

Company AS LHV Group
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Attachments:

- LHV Group updated Financial plan 2023-09-EN.pdf (<http://oam.fi.ee/en/download?id=7673>)
- LHV Group uuendatud finantsplan 2023-09-ET.pdf (<http://oam.fi.ee/en/download?id=7674>)

Currency

Title LHV Group renewed the Financial Plan for 2023

In relation to the better than forecast quality of the credit portfolio and higher base interest rates, AS LHV Group's financial results for the current year have exceeded the financial plan published in February, which is why the company is publishing its updated financial plan for 2023.

The updated financial plan has accounted for the actual economic results and the continued slow increase of loan and deposit interest rates. While currently, the quality of the credit portfolio remains good, the macroeconomic situation is complicated and the financial plan has proactively taken the creation of provisions into account. A success fee for Varahaldus has not been presumed in this year's plan.

Key indicators	2022	Updated FP 2023	Change YoY	Previous FP 2023	Change compared to previous plan
Financial results, EURt					
Total revenue	173,543	299,714	126,171	270,443	29,271
Total expenses	89,638	170,848	86,943	151,753	19,095
Impairment losses on loans	8,052	8,221	169	24,589	-16,368
Earnings before taxes	75,853	162,627	86,774	127,164	35,462
Net profit	61,432	140,039	78,606	108,233	31,805



Business volumes, EURm					
Loans	4,901	5,608	707	5,653	-45
Deposits	3,209	3,506	297	3,428	78
Assets under management	1,332	1,544	212	1,570	-27
Fin. Inter-mediaries' payments (million pcs)	26	41	14	34	7
Key ratios					
Cost / Income ratio	51.7%	43.0%	-8.7 pp	43.9%	0.9 pp
ROE	16.5%	29.1%	12.6 pp	23.3%	5.8 pp
Capital adequacy	21.7%	21.2%	0.5 pp	21.5%	-0.3 pp

Compared to the plan published in February, the updated financial plan for 2023 has forecast a 14% higher interest income, but a 4% lower fee and commission income. The higher revenue growth is due to larger business volumes, a higher interest rate, and pre-financing at a lower interest rate. At the same time, fee and commission income is affected by the lower income rate from investment services.

The expense forecast has been raised by 9%, but the impairment of loans has been reduced by 67% compared to the previous forecast. This indicates directly the levels forecast until the end of 2023 and does not indicate long-term levels of loan losses. The quality of the credit portfolio has been very strong and the level of loan impairment abnormally low. This has partly been facilitated by the high increase in prices, which has sharply decreased in the past few months. Operating expenses are affected by the significantly increased payment rate of the deposit guarantee fund, as well as the cost of services purchased. Going forward, we also expect an increase in interest expenses, originating both from the continuing increase of deposit expenses as well as the refinancing of previously issued long-term bonds.

The updated financial plan forecasts a 29% higher net profit and a 5.8 percentage point higher return on equity based on net profit. The business



volumes of the Group's companies remain largely at the same level compared to the previous plan. The only significant difference is in terms of the larger UK loan portfolio and the increased volume of payments by financial intermediaries.

Comment by Madis Toomsalu, Chairman of the Management Board at LHV Group:

"After ten years of the zero interest rate policy of central banks, financial markets have moved back to their historic average, and figuratively speaking - money once again has a price. Although pulling away from the long-term anomaly is no easy task, it forms a basis for a more optimal and sustainable economic structure.

LHV has managed to grow its business in this controversial economic environment, and as the return of assets has increased faster than the cost of obligations in this cycle of rising interest rates, the results are surpassing the current financial plan. In the case of decreasing interest rates, the result would be the opposite.

Investments made in the Estonian economy are mostly financed by banks. The underdeveloped capital markets have not offered enough competition. This is why the existence of strong and well-capitalised banks is of critical importance. LHV intends to direct the profit earned back to the growth of loan volumes, raising additional funds from the market via capital instruments, at that. Together with the company's self-financing, LHV's capital is amplified in the economy to up to a tenfold final investment, or an even larger home loan portfolio.

LHV's results are affected the most by the performance of the two banks in the Group. Recently, we separated our UK business from LHV Pank and transferred the servicing of our financial intermediary clients to LHV Bank. In addition, the updated plan has increased the volume of loans in the United Kingdom, as the current annual objective is already coming to fruition in September. In the current year, all important subsidiaries of the LHV Group are expected to achieve profitability, as even the revenue base of LHV Kindlustus is increasing, supported by increased business volumes, and its activities are profitable."

LHV Group is the largest domestic financial group and capital provider in Estonia. LHV Group's key subsidiaries are LHV Pank, LHV Varahaldus, LHV Kindlustus, and LHV Bank Limited. The Group employs over 970 people. As of July, LHV's banking services are being used by 404,000 clients, the pension funds managed by LHV have 127,000 active clients, and LHV Kindlustus protects a total of 161,000 clients. LHV Bank, a subsidiary of the Group, holds a banking licence in the UK and provides banking services to international financial technology companies, as well as loans to small and medium-sized enterprises.

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