CREDIT OPINION

22 May 2025

Update

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RATINGS

AS LHV Group

Domicile	806383161, Estonia
Long Term CRR	Not Assigned
Long Term Debt	Baa3
Type	Senior Unsecured - Dom Curr
Outlook	Positive
Long Term Deposit	Not Assigned

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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AS LHV Group

Update to credit analysis following periodic review

Summary

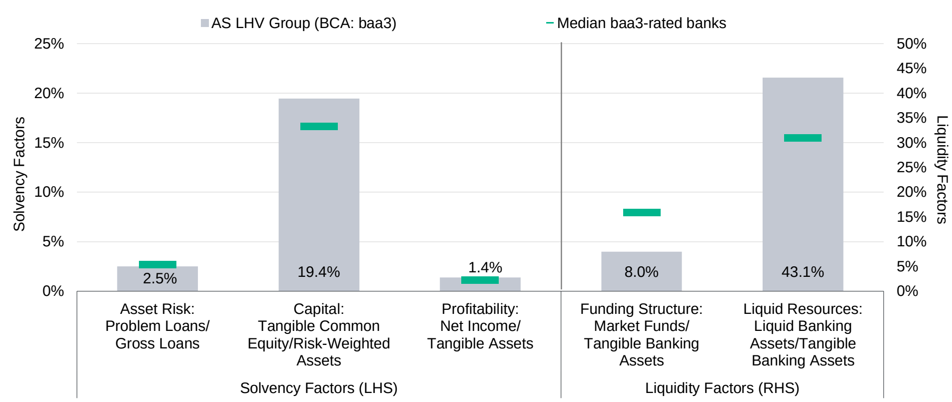
AS LHV Group's (LHV Group) Baa3 issuer and senior unsecured debt ratings reflect the group's standalone characteristics as captured in the baa3 Baseline Credit Assessment (BCA) of its main operating subsidiary, AS LHV Pank (LHV Pank); our loss-given-failure assumptions under our advanced Loss Given Failure Analysis (LGF), which results in no uplift to the holding company's issuer and senior unsecured debt ratings; and our assessment of a low probability of support from the Government of Estonia (A1 stable), which results in no uplift to the ratings.

The BCA incorporates the bank's strong solvency, demonstrated through a low share of problem loans, as well as strong capitalisation and profitability, balanced against its high growth and UK expansion.

Exhibit 1

Rating Scorecard - Key financial ratios

LHV Group data (Consolidated Financials)



These represent our Banks Methodology scorecard ratios. The problem loan and profitability ratios are the weaker of the average of the latest three year-end ratios and the latest reported ratio. The capital ratio is the latest reported figure. The funding structure and liquid resources ratios are the latest year-end figures.

Source: Moody's Ratings

Credit strengths

» Low share of problem loans

» Strong capitalisation

» Strong digital capabilities

» Robust profitability

» Solid domestic deposit franchise and high liquidity buffers

Credit challenges

» High loan growth

» Operational risk related to services to financial intermediaries

Outlook

The outlook on LHV Pank's long-term deposit ratings and LHV Group's senior unsecured and long-term issuer ratings is positive, reflecting our expectation that the financial profile will continue strengthening over the next 12 to 18 months, with capitalization remaining high. Furthermore, the positive outlook on LHV Group's long-term issuer and senior unsecured ratings reflects our expectation that the volume of more junior liabilities will increase, while the growth of tangible banking assets will moderate, leading to lower loss rates for senior creditors.

Factors that could lead to an upgrade

LHV Pank's and LHV Group's ratings could be upgraded if the BCA is upgraded, which could occur if the low level of problem loans is maintained combined with strong core capitalisation and profitability.

LHV Group's long-term issuer and senior unsecured ratings could be upgraded due to continued growth in the volume of more junior liabilities and moderating growth in tangible banking assets, leading to lower loss rates for senior creditors.

Factors that could lead to a downgrade

While unlikely given the positive outlook, the ratings could be downgraded in case of a significant deterioration in the BCA as a result of lower solvency ratios, or if operational risk relating to its services to financial intermediaries increases substantially, for example because of materialising weaknesses in anti-money laundering monitoring; or lower volumes of liquid resources, leading to reduced liquidity buffers compared with the increasing volume of more volatile funding sources such as senior debt.

In addition, a reduction in the expected issuance volume of loss-absorbing liabilities protecting junior depositors and senior unsecured creditors in case of failure would also cause a downgrade of the bank's long-term ratings.

Key indicators

Exhibit 2
AS LHV Group (Consolidated Financials) [1]

	03-25[2]	12-24[2]	12-23[2]	12-22[2]	12-21[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	8,508.3	8,736.3	7,093.0	6,135.0	6,844.9	6.9[4]
Total Assets (USD Million)	9,190.7	9,046.4	7,835.4	6,547.6	7,756.0	5.4[4]
Tangible Common Equity (EUR Million)	659.5	630.6	516.1	389.8	300.9	27.3[4]
Tangible Common Equity (USD Million)	712.4	653.0	570.1	416.0	341.0	25.4[4]
Problem Loans / Gross Loans (%)	2.5	0.8	0.7	0.2	0.6	1.0[5]
Tangible Common Equity / Risk Weighted Assets (%)	19.4	19.1	20.3	17.1	15.6	18.3[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	17.0	5.6	4.3	1.8	5.0	6.7[5]
Net Interest Margin (%)	2.9	3.6	4.0	2.0	1.6	2.8[5]
PPI / Average RWA (%)	5.0	6.6	7.5	3.9	4.4	5.5[6]
Net Income / Tangible Assets (%)	1.4	1.7	2.0	1.0	0.9	1.4[5]
Cost / Income Ratio (%)	47.3	43.4	42.3	51.7	46.4	46.2[5]
Market Funds / Tangible Banking Assets (%)	8.1	8.0	6.4	7.6	6.2	7.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	37.9	43.1	43.3	39.9	57.6	44.4[5]
Gross Loans / Due to Customers (%)	72.3	65.8	62.3	65.9	46.4	62.5[5]

[-] Further to the publication of our revised methodology in July 2021, only ratios from annual 2020 onwards included in this report reflect the change in analytical treatment of the "high-trigger" Additional Tier 1 instruments. [1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Ratings and company filings

Profile

AS LHV Group is the fourth-largest financial services group in Estonia, with a market share of 14.1% in terms of assets as of the end of December 2024, and is considered a domestic systemically important institution. LHV Group wholly owns the subsidiary AS LHV Pank and, additionally, consolidates AS LHV Varahaldus, the second-largest pension fund manager in Estonia; LHV Bank Ltd, its UK subsidiary established in 2020; AS LHV Kindlustus (insurance), in which it holds a 65% stake; and AS LHV Finance, in which it also holds a 65% stake.

LHV Group's assets totalled €8,736 million as of December 2024, and LHV Pank accounted for around 91% of the group's assets. We base our analysis on the consolidated figures of the group, considering that these are a good representation of the bank's performance.

Recent developments

On 26 March 2025, Madis Toomsalu, the Chairman of the Management Board of AS LHV Group, informed the company's Nomination Committee and the Supervisory Board of his intention to resign by the fall of this year. Preparations are currently underway to find a new Chairman of the Board for the financial group.

Detailed credit considerations

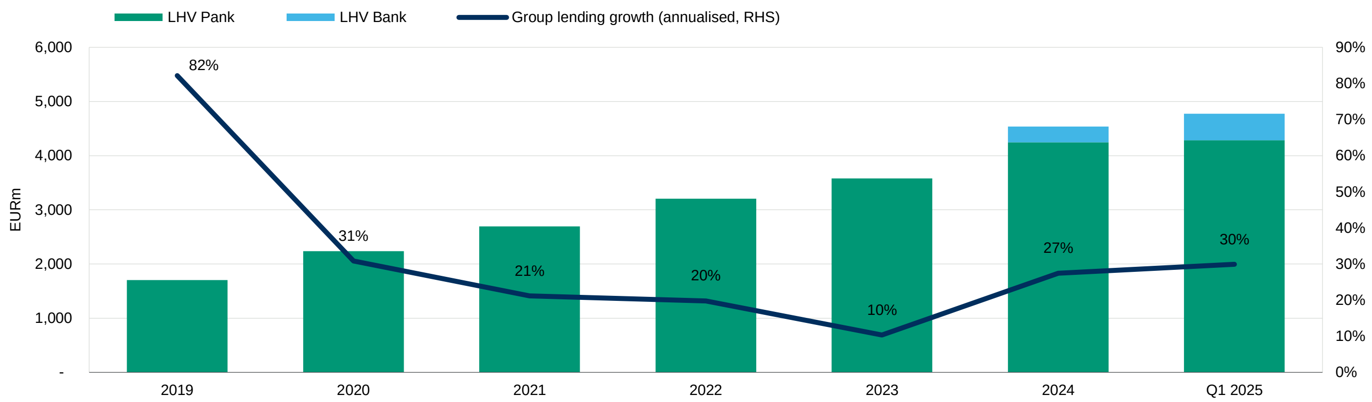
Low share of problem loans, but also high loan growth and operational risk related to services to financial intermediaries

As of December 2024, LHV Pank's lending portfolio consisted of 54% corporate and SME loans, and 46% retail and mortgage loans. The bank has experienced rapid growth over the past few years, with an impressive average organic loan growth rate of 17%, significantly above the market average (systemwide Estonian loan growth remains in the single-digit percentages). However, this rapid expansion suggests a high proportion of unseasoned loans, which could result in higher losses during an economic downturn.

Exhibit 3

Launch of UK lending operations and still-high origination growth in Estonian operation drove a pickup in lending growth in 2024 and first-quarter 2025

Lending by segment and total portfolio growth rate



Spike in annual lending growth in 2019 was driven by a loan portfolio acquisition from Danske Bank
Source: LHV's financial reports and Moody's Ratings

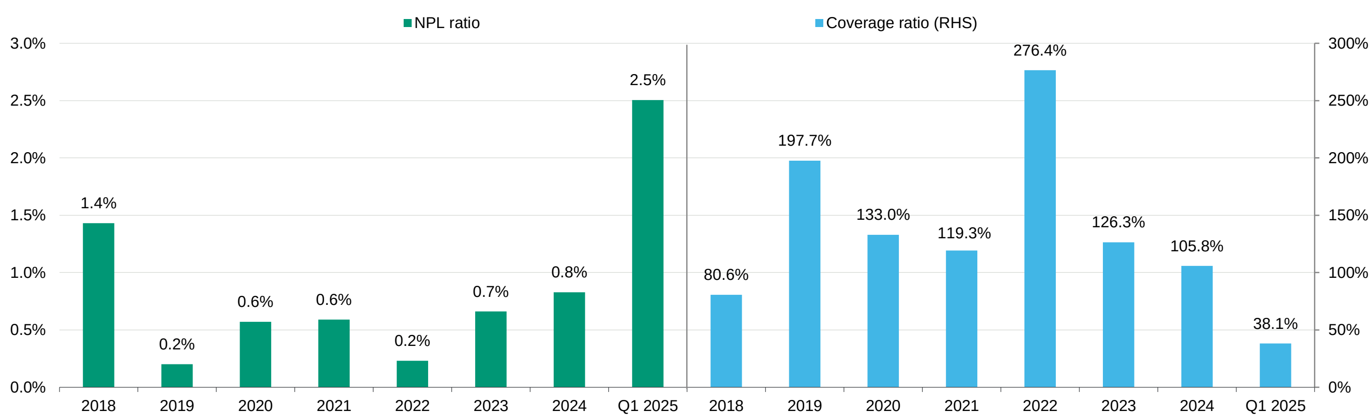
LHV Pank's problem loans rose to 2.5% of gross loans as of March 2025 from 0.6% as of March 2024. The increase was driven almost exclusively by two large exposures. The overall low level of problem loans is a result of the bank's prudent underwriting standards, its acquisition of low-risk mortgages from Danske Bank, as well as limited legacy exposures. However, the bank's high lending growth continues to constrain our asset risk assessment.

After the 3.0% contraction of Estonia's economy in 2023 and 0.3% in 2024, driven by the lasting effects of high inflation, interest rate hikes, and supply chain constraints, we expect a recovery of 1.3% in 2025. However, elevated uncertainty surrounding trade policy and tariffs could potentially hinder the recovery for this small open economy. Some corporate borrowers and financially weaker households will likely experience financial difficulties as a result of still muted economic conditions, which will weigh on asset quality.

Exhibit 4

First quarter spike in non-performing loans driven by two large exposures

Asset quality metrics



Sources: LHV's financial reports and Moody's Ratings

LHV Group aims to grow in the fintech payment services' sector through its UK operations. The bank has the opportunity to carve out a niche in servicing the fintech sector, being a first mover in this market adds to operational risk. Although LHV Group has rigorous onboarding routines, high transaction volumes stemming from the fintech companies' customers require extra due diligence.

The ba1 assigned Asset Risk score, positioned six notches below the a1 initial score, reflects a low level of non-performing loans, balanced against the still high lending growth, particularly in the expanding UK SME segment, as well as asset risks from its non-lending business servicing fintechs. Additionally, there is potential volatility in the credit performance of its Estonian portfolio due to the vulnerabilities associated with being a small open economy.

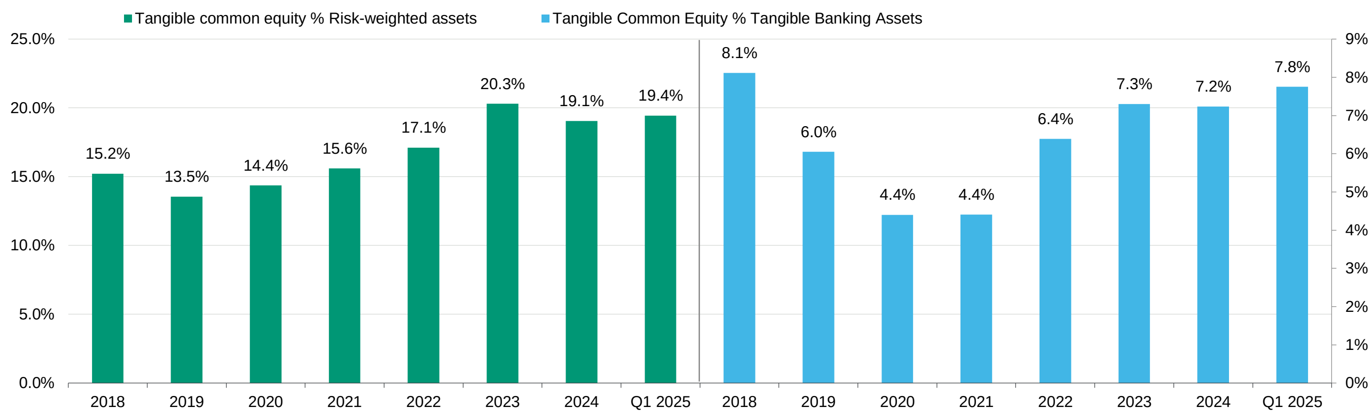
Strong capitalisation

LHV maintains very strong core capital buffers, bolstered by robust earnings. Our adjusted risk-weighted capitalisation TCE/RWA ratio slightly decreased to 19.4% as of March 2025, down slightly from 20.3% in March 2024, due to high lending growth, particularly in the SME segment. Our TCE/TBA leverage ratio has improved since 2021, rising from 4.4% to 7.8% in March 2025, as higher profitability driven by increased net interest margins outpaced moderating, yet still high, asset growth in 2023 and 2024.

Exhibit 5

Capital adequacy levels are supportive of balance-sheet growth

Capital metrics



Sources: LHV's financial reports and Moody's Ratings

As of March 2025, the group's Common Equity Tier 1 (CET1) capital ratio and total capital ratio stood at 17.2% and 20.9%, respectively. These levels are comfortably above the regulatory requirements of 14.70% for the CET1 ratio and 19.70% for the total capital ratio, which includes a 2.0% buffer for other systemically important institutions. Additionally, LHV Pank's CET1 ratio and total capital ratio were 15.1% and 19.6% as of March 2025, exceeding the respective requirements of 14.2% and 19.0%. These solid buffers help to partially mitigate LHV's high double leverage, which we have calculated to be 118% as of year-end 2024.

With its modest issuance of Additional Tier 1 (AT1) notes in April 2025, the bank is broadening its use of capital instruments. Nevertheless, we expect the bank to maintain strong core capital levels.

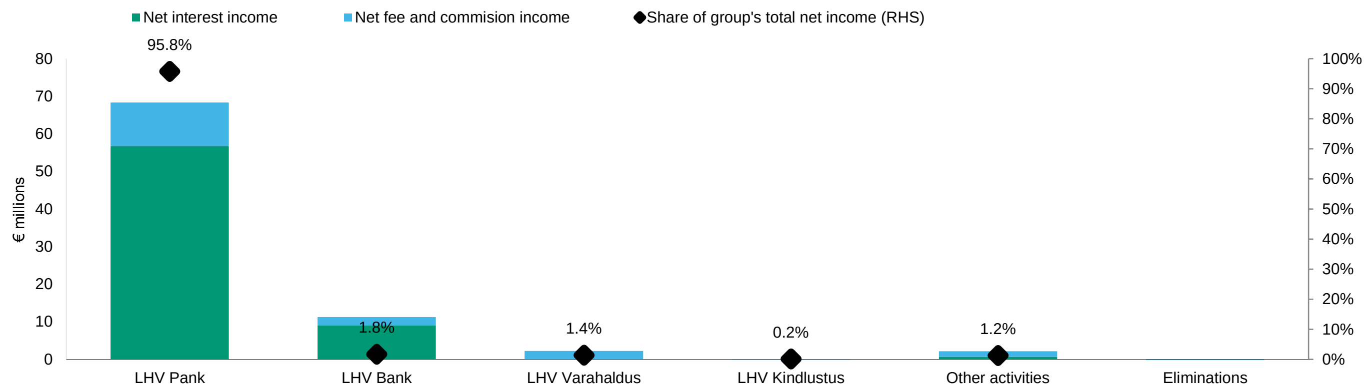
The a2 assigned Capital score, positioned two notches below the aa3 initial score, reflects the bank's very high core capital levels against an ambitious, high growth strategy which lower it capitalisation.

Strong digital capabilities and robust profitability

LHV Group includes the profitable segments of corporate and retail banking, consumer finance and financial intermediary servicing, as well as the less profitable asset management, insurance and UK operations. LHV is small in terms of physical presence, with only three branches in Estonia as of March 2025 and one branch in the UK, and is characterised by a high degree of digitalisation. Which alongside the structurally high share of non-interest bearing deposits in its primary market of Estonia, supports its robust underlying profitability.

LHV Group's net income decreased by 7%, falling to €150.3 million in 2024 from €140.9 million during the same period in 2023. Similarly, its net income to tangible assets ratio declined to 1.7% from 2.0%, driven by decreasing net interest margins as interest rates fell. This downward trend continued into the first quarter of 2025, further exacerbated by a rise in loan impairments. We expect profitability to continue moderating in 2025 as interest rates continue to decline, although they are anticipated to remain at robust levels.

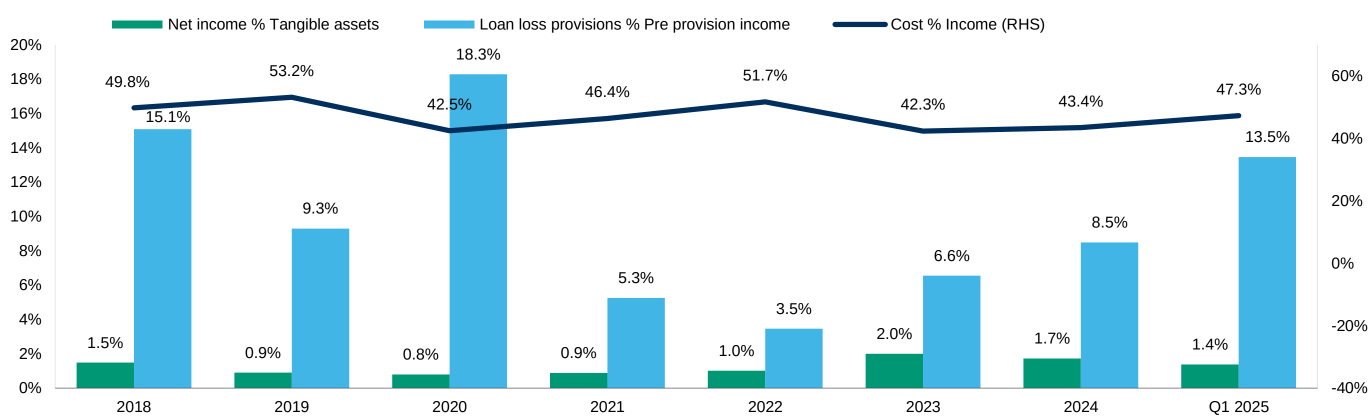
Exhibit 6
Estonian banking operations remain the core profit driver for LHV Group
Income composition by segment



Sources: LHV's financial reports and Moody's Ratings

The scalability of LHV's banking platform, together with its strong digital capabilities, has enabled the group to expand effectively and enhance operational efficiency, reflected in a decline in its cost-to-income ratio from 63% in 2015 to 43% in 2024. However, efficiency temporarily weakened in 2022 due to UK expansion-related costs and elevated inflation. This trend reversed in 2023 and 2024, as net profit from the UK segment rose to €5.3 million and €5.8 million, respectively, driven primarily by increased interest income from a growing loan portfolio.

Exhibit 7
LHV Group's profitability and efficiency



Source: LHV's financial reports and Moody's Ratings

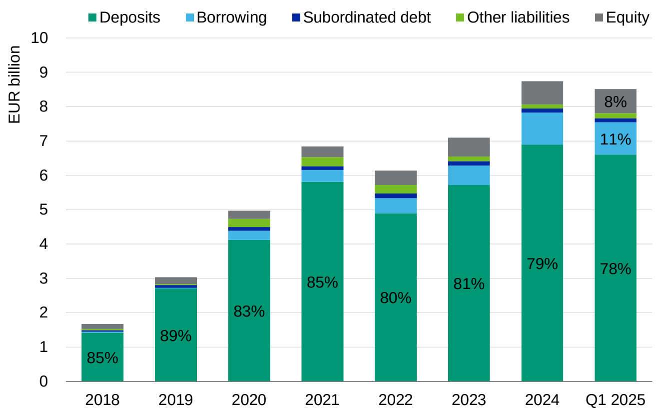
The a3 assigned Profitability score, positioned in line with its initial score, reflects the bank's strong underlying earnings, which are supported by an efficient digital platform.

Solid domestic deposit franchise and high liquidity buffers

LHV Group's lending is primarily funded by a robust domestic deposit franchise, which benefits from good diversification among retail and corporate depositors, and a high proportion of low-interest bearing transaction accounts. This is complemented by a small but growing share of wholesale funding, including senior unsecured and covered bond funding. As of March 2025, the group's market funds accounted for 8.1% of tangible banking assets, significantly lower than the 15.9% global median for banks with baa3 BCAs.

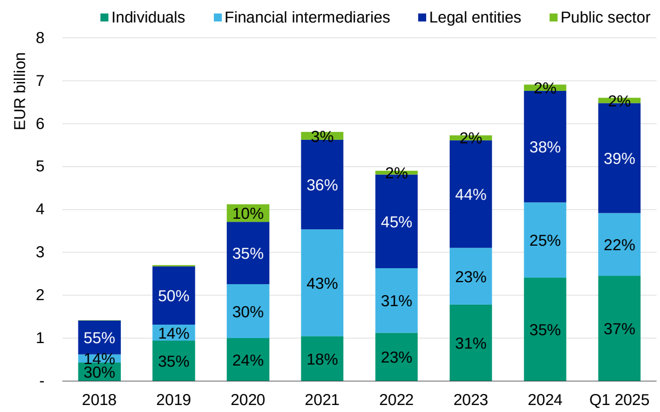
In its business servicing fintechs, the group also holds a sizable share of financial intermediary deposits. These deposits, mainly from fintech companies specializing in payments or cryptocurrencies, can be highly volatile. Consequently, the bank maintains 100% liquidity coverage for these deposits at all times. Although LHV manages the volumes of these deposits through pricing strategies and various contracts, the price-sensitivity and customer-driven nature of financial intermediary deposits leads to fluctuations in its deposit flows.

Exhibit 8
Funding breakdown for LHV Group
As a percentage of total assets



Sources: LHV's financial reports and Moody's Ratings

Exhibit 9
Deposit breakdown by customer type
As a percentage of total deposits

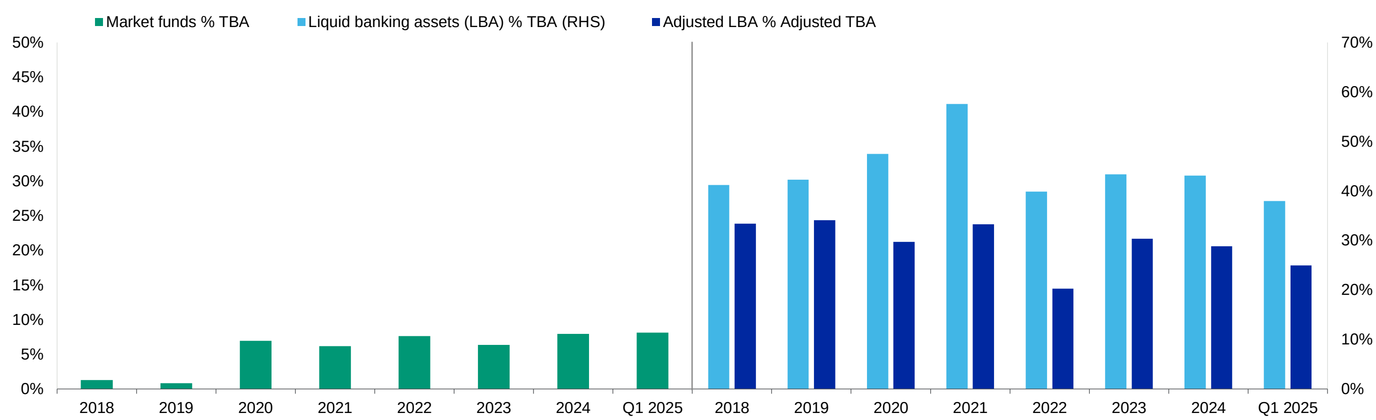


Source: LHV's financial reports and Moody's Ratings

To better evaluate LHV's funding and liquidity risks, we assess adjusted market funding and liquidity ratios. Since deposits from financial intermediaries are inherently volatile, not used to finance lending activities, and fully covered by liquid assets, we adjust the balance sheet by removing these deposits and the corresponding liquidity reserve. This allows us to assess the residual liquid assets and evaluate the bank's underlying operational liquidity in relation to its market funding dependence and other potential liability outflows.

The assigned Funding Structure score of baa2, which is two notches below the initial a3 score, reflects the increased reliance on price-sensitive broker aggregator deposits used to fund the bank's growing UK business. It also accounts for the refinancing risk associated with some modest wholesale funding maturities.

Exhibit 10
LHV maintains high liquidity buffers even when adjusted for financial intermediary deposits
Funding and liquidity metrics



The adjusted metrics exclude the deposits from financial intermediaries.
Source: LHV's financial reports and Moody's Ratings

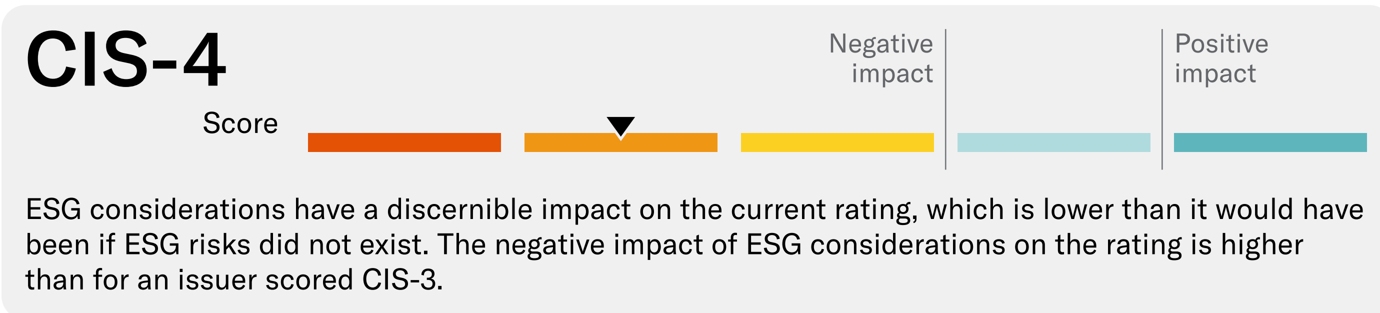
LHV's liquid assets accounted for 37.9% of tangible banking assets as of March 2025, down from 45.5% as of March 2024, yet still comfortably above the 30.9% global median for banks with baa3 BCAs. Cash and interbank placements constituted nearly 100% of liquid assets as of 2024.

The assigned Liquidity score of baa2, which is three notches below the initial a2 score, reflects the level of liquid assets after adjusting for the portion held to cover inherently volatile financial intermediary deposits.

ESG considerations

AS LHV Pank's ESG credit impact score is CIS-4

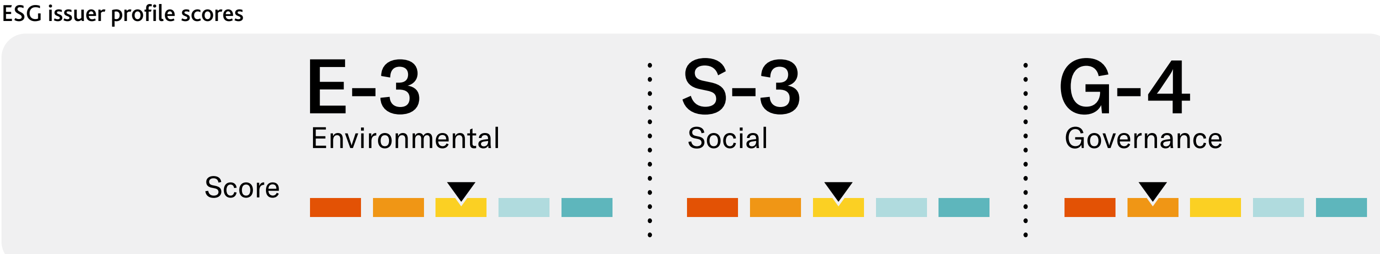
Exhibit 11
ESG credit impact score



Source: Moody's Ratings

LHV's **CIS-4** rating indicates that the credit rating is lower than it would have been in the absence of ESG risk exposures. This score reflects the impact on the bank's ratings from governance risks associated with LHV's unfunded expansion into the SME UK market and its strategy to service financial intermediaries, which limits transparency regarding the operational risks associated with providing these services. To date, environmental and social factors have had a limited impact on the company's credit profile.

Exhibit 12
ESG issuer profile scores



Source: Moody's Ratings

Environmental

LHV faces moderate environmental risks primarily because of its portfolio exposure to carbon transition risk as a diversified bank. In line with its peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, LHV is developing its climate risk and portfolio management capabilities.

Social

LHV faces moderate social risks mainly related to customer relations as well as to demographic and societal trends. The bank's developed policies and procedures mitigate conduct risk associated with the distribution of financial products such as regulatory and reputational risks, as well as exposure to litigation. Continued investments in technology and the bank's long track record of handling sensitive customer data, as well as appropriate culture and governance that ensure adherence to regulatory standards, help to manage high cyber and personal data risks. LHV operates across the Estonia and the United Kingdom, which faces challenges from adverse demographic trends affecting long-term economic growth prospects and impacting the demand for certain banking products. Product diversity as well as an ability to adapt to consumer preferences, regulatory changes and societal trends such as digitization are key to address these risks.

Governance

LHV faces high governance risks related to its financial strategy and risk management, following its decision to expand its SME lending operations in the UK through the former operations of Bank North. This expansion introduces new credit risks and triggers increased capital needs and higher costs. Additionally, there are substantial risks to financial strategy and risk management due to the limited transparency regarding operational risks associated with servicing financial intermediaries, including taking their deposits. To support its growth strategy to date, to become a leading Estonian banking group, LHV has successfully conducted a number of rights issues. The group has a clear and simple organizational structure, is listed on the Nasdaq Baltic stock exchange and has frequent and consistent reporting. Two of the founders hold large minority stakes in the group, together owning approximately 33% of shares, but the associated governance risks are mitigated by Estonia's developed institutional framework.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure analysis

We apply our Advanced LGF analysis to LHV Group as the bank is based in Estonia, which we consider an operational resolution regime. For this analysis, we assume that equity and losses are 3% and 8%, respectively, of tangible banking assets in a failure scenario. We also assume a 25% run-off of junior wholesale deposits and a 5% runoff in preferred deposits, and a 26% proportion of junior deposits. These are in line with our standard assumptions.

LHV Group's senior unsecured debtholders are likely to face moderate loss given failure based on our assessment that holding company senior liabilities are junior to the bank's senior liabilities, resulting in no ratings uplift from the bank's BCA. We also expect LHV Group's preference share holders will face high loss given failure, given low cushion available to absorb losses and the instrument's coupon features, resulting in ratings that are three notches below the BCA.

LHV Pank's junior depositors are likely to face very low loss given failure because of the large buffers of loss-absorbing liabilities, primarily at the holding company level, resulting in ratings positioned three notches above the BCA.

Government support considerations

We assign a low probability of government support for LHV Group and LHV Pank's ratings, because of the bank's small, albeit growing, size, which does not translate into any uplift.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 13
Rating Factors

Macro Factors							
Weighted Macro Profile	**Strong -**	**100%**					

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	2.5%	a3	↔	ba1	Loan growth	Operational risk
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	19.4%	aa3	↓	a2	Expected trend	
Profitability						
Net Income / Tangible Assets	1.4%	a3	↔	a3	Return on assets	
Combined Solvency Score		a2		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	8.0%	a3	↔	baa2	Deposit quality	Term structure
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	43.1%	a2	↔	baa2	Asset encumbrance	
Combined Liquidity Score		a3		baa2		
Financial Profile		a2		baa1		
Qualitative Adjustments				Adjustment		
Business Diversification				-1		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				-1		
Sovereign or Affiliate constraint				A1		
BCA Scorecard-indicated Outcome - Range				baa1 - baa3		
Assigned BCA				baa3		
Affiliate Support notching				0		
Adjusted BCA				baa3		

Balance Sheet	in-scope (EUR Million)	% in-scope	at-failure (EUR Million)	% at-failure
Other liabilities	1,080	12.7%	1,754	20.7%
Deposits	6,604	77.8%	5,931	69.9%
Preferred deposits	4,887	57.6%	4,643	54.7%
Junior deposits	1,717	20.2%	1,288	15.2%
Senior unsecured holding company debt	420	5.0%	420	5.0%
Dated subordinated holding company debt	90	1.1%	90	1.1%
Preference shares(holding company)	35	0.4%	35	0.4%
Equity	255	3.0%	255	3.0%
Total Tangible Banking Assets	8,484	100.0%	8,484	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	24.6%	24.6%	24.6%	24.6%	3	3	3	3	0	a3
Counterparty Risk Assessment	24.6%	24.6%	24.6%	24.6%	3	3	3	3	0	a3 (cr)
Deposits	24.6%	9.4%	24.6%	9.4%	3	3	3	3	0	a3
Senior unsecured holding company debt	9.4%	4.5%	9.4%	4.5%	0	0	0	0	0	baa3
Holding company non-cumulative preference shares	3.4%	3.0%	3.4%	3.0%	-1	-1	-1	-1	-2	ba3

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a3	0	A3	A3
Counterparty Risk Assessment	3	0	a3 (cr)	0	A3(cr)	
Deposits	3	0	a3	0	A3	A3
Senior unsecured holding company debt	0	0	baa3	0	Baa3	
Holding company non-cumulative preference shares	-1	-2	ba3	0	Ba3 (hyb)	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Ratings

Ratings

Exhibit 14

Category	Moody's Rating
AS LHV PANK	
Outlook	Positive
Counterparty Risk Rating	A3/P-2
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	A3(cr)/P-2(cr)
PARENT: AS LHV GROUP	
Outlook	Positive
Issuer Rating -Dom Curr	Baa3
Senior Unsecured -Dom Curr	Baa3

Source: Moody's Ratings

REPORT NUMBER 1438868

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454