Company	AS LHV Group
Type	Company Release
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Attachments:
- LHV Group Financial Plan 2023 EN.pdf (http://oam.fi.ee/en/download?id=6999)
- LHV Group Finantsplaan 2023 ET.pdf (http://oam.fi.ee/en/download?id=7000)

Currency

Title LHV Group financial plan for 2023 and the five-year financial forecast

2023 has started against a backdrop of uncertainty in the business environment and economic downturn, but according to the newly prepared financial plan, this year for LHV will be a year of realising the prerequisites made earlier. All LHV Group companies should become profitable, including LHV Kindlustus and LHV UK. The plan is to continue the growth of the financial group, which includes the launch of a UK bank, an increase in the volume of funds managed by LHV Varahaldus, and LHV Kindlustus reaching profitability.

Key indicators	FF2023	2023	?
Profit before taxes	127.2	75.9	68%
Net profit	108.2	61.4	76%
Loans	3428	3209	7%
Deposits	5653	4901	15%
Volume of funds	1570	1332	18%
Number of payments related to financial intermediaries (million)	34	26	30%
Cost/income ratio	43.9%	51.7%	-7.8 pp
ROE (before taxes; owners' share)	27.4%	20.4%	+7.1 pp
ROE (net profit; owners' share)	23.3%	16.5%	+6.8 pp

Capital adequacy	21.5%	20.8%	+0.7 pp

* Calculated on the basis of average end-of-month equity balances
Business volumes have been presented in millions of Euros

For the Group's consolidated deposits, the financial plan foresees an increase by EUR 752 million to EUR 5.65 billion (+15%) this year. Deposits from financial intermediaries will stabilise this year, while retail deposits will grow.

In the financial plan, LHV forecasts an increase in the consolidated loan portfolio by EUR 220 million to EUR 3.43 billion (+7%). Loan growth will continue, but will be constrained by sharply higher capital requirements and a cooling economy. LHV Pank's corporate banking loans are forecast to grow by EUR 144 million and home loans by EUR 31 million. The financial plan also forecasts an increase in loan impairment and write-downs to EUR 24.6 million.

According to the financial plan, the volume of funds managed by LHV will increase by 18%, or EUR 238 million, to EUR 1.57 billion. On an annual basis, the number of active pension clients is projected to increase slightly. The forecast does not include performance fees from pension funds, but the activities of LHV Varahaldus will still be profitable in 2023.

Payments from financial intermediaries will increase by 30% this year to 34 million payments. The business will be impacted by the acquisition of the banking licence, expected in March, and the subsequent gradual transfer of the financial intermediaries business from LHV Pank to LHV UK Limited. The Group's UK subsidiary will continue to develop the business strongly, generating interest, as well as fee and commission income, but this will also lead to rising staff and IT costs. According to the financial plan, LHV UK Limited will be profitable for the first time in 2023.

The business volumes and revenues of LHV Kindlustus are increasing, with gross insurance premiums growing to EUR 27.1 million (+58%) in 2023. The insurance company is expected to earn a profit for the first time this year. In the course of the year, the plan is to broaden the range of insurance products and increase synergies with banking service channels.

In summary, according to the financial plan, AS LHV Group's consolidated revenues will increase by 56% to EUR 270.4 million in 2023, expenses by 32% to EUR 118.7 million, credit losses by 205% to EUR 24.6 million, and net profit by 76% to EUR 108.2 million. In addition to developments in the interest rate environment, the profit growth rate is also affected by a relatively low benchmark, as 2022 included a significant amount of investment expenditure.

LHV Group's return on equity (ROE) ratio will remain at 23.3% in 2023 and the company forecasts a cost/income ratio of 43.9%. Profitability is significantly impacted by the interest cost of instruments issued to meet the increased capital requirements, the increase in wages and input costs arising from inflation, the recruitment of new people to support further growth, as well as costs and investments in the UK in order to build the organisation.

Comment by Madis Toomsalu, the CEO of LHV Group:
"Despite profit growth, this year will be challenging for LHV. Capital requirements, which have doubled in eight years, are holding back credit growth. However, we plan to invest the capital raised from the profits generated into restoring growth in lending. We can see that specially in the context of economic recession it is particularly important to assure the capability of financing investments by companies. Each unit of the Bank's capital is leveraged in the economy into around eight times the amount of corporate investment.

LHV's loan portfolio will grow by 220 million euros over the course of the year, as we'll continue actively financing the plans of Estonian private persons and companies. Our ambition is to finance even more renewable energy projects, but this requires clear messages in the long payback period for the sector and the certainty that political risk will not be realised.

In the UK, we have made major investments. We expect to reach operational profitability in 2023. This will transform us into a profitable exporter of financial services. Future growth rates will be influenced by how quickly we can make additional investments in the UK bank's capital at the expense of LHV Group.

Changes in the interest rate environment are expected to have a significant impact on our projected results over the next five years. In addition, costs will increase mainly due to labour costs. As a result of changes in the economic environment, we anticipate an increase in write-downs.

Our strategy relies on three key principles: best service, best employer, and best investor relations."

Financial forecast for 2023-2027

AS LHV Group discloses its financial forecast for the next five years. The forecast is based on the assumption that the business and economic environment could change significantly over the next five years. Base rates are expected to peak in 2023 and are assumed to gradually decline thereafter. Other assumptions are that business volumes will increase, the dividend policy will remain unchanged and, in the case of LHV Varahaldus, the performance fee will be earned from 2024.

Key indicators	FF2023	FP2024	FP2025	FP2026	FP2027
Profit before taxes	127.2	138.2	163.1	195.2	229.1

Net profit	108.2	117	138.1	165.1	186.6
Loans	3428	3933	4627	5433	6305
Deposits	5653	7401	8707	10111	11573
Volume of funds	1570	1743	1933	2140	2368
Number of payments related to financial intermediaries (million)	34	36	38	39	41
Cost/income ratio	43.9%	43.9%	44.2%	42.5%	41.9%
ROE (before taxes; owners' share)	27.4%	24.1%	23.9%	24.7%	25.3%
ROE (net profit; owners' share)	23.3%	20.4%	20.2%	20.8%	20.4%
Capital adequacy	21.5%	21.9%	21.9%	22.1%	21.3%

* Calculated on the basis of average end-of-month equity balances
Business volumes have been presented in millions of Euros

All of LHV Group's key business volumes are forecast to grow organically over the next five years. In terms of consolidated loan volumes, the company forecasts a 2-fold increase to EUR 6.31 billion in 2027 compared to 2022. Consolidated deposits are projected to grow by 2.4 times over the same period to EUR 11.57 billion. For LHV-managed funds, LHV forecasts growth of 1.8 times in five years to EUR 2.37 billion.

According to the forecast, the Group's revenues will increase by 20% over the next five years on average, while expenses will increase by 15% per year, on average. Based on the forecast, the consolidated net profit of LHV will be nearly EUR 186.6 million by 2027, considering the average annual growth of 25%. Unlike previous forecasts, the UK bank's projected outcomes are also included.

By 2027, LHV Group expects the cost/income ratio to fall to 41.9%. Return on equity based on shareholders' net profit exceeds 20% in all the years.

LHV Group will amend the financial plan for 2023 if it becomes likely that the planned net profit will differ by more than 10% from the financial plan. The company will update its five-year forecast in early 2024.

The reports of AS LHV Group are available at: https://investor.lhv.ee/en/reports/ (https://www.globenewswire.com/Tracker?data=Uhg9kjRD2l4I3s58NDK4DWg07JyEAPFjvKk7

STD_V4spoP8WJ3Z2NKc70wS8sl4x5lawhnB8SypOFDFKIodnalgJNM-bz_7WVDBPEXMxIc-lWCodWjkY8XgYcsnHtJAi).

To introduce the financial plan, LHV will organise an investor meeting (in Estonian) on 14 February at 9.00 via Zoom, the online seminar environment. Investors and interested parties are invited to register at: https://lhvbank.zoom.us/webinar/register/WN_G17Dlp43TgKgWbljBBn9ug.

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. The Group's companies employ more than 900 people. As at the end of December, LHV's banking services are being used by 378,000 clients, the pension funds managed by LHV have 131,000 active clients, and LHV Kindlustus protects a total of 150,000 clients. LHV's UK branch offers banking infrastructure to 200 international financial services companies, via which LHV's payment services reach clients around the world.

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