based on the forecast, the consolidated net profit of LHV will be nearly EUR 108.5 million by 2025, considering the average annual growth of 27%.

Key indicators	FF2021	FP2022	FP2023	FP2024	FP2025
Profit before taxes	49.3	62.7	78.1	98.4	123.3
Net profit	41.7	54.1	68.1	86.0	108.5
Net profit without the additional					



depreciation of Varahaldus	46.2	54.6	68.6	86.6	109.1
Loans	2604	3058	3573	4120	4690
Deposits	4101	4746	5284	5924	6604
Volume of funds	1221	1385	1630	1900	2138
Cost/income ratio	49.6%	45.9%	42.7%	39.8%	37.0%
ROE (before taxes; owners' share)	18.7%	20.5%	21.7%	22.9%	23.9%
Capital adequacy	18.2%	18.6%	18.3%	19.4%	19.4%

(* Business volumes have been presented in millions of euros)

The financial forecast prescribes the organic growth of all important business volumes for the next five years. Compared to the end of 2020, the volume of deposits will increase by 60% to EUR 6.60 billion, and the loan portfolio by 112% to EUR 4.69 billion. The forecast prescribes the recovery of funds managed by LHV to their current level in 2023, and a growth of 39% compared to 2020, i.e., to EUR 2.14 billion, by the end of 2025.

Within the five year period, the growth of revenues has been planned to be significantly faster than the growth of costs. The increase of tax costs has been taken into accounts under costs. By 2025, the cost/income ratio will decrease to 37%. According to the forecast, the planned 20% rate of return in the return on equity based on the pre-tax net profit of shareholders will be achieved in 2022. Pursuant to the forecast, the need for additional capital will be resolved by means of raising capital with the help of bonds.

The company as well as the economic environment may change significantly over the period of five years. The post-crisis recovery of the economic environment and growth of business volumes have been assumed in the preparation of the five-year forecast, while no significant changes are seen in the interest environment. The plan has considered the continuation of LHV's current dividend policy. The financial plan of Varahaldus does not contain a potential performance fee. In the case of the UK subsidiary, the forecast has considered only the establishment costs of the next two years; the financial forecast of the current branch has been considered simultaneously. The LHV UK bank's financial forecast will be performed after obtaining the activity licence, once the local supervisory authorities have granted permission for it.

LHV Group will change the financial plan for 2021 if a difference of more than 10% between the planned net profit and the financial plan becomes probable. The



company will update the five-year plan again at the beginning of 2022 or, if necessary, together with the changes made to the financial plan of 2021.

In order to introduce the financial plans, LHV will be organising an investor meeting (in Estonian) via the Zoom webinar environment on 16 February at 9:00. We kindly ask investors and interested parties to register at the address https://lhvbank.zoom.us/webinar/register/WN_E2mO-6iSStqis2_d9JrIRA.

LHV Group is the largest domestic financial group and capital provider in Estonia. LHV Group's key subsidiaries are LHV Pank, LHV Varahaldus, and LHV Kindlustus. LHV employs over 520 people. LHV's banking services are used by 259,000 clients, and pension funds managed by LHV have more than 180,000 active clients. LHV's UK branch offers banking infrastructure to 140 international financial services companies, via which LHV's payment services reach clients around the world.

Priit Rum
LHV Communication Manager
Phone: +372 502 0786
Email: priit.rum@lhv.ee (<mailto:priit.rum@lhv.ee>)

