LHV Bank Limited

Annual Report 2024

Contents

Company Information

Chairman	M Toomsalu
Directors	K Butcher R Frewer (appointed 2 January 2024) P Horner E Kilu A Kitter (resigned 31 December 2024) G Lungley (appointed 1 April 2024) M Toomsalu S Veitch
Company secretary	K Bodell
Registered number	13180211
Registered office	1 Angel Court London EC2R 7HJ
Independent auditor	MHA Statutory Auditor 6th Floor 2 London Wall Place London EC2Y 5AU

Chairman's statement

As we close 2024 and look ahead to the opportunities and challenges that 2025 will bring, I am proud to reflect on what has been a transformative year for LHV Bank Limited. This year has been marked by resilience, progress, and a steadfast commitment to our core principles. Against a backdrop of geopolitical uncertainty, macroeconomic shifts, and regulatory complexity, LHV Bank has not only navigated these headwinds but has emerged stronger, more efficient, and poised for sustainable growth.

A Year of Growth and Achievement

Following the granting of our UK banking licence in 2023, 2024 has seen LHV Bank[1] take significant strides forward. A key milestone has been the successful launch of our Retail Banking business, a move that underscores our ambition to serve a broader customer base while maintaining our commitment to our entrepreneurial clients. Our corporate lending portfolio in the UK surpassed the £280 million mark by year-end, a testament to our disciplined approach to growth and risk management.

Despite a volatile economic environment, we have increased business volumes while maintaining efficiency. Falling interest rates have posed a challenge for the industry, but our response has been to strengthen our core activities and invest in technological advancements. These efforts have helped us position ourselves for long-term profitability.

Navigating Geopolitical and Macroeconomic Challenges

The global financial sector continues to operate in a complex and evolving landscape. From ongoing geopolitical tensions to inflationary pressures and shifting regulatory requirements, banks must be agile, forward-thinking, and disciplined.

In an era where economic shocks can quickly disrupt even the most established institutions, we remain committed to a prudent, common-sense approach to risk management. By adhering to our guiding principles—focusing on our customers, making independent and well-informed decisions, and ensuring clarity in execution—we have built a foundation for long-term success.

Leveraging Technological Innovation

One of the most exciting opportunities for LHV Bank lies in harnessing the potential of technology. The rapid advancement of artificial intelligence, digital banking solutions, and automation is reshaping financial services.

By investing in modern electronic communication channels, AI-driven analytics, and seamless digital experiences, we are enhancing efficiency and delivering a superior customer experience. These innovations allow us to provide personalised, transparent, and practical banking solutions that align with the expectations of today's customers. Moreover, technology enables us to reduce costs and keep our services competitively priced.

Commitment to Our Culture and Principles

The success of LHV Bank is rooted in a culture that prioritises customers, values teamwork, and encourages independent thinking. Our guiding principles remain unwavering and can be summarised as follows:

- Customers come first – Our value is determined by the quality of service we provide.
- Results matter – We set ambitious goals and measure success through tangible outcomes.

[1] LHV Bank refers to LHV Bank Limited. The term 'the Bank' has also been used throughout this document.

- Talent is paramount – We hire and retain the best, ensuring that excellence drives our growth.
- Decision-making is key – Every decision has a deadline, and accountability is fundamental.
- Clarity and efficiency – Bureaucracy is minimised, and processes are continuously optimised.

In 2024, we reaffirmed our commitment to these principles, ensuring that every strategic decision aligns with our core mission.

Looking Ahead: A Vision for 2025 and Beyond

As we step into 2025, our focus is clear: growth, efficiency, and innovation. While macroeconomic uncertainties persist, we remain confident in our ability to thrive. Our objective is not merely expansion but smarter, more sustainable growth. We will continue to refine our product offerings, enhance our operational effectiveness, and strengthen our customer relationships.

Regulation will remain a key area of focus, and we will continue to work with our regulators to ensure compliance while maintaining the agility needed to seize opportunities. Technology will be an enabler of our next phase of growth, and we will double down our efforts to leverage digital solutions that enhance customer experience and operational resilience.

Conclusion

In closing, I would like to extend my gratitude to our customers for their trust, and our employees for their dedication and hard work. LHV Bank is on a path of sustainable growth, grounded in a culture of excellence, innovation, and customer-first thinking.

While the challenges of today are real, so too are the opportunities. We enter 2025 with confidence, knowing that we are building not just a bank but a financial institution that stands apart—an institution defined by its entrepreneurial spirit, commitment to innovation, and relentless pursuit of excellence.

Madis Toomsalu

Chair

Chief Executive's Review

2024 has been a landmark year for LHV Bank, marking our first full year of operations as a licensed bank in the UK. Since our founding in 2021 with the ambition to establish a new and innovative banking institution within the LHV Group, we have made significant strides in delivering financial services to our growing customer base. As we look back on a transformative year, we celebrate our achievements while focusing on the opportunities ahead in 2025 and beyond.

In 2024, LHV Bank successfully expanded its presence in the UK market, further reinforcing our commitment to serving financial intermediaries, SMEs, and retail customers. We have significantly increased deposit volumes and expanded our product offering to include SME loans and platform-based deposit products.

Retail Banking

At the beginning of the year, we joined a third deposit-gathering platform, and by the end of the year, we had over 11,600 depositors across three deposit platforms.

One of our most notable milestones this year was the launch of our retail banking app in December. This step marked a major evolution in our service offering, that will allow direct-to-consumer access to seamless and efficient digital banking solutions.

Through the app, private customers can open current accounts and make payments. In the first half of 2025, we will add deposits, direct debits, and debit cards to the app and will begin broader public communication and marketing. For the second half of the year, the plan includes adding other currencies and enabling account openings for business clients.

SME Lending

The SME Lending business focused on growing the loan book, expanding the product portfolio, building the team, growing the broker network, and increasing brand awareness amongst brokers. To speed up loan disbursements, we significantly expanded our network of law firms and optimised internal processes.

A primarily fixed-rate specialist buy-to-let product was introduced, designed for larger investors purchasing and renting out residential properties.

Throughout the year, the entire team, including Lending Directors and support functions in both London and Manchester, was built and is now fully staffed. By year-end, we had signed cooperation agreements with nearly 60 loan brokers.

In mid-2024, active public communication began in the broker channels, and we participated in several seminars and conferences. As a result, LHV's brand awareness among brokers increased significantly over the year.

Banking Services

The business volumes of financial intermediaries' payments reached record levels by the end of the year. Several new agreements were signed, and multiple new clients were onboarded.

Deposit volumes from financial intermediaries fluctuated throughout the year due to intensified competition in deposit pricing and targeted offers from competitors. However, by the end of the year, deposit levels were higher than at the beginning of the year.

At the beginning of July, the bank joined the euro standard payment scheme. Preparations for joining the euro real-time payments scheme turned out to be more time-consuming than planned, pushing the originally scheduled December launch to April 2025. After this, the bank will be able to start migrating financial intermediaries using euro payment services to LHV Bank.

In 2025, the bank plans to expand its product portfolio by introducing card payment acceptance, open banking, and direct debits for financial intermediaries.

Financial Performance

Our growth trajectory has been underpinned by strong performance. With rising customer numbers, increased deposits, and a growing loan portfolio, we have built a solid foundation for sustainable expansion. Achieving a profit after tax of £3.1 million is a testament to the strength of our strategy, execution, and market positioning.

Differentiating Through Technology and Service

LHV Bank stands apart in a crowded financial services sector through our unwavering commitment to technology, customer-centricity, and operational efficiency. The UK market presents a unique opportunity to develop and scale advanced financial technology solutions, and we have fully embraced this. Our digital-first approach ensures that we deliver banking services that are not only seamless and secure but also intuitive and responsive to our customers' needs.

This year, the bank implemented ChatGPT Enterprise for all employees and initiated several projects to integrate artificial intelligence into its work processes. Our embrace of technology enables us to offer tailored solutions, whether for SMEs seeking efficient lending products or financial intermediaries requiring robust and scalable GBP services. The expansion of our retail banking offering further solidifies our ability to serve a diverse customer base with products designed for the digital age.

Beyond technology, our people and culture remain core to our success. We are incredibly proud to have been named in The Sunday Times Best Places to Work 2024, just one year after obtaining our UK banking license. This recognition underlines our commitment to fostering a dynamic, inclusive, and forward-thinking workplace where talent thrives.

Erki Kilu

Chief Executive Officer

Business model and strategy

LHV Bank is a subsidiary of LHV Group, a rapidly growing financial group and capital provider based in Estonia. LHV Group operates in the banking, asset management, and insurance markets across the EU and UK, employing over 1,000 professionals and managing over £10 billion of financial assets. LHV Group is publicly traded on Nasdaq Baltic (LHV1T).

We entered the UK market in 2018 by opening a branch of AS LHV Pank. In 2021, LHV Bank was founded as an independent bank within the LHV Group. In 2023, we became a fully authorised bank and completed our transition from branch to bank.

Our business model

LHV Bank is savings-focused and customer-centric, dedicated to raising financial awareness and helping people grow their money. We offer app-based retail banking products for individuals, flexible lending for businesses, and banking services for financial intermediaries.

Our simple and transparent services, accessible via modern digital channels, serve the following customer segments:

Financial institutions:

LHV Bank is a trusted partner to over 200 regulated financial institutions, providing seamless access to cloud-native banking infrastructure. Our deep expertise and extensive reach make us the partner of choice for businesses seeking a Banking Services provider focused on their success.

Equipped with a robust risk framework and the latest technology, we offer smooth and efficient access to UK and European payment schemes, bridging the fast-moving fintech industry and the highly regulated, institutional expertise of the banking sector.

Our licensed corporate customers include E-Money Institutions (EMI), Authorised Payment Institutions (API), Non-Bank Financial Institutions (NBFI) and Virtual Asset Service Providers (VASP), with a range of different types of business models.

Business customers:

With offices strategically located in London, Manchester, and Leeds, LHV Bank's experienced, agile and responsive local teams deliver personalised financing solutions to businesses.

LHV Bank provides commercial mortgages, commercial investment loans, and specialist buy-to-let loans from £0.5m to £15m with variable or fixed interest rates, secured by commercial real estate. We are committed to providing a seamless and efficient financing process, from initial application to the release of funds.

Retail Banking customers:

As a savings-focused bank, LHV Bank is dedicated to raising financial awareness and helping people grow their money.

Our mobile app is designed with simplicity in mind, making it easy for individual customers to open current accounts and make GBP payments. Rather than focusing on spending or credit, we help individual savers to grow their wealth and build financial resilience.

LHV Bank's savings accounts serve as a key source of funding for the SME lending portfolio, and are offered via several deposit aggregators, including Raisin, Flagstone and Hargreaves Lansdown.

The Principal Risks and Uncertainties facing the Bank are outlined in the Risk Management Report on page 39, which is an integral part of the Strategic report.

Our strategy

The bank's mission is to enhance access to financial services and capital. We empower people and businesses to think big and take actions, set ambitious goals and invest in the future.

The bank's strategy is to build strong relationships with stakeholders by being:

- the best financial services provider for customers;
- the most supportive financial services provider for international financial intermediaries;
- an attractive employer that offers high job satisfaction, development opportunities and self-fulfilment for current and prospective employees;
- a transparent company that delivers at least 20% long term return on equity for investors; and
- a company with the best management practices, positive social impacts and clear climate goals for society.

LHV mission and values

Our mission is to enhance access to financial services and capital, empowering people and businesses to think big and take actions, set ambitious goals and invest in the future.

We keep it simple. We prioritise simplicity, act promptly and communicate in a way that everyone can understand. By doing this, we make sure our business relationships are based on transparency and openness.

We listen to our customers and provide solutions that fit their needs. To us partnership is important. We support those who are committed. Even during challenges, we remain focused on finding solutions.

We create real value for our customers, continuously seeking the best possible outcomes. Whether dealing with investors or customers, we establish clear expectations and work efficiently and sustainably to meet them.

Future priorities

The ongoing priority of the Bank will be to build and grow the current business model. The immediate focus is on adding diversification to our Retail Banking proposition by offering an expanded suite of products to depositors. While we will continue to rely on channels such as Raisin, Flagstone and Hargreaves Lansdown, the Bank will focus on growing its direct-to-consumer digital banking proposition.

Retaining our strong capital, liquidity and funding position will remain a top priority. Our growth strategy depends on the ability to retain and attract talent, which we aim to achieve through training and developing our teams and nurturing an inclusive and diverse culture.

Key Performance Indicators

The Board monitors the progress of the bank by reference to the following KPIs:

	2024	2023
Common equity tier 1 (CET 1)	24.1%	31.7%
Loan to deposit ratio[2]	65%	75%
Liquidity coverage ratio	151%	140%
Net stable funding ratio	183%	285%
Banking Services customers	210	203
SME Lending customers	121	47
Retail Banking accounts	11,667	2,385
Deposits	£585 million	£207 million
Lending portfolio	£289 million	£69 million
Cost income ratio	88%	85%
Return on equity	5%	18%
Employee engagement (highest possible score is 5)	4.3	4.4

The Bank continued its planned growth in 2024, which is reflected in the KPIs.

[2] Calculated using deposits available for funding the loan portfolio

A key driver of the overall growth of the Bank was the increase in the lending portfolio, including a strong pipeline of loans at year end that are expected to be drawn down in early 2025. Deposits fund the lending portfolio, including the pipeline, and therefore the growth in deposits is driven by the demand for lending. The loan to deposit ratio was lower at year end in 2024 due to the level of pre-funding held for loans to be drawn in early 2025.

The Bank takes a prudent approach to managing its liquidity and funding, reflected in the robust 'liquidity coverage' and 'net stable funding' ratios, with the decrease in the latter due to funding utilised to support loan book growth.

The cost income ratio remained relatively high driven by the ongoing investment in the Bank's growth, largely in building out our teams of people. Cost grew at a faster rate than income, resulting in a lower profit and lower return on equity.

The CET 1 ratio remains strong a 24.1% and is lower than prior year largely due to growth in the lending business, which utilised capital resources and therefore reduces the capital ratio.

Section 172 Statement

The Directors of LHV Bank acknowledge their duty under Section 172(1) of the Companies Act 2006 to act to promote the success of the bank for the benefit of its members as a whole.

The Board remains committed to promoting the long-term success of the bank while ensuring that stakeholder interests are at the core of decision-making. In 2024, we have continued to engage proactively with customers, employees, regulators, business partners, and the wider community, ensuring that we operate responsibly and sustainably in alignment with our values of simplicity, support, and effectiveness.

Detail on the board's engagement with the workforce can be found in the Corporate Governance Report.

Engagement with Stakeholders

Customers

Customers are at the heart of our business, and their needs inform our decision-making. The bank serves financial institutions, business customers and retail banking customers through its Banking Services, SME Lending and Retail Banking business lines. Our commitment to Consumer Duty underpins our approach to fair customer outcomes, ensuring products and services meet the needs of all customers, including those in vulnerable circumstances.

Key Customer Priorities:

- Trusted relationships and specialist expertise.
- Clear, consistent, and supportive service.
- Customer-led product propositions.

How We Engaged in 2024:

- Regular Board updates on the implementation of the FCA's Consumer Duty, with a focus on customer outcomes.
- Monitoring of customer complaints and feedback to identify areas for improvement.
- Comprehensive training for all employees on the FCA's Consumer Duty, including supporting vulnerable customers, with additional in-depth training for customer-facing teams.

Employees

Our employees are integral to our success, and we are committed to fostering a fair, inclusive, and rewarding workplace. The bank employs a diverse and motivated team in the UK and Estonia, ensuring they are equipped with the skills and support necessary to serve our customers effectively.

Key Employee Priorities:

- A culture of fairness, inclusion, and respect.

- Competitive rewards and recognition.
- Training and career development opportunities.

How We Engaged in 2024:

- Regular employee engagement surveys, with Board oversight of key themes and action plans. The outcome being action taken to respond to employee feedback and improving the workplace.
- Board members' direct engagement with employees at off-site visits in Estonia and the UK, including informal meet-and-greet events.
- Annual people update presented to the Board by the Chief People Officer.

Regulators

The bank operates in a highly regulated environment and is committed to maintaining open, transparent, and constructive relationships with regulators, including the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

Key Regulatory Priorities:

- Consumer protection and customer outcomes.
- Financial and operational resilience.
- Prevention of financial crime.
- Environmental, social, and governance (ESG) commitments.
- Digital transformation and data security.

How We Engaged in 2024:

- Proactive, open and ongoing engagement with regulators, ensuring compliance with evolving requirements.
- FCA and PRA approval processes for senior management and relevant Board appointments.
- Board oversight of key regulatory developments and risk management frameworks. The outcome being better horizon scanning and challenge of the Executive.

Business Partners and Suppliers

Strong relationships with business partners and suppliers are essential to delivering high standards of service. We seek to engage transparently and sustainably with all suppliers to ensure fair business practices.

Key Supplier Priorities:

- Ethical and fair business practices.
- Efficient and transparent payment processes.
- Robust risk and compliance frameworks.

How We Engaged in 2024:

- Improvements in payment processes, reducing invoice payment times, an outcome of which is better supplier relationships.
- Ongoing dialogue with key suppliers to ensure mutually beneficial relationships.
- Strengthened governance of supplier risk management.

Society and Community

As a responsible financial institution, we recognise our role in supporting the wider community. We prioritise initiatives that contribute positively to society, including financial education, community investment, and environmental sustainability.

Key Community Priorities:

- Widening representation and diversity in financial services.
- Promoting financial inclusion.
- Addressing climate change and sustainability concerns.

How We Engaged in 2024:

- Consideration of environmental impact in lending and operational decisions.
- Integration of the Group's ESG strategy into UK operations, ensuring alignment with sustainability objectives.
- Joining Progress Together, a membership body championing diversity in financial services.

Financial Review

The financial review provides a summary of our results and performance. The Bank's results are prepared in accordance with UK adopted International Financial Reporting Standards (UK adopted IFRS) as detailed in the financial statements starting on page 52.

2024 was the Bank's first full year as an authorised credit institution. Prior year comparatives have been provided where available.

By the end of December, the Bank had total employees of 213, based in London, Manchester, Leeds and Estonia.

Business Results

The Bank is still in early stages of growth, which is reflected in the significant increase in the balance sheet during 2024. Deposits are a key source of funding and they grew by 182% over the year, increasing by £378 million to £585 million. This was achieved by increasing the number of deposit aggregators that the Bank partners with as well as offering attractive interest rates to depositors. The loan to deposit ratio was 65%, which was relatively low reflecting pre-funding of pipeline loans.

In early 2024 the Bank fully repaid a loan received from LHV Pank and achieved independent financing. Repayment of this facility helped to reduce the Bank's cost of funding.

Loans grew by £220 million over the year, reaching £289 million. Despite one loan being classified under Stage 2 and another under Stage 3 per IFRS 9 at year-end, the overall quality of the loan portfolio remained strong.

The profit before tax for the year amounted to £4.0 million (2023: £4.8 million). Whilst income grew at 18%, costs grew faster at 23% resulting in a 15% reduction in profit and a cost income ratio of 88%. Profit after tax reduced year-on-year due to the recognition of a deferred tax asset in 2023 and an income tax expense in 2024. As a result return on equity reduced from 18% to 5%.

Income growth reflected growth in the SME loan book, strong transaction volumes and good deposit balances in Banking Services as well as the continued high interest rate environment.

A key source of income for the Bank is interest earned on surplus liquidity placed at central banks. The primary source of surplus liquidity is deposits placed by Banking Services customers. This is earned directly for the Sterling portfolio where deposits are on the Bank's balance sheet. Interest income is also earned indirectly from a Partnership Agreement with AS LHV Pank. This agreement enables the Bank to service its Banking Services customers Euro payments and deposit requirements. Similar to the Sterling portfolio, surplus Euro liquidity is placed at the central bank earning interest income, this is on the balance sheet of AS LHV Pank and is shared with the Bank via the Partnership Agreement. Notes 4 and 5 to the financial statements contain detail of income earned from this agreement. During the year, the Bank of England reduced the base twice, by a total of 50 basis points to 4.75% and the European Central Bank (ECB) reduced rates by a total of 1 percentage point to 3.00%.

The increase in costs was driven by the continued investment in the growth of the Bank. Investment was primarily in people which drove a 45% increase in staff costs. Non-staff costs increased by 7%.

A prudent approach to capital, funding and liquidity management was maintained during the year and reflected in the key ratios with a CET 1 ratio of 24.1%, and LCR in excess of 150% and a net stable funding ratio of 183%.

Summary of Performance

Banking Services

By year-end, the business volumes of payment services for financial intermediaries reached record levels. The number of payments increased by 58% to 75 million transactions. The customer portfolio also increased despite ongoing strong competition in the market.

Deposit volumes for financial intermediaries fluctuated during the year due to intensified competition in deposit pricing. However, deposit levels were higher at year-end at over £1.2 billion[3] compared to the beginning of the year which started at just over £960 million.

In early July, the bank joined the euro standard payments scheme. Preparations for joining the euro real- time payments scheme are ongoing and joining is planned for 2025. In addition, the bank plans to expand its product portfolio to include card payment acceptance, open banking, and direct debit solutions for financial intermediaries.

SME Lending

SME Lending achieved significant growth in 2024 delivered by building the team, expanding the product portfolio and growing the network of loan brokers.

The bank introduced a fixed-rate Specialist Buy-to-Let product, tailored for purchasing and renting out residential properties by larger investors. By year-end, the team was fully assembled, including loan officers and support functions in both London and Manchester. The awareness of the LHV brand among loan brokers grew significantly during the year through attendance at conference and proactive marketing.

Retail Banking

By year-end, the bank had over 11,600 depositors across Raisin, Flagstone and Hargreaves Lansdown, helping savers grow their wealth and build financial resilience. These deposits serve as a key source of funding for the SME lending portfolio.

At the end of the year, the bank launched its retail banking offering, including a mobile banking app and a new website. Through the mobile banking app, individual customers can open current accounts and make GBP payments. During 2025 this product offering will be expanded to include deposits, direct debits and debit cards to the mobile banking app and will launch broader public communication and marketing efforts. In the second half of the year, the addition of other currencies and the opening of accounts for business clients are planned.

Financial results

GBP millions	**2024**	**2023**
Net interest income	12.4	4.4
Net fee and commission income	24.9	27.4
FX translation	(0.1)	(0.1)
Other income	0.4	0.2
Total net income	37.7	32.0
Total operating expenses	33.2	27.1
Impairment losses	0.4	0.1
Profit before tax	4.1	4.8
Income tax expense	(1.0)	1.6
Net profit	**3.1**	**6.4**

Business volumes

GBP millions	**2024**	**2023**
Loans (net)	289	69
Deposits from customers	585	207

[3] This includes GBP deposits on the Bank's Statement of Financial Position as well as the Euro deposit portfolio that generates interest income via the Partnership agreement, however deposits are on AS LHV Pank's balance sheet.

Assessment of Future Prospects

The Financial Reporting Council's UK Corporate Governance Code (the 'Code'), which LHV Bank aims to comply with as far as reasonably possible, given its ownership structure, size and complexity, requires the directors to consider and report on the future prospects of the bank. In particular, it requires that they:

- Explain how they have assessed the prospects of the bank and whether, on this basis, they have a reasonable expectation that the bank will be able to continue in operation (the 'viability statement'); and
- State whether they consider it is appropriate to adopt the going concern basis of accounting in the preparation of the financial statements presented in Section Corporate Governance Report (the 'going concern statement').

LHV Bank's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report and Directors' Report on pages 2 to 43. The financial position of the Bank, its cash flow and capital position are as described on pages 52 to 55. In addition, LHV Bank's business objectives, capital structure policies and financial risk management objectives are as stated in the Strategic and Directors' Reports. Details of its financial instruments and its exposures to credit and liquidity risks are provided in note 26 of the Financial Statements, where further detail on financial risk management is also included.

The principal risks and uncertainties affecting the bank, and the steps taken to mitigate these risks are described on page 39. Pages 36-41 of this annual report describes the bank's risk management system and the three lines of defence model upon which it is based.

Note 27 to the accounts includes an analysis of the bank's working and regulatory capital position and policies, while note 26 include a detailed description of its funding structures, its use of financial instruments, its financial risk management objectives and policies and its exposure to credit, interest rate and liquidity risk. Critical accounting judgements and estimates affecting the results and financial position are discussed in note 1.

Risk Assessment

During the year the Board discussed, reviewed and approved the principal risks identified for the bank. This process included debate and challenge regarding the most material areas for focus on an ongoing basis. Each of these principal risks is considered on an ongoing basis at each Executive Risk Committee ('ERC') meeting and each meeting of the Board Risk Committee.

The work of the Board Risk Committee, of which all directors are members or attendees, included:

- Consideration of new or emerging risks and regulatory developments
- Consideration and challenge of management's rating of the various risk categories to which the bank is exposed
- Consideration of the bank's compliance with the risk appetites set by the Board and the continuing appropriateness of these risk appetites
- Consideration of the root causes and impact of material risk events and the adequacy of actions undertaken by management to address them

The directors also received briefings and training to ensure these impacts could be fully understood and placed in context. In addition, the directors specifically considered the impact on risk and viability through review and approval of key risk assessments for the bank, including the Internal Capital Adequacy Assessment Process ('ICAAP'), Internal Liquidity Adequacy Assessment Process ('ILAAP'), and its Recovery Plan.

At the year end the directors reviewed their ongoing risk management activities by considering findings of the 2024 Combined Assurance Plan and the most recent risk information available to confirm the position of the bank at the balance sheet date. These activities, taken together, were deemed to constitute a robust assessment of all the principal risks facing the bank, including those that would threaten its business model, future performance, solvency or liquidity. These principal risks are set out on page 39 of the Risk Management Report.

Availability of Funding and Liquidity

The availability of funding and liquidity is a key consideration in the assessment of going concern and viability.

The bank is highly liquid, with all surplus liquidity placed at the Bank of England. This results in an LCR of 151%. The bank's funding during 2024 was primarily provided by retail deposits. The deposits from the Banking Services business are not used for funding due to their 'on demand' nature. The loan to deposit ratio is therefore a reflection of the level of retail deposits funding the SME lending portfolio and was 65% (2023: 75%).

As at 31 December 2024 the balance on the overdraft facility was £0 million (2023: £57 million) and retail deposits were £434 million.

LHV Bank manages its liquidity in line with the Board's risk appetite and the requirements of the PRA, which are formally documented in the Board-approved ILAAP, updated annually.

From a liquidity perspective, the Bank has a sufficient liquidity buffer to satisfy both businesses as usual and under stress conditions, as demonstrated in the various stress scenarios modelled.

Capital

The bank takes a prudent approach to capital management. As at 31 December 2024, the bank had regulatory capital resources of £68.4 million, significantly in excess of Board risk appetite and regulatory minimums. The CET1 ratio was 24.1% (including audited profits for 2024).

Viability Statement

In making the viability statement the directors considered the three years to 31 December 2027.

The directors considered:

- The bank's financial and business position at the year end, described on pages 11 to 15.
- The bank's forecasts and the assumptions on which they were based
- The bank's prospective access to future funding
- Stress testing carried out as part of the bank's ICAAP, ILAAP and forecasting processes
- The activities of the bank's risk management process throughout the period
- Risk monitoring activities carried out by the Board Risk Committee
- Internal Audit reports in the year

Having considered the factors above, the directors believe that the bank is well-placed to manage successfully its business risks, including solvency and liquidity risks.

On this basis, the directors have a reasonable expectation that the bank will be able to continue in operation and meet its liabilities as they fall due over the three year period. While this statement is given in respect of the three year period specified above, the directors have no reason to believe that the bank will not be viable over the longer term.

Going concern statement

The directors have assessed going concern, taking in to account the bank's capital and liquidity positions for a period of over twelve months from the approval of the financial statements, including consideration of reasonably plausible stress scenarios.

The Bank estimated the potential impact on expected credit losses in respect of its credit portfolio under various stress scenarios assuming a several notch downgrade on the bank's portfolio to account for stress on macroeconomic variables[4] and its impact on credit and counterparty risk. Under these stress scenarios there would be an increase in expected credit loss allowance; and this has been considered in the assessment of 'going concern'.

[4] Variables stressed included GDP growth, inflation, unemployment, real estate prices and FX rates. The Bank of England scenarios are used for stress testing.

When assessing 'going concern', no regulatory capital ratios were breached in the base to mid case stress scenarios. In the most severe scenario, the Bank would be able to restore its capital by taking appropriate management action to reduce balance sheet growth by reducing lending, which in turn reduces its capital requirement.

After making enquiries, in addition to an assessment of the impact of principal risks as set out on page 39 of the Strategic Report, the directors have a reasonable expectation that the bank has adequate resources to continue in operational existence for the foreseeable future of at least twelve months from the date of approval of the financial statements. Accordingly, they continued to adopt the 'going concern' basis in preparing the annual report and accounts.

Environmental, Social and Governance Review

LHV Bank is committed to conducting its business activities in a sustainable manner, aligning its operations with the regulatory expectations of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). Recognising the central role of financial sector in directing capital flows into sustainable activities to support the transition to a climate-neutral economy, we are working on measuring the climate impact of our credit portfolio and investments, upon which we will establish goals of reducing our environmental and climate impact in the future.

Our ESG framework is informed by the Group's[5] overarching ESG policy and strategy, with a particular focus on climate risk assessment, gender diversity, and responsible financial decision-making.

Environmental Commitments

The bank acknowledges climate change as a fundamental challenge and remains proactive in addressing environmental risks associated with its operations. Our Climate Change Materiality Assessment employs a structured methodology to evaluate both physical risks—such as coastal flooding, extreme weather events, and biodiversity loss—and transition risks, including regulatory shifts and carbon pricing mechanisms.

Key climate-related initiatives undertaken by the bank include:

- Integration of Environmental, Social, and Governance (ESG) risk factors into credit policies, ensuring sustainable lending decisions.
- Alignment with the Paris Agreement and UK Net-Zero Targets, ensuring that financed projects contribute to a low-carbon economy.
- Sustainable energy financing, with a focus on supporting businesses that transition towards renewable energy sources.
- Consideration of climate-related risks in credit risk assessment, particularly in sectors exposed to environmental transition pressures.

Our commitment to responsible consumption and production is reflected in our efforts to monitor and reduce operational CO_2 emissions while integrating green principles into our lending strategies.

Social Responsibility and Gender Diversity

A core tenet of our ESG strategy is fostering a diverse, equitable, and inclusive workplace while ensuring that our banking products serve the broader community fairly. We recognise the impact of financial institutions on economic and social development, and we take steps to:

[5] Group refers to AS LHV Group, the Bank's parent entity and its subsidiaries.

- Promote gender diversity and equal opportunities, aligning with the Group's Diversity and Inclusion Policy, ensuring fair representation of women in leadership roles.
- Support financial literacy initiatives, reducing societal inequalities by empowering customers with knowledge to make informed financial decisions.
- Adhere to strict non-discrimination policies, providing ethical and unbiased banking services to individuals and businesses.

Ensure employee well-being by providing a safe, inclusive, and mentally supportive work environment, with competitive remuneration and professional growth opportunities.

Business Diversity and Inclusion Initiatives

The bank is actively working to broaden representation and social mobility within the financial services industry. In 2024, we joined Progress Together, a membership body championing diversity in financial services, reinforcing our commitment to fostering equitable career progression across all levels of our workforce.

Governance and Ethical Leadership

The bank operates under a transparent corporate governance framework that prioritises ethical conduct, financial integrity, and regulatory compliance. Governance structures have been strengthened to enhance sustainability reporting and integrate ESG considerations into risk management and credit decision-making.

Key governance practices include:

- Adherence to PRA and FCA sustainability guidelines, ensuring responsible banking practices.
- Strong internal audit mechanisms that oversee ESG compliance and risk assessment.
- Alignment with the UN Principles for Responsible Banking, reinforcing ethical investment and lending standards.
- Using the UN Sustainable Development Goals (SDGs) as a framework for our work and in moving towards a more sustainable future. We focus primarily on the following four SDGs, the achievement of which we can influence the most:

SDG 7: Affordable and clean energy

For us, sustainability is an integral part of creating and offering value. In developing our products, we strive to provide our customers more sustainable financial services that support positive energy-saving developments and contribute to the fight against climate change.

SDG 8:Decent work and economic growth

Financing products have a central role in promoting sustainable growth, job creation, entrepreneurship and innovation. LHV works towards ensuring equal opportunities for everyone and contributing to the development of a more inclusive economy.

SDG 12: Responsible consumption and production

LHV takes environmental factors into account in making business decisions. Promoting responsible borrowing and consumption and offering services to our customers that promote sustainability, contribute to the achievement of this goal. We also strive towards the introduction of more sustainable technologies in our everyday work and while monitoring and reducing our operational CO2 footprint in order to use natural resources more efficiently.

SDG 13: Climate action

As part of the sustainable development of the society, we encourage the use of environmentally friendly and sustainable business practices. This helps companies combat climate change, manage their own climate-related risks, and promotes sustainable conduct that benefits both the economy and society at large.

Conclusion

LHV Bank's ESG strategy is designed to drive sustainable long-term growth while mitigating financial and environmental risks. Our efforts to address climate change, promote gender diversity, and champion business inclusivity demonstrate our commitment to responsible banking. By integrating ESG principles into our governance, we continue to align with evolving regulatory expectations and societal needs.

We remain dedicated to further refining our ESG policies, ensuring that our banking activities contribute positively to both economic prosperity and environmental sustainability.

The Strategic Report was approved by the Board and signed on its behalf by:

Signed by:
Erki Kilu
AFB0C8C13C5F428...

Erki Kilu
Chief Executive Officer
28 March 2025

Corporate Governance Statement

Good corporate governance is essential to achieving our strategic ambition to be a leading provider of Banking Services, SME Lending and Retail Banking. Aspiring to a higher standard of governance than that required of private limited companies, LHV Bank aims to comply as far as reasonably possible, given our ownership structure, size and maturity, with the Financial Reporting Council's (FRC's) 2018 UK Corporate Governance Code (the 'Code')"[2].

The table below references the individual Code Principles to the sections of this report which provide supporting information explaining how they have been applied.

UK Corporate Governance Code Principles	Section
Section 1: Board leadership and company purpose	
A. A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society. The board should ensure that the necessary resources, policies and practices are in place for the company to meet its objectives and measure performance against them.	Page: 20 Board of Directors and Senior Management
B. The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are all aligned. All directors must act with integrity, lead by example and promote the desired culture.	Page: 7 Business Model and Strategy
C. Governance reporting should focus on board decisions and their outcomes in the context of the company's strategy and objectives. Where the board reports on departures from the Code's provisions, it should provide a clear explanation	Page: 18 Corporate Governance Statement
D. In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.	Page: 9 Section 172 Statement and Statement of Engagement with Employees and Other Stakeholders
E. The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	Page: 9 Section 172 Statement and Statement of Engagement with Employees and Other Stakeholders

2. The Code applies only to premium listed companies, which are required by UK Listing Rules to report on a 'comply or explain' basis against the Code's 41 provisions.

Section 2: Division of responsibilities	
F. The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.	Page: 24 Governance Framework
G. The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.	Page: 24 Governance Framework
H. Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.	Page: 24 Governance Framework
I. The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	Page: 24 Governance Framework; Nominations Committee Report
Section 3: Composition, succession and evaluation	
J. Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan for the board and senior management should be maintained. Both appointments and succession plans should be based on merit and objective criteria. They should promote diversity, inclusion and equal opportunity.	Page: 28 Nominations Committee Report
K. The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.	Page: 28 Nominations Committee Report
L. Annual evaluation of the board should consider its performance, composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.	Page: 24 and 28 Governance Framework; Nominations Committee Report
Section 4: Audit, risk and internal control	
M. The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements	Page: 30 Audit Committee Report
N. The board should present a fair, balanced and understandable assessment of the company's position and prospects.	Page: 13 Assessment of Future Prospects
O. The board should establish and maintain an effective risk management and internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.	Page: 34 Risk Management Report

Section 5: Remuneration	
P. Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long-term strategy.	Page: 32 Remuneration Committee Report
Q. A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.	Page: 32 Remuneration Committee Report
R. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	Page: 32 Remuneration Committee Report

The Board of Directors and Senior Management

Board of Directors

Members of the Board of Directors are set out below.

Madis Toomsalu

Chair of the Board

Date of appointment: 4 February 2021

Madis serves as the Chairman of the Board of LHV Bank and its parent company LHV Group, as well as being Chair of or a Member of other Group subsidiary boards. He also belongs to the management board of the non-profit organisation FinanceEstonia and the ESG expert group of the Government of the Republic of Estonia. He holds a Bachelor's degree in Business Management from Tallinn University of Technology and a Master's in Public Sector Finance.

Committee membership: Remuneration Committee; Nominations Committee

Erki Kilu

Chief Executive Officer ('CEO')

Date of appointment: 4 February 2021

Erki began his tenure at LHV in 2008 and has held various management positions within the company. He holds a Bachelor's degree in International Business Administration from the Estonian Business School and an MBA and an MSc in Engineering. In addition to LHV's board, Erki is a Member of certain Group subsidiary boards, a Member of the Chartered Banker Institute (MCBI), former chairman of the Estonian Banking Association, and a European Banking Federation board member.

Rachelle Frewer

Chief Financial Officer ('CFO')

Date of appointment: 2 January 2024

Rachelle joined LHV Bank from Moneycorp Bank, an internationally acclaimed currency exchange company, where she served as the CFO and as a Board Member.

As an ACA-qualified and KPMG-trained accountant, Rachelle has a wealth of experience from her time at various financial institutions, including C. Hoare & Co., Close Brothers, Standard Chartered and HSBC. Her areas of expertise encompass strategic planning and analysis, finance, treasury and investor relations.

Andres Kitter

Chief Technology Officer ('CTO')

Date of appointment: 4 February 2021 – 31 December 2024

Andres joined LHV Bank from tech giant Skype where he was Payments and Billing Manager. He served as Head of Retail Banking, Head of LHV Bank Branch and Deputy CEO of LHV Bank before taking on the role of

Chief Technology Officer in March 2024. He obtained a Master's degree from the Faculty of Economics and Business Administration of the University of Tartu in 2003.

Sally Veitch
Independent Non-Executive Director
Senior Independent Director
Date of appointment: 1 July 2022
Sally holds a BA in Natural Sciences from Cambridge University and is a member of the Institute of Chartered Accountants. Sally is the Senior Independent Director and Chairs the Audit Committee, Remuneration Committee and Nominations Committee. She also serves on the Board Risk Committee and is the Board Consumer Duty Champion.
Sally is also a Non-Executive Director and Chair of the Audit Committee and Remuneration Committee of Perenna Bank PLC and a Non-Executive Director of AIM-listed H&T Group PLC, where she serves as Chair of the Board Risk Committee. She is also a Governor at Roundwood Park School Academy Trust and a Director of Zeus and PJ Charitable Foundation.
Committee membership: Audit Committee (Chair); Remuneration Committee (Chair); Nominations Committee (Chair); Risk Committee

Paul Horner
Independent Non-Executive Director
Date of appointment: 4 January 2022
Paul brings substantial experience from his roles in executive risk and general management at institutions such as Barclays, NatWest and Ulster Bank. He was a Non-Executive Director of Coutts & Co Limited and previously served both as that company's Chief Executive and Chief Risk Officer. At LHV Bank, Paul is the Chair of the Board Risk Committee and a Member of the Audit, Remuneration and Nominations Committees.
Paul also serves as Chairman of Arion Bank in Iceland. Additionally, Paul is a Non-Executive Director, Chair of the Board Risk Committee and a member of the Audit Committee at both AIB Group (UK) PLC and at National Bank of Kuwait (International) PLC. Paul holds an MA from the University of Oxford and is an Associate of the UK Chartered Institute of Bankers.

Keith Butcher
Independent Non-Executive Director
Date of appointment: 1 May 2022
Keith is a seasoned CFO with extensive experience in e-commerce, fintech, and online payments businesses. He currently serves as interim CFO at Amino Communications Limited, a subsidiary of AIM-listed video streaming company Aferian Plc. Keith was previously CFO at mobile payments company Boku Inc and prior to that was CFO at PaySafe Group Plc. Keith serves as a Member of the Board Risk Committee and Audit Committee of LHV Bank. Keith holds a BSc in Management Sciences from the University of Warwick and is a member of the Institute of Chartered Accountants.
Committee membership: Audit Committee; Risk Committee

Gill Lungley
Independent Non-Executive Director
Date of appointment: 1 April 2024
Gill is a seasoned financial services executive and Board Director. She joined the LHV Bank Board as Independent Non-Executive Director in April 2024 and is a member of the Risk Committee and Remuneration Committee. Gill has broad experience in the financial field as an Independent Non-Executive Director.
Gill is currently serving as an Independent Non-Executive Director at Citibank Europe PLC where she is Chair of the Remuneration Committee. At Fnality Services Limited, she is Chair of the Board, Chair of the Nominations and Remuneration Committees and a member of the Risk and Audit Committees. Outside of her plural career in financial services, Gill also acts as Trustee and Treasurer for T&M Greg Trust.
Committee membership: Risk Committee; Remuneration Committee

Executive Committee

All members of the bank's executive committees are set out below, together with their tenure.

Erki Kilu - Chief Executive Officer ('CEO')
Date of appointment: 4 February 2021

Rachelle Frewer - Chief Financial Officer ('CFO')
Date of appointment: 2 January 2024

Andres Kitter - Chief Technology Officer ('CTO')
Date of appointment: 4 February 2021 – 31 December *2024*

Giorgos Ampavis - Chief Technology and Product Officer ('CTPO')
Date of appointment: 1 January 2025

Conor McDermott - Director of SME Lending
Date of appointment: 11 January 2024

Kris Brewster- Director of Savings
Date of appointment: 5 June 2023

Michael Goodenough - Director of Banking Services
Date of appointment: 9 September 2024 – 31 December 2024

Anita Paju - Director of Banking Services
Date of appointment: 1 January 2025

Assad Kazi - Chief Risk Officer ('CRO')
Date of appointment: 2 August 2021

Rob Neal - Chief Compliance Officer ('CCO')
Date of appointment: 4 December 2023

Rebecca Wright - Chief People Officer ('CPO')
Date of appointment: 16 August 2021

Tim Waller - General Counsel
Date of appointment: 17 July 2023

All Executive Committee members apart from the CPO and the General Counsel also sit on the Executive Risk Committee ('ERC').

The Head of Internal Audit, Relika Mell, attends meetings of both committees as an observer.

Board Activities in the Year

The board undertook a range of activities during the year, in addition to its regular discussions of performance and strategy. These included:

- Approving the 2023 Annual Report and Financial Statements, Going Concern Assessment, and 2023 Letter of Representation to the Auditor
- Approving all corporate policies within its remit, per the Schedule of Matters Reserved for the Board
- Approving all updates to board committee Terms of Reference and the Executive Committee Terms of Reference
- Approving all updates to the Internal Audit Plan
- Discussing and approving the 2025 and 5-Year Financial Plans
- Discussing and approving strategic plans across all three business lines
- Approving the launch of the bank's retail banking app in December 2024
- Maintaining oversight of the bank's implementation and ongoing monitoring of the FCA Consumer Duty which went live in the year

The board regularly receives and reviews reports prior to its meetings covering such matters as strategy, business performance and results in each of the bank's business areas. The board also receives updates on legal and governance matters, regulatory changes, treasury and funding, and the work of its committees.

In addition, the CEO's reporting to the Board provided regular updates on:

- Business development, product management and risk management across Banking Services, SME Lending and Retail Banking
- Ongoing updates on the project to transfer euro payments to LHV Bank
- People and organisational structure changes
- AI initiatives and projects
- Regulatory developments and meetings
- Intragroup cooperation
- Industry news

Board and Committee attendance

The attendance of individual directors at the regular meetings of the board and its main committees in the year is set out below, with the number of meetings each was eligible to attend shown in parentheses. Directors who are unable to attend meetings still receive the relevant papers and any comments or/ questions from them are reported to the meeting via the Chair. Directors have attended a number of ad hoc meetings, workshops and training sessions during the year and have contributed to discussions outside of the meeting calendar.

Directors also attended an annual one-day board strategy day to enable more detailed discussion of financial performance; strategic plans across the bank's three business lines (Banking Services, SME Lending; and Retail Banking); technology; and risk and compliance. The board strategy day is an annual fixture in the bank's governance calendar.

Director	Board	Audit Committee	Risk Committee	Remuneration Committee	Nominations Committee
Madis Toomsalu	12 (12)	-	11 (11)	4 (4)	2 (2)
Erki Kilu	12 (12)	-	-	-	-
Rachelle Frewer	12 (12)	-	-	-	-
Andres Kitter	11 (12)	-	-	-	-
Keith Butcher	12 (12)	6 (6)	11 (11)	-	-
Paul Horner	12 (12)	6 (6)	11 (11)	4 (4)	2 (2)
Gill Lungley	8 (8)	-	8 (8)	3 (3)	-
Sally Veitch	12 (12)	6 (6)	11 (11)	4 (4)	2 (2)

Governance Framework

Board and executive governance structure

The board and the CEO operate through a number of committees covering a range of matters, set out below.

The Board is the key governance body responsible for overall strategy, business performance and risk management of the bank. The Board has established the following committees to provide support in discharging its responsibilities:

Audit Committee (AC)

The Audit Committee oversees the management of financial reporting to ensure the bank's reporting is fair, balanced and understandable. The Committee also monitors the robustness of the bank's internal financial controls and the efficacy of the internal audit function.

Board Risk Committee (BRC)

The Board Risk Committee reviews and monitors the bank's principal and emerging risks and reviews the effectiveness of the bank's risk management systems.

Remuneration Committee (RemCo)

The Remuneration Committee determines remuneration policy for executive directors and reviews wider employee remuneration policies and practices, setting targets and reviewing outcomes of those targets.

Nominations Committee (NomCo)

The Nominations Committee leads the process for new board appointments, oversees succession planning and the development of a diverse pipeline of talent.

Executive Committee (ExCo).

The board delegates the execution of the bank's strategy and the day-to-day management of the business to the Executive Committee, which is led by the Chief Executive Officer supported by the following executive committees:

i. Executive Risk Committee (ERC);
ii. Assets and Liabilities Committee (ALCo);
iii. Client Committee; and
iv. Credit Committee

The board is responsible for providing leadership in the following areas:

- Setting of strategic objectives and the monitoring of implementation thereof by ExCo;
- Development, implementation and monitoring of effective policy, governance and procedures at the bank to execute the strategy.
- Development of the bank's culture.

- Oversight and approval of the allocation and maintenance of the bank's capital, funding and liquidity and the stress thereof; and
- Guidance and oversight of key functions delegated to Exco, ensuring that the bank operates within the Risk Management Framework (RMF) and remains compliant with all relevant regulation.

Operation of the Governance Framework

Matters Reserved for the Board

The Schedule of Matters Reserved for the Board is reviewed annually and sets out the key matters for board-level decision-making. The board may also delegate certain responsibilities and authorities to the CEO, CFO and board committees.

Independent Non-Executive Directors

The bank's four independent non-executive directors (Keith Butcher; Paul Horner; Gill Lungley and Sally Veitch) have a crucial governance role in providing independent judgment and constructive challenge to executive decisions. They provide oversight of corporate governance, regulatory compliance and risk management while maintaining an independent and objective stance.

All directors are appointed by the shareholder for a period of three years, ensuring the necessary continuity of leadership during the Bank's initial growth phase.

Division of Responsibilities between the Chair, CEO and Senior Independent Director

There is a clear division of responsibilities between the running of the Board and the executive responsibility for the day-to-day running of the business of the Group. The Chair leads the Board and is responsible for its overall effectiveness thereby promoting the high standard of corporate governance to which the Company subscribes. The CEO leads the day-to-day executive management of the business and provides regular reporting to the board.

The respective responsibilities of the Chair of the Board, the CEO and the Senior Independent Director are set out below:

Chair

The main responsibilities of the Chair of the Board of Directors are to:

- Provide effective leadership to the Board, promoting the long-term sustainable success of the bank and holding management to account
- Promote high standards of corporate governance in line with best practice and in compliance with PRA and FCA regulations
- Lead the development of the Bank's culture by the board as a whole
- Ensure new Directors participate in a formal induction programme and that relevant training is provided throughout their appointment
- Define the business of the board and ensure that meeting agendas allocate sufficient time to strategic matters, risk, and regulatory compliance
- Facilitate open and constructive board discussions, fostering a culture of frankness, challenge and critical thinking
- Ensure the performance of the board, its committees and individual Directors is reviewed at least once a year
- In conjunction with the Nominations Committee, regularly consider board composition and succession planning with a view to ensuring the board has an appropriate mix of skills, experience, and independence
- Act as a key liaison between the board, senior management, regulators, shareholder, and other key stakeholders

Chief Executive Officer

The CEO is accountable, and reports to, the board. The main responsibilities of the CEO are to:

- Assume responsibility for the day-to-day management of the bank, ensuring financial and operational performance
- Develop and recommend the bank's strategy, financial plans and long-term objectives to the board for approval

- Lead the execution of the bank's strategy and financial plans, as approved by the board
- Promote a culture of ethical behaviour, customer focus, and regulatory compliance across the business
- Lead other members of the Executive Committee and foster collaboration to drive the bank's overall success
- Ensure robust risk management and internal control frameworks are in place
- Act as spokesperson for the business and maintain strong relationships with the board, regulators, parent company, and other key stakeholders

Senior Independent Director

The main responsibilities of the Senior Independent Director are to:

- Act as a sounding board for the Chair and support them in the delivery of their objectives
- Support the Chair in carrying out the annual Board Performance Review
- Lead the annual appraisal of the Chair's performance by meeting with the non-executive directors without the Chair present and communicating their feedback to the Chair
- Ensure effective communication between the board, parent company and stakeholders, particularly during periods of stress or dispute
- Serve as an intermediary for the other directors when necessary
- Chairing board meetings in the absence of the Chair, or when the Chair is required to recuse themselves due to a conflict of interest

Workforce Engagement

A framework for board engagement with employees is managed by the Company Secretary, supported by the People team. This framework presents a range of opportunities for board members to engage both informally and formally with employees throughout the year and is informed by guidance and suggestions published by the FRC in this area.

Throughout 2024, board engagement and consultation with employees included:

- Board members' attendance at off-site board and committee meetings in Tallinn. A tour of the Group head office provided an opportunity to hear from Estonian colleagues across different teams and departments about their experiences of working at the bank, and for independent non-executive directors to get better acquainted with the Group leadership and culture.
- Prior to the annual board strategy day in Manchester, the board held a meet and greet with Manchester-based colleagues over breakfast, where board members met with members of the SME Lending team and other colleagues. The board also held a meet and greet with London-based members of the Banking Services team.
- The board receives regular updates on employee engagement surveys
- Board attendance at key corporate events throughout the year
- The board receives an annual people update from the Chief People Officer

Board Performance Review

A review of the performance of the board and its Committees is carried out annually. An internally-facilitated review was conducted this year and in 2023. The Nominations Committee has recommended carrying out an externally-facilitated review in 2025.

The below table sets out progress against actions from the 2023 review.

Area of focus identified	Action
Board composition	A fourth independent Non-Executive Director with technology expertise was appointed on 1 April 2024.
Board dynamics	Scheduling of 2024 and 2025 meetings took into account Board members' suggestion for Board and Committee meetings to be held over two days and took into account the suggestion of a full day strategy offsite.
Resourcing of the Company Secretarial function	An Assistant Company Secretary was appointed on 1 February 2024.

Area of focus identified	Action
Board succession, financial reporting and financial planning, Board reporting and Board training	Carried forward in plan to address 2024 actions

For this year's review, individual directors' feedback on the performance of the board and its committees was gathered via questionnaire in September 2024. Directors were asked to comment on:

- Board composition and expertise
- Board focus, agenda and dynamics
- Board information and support
- The effectiveness of the Chair
- The effectiveness of the board's Committees
- The effectiveness of the Company Secretary

The process also included a review of individual board members' performance by the Chair of the board, who held individual director evaluation meetings with each board member. The evaluation of the Chair of the board's performance was led by the Senior Independent Director, who held one-to-one meetings to inform the evaluation. The Company Secretarial team also obtained written feedback on board performance from members of the management team.

Outcomes from the review were considered by the Nominations Committee and the Board in October 2024. Board members mostly 'strongly agreed' or 'agreed' with statements in the board performance questionnaire (all of which were positively worded), with a few neutral responses and some 'disagree' responses. The most positive responses were in respect of 'The board dynamic encourages equal contribution, candid discussion and critical thinking' and 'the executive directors display acceptance of constructive board challenge'. Areas identified for improvement focused on:

(i) Strengthening board succession planning.
(ii) Improving board reporting to ensure concise and timely materials.
(iii) Board training; and
(iv) Enhancing engagement between the board and the wider workforce.

The board endorsed a proposed action plan to address findings from the 2024 review and the Nominations Committee is overseeing progress against this plan. Actions include the development of a documented Board succession plan, the introduction of an autumn Strategy Checkpoint, and greater interaction with LHV Group Supervisory Board members.

Board Training and Development

Topic	Date
AI Training	15 April 2024
Consumer Duty **Operational Resilience** **Basel 3.1, including Impact and Readiness Assessment**	7 June 2024
Technical Regulatory Updates: i) Basel 3.1 and the Small Domestic Deposit Takers Regime ii) Operational Resilience and the Digital Operational Resilience Act (DORA) iii) The Payment System Regulator's Authorised Push Payment Fraud Rules **Equality, Diversity and Inclusion:** i) The UK Regulatory Landscape as it relates to Diversity and Inclusion ii) Socio-Economic Diversity	11 November 2024

Whistleblowing

LHV Bank's Whistleblowing Policy aims to encourage individuals to report concerns, provides guidance on how to do this and gives assurance on how the bank protects whistleblowers. The bank's whistleblowing arrangements follow the requirements set out in the PRA Rulebook chapter General Organisational

Requirements – Whistleblowing and the FCA Handbook (SYSC18 Whistleblowing).

A whistleblowing hotline is available to employees who have concerns over any aspects of the bank's business practices. Employees can use this channel to raise any concerns with the bank's Whistleblowing Champion Sally Veitch (Chair of the Audit Committee).

The Audit Committee approved a few minor amendments to the policy following its annual review in November 2024.

Nominations Committee Report

Statement by the Chair of the Nominations Committee

Introduction

As Chair of the Nominations Committee, I am pleased to present this report on the Committee's activities over the course of 2024. Our committee plays a crucial role in ensuring that the Board maintains an appropriate balance of skills, experience, and independence to support the Bank's strategic direction, while upholding the highest standards of corporate governance. In 2024, we remained focused on board composition, succession planning, and governance effectiveness, ensuring alignment with regulatory expectations set by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

Key Areas of Focus in 2024

Board Composition and Recruitment

A key priority for the committee this year was strengthening the board's composition. Following a comprehensive selection process, we recommended the appointment of Gill Lungley as an Independent Non-Executive Director (NED), recognising her extensive technology expertise and deep understanding of banking and financial services Gill's appointment was approved by the Shareholder and took effect on 1 April 2024. In addition to her board appointment, we recommended her membership on the Risk and Remuneration Committees. This recommendation was approved by the board.

Board Effectiveness and Performance Review

The committee oversaw the annual board performance, which was conducted via a structured questionnaire. The review, which included feedback from board members, Executive Committee members, and key senior leaders, highlighted positive engagement between non-executive and executive directors, strong board dynamics, and constructive challenge by independent non-executive directors.

Areas identified for improvement included:

- Strengthening board succession planning.
- Improving board reporting structures to ensure concise and timely materials.
- Board training
- Enhancing engagement between the board and the wider workforce.

Following these findings, we recommended a series of actions, including the development of a documented board succession plan, the introduction of an autumn Strategy Checkpoint, and greater interaction with LHV Group Supervisory Board members.

Succession Planning and Governance

The Committee continued to prioritise succession planning for both the board and senior management. Recognising the evolving regulatory and market landscape, we have emphasised the importance of ensuring a diverse and well-qualified pipeline of future leaders.

Regulatory Compliance and Governance

The committee has maintained a strong focus on ensuring our governance framework remains aligned with regulatory expectations, particularly regarding Board independence. We carefully reviewed the role of the Chair of the board, considering the PRA's and FCA's expectations for independent oversight of executives. The existence of a non-independent board Chair was considered vis-à-vis the value of his link with the Group, of which the bank is a wholly-owned subsidiary, and his role in fostering the Group's vision and values at the bank. After a thorough discussion, we concluded that our existing governance arrangements and mechanisms for conflict of interest ensure sufficient independence, supported by a strong Senior Independent Director role.

Priorities for 2025 and Beyond

Looking ahead, the committee's key areas of focus will include:

- **External Board Performance Review**: We have recommended that the 2025 review will be externally facilitated to provide an objective assessment of Board effectiveness.
- **Executive Succession Planning**: We will continue to develop a structured approach to leadership succession, ensuring that both the board and senior management teams are equipped for future challenges.
- **Board Training and Development**: We will refresh our board training programme, ensuring that directors remain up to date with regulatory developments and industry trends.
- **Enhancing Board Engagement**: We will implement further initiatives to strengthen board interaction with employees, including 'Meet the Board' sessions and joint Executive Committee-board engagement opportunities.

The committee remains committed to supporting the bank's long-term success by ensuring a robust and effective governance framework. I would like to thank my fellow committee members and board colleagues for their commitment and engagement throughout the year.

Sally Veitch
Chair of the Nominations Committee
28 March 2025

Key responsibilities

The Nominations Committee is responsible for supporting the Board in matters related to director selection, governance, and board effectiveness. Key responsibilities include:

- regularly reviewing the structure, size, and composition of the Board, ensuring an appropriate balance of skills, knowledge, experience, and diversity. It recommends changes, identifies and nominates candidates for board vacancies, and assesses the time commitments required from non-executive directors
- overseeing succession planning for both the Board and Executive Committee, ensuring the development of a diverse talent pipeline to meet future leadership needs
- ensuring a formal, transparent process for appointing new directors and senior executives, including the Chief Risk Officer (CRO), Chief Compliance Officer (CCO), and Money Laundering Reporting Officer (MLRO). It oversees induction processes and handles performance, suspension, and termination matters
- reviewing external directorships held by directors and executive members, providing guidance on conflicts of interest, and reviewing the Conflicts of Interest Register annually
- approving and reviewing relevant policies and monitoring any breaches.

Membership

Sally Veitch (Chair); Paul Horner; Madis Toomsalu

Other Regular Attendees by Invitation

Chief Executive Officer
Chief People Officer
The Committee has the right to invite third parties, who are not members of the Committee, to participate in the meeting.

Meetings

Number of scheduled meetings: two
For details of attendance, see page 23

Audit Committee Report

Statement by the Chair of the Audit Committee

I am pleased to present the Audit Committee's report for the year ended 31 December 2024. The committee has continued to provide oversight of LHV Bank Limited's financial reporting, internal controls, risk management, and audit functions. In a year of ongoing regulatory scrutiny, operational evolution, and preparation for the bank's retail offering, the Committee has worked closely with management and internal and external auditors to uphold high standards of governance and financial integrity.

2024 Key Areas of Focus

Over the course of the year, the committee met regularly to fulfil its responsibilities under its Terms of Reference. Key areas of focus included:

- **Financial Reporting & Internal Controls**: The committee scrutinised the bank's financial reporting, ensuring transparency and regulatory compliance. The external audit process for the 2023 financial statements was closely monitored, including discussions around control enhancements and financial reconciliations. Significant matters relating the financial statements considered included the treatment and disclosure of the transfer of the branch business into the entity, compliance with accounting standards, in particular IFRS 9 and the going concern assessment .
- **Internal Audit & Risk Management**: Internal Audit played a critical role in assessing the control environment, with key reviews undertaken in areas such as anti-financial crime controls, transaction monitoring, and information security. The Committee challenged overdue internal audit actions, reinforcing the need for robust risk management and timely remediation of control weaknesses.
- **Retail Banking Readiness & Consumer Duty**: A significant priority was the assurance around the launch of the bank's retail offering, ensuring that key risk areas such as IT readiness, operational resilience, and consumer protection were addressed. The Committee provided guidance on defining customer journeys and prioritising regulatory and operational risk mitigations.
- **Regulatory & External Audit Oversight**: The committee oversaw regulatory reporting obligations, including the applicability assessment for regulatory returns. The external auditor appointment process was reviewed, with MHA retained for the 2024 audit.

External Audit

The committee oversees the relationship with MHA, its external auditor, covering engagement terms, fees and independence. Both the committee and the external auditor have policies and procedures designed to protect independence and objectivity.

MHA was deemed reappointed as the external auditors for LHV Bank Limited for the 2024 financial year.

Internal Audit

The committee reviewed, challenged and approved the annual internal audit plan and updates during the year. It also approved an updated internal audit charter, which sets out the mandate and remit of the function.

It received regular reports on internal audit activities across the business detailing areas identified during audits for strengthening the bank's risk management and internal control framework and management's progress on the remediation of issues.

Findings from an External Quality Assessment (EQA) of Internal Audit activity prepared by the Chartered Institute of Internal Auditors (IIA) found the Internal Audit function to be well-regarded by stakeholders and concluded that the function generally conformed with the IIA's International Professional Practice Framework. Eight areas of partial conformance with the 64 IIA standards were identified. In addition, the EQA raised the absence of an Internal Audit strategy and the lack of succession planning for the Head of

Internal Audit role. An action plan is in place to address findings from the EQA.

Committee members also contributed to an annual review of the effectiveness of the Internal Audit function. The review did not highlight any areas of concern. In its annual assessment of the Head of Internal Audit's independence and objectivity, the Audit Committee considered the Head of Internal Audit, Relika Mell, to have strongly demonstrated her independence.

Looking Ahead to 2025

In the year ahead, the committee will maintain its focus on:

- **Financial Control & Reporting**: Enhancing financial controls and ensuring the continued integrity of financial reporting.
- **Retail Banking Expansion**: Providing assurance over the phased rollout of the retail banking proposition, with a particular focus on operational resilience, consumer duty, and risk management.
- **Cybersecurity & Information Security**: Reviewing the bank's readiness for compliance with Operational Resilience rules and ISO 27001 certification and ensuring robust defences against cyber threats.
- **Regulatory Compliance & Audit**: Ensuring alignment with evolving regulatory expectations

The committee remains committed to ensuring strong financial governance and risk oversight as the bank continues its strategic growth. I would like to thank my fellow committee members, management, and our auditors for their diligence and contributions throughout the year.

Sally Veitch

Chair of the Audit Committee

28 March 2025

Key Responsibilities

The Audit Committee plays a critical role in ensuring financial integrity, effective risk management, and regulatory compliance. Its key responsibilities include:

- supervising financial reporting, ensuring accuracy and transparency in the company's financial statements. It also reviews the consistency and appropriateness of accounting policies and challenges assumptions related to the company's financial viability
- monitoring the effectiveness of risk management frameworks and internal controls, including responses to fraud, misconduct, and control weaknesses. It also reviews whistleblowing mechanisms for employees and external parties
- ensuring the independence and effectiveness of both internal and external auditors. It oversees the internal audit function, approves audit plans, and monitors management's response to audit findings. The committee also assesses the external auditor's objectivity, approves their fees, and oversees non-audit services
- ensuring adherence to legal and ethical standards, overseeing compliance frameworks, and recommending changes to accounting policies and financial disclosures as required by regulators
- reporting significant financial and audit-related issues to the Board and cooperating with the Audit Committee of the Supervisory Board of AS LHV Group

Membership

Sally Veitch (Chair); Paul Horner; Keith Butcher

Committee members have relevant sector experience, achieved through their own careers as well as other non-executive roles. Director Biographies are included on pages 20 – 21. Sally Veitch's sector experience includes Chair of an Audit Committee of another Bank; Paul Horner holds non Executive Director positions at three other Banks and Keith Butcher has extensive experience of the payments industry.

Other Regular Attendees by Invitation

Chief Financial Officer

Head of Internal Audit

External Auditor

The committee and the Head of Internal Audit have the right to invite third parties, who are not members of the committee, to participate in meetings.

Meetings

Number of scheduled meetings: six

For details of attendance, see page 23

Remuneration Committee Report

Statement by the Chair of the Remuneration Committee

As Chair of the Remuneration Committee, I am pleased to report on our activities during 2024 and to outline our focus for 2025 and beyond. The committee has continued to ensure that the bank's remuneration policies and practices align with regulatory requirements, support the strategic goals of the business, and drive sustainable long-term performance. The committee sets remuneration for the Chair of the Board, Material Risk Takers ('MRTs') and any other senior colleagues as reasonably determined by the Committee. The board is responsible for setting remuneration for the non-executive directors.

The Remuneration Committee is committed to adhering to the principles and provisions of the UK Corporate Governance Code. While we have applied the majority of the Code's requirements, certain provisions have not yet been fully implemented. Where deviations exist, we have provided a clear rationale and alternative governance arrangements to ensure alignment with best practices.

Key Activities in 2024

Annual Pay review

The Committee carefully considered and approved remuneration packages for newly hired MRTs, as well as annual pay review proposals for MRTs and annual pay review principles for the broader workforce. The committee sought assurance that proposals were aligned with business performance and market conditions.

Variable Remuneration

The committee reviewed and approved variable remuneration awards to key individuals for 2023 performance, comprising cash, as well as options over LHV Group shares to align with long-term value creation. Variable remuneration is linked to business and individual performance. Performance is assessed against financial and non-financial criteria taking into consideration the bank's results, compliance and risk management approach, the individual's performance related to their core responsibilities and personal development.

Variable Remuneration Development

The committee worked closely with external consultants to assess the ongoing appropriateness of the bank's variable remuneration arrangements. A key priority is ensuring that any scheme remains competitive within the UK financial services sector while maintaining alignment with LHV Group's existing share option programme. Discussions on this topic are ongoing and are focused on tax efficiency, balancing short- and long-term incentives, and ensuring alignment with prudent risk management.

Regulatory and Risk Considerations

In line with our responsibilities, the Committee reviewed risk assessments relating to remuneration practices. The Board Risk Committee confirmed that no issues had been raised in relation to variable remuneration, reinforcing confidence in our approach.

Performance Management and Governance

The committee approved the Key Performance Indicators (KPIs) for 2024, ensuring they provided a robust framework for assessing performance. Mid-year reviews highlighted areas where discretion may be needed at year-end, particularly in assessing performance against business volume targets.

Priorities for 2025 and Beyond

Looking ahead, the Committee will continue to refine the bank's remuneration framework to ensure it remains fit for purpose and aligned with regulatory expectations. Our key areas of focus will include:

- Finalising the review of variable remuneration arrangements: We will continue our review of the ongoing appropriateness of the bank's variable remuneration arrangements, ensuring these remain sustainable and performance-driven and align with prudent risk management.
- Pay and Retention Strategy: Given the competitive talent landscape, we will monitor the impact of our pay strategy on recruitment and retention.
- Regulatory Compliance and Best Practice: Ensuring compliance with evolving PRA and FCA requirements remains central to our work. We will continue to assess whether our remuneration policies effectively balance performance incentives with appropriate risk mitigation.
- Strengthening Performance Management: We will work to enhance transparency in how performance metrics drive reward outcomes, ensuring that incentives align with the bank's long-term objectives.

In closing, I would like to thank my fellow committee members for their diligence and insight over the past year. As we move into 2025, we remain committed to upholding a remuneration framework that supports our people, our business, and our Shareholder.

Sally Veitch
Chair of the Remuneration Committee

Key Responsibilities

The Remuneration Committee is responsible for overseeing the company's remuneration policies and ensuring their alignment with business strategy, objectives, and risk appetite. The committee's key responsibilities include:

- developing and implementing remuneration policies in compliance with regulatory requirements and exercising independent judgement to ensure that incentives support risk management, capital, and liquidity
- recommending the remuneration policy for the Chair of the Board, Executive Committee members, and Material Risk Takers, ensuring that rewards attract, retain, and motivate high-quality executives while discouraging undue risk-taking
- approving total remuneration packages, including bonuses, pension arrangements, and share awards, and overseeing the identification of Material Risk Takers
- ensuring performance-related pay schemes are well-structured, transparent, and rigorously applied, incorporating financial and non-financial metrics
- reviewing and approving the design of share incentive plans and monitoring broader workforce remuneration policies
- ensuring directors' expense claims follow approved policies

Membership

Sally Veitch (Chair); Paul Horner; Madis Toomsalu; Gill Lungley

Other Regular Attendees by Invitation

Chief Executive Officer
Chief People Officer

The committee has the right to invite third parties, who are not members of the committee, to participate in the meeting.

Meetings

Number of scheduled meetings: four

For details of attendance, see page 23

Risk Management Report

Statement by the Chair of the Board Risk Committee

As Chair of the Board Risk Committee (BRC), I am pleased to present this report outlining the Committee's key areas of focus, oversight, and strategic priorities during 2024, along with an indication of the areas that will continue to shape our agenda into 2025 and beyond.

Governance and Responsibilities

The BRC plays a vital role in advising the board on risk management, ensuring robust oversight of the bank's risk framework, internal controls, and regulatory compliance. In 2024, we maintained a firm focus on the bank's risk appetite, strategic risks, and emerging threats, in alignment with regulatory expectations set by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

Our responsibilities included the review and approval of key risk policies, risk measurement systems, and stress testing frameworks, including the Internal Capital Adequacy Assessment Process ('ICAAP'), the Internal Liquidity Adequacy Assessment Process (ILAAP), and the bank's Recovery Plan ('RP'). We continued to provide oversight of the Chief Risk Officer's ('CRO') and Chief Compliance Officer's ('CCO') reports, ensuring the bank's approach to enterprise-wide risk management remained resilient and aligned with best practices.

Key Areas of Focus in 2024

Financial and Credit Risk Management

Throughout the year, the BRC closely monitored the bank's financial resilience, particularly in light of market volatility and regulatory expectations. We undertook detailed reviews of credit risk exposure, stress testing, and capital adequacy, ensuring that the bank's capital and liquidity positions remained robust.

Despite an increasingly competitive lending environment, we maintained a prudent approach to credit risk, with a focus on portfolio diversification and enhanced monitoring of loan book performance. Our oversight also extended to the bank's hedging strategy and interest rate risk management, ensuring an appropriate balance between risk mitigation and business growth. Given the evolving market conditions, the Committee continued to assess the impact of interest rate fluctuations and macroeconomic factors on the bank's profitability and capital strength.

Operational and Information Security Risks

Operational risk remained a core focus area, particularly as the bank prepared for the launch of its retail banking proposition. We dedicated significant time to ensuring the robustness of the Bank's IT security infrastructure, reviewing cyber risk exposure, operational resilience, and third-party risk management.

The introduction of Operational Resilience rules, as well as the Digital Operational Resilience Act (DORA) in the European Union[6], created additional regulatory expectations in relation to cyber security and IT resilience. The Committee oversaw the Bank's compliance preparations and reviewed the Information Security strategy (including its plans to achieve ISO 27001 certification) to ensure effective risk mitigation measures were in place.

Regulatory and Compliance Oversight

The regulatory landscape continues to evolve, and in 2024, the Committee remained actively engaged with the Bank's compliance and risk teams to ensure adherence to key regulatory changes. A notable area of focus was the Bank's approach to financial crime risk management, particularly in response to FCA expectations around transaction monitoring and fraud prevention.

The implementation of the new Authorised Push Payment (APP) Fraud Reimbursement regime was a

[6] LHV Group is subject to DORA and the Bank as a subsidiary of the Group has applied these standards, in addition to the requirements of the Operational Resilience rules.

significant regulatory development, and the Committee ensured that appropriate systems and controls were in place to meet these new obligations We also maintained close scrutiny over the Bank's Consumer Duty obligations, ensuring that fair customer outcomes remained at the heart of the business's operations. The Board's Consumer Duty Champion Sally Veitch played an integral role in supporting these discussions and ensuring effective oversight.

Review of Risk Management and Internal Controls Systems

The committee considered the strength and scope of the bank's risk management and internal control systems with reference to the findings of reviews carried out over the course of the year under the 2024 Combined Assurance Plan ('CAP'). The CAP outlines the co-ordinated mechanism through which the Risk, Compliance, and Internal Audit functions ensure comprehensive coverage of the risk universe and all material controls, including financial, operational and compliance controls.

Looking ahead to the bank's compliance against Code Provision 29 (effective 1 January 2026), the Chief Risk Officer has committed to documenting a framework for an annual effectiveness review by the Board Risk Committee on behalf of the board, drawing on the CAP and Risk and Control Self-Assessment process.

Looking Ahead to 2025

As we move into 2025, the Committee will continue to focus on maintaining a robust and forward-looking risk management framework. Key priorities will include:

(i) **Retail Banking Expansion** – With the successful launch of the bank's retail banking app in December, our focus will shift to ensuring a smooth and controlled scale-up, managing the associated risks, and embedding strong oversight mechanisms.

(ii) **Market and Interest Rate Risk** – Continued monitoring of macroeconomic risks, with a particular focus on mitigating potential impacts on capital adequacy, profitability, and liquidity.

(iii) **Cyber and Operational Resilience** – Enhancing our capabilities in cyber threat intelligence, Operational Resilience compliance, and third-party risk management to support the Bank's growth ambitions.

(iv) **Regulatory Developments** – Keeping pace with evolving FCA and PRA requirements, including enhanced stress testing, financial crime prevention measures, and governance expectations.

(v) **ESG and Climate Risk** – Strengthening our approach to environmental, social, and governance (ESG) risks, ensuring alignment with regulatory requirements and best practices.

Acknowledgements

I would like to thank my fellow committee members, the bank's executive team, and our risk and compliance colleagues for their diligent work and commitment throughout the year. The committee remains focused on maintaining strong risk governance and ensuring that the Bank continues to operate safely, prudently, and in the best interests of our customers and stakeholders.

Paul Horner
Chair of the Risk Committee
28 March 2025

Key Responsibilities

The Board Risk Committee plays a crucial role in advising and assisting the board in fulfilling its risk oversight responsibilities. Its key responsibilities include:

- recommending the overall risk strategy, appetite, tolerances, and limits to the board, ensuring alignment with business strategy and plans. It also reviews the effectiveness of risk management frameworks, emerging risks, and risk measurement systems

- monitoring adherence to risk policies, reviews breaches of risk appetite, and ensures early escalation of material risk incidents. It evaluates the effectiveness of internal controls, including financial, fraud, operational, and compliance controls
- assessing the completeness and appropriateness of regulatory processes such as ICAAP, ILAAP, and Recovery Plans, ensuring compliance with Prudential Regulation Authority ('PRA') requirements. The Committee also reviews reports from the Chief Risk Officer and Chief Compliance Officer
- providing oversight on risk implications for strategic transactions and ensuring the promotion of good outcomes for retail customers
- collaborating with the Remuneration Committee to ensure incentive plans do not encourage undue risk-taking and reviewing key policies relevant to risk management

Membership

Paul Horner (Chair); Sally Veitch; Keith Butcher; Gill Lungley

Other Regular Attendees by Invitation

Chair of the Board
Chief Executive Officer
Chief Financial Officer
Chief Risk Officer
Chief Compliance Officer
Head of the Internal Audit
Group Chief Risk Officer

The committee has the right to invite third parties, who are not members of the committee, to participate in the meeting.

Meetings

Number of scheduled meetings: eleven

For details of attendance, see page 23

Risk Governance

The risk committee structure and lines of oversight in place throughout the year are set out below.

Board Risk Committee

The Board Risk Committee assists the board in fulfilling its responsibilities for risk management. Its membership comprises four independent non-executive directors. Directors are appointed by the board on the recommendation from the Nominations Committee and in consultation with the Risk Committee Chair.

The Terms of Reference, which were reviewed and approved by the Board in March 2024, align with the Code and good practice.

The committee's responsibilities include reviewing, on behalf of the board:

- **Risk Appetite, Framework, and Internal Controls:** The committee is responsible for recommending the bank's overall risk strategy, appetite, and tolerances to the board. It ensures that risk management aligns with business strategy, continuously reviewing the effectiveness of the risk framework, risk measurement systems, and adherence to policies. The committee monitors key risk indicators, assesses breaches of risk limits, and oversees management's responses. It also ensures robust internal controls by reviewing financial, operational, and compliance risks. Additionally, it advises the board on strategic transactions from a risk perspective, ensures regulatory compliance with stress testing requirements (ICAAP, ILAAP, and RP), and evaluates regulatory reviews from the PRA.
- **Oversight of Risk and Compliance Functions:** The committee oversees the risk and compliance functions, reviewing reports from the Chief Risk Officer and Chief Compliance Officer. It reviews the effectiveness of these functions and ensures they have the necessary expertise, resources, and access to information. Additionally, it evaluates the bank's anti-financial crime measures and

monitors compliance culture. It annually approves key plans, including the Compliance Monitoring Programme, Risk Plan, and Combined Assurance Plan.

- **Regulatory Compliance:** The committee assesses regulatory changes and their impact on risk exposure and compliance. It also reviews regulatory findings from the PRA, FCA, and other bodies, ensuring alignment with consumer protection and business strategy.
- **Consumer Outcomes:** It provides oversight of the bank's strategy for ensuring positive outcomes for retail customers, ensuring compliance with regulatory expectations.
- **Remuneration:** In collaboration with the Remuneration Committee, it ensures that incentive plans do not encourage excessive risk-taking. It advises on risk-related concerns that should be considered in remuneration decisions.
- **Policies:** Finally, the committee reviews and approves relevant policies, monitoring compliance and addressing any breaches.

Risk Management Framework

Risk is defined as a potential negative deviation from the expected financial results. The bank encounters several risks in its day-to-day operations. The objective of risk management is to recognise these risks, to measure them appropriately, to manage and to report them. More broadly, the aim of risk management is to increase the value of the bank by minimising losses and reducing the volatility of results.

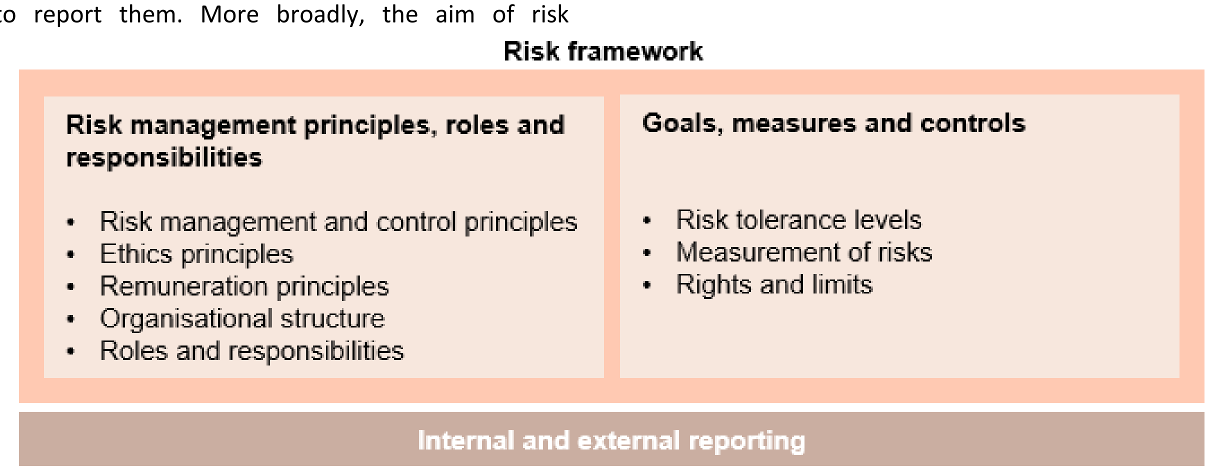
Three Lines of Defence Model

Effective risk management is key to the achievement of the bank's strategic objectives. The risk management framework at the bank is based on a strong risk culture and is designed around a three lines of defence model, supervised at board level.

The first line of defence, the business units, is responsible for taking risk and for day-to-day risk management.

The second line of defence is responsible for the ownership, continuous review, and implementation of a robust risk management framework, including ownership of the relevant methodologies defined in policies, and for holistically ensuring that risk identification, assessment, measurement, management, mitigation, monitoring, and reporting is well executed.

The third line of defence, internal audit, exercises independent supervision. Risk management principles, requirements and areas of responsibility are described in the risk management policy.



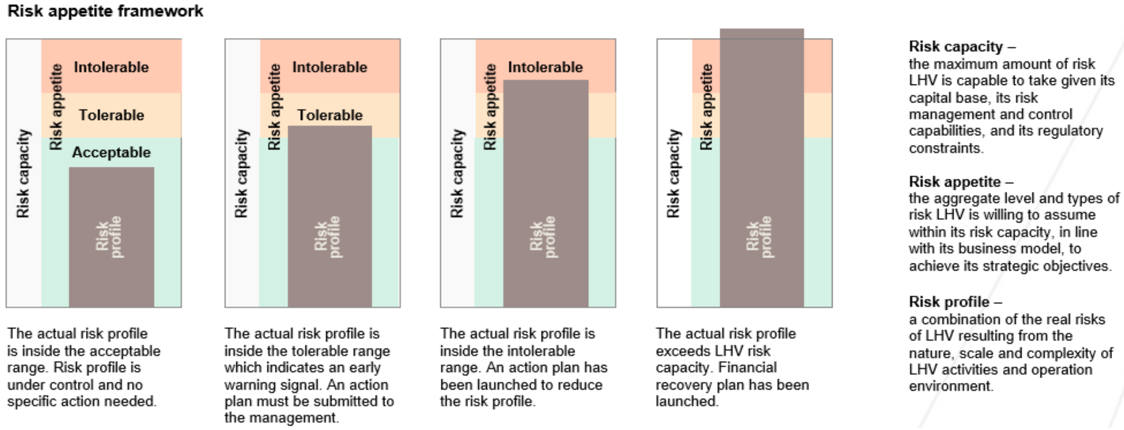
Risk Appetite Framework

Risk appetite has been defined in risk appetite statement for all risks that the bank is materially exposed to. Risk appetite is determined in terms of both qualitative guidance and quantitative limits, considering the following principles:

- Qualitative guidance is worded simply and adopts the terminology commonly used in the organisation and in the business plan.
- Quantitative limits are set at a level that is sufficiently detailed to capture all key risk categories and sub-categories, but at the same time sufficiently aggregated to maintain each metric of relevance to the risk profile of the Bank. Where quantification is possible, the acceptable, tolerable and intolerable amounts of risk are defined as follows:

- acceptable – the amount of risk allowed to be taken under normal business conditions.
- tolerable – the amount of risk that gives a warning signal: the increase in risk must be assessed, and an action plan defined to return to the acceptable area; the assessment results and the action plan must be reported to the Executive Risk Committee.
- intolerable – a hard limit violation, the level of risk the Bank does not wish to exceed under any circumstances: immediate action must be taken to return at least to the tolerable area; the violation, assessment results and an action plan must be reported to the Board.

Risk appetite framework



As seen from the above, if the actual risk profile remains within the acceptable risk appetite range, it is a foreseeable situation, and no further action is needed. If the actual risk profile is outside the acceptable level but within the tolerable risk appetite range, it is an early warning signal: an action plan must be put in place to reduce the risk profile and reported to the Executive Risk Committee. If the actual risk profile exceeds the tolerable level, an action plan must be put in place to reduce the risk profile. It is also necessary to inform the board in this case. The first line of defence is responsible for managing the risk profile and ensuring it stays within the risk appetite limits, while independent monitoring and reporting is the responsibility of the Risk Function. Within the framework of the financial recovery plan, the bank has developed early warning indicators with thresholds and corresponding measures.

In accordance with the risk management policy, quantitative risk appetite levels must be specified at least for strategy and business risk, credit risk, market risk, operational risk, funding and liquidity risk, and financial crime risk. The risk appetite limits are defined in each of the respective risk policies, which are approved by the board. The policies are accompanied by detailed instructions and guidelines. The bank has a system of committees and decision-making competencies. The functions of the main committees are described in the Corporate Governance section on page 18.

The Board Risk Committee reviews and monitors the bank's principal and emerging risks and reviews the effectiveness of the bank's risk management systems.

Principal Risks and Mitigations

The board has ultimate responsibility for identifying and managing the bank's principal risks in order to achieve its strategic objectives. To ensure that it maintains an appropriate level of oversight, the board has delegated certain roles and responsibilities to committees, as outlined in the Governance report on page 24. At board level, principal risks are overseen by the Board Risk Committee ('BRC'). At the management level, the Executive Committee and the Executive Risk Committee ('ERC') provide oversight and monitor the effectiveness of internal controls and risk management processes, and report on these matters to the BRC. This section summarises the principal risks and uncertainties to which the bank is exposed and how these risks are mitigated. Further detail on financial risks can be found in note 26 to the financial statements.

Business and strategic risk

The risk of achieving lower-than-expected profits due to shifts in the competitive landscape, an ineffective strategy, or inadequate strategy implementation. This risk is mitigated through strategic risk assessment of the Board approved business strategy and plan against the Bank's Risk Appetite Statement. This enables the Bank to adjust its strategy or to introduce additional mitigants in a timely manner.

Funding and Liquidity Risk

Funding risk is the risk of loss caused by the inability to raise funds at an acceptable price or to access markets in a timely manner. Liquidity risk is defined as the risk that LHV may be unable to effectively meet anticipated and unforeseen liquidity and cash flow demands, without disrupting daily operations or compromising the firm's financial stability. This is mitigated through a comprehensive liquidity management framework that includes maintaining adequate liquidity reserves, establishing diversified funding sources to address both anticipated and unexpected cash flow demands, and conducting regular stress testing and scenario analysis. Additionally, active monitoring of liquidity and funding requirements, along with monthly reporting to the Assets and Liabilities Committee ('ALCo'), the BRC, and the Board, ensures ongoing oversight and responsiveness.

Credit Risk

Credit risk refers to the potential for financial loss arising from a borrower's failure to meet their debt obligations. The bank's accounting policy for measurement of expected credit loss can be found on page 61. The bank monitors credit performance through internal reports covering performance against risk appetite limits and key credit risk metrics including arrears performance and portfolio concentrations. Monthly credit reports are provided to the ERC and BRC.

Market Risk

Market risk is the risk of loss due to changes in the market price of financial instruments, foreign currency or in interest rates that affect banking book positions.

Market risk is quantified using prescribed regulatory methodologies, including through the application of stress scenarios for interest rate risk in the banking book ('IRRBB'). Market risk is managed by ALCo, with reporting on performance against risk appetite metrics to the BRC on a monthly basis.

Capital Adequacy Risk

The risk that the business may fail to maintain adequate capital in a severe economic downturn, potentially leading to regulatory censure and compromising business sustainability due to breaches in regulatory capital requirements.

Capital risk is managed through established policies, limits, triggers, continuous monitoring, and stress testing. Current and forecasted capital levels are regularly monitored against the Board-approved capital risk appetite and are overseen by ALCo, with reporting to both the BRC and the Board. The Bank's capital adequacy assessment process, documented in the ICAAP, is reviewed and approved by the Board to ensure alignment with regulatory and strategic objectives.

Operational Risk

Operational risk is the risk of loss or adverse impact due to inadequate or failed internal processes, people, systems, or from external events. This includes risks associated with fraud, financial crime, cyber-attacks, and information security breaches. The bank employs several techniques to manage this risk, including Risk and Control Self-Assessments (RCSAs), Business Continuity Planning (BCP), and stress and scenario testing. Each business area is required to identify and assess the operational risks inherent in its activities, ensuring that controls are embedded within business processes. Risks are quantified and categorised based on severity and likelihood, and regular reporting on operational risk is provided to the BRC. By proactively identifying and managing these risks, the bank strengthens its resilience against potential disruptions.

Fraud and Financial Crime Risk

This is the risk of customer harm or operational loss arising from financial crime, including money laundering, terrorist financing and violation of economic, financial or trade sanctions, or from non-compliance with financial crime related laws, rules, regulations, or policy requirements.

The Bank has implemented prevention and detection systems and controls throughout the lifecycle of a customer relationship. Regular reporting is provided to the ERC and BRC.

Compliance Risk

The risk of financial loss, fines, sanctions, and/or reputational harm resulting from non-compliance with regulatory, legal, or internal compliance requirements.

To mitigate compliance risk, the Bank has established a robust compliance management framework that includes regular monitoring, comprehensive policies, and ongoing employee training to ensure awareness of regulatory requirements. In addition, the bank has implemented strong internal controls, such as periodic audits, compliance reviews, and compliance monitoring, to effectively detect and prevent potential non-compliance.

Conduct Risk

Conduct risk is the risk of causing harm to a customer, counterparty, or market due to improper business practices in the bank's operations. The bank has established comprehensive policies and procedures that clearly define expectations for employee conduct and ethical business standards. Additionally, all products undergo a rigorous, risk-based development and review process that thoroughly assesses potential conduct risks to ensure alignment with these standards.

Cyber Risk

The risk of loss of confidentiality, integrity or availability of information, data, or information (or control) systems and reflect the potential adverse impact to the bank’s operations and assets, individuals and wider financial sector. The bank manages this risk through a rigorous program of regular testing and a robust assurance regime, designed to assess and strengthen our cyber control environment in alignment with the latest emerging threats.

Emerging risks

Emerging risks are those with potentially significant, but uncertain outcomes, which may form and crystallise over a longer time horizon, and which could have a material impact on the bank's ability to achieve its long-term strategy. Emerging risks include:

- Political and Geo-political uncertainty: the risk of geo-political instability and / or a change in in government political party.
- Economic risk: the risk of changes in the macroeconomic environment and the impact on borrowing customers.
- Change execution risk: the risk driven by multiple complex and concurrent projects impacting the operational capability of the Bank's people and systems.

The Directors of the company present their report for the year ended 31 December 2024.

The Strategic Report set out on pages 2 – 17 of this Annual Report, together with the Corporate Governance Report set out on pages 18 – 41 include information that would otherwise be included in this Directors Report. Readers are also referred to the cautionary statement on page 99 of this Annual Report.

Disclosures by reference

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Principal activity

The principal activities of the bank in the year under review were those of Retail Banking, SME Lending and Banking Services.

Dividends

No dividend will be paid for the year ended 31 December 2024 (2023: £nil).

Events after the reporting period and going concern

Information relating to events since the end of the year and going concern is given in the notes to the financial statements.

Directors' Responsibilities Statement

The directors are responsible for preparing the directors' report and the financial statements, in accordance with applicable law.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK adopted International Financial Reporting Standards (UK adopted IFRS).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently.
- make judgements and estimates that are reasonable and prudent.
- state whether they have been prepared in accordance with UK adopted IFRS, subject to any material departures disclosed and explained in the financial statements.
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Political donations

The bank made no political donations during the year (2023: nil).

Research and development

The bank continues to invest in research and development, notably of its innovative banking platform. This investment strengthens the customer proposition as well as contributes to the development of new products and improvements in efficiency.

Directors Indemnities

Qualifying third-party indemnity provisions (as defined in section 234 of the Companies Act) were in force during the year and remain in force at the date of this report.

The Bank also arranges Directors and Officers liability insurance.

Disclosure of information to the auditor

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

The Directors' Report was approved by the Board and signed on its behalf by:

Signed by:
Erki Kilu
AFB0C8C13C5F428...

Erki Kilu
Chief Executive Officer
28 March 2025

Independent Auditor's Report

TO THE MEMBERS OF LHV BANK LIMITED
FOR THE PERIOD ENDED 31 DECEMBER 2024

For the purpose of this report, the terms "we" and "our" denote MHA in relation to UK legal, professional and regulatory responsibilities and reporting obligations to the members of LHV Bank Limited. For the purposes of the table on pages 47 to 49 that sets out the key audit matters and how our audit addressed the key audit matters, the terms "we" and "our" refer to MHA. The "Bank" is defined as LHV Bank Limited. The relevant legislation governing the Company is the United Kingdom Companies Act 2006 ("Companies Act 2006").

Opinion

We have audited the financial statements of LHV Bank Limited for the year ended 31 December 2024. The financial statements that we have audited comprise:

- the Statement of Comprehensive Income
- the Statement of Financial Position
- the Statement of Changes in Equity
- the Statement of Cash Flows, and
- Note 1 to 31 of the financial statements, including significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Bank's financial statements is applicable law and UK adopted IFRS.

In our opinion the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 December 2024 and of the Bank's profit for the year then ended;
- have been properly prepared in accordance with UK adopted international financial reporting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going basis of accounting in the preparation of the financial statements is appropriate

Our evaluation of the Directors' assessment of the Bank's ability to continue to adopt the going concern basis of accounting included:

- The consideration of inherent risks to the Bank's operations and specifically its business model.
- The evaluation of how those risks might impact on the Bank's available financial resources.
- Where additional resources may be required, the reasonableness and practicality of the assumptions made by the Directors when assessing the probability and likelihood of those resources becoming available.
- Capital and liquidity considerations including examination of the Bank's cash flow and liquidity projections.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Bank's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Overview of our audit approach

Scope	Our audit was scoped by obtaining an understanding of the Bank and its environment, including the Bank's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the directors that may have represented a risk of material misstatement.		
Materiality	**2024**	**2023**	
Overall materiality	£713k	£422k	1% (2023: 0.87%) of Net assets

Key audit matters

- Valuation of expected credit allowance over loans and advances to customers.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those matters which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected credit loss allowance - Impairment of loans and advances to customers

Key audit matter description

At 31 December 2024 the Bank reported total gross loans of £289 million (2023: £69.2 million) and £617k of expected credit losses (ECL) (2023: £205k). Refer to Note 12

The calculation of the IFRS 9 ECL involves third-party complex, judgmental and highly sensitive assumptions that involve significant management estimation and judgement. The following areas have greater levels of management judgements and estimations involved and are therefore classified as significant risk areas in the estimation of ECL;

- Staging – allocation of assets of stage 1,2 or 3 on a timely basis in accordance with IFRS 9;
- Model estimations – Accounting interpretations, modelling assumptions and data used to build and run the Probability of Default ('PD'), Loss given Default ('LGD') and Exposure at default ('EAD') models.
- Economic scenarios – inputs, assumptions and weightages used to estimate the impact of multiple economic scenarios including any changes to scenarios required;
- Adjustments – Adjustments to the model driven ECL results are raised by management to address know impairment model limitations or trends and risks not captured by models. In model and post model adjustments("PMAs") are recognised to address the data limitations and significant management judgments are involved.

  Significant increase in credit risk ("SICR"):- The criteria selected to identify a significant increase in credit risk is a key judgment in the Bank's ECL calculation as this criteria determine whether 12 month or a lifetime provision is recorded.

How the scope of our audit responded to the key audit matter

Controls testing - We evaluated the design and implementation of key controls over the ECL process including those over management's judgments and estimates noted. These processes controls, among others, covered:

- determination of credit risk ratings by the Bank on an individual borrower.
- extraction of relevant data from the Bank's underlying systems, data warehouse and its inclusion in the appropriate elements of ECL modelling.
- allocation of assets into stages including management's monitoring of stage effectiveness.
- appropriateness of the PMAs applied to the model-driven ECL results and the judgements applied to such PMAs; and
- generation of the multiple economic variables and scenarios including governance processes and the application of weightings to the different scenarios

Overall assessment of the ECL methodology - We evaluated the Bank's ECL methodology and modelling of different components of ECL including PD and LGD and assessed the appropriateness of the components and the compliance with the requirements of IFRS 9.

Engagement of external credit modelling experts - We engaged external credit modelling experts to assess the performance of the ECL models and the appropriateness of the management's key judgements and assumptions in the context of current economic environment and our wider industry experience and perform the following procedures;

- evaluated the criteria used by the Bank and tested the appropriateness to allocate the financial assets to stage 1,2 or 3 in accordance with IFRS 9;
- critically assessed the conceptual soundness of the ECL methodology applied by the management and assessed the Bank's PD model with externally available data. Performed benchmarking of the overall ECL coverage with the peer banks.
- reviewed and challenged key assumptions used in the ECL model in relation to PD, LGD and macroeconomic scenarios and weightings used by the Bank.
- assessed the appropriateness of the Post model adjustments "PMAs" booked by the management and assessed the completeness of the PMAs with reference to the model performance and the current macroeconomic circumstances

Further we engaged with the internal credit modelling specialist to challenge and review the audit testing and procedures performed by the external credit modelling experts.

Tested the completeness and accuracy of the key model input data by agreeing key data points used in the ECL calculation to the relevant source system.

Staging - We evaluated the criteria used to allocate a financial asset to stage 1, 2 or 3 in accordance with IFRS 9. We have performed credit reviews over a sample of loans to assess if the loans are allocated to the correct stage. To assess staging on individual loans, we performed the following procedures;

- For a sample of exposures, tested the appropriateness of the staging of the exposures by testing the correct application of the SICR criteria. Our work included testing the payment history of the exposure to ensure that the exposure has been correctly classified as either stage 1,2 or 3.
- Selected a sample of loan customers and performed credit reviews to assess the credit worthiness of the borrowers and the credit score calculated by the Bank as per the internal credit grading scale. We also assessed the valuation of the property collaterals by the RICS registered valuers and if the property collaterals are in accordance with the Bank's policy.
- Tested the customer loan repayments and identification of missed payments including on a sample basis, testing that the receipts are allocated to the correct loan accounts and missed payments are identified on a timely basis and appropriately reported.

PMAs- we challenged management of the appropriateness of the PMAs booked in relation to the one-month model lag and the uplift of ECL.

In addition to the specific audit procedures on the significant risk within the valuation of expected credit loss allowance, we have performed the following procedures on other areas within the valuation of expected credit loss allowance;

- Model governance including model validation and controls
- Recording of collaterals into lending system for mortgage loans;
- Data accuracy and completeness;
- Review of journal entries related to the ECL.

	Obtained an understanding of the different types of portfolios and nature of exposures along with the business models for significant exposures. Assessed Bank's elevated and low risk models used for ECL estimation and assessed the appropriateness and compliance with IFRS9. Tested the completeness and accuracy of the key model input data by agreeing key data points used in the ECL calculation to the relevant source system. We reviewed the data flows used to populate the disclosures and assessed the adequacy of disclosures for compliance with the accounting standards and regulatory considerations. Reconciled the ECL model output to the general ledger and to the financial statements.
Key observations communicated to the Bank's Audit Committee	We found the approach taken in respect of ECL to be consistent with the requirements of IFRS 9 and we have concluded that the assumptions and judgements made by the management in their estimation of the ECL allowance are reasonable and supportable. We assess that the ECL allowance is within a reasonable range.

Our application of materiality

Our definition of materiality considers the value of error or omission on the financial statements that, individually or in aggregate, would change or influence the economic decision of a reasonably knowledgeable user of those financial statements. Misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole. Materiality is used in planning the scope of our work, executing that work and evaluating the results.

Overall Materiality	£713k (2023: £422k)
• Basis of determining overall materiality	We determined materiality based on 1% (2023: 0.87%) of the net assets value. We have considered the primary users of the financial statements to be shareholders, customers of the Bank, the ultimate parent company, and the UK regulators (Financial Conduct Authority and Prudential Regulation Authority). We have considered that Net Assets is the most appropriate threshold on which to base our assessment of materiality as it is the most relevant financial indicator used by the stakeholders to assess the performance of the Bank and its compliance with appropriate regulatory requirements.
Performance materiality	£499k (2023: £253k)
• Basis of determining overall performance materiality	We set performance materiality based on 70% (2023: 60%) of overall materiality. Performance materiality is the application of materiality at the individual account or balance level, set at an amount to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. The determination of performance materiality reflects our assessment of the risk of undetected errors existing, the nature of the systems and controls and the level of misstatements arising in previous audits.
Error reporting threshold	We agreed to report any corrected or uncorrected adjustments exceeding £35k (2023: £21k) to the Audit Committee as well as differences below this threshold that in our view warranted reporting on qualitative grounds.

The control environment

We evaluated the design and implementation of those internal controls of the Bank which are relevant to our audit, such as those relating to the financial reporting cycle. We do not place reliance on the operating effectiveness of controls.

We deployed our internal IT audit specialists to obtain an understanding of the general IT environment and found the IT controls to be operating effectively.

Climate-related risks

In planning our audit and gaining an understanding of the Bank, we considered the potential impact of climate-related risks on the business and its financial statements. We obtained management's climate-related risk assessment, along with relevant documentation and reports relating to management's assessment and held discussions with management to understand their process for identifying and assessing those risks.

We engaged our internal specialist and have agreed with managements' assessment that climate-related risks are not material to these financial statements.

Reporting on other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Strategic report and directors report

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received by branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities . This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

Identifying and assessing potential risks arising from irregularities, including fraud

The extent of the procedures undertaken to identify and assess the risks of material misstatement in respect of irregularities, including fraud, included the following:

- We considered the nature of the industry and sector the control environment, business performance including remuneration policies and the Bank's own risk assessment that irregularities might occur as a result of fraud or error. From our sector experience and through discussion with the directors, we obtained an understanding of the legal and regulatory frameworks applicable to the Bank focusing on laws and regulations that could reasonably be expected to have a direct material effect on the financial statements, such as provisions of the Companies Act 2006, the Financial Services and Markets Act 2000; UK tax legislation or those that had a fundamental effect on the operations of the Bank including the regulatory and supervisory requirements of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).
- We enquired with the directors and management concerning the Bank's policies and procedures relating to:
    - identifying, evaluating and complying with the laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they had any knowledge of actual or suspected fraud; and
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur by evaluating management's incentives and opportunities for manipulation of the financial statements. This included utilising the spectrum of inherent risk and an evaluation of the risk of management override of controls. We determined that the principal risks were related to posting inappropriate journal entries to increase revenue or

reduce costs, creating fictitious transactions to hide losses or to improve financial performance, and management bias in accounting estimates particularly in determining expected credit loss.

Audit response to risks identified

In respect of the above procedures:

- we corroborated the results of our enquiries through our review of the minutes of the Bank's board meetings, audit committee meetings, Asset and Liability committee meetings and Board Risk committee meetings , inspection of the complaints register, inspection of legal and regulatory correspondence and correspondences from the regulators PRA and the FCA;
- audit procedures performed by the engagement team in connection with the risks identified included:
    - reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations expected to have a direct impact on the financial statements.
    - testing journal entries, including those processed late for financial statements preparation, those posted by infrequent or unexpected users, those posted to unusual account combinations;
    - evaluating the business rationale of significant transactions outside the normal course of business, and reviewing accounting estimates for bias;
    - enquiry of management around actual and potential litigation and claims.
    - challenging the assumptions and judgements made by management in its significant accounting estimates, in particular those relating to the determination of the expected credit losses as reported in the key audit matter section of our report; and
    - obtaining confirmations from third parties to confirm existence of a sample of transactions and balances.
- the Bank operates in a highly regulated banking industry. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities; and
- we communicated relevant laws and regulations and potential fraud risks to all engagement team members, including experts, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Other requirements

We were re-appointed by the Members on 10 January 2025 for the audit of statutory financial statements of the Bank for the year ended 31 December 2024. This is our second year as auditors of the Bank.

We did not provide any non-audit services which are prohibited by the FRC's Ethical Standard to the Bank, and we remain independent of the Bank in conducting our audit.

Use of our report

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signed by:

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Ahmer Khan
(Senior Statutory Auditor)
for and on behalf of MHA, Statutory Auditor
London, United Kingdom
28 March 2025

MHA is the trading name of MacIntyre Hudson LLP, a limited liability partnership in England and Wales (registered number OC312313)

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2024

	Note	*31 December 2024*	*31 December 2023 (As previously reported)*	*31 December 2023 (*Restated)*
		£	£	£
Interest income	4	29,616,046	29,628,394	8,944,329
Interest expense	4	(17,219,137)	(4,576,314)	(4,576,314)
Net interest income		**12,396,909**	**25,052,080**	**4,368,015**
Fee and commission income	5	26,839,876	6,961,668	27,645,733
Fee and commission expense	6	(1,902,152)	(201,584)	(201,584)
Foreign exchange transalation differences		(101,960)	(61,616)	(61,616)
Other operating income		420,046	227,232	227,232
Credit impairment charge	12	(411,671)	(149,876)	(149,876)
Net operating income		**37,241,048**	**31,827,904**	**31,827,904**
Personnel expenses	7	18,714,748	12,886,355	12,886,355
Depreciation and amortisation	13	1,091,160	1,596,396	1,596,396
Other operating expenses	8	13,390,865	12,565,591	12,565,591
Operating expenses		**33,196,772**	**27,048,342**	**27,048,342**
Operating profit before taxation		**4,044,276**	**4,779,563**	**4,779,563**
Income tax (expense) credit	10	(960,532)	1,657,045	1,657,045
Profit after taxation		**3,083,744**	**6,436,608**	**6,436,608**
Total comprehensive income for the year		**3,083,744**	**6,436,608**	**6,436,608**

*The Statement of Comprehensive Income has been restated for the period end 2023 to reclassify Intra-Group income from Interest income (note 4) to Fee and commission income (note 5).

The Notes on pages 56 – 99 form an integral part of these financial statements.

Statement of Financial Position

AS AT 31 DECEMBER 2024

	Note	*31 December 2024* £	*31 December 2023* £
Assets			
Cash and cash equivalents	11	362,299,484	242,124,881
Loans and advances to customers	12	288,798,649	69,008,543
Property, plant and equipment	13	3,435,404	5,436,526
Intangible assets	14	1,040,771	-
Other assets	15	6,052,395	2,731,425
Deferred tax asset	10	805,512	1,710,054
Total assets		**662,432,215**	**321,011,430**
Liabilities			
Deposits from customers	16	584,520,097	206,998,301
Overdraft from fellow subsidiary		-	57,472,999
Other liabilities	17	3,939,404	5,650,604
Lease liability	19	2,366,608	4,004,213
Provision	20	266,985	188,253
Total liabilities		**591,093,094**	**274,314,370**
Called up share capital	21	75,000,000	54,100,000
Accumulated losses	22	(3,049,241)	(6,132,985)
Other reserves	22	1,113,219	454,902
Merger reserve	22	(1,724,857)	(1,724,857)
Equity shareholders' funds		**71,339,121**	**46,697,060**
Total equity and liabilities		**662,432,215**	**321,011,430**

Approved by the Board and authorised for issue on 28 March 2025 and signed on its behalf by:

Signed by:
Erki Kilu
AFB0C8C13C5F428
Erki Kilu
CEO

Signed by:
Madis Toomsalu
455CEF590AC4463
Madis Toomsalu
Chairman

Company Registration No.
13180211

The Notes on pages 56 – 99 form an integral part of these financial statements.

Statement of Change in Equity

FOR THE YEAR ENDED 31 DECEMBER 2024

	Note	*Share capital*	*Accumulated losses*	*Share based payments reserve*	*Merger reserve*	*Total*
		£	£	£	£	£
Opening balances as at 1 January 2023		**44,100,000**	**(12,569,592)**	**120,792**	**-**	**31,651,200**
Total comprehensive income		-	6,436,608	-	-	6,436,608
Issue and allotment of share capital	21	10,000,000	-	-	-	10,000,000
Share based payments	22	-	-	334,110	-	334,110
Merger reserve	22	-	-	-	(1,724,857)	(1,724,857)
Balances as at 31 December 2023		**54,100,000**	**(6,132,985)**	**454,902**	**(1,724,857)**	**46,697,060**
Total comprehensive income		-	3,083,744	-	-	3,083,744
Issue and allotment of share capital	22	20,900,000	-	-	-	20,900,000
Share based payments	22	-	-	658,317	-	658,317
Merger reserve	22	-	-	-	-	-
Balances as at 31 December 2024		**75,000,000**	**(3,049,241)**	**1,113,219**	**(1,724,857)**	**71,339,121**

The Notes on pages 56 – 99 form an integral part of these financial statements

Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2024

	Note	*31 December 2024 £*	*31 December 2023 £*
Cash flows from operating activities			
Profit for the year before taxation		4,044,276	4,779,563
Adjustment to reconcile profit to cash flow from operating activities			
Depreciation of property, plant and equipment	13	1,091,160	1,596,396
(Increase) / Decrease in operating assets		(3,353,822)	2,583,287
(Increase) / Decrease in operating liabilities		(1,200,156)	133,303
Share based payments	22	638,961	334,110
Foreign exchange transalation differences		101,960	-
Credit impairment losses/(gains)		411,671	149,876
		1,734,049	**9,576,534**
Tax paid		**(278,181)**	**-**
Net increase in assets relating to operating activities			
Net loans and advances to customers	12	(219,442,236)	(49,482,095)
		(219,442,236)	**(49,482,095)**
Increase/(decrease) in liabilities relating to operating activities			
Net deposits from customers	16	376,838,550	206,998,301
Facilities received from / (to) group companies		(57,472,999)	57,472,999
Net cash flows generated from operating activities		**101,379,183**	**224,565,739**
Net cash used in/(from) investing activities			
Acquisition of property, plant & equipment and intangibles	13/14	(1,059,316)	(1,079,751)
Banking Services business transfer	22	-	(1,724,857)
Net cash (used in)/generated from investing activities		**(1,059,316)**	**(2,804,607)**
Cash flows used in financing activities			
Issue and allotment of share capital	21	20,900,000	10,000,000
Payment of lease liabilities	19	(1,045,264)	(1,287,675)
Net cash (used in)/generated from financing activities		**19,854,736**	**8,712,325**
Net Increase in cash and cash equivalents		**(199,190,949)**	**230,473,456**
Cash and cash equivalents as at 1 January	11	242,124,881	11,651,425
Cash and cash equivalents as at 31 December		**362,299,484**	**242,124,881**

The Notes on pages 56 – 99 form an integral part of these financial statements.

Notes to Financial Statements

Significant accounting policies

1 **General information**

LHV Bank Limited ('LHV Bank' or 'the Bank') is a company limited by shares and registered in England and Wales under the Companies Act 2006 with registration number 13180211. The Bank is domiciled in the United Kingdom. The address of its registered office and principal place of business is 1 Angel Court, London, EC2R 7HJ.

The principal activities of the Bank are SME lending, Banking Services and Retail Banking. The parent company operates in the retail and commercial banking sectors.

Statement of compliance

LHV Bank has prepared these financial statements in accordance with UK adopted IFRS and CA 2006. The principal accounting policies applied in the preparation of the financial statements are set out below, and in the relevant notes to the financial statements.

Basis of preparation

The financial statements have been prepared under the historical cost convention, to the extent required or permitted under UK adopted IFRS as set out in the relevant accounting policies applicable to the Bank.

Going concern

The Directors have assessed going concern, taking in to account the Bank’s capital and liquidity positions over the next twelve months, including consideration of reasonably plausible stress scenarios.

LHV Bank’s business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report and Directors’ Report on pages 2 to 43. The financial position of the Bank, its cash flow and capital position are as described on pages 53 to 55. In addition, LHV Bank’s business objectives, capital structure policies and financial risk management objectives are as stated in the Strategic and Directors’ Reports. Details of its financial instruments and its exposures to credit and liquidity risks are provided in note 26 of the Financial Statements.

The Bank estimated the potential impact on expected credit losses in respect of its credit portfolio under various stress scenarios assuming a several notch downgrade on the Bank’s portfolio to account for stress on macroeconomic variables and its impact on credit and counterparty risk. Under these stress scenarios there would be an increase in expected credit loss allowances; and this has been considered in the assessment of 'going concern'. When assessing 'going concern', no regulatory capital ratios were breached in the base to mid case stress scenarios. In the most severe scenario, the Bank would be able to restore its capital by taking appropriate management action to reduce balance sheet growth by reducing lending, which in turn reduces its capital requirement.

From a liquidity perspective, the Bank has a sufficient liquidity buffer to satisfy both businesses as usual and under stress conditions, as demonstrated in the various stress scenarios modelled.

After making enquiries, in addition to an assessment of the impact of principal risks as set out on page 39 of the Strategic Report, the Directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continued to adopt the 'going concern' basis in preparing the annual report and accounts.

The material accounting policies adopted are described below.

2 Material Accounting Policies

A number of new standards, interpretations and amendments are effective for annual periods beginning on or after 1 January 2024 but did not have a material impact on the financial statements of LHV Bank. These were amendments to IAS 1 (Classification of Liabilities as Current or Non- Current and Non-Current Liabilities with Covenants), IAS 7 and IFRS 7 (Supplier Finance Arrangements) and IFRS 16 (Lease Liability in Sale and Leaseback).

a. Future accounting developments

LHV Bank has not adopted early any standard, interpretation or amendment that have been issued but is not yet effective. These are IAS 21 (Lack of Exchangeability), IFRS 9 and 7 (regarding the classification and measurement of financial instruments), IFRS 18 (Presentation and Disclosures in Financial Statements) and IFRS 19 (Subsidiaries without Public Accountability). These changes are not expected to have a material impact to the Bank.

b. Restatement due to prior period adjustments

In preparing these financial statements management have revised their interpretation of accounting policy in relation to income received under the Partnership Agreement with AS LHV Pank. This income is for non-GBP related Banking Services activity, which is contractually undertaken by AS LHV Pank, however the day-to-day business activities and customer contact is managed by the Bank. This income in its entirety has now been presented under Fee and commission income where previously a proportion was presented under Interest Income, representing interest earned on the deposits placed with the ECB. The impact of the adjustment is £20.7 million reclassified from Interest Income (note 4) to Fee and commission income (note 5).

c. Income recognition

Interest income and expense

Interest income on financial assets and interest expense on financial liabilities that are measured at amortised cost are recognised in ‘Interest income’ and ‘Interest expense’, respectively, in the Statement of comprehensive income using the “effective interest rate’’ method.

The effective interest rate (EIR) is the rate that exactly discounts expected future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. The effective interest rate incorporates fees receivable that are an integral part of a financial instrument. LHV Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as ‘Stage 3’, LHV Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets become cured and is no longer credit impaired, LHV Bank reverts to calculating interest income on a gross basis.

All income derives from banking business carried out in the United Kingdom.

Fees and commissions income and expenses

The Bank follows IFRS 15 in determining fee and commission revenue recognition using the following five steps:

1) identify the contract(s) with a customer;

2) identify the performance obligations in the contract;

3) determine the transaction price;

4) allocate the transaction price to the performance obligations in the contract; and

5) recognise revenue when (or as) the Bank satisfies a performance obligation.

Fees and commissions income are accounted for depending on the services to which the income relates as follows:

- fees earned on the execution of a significant act are recognised in 'fee income' at a point in time (e.g. executing transactions for our banking services client);
- fees earned in respect of services are recognised in 'fee income' at a point in time (banking services fees); and
- fees which form an integral part of the "effective interest rate'' of a financial instrument are recognised as an adjustment to the effective interest rate and recorded in 'interest income' (executing loan transactions).

Intra-group income are fees related to non-GBP related Banking Services activity that is contractually undertaken by AS LHV Pank, however, is predominantly managed and serviced by the Bank. The Bank updated the agreement with AS LHV PANK from the cooperation and service agreement (CSA) to a partnership agreement effective 1st January 2024 (note 5).

Foreign currency transactions and balances

The financial statements are presented in Sterling (£), which is the same as the Bank's functional currency. Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost, which are translated using the rate of exchange at the initial transaction date. Exchange differences are included in the Statement of comprehensive income where the gain or loss on the underlying item is recognised.

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange as at the balance sheet date and resulting gains and losses on translation are included in the Statement of comprehensive income.

Other operating income and expense

Other operating income and expenses includes other income not directly attributable to a product line, for example research and development tax credits.

d. **Financial instruments - initial recognition**

Date of recognition

The Bank applies IFRS 9 Financial Instruments to the recognition, classification and measurement, and derecognition of financial assets and financial liabilities and the impairment of financial assets.

Recognition

The Bank recognises financial assets and liabilities when it becomes a party to the terms of the contract. Financial assets and liabilities, except for loans and advances to customers and deposits due to customers, are initially recognised on the trade date, i.e. the date on which LHV Bank becomes a party to the contractual provisions of the instrument. Loans and advances to customers are recognised when funds are transferred from the Bank to the customers' accounts. LHV Bank recognises balances due to customers when funds are transferred to the Bank from the customer.

Classification and measurement

Financial assets are classified on the basis of two criteria:

(i) the business model within which financial assets are managed; and

(ii) their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest' (SPPI)).

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVTPL, where transaction costs are added to, or subtracted from, their fair value. Trade receivables are measured at the transaction price which is the amount to which an entity expects to be entitled in exchange for the transfer of goods and services. When the fair value of financial instruments at initial recognition differs from the transaction price, LHV Bank accounts for the Day 1 profit or loss, as described below.

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, LHV Bank recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised or amortised.

Measurement categories of financial assets and liabilities

LHV Bank classifies all its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost
- Fair value through other comprehensive income (FVOCI); or
- Fair value through profit or loss (FVTPL)

Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent SPPI.

Financial assets are measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent SPPI.

Other financial assets are measured at FVTPL if they are not held within either a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

All financial assets and liabilities as at the balance sheet date are classified at amortised cost.

Business model assessment

The Bank's business model reflects how it manages its financial assets in order to generate cash flows; its business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets, or both. This assessment is performed on the basis of scenarios that the entity reasonably expects to occur.

This business model is determined by the Bank's key management personnel at a level that reflects how groups of financial assets (not individual instruments) are managed together to achieve a particular business objective. Judgement must be applied when determining the level of aggregation to which the business model assessment should be directed.

It should also be noted that, if cash flows are realised in a way that is different from the entity's expectations at the date that the entity assessed the business model, this does not give rise to a prior period error in the entity's financial statements nor does it change the classification of the remaining financial assets held in that business model, as long as the entity has considered all relevant information that was available at the time that it made the business model assessment.

SPPI test

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, LHV Bank applies judgement and considers relevant the period for which the interest rate is set. No instruments failed the SPPI test in the period.

In contrast, contractual terms that introduce a more than 'de minimis' exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Loans and advances to banks, loans and advances to customers, financial investments at amortised cost

LHV Bank only measures loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

All loan and advances passed the SPPI test in the period.

Derecognition due to substantial modification of terms and conditions

LHV Bank would derecognise a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased/originated credit impaired (POCI) asset. LHV Bank has had no such cases as at 31 December 2024.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, LHV Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded

Derecognition other than for substantial modification

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. LHV Bank also derecognises the financial asset if it has transferred the financial asset and the transfer qualifies for derecognition.

LHV Bank has transferred the financial asset if it has transferred its contractual rights to receive cash flows from the financial asset. A transfer only qualifies for derecognition if either the Bank has transferred substantially all the risks and rewards of the asset or the Bank has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset. LHV Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and can exercise that ability unilaterally and without imposing additional restrictions on the transfer.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Impairment of financial assets

Overview of the ECL principles

LHV Bank records the allowance for expected credit loss (ECL) for all loans, being referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss, LTECL), unless there has been no significant increase in credit risk since origination; in that case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECLs associated with the possibility of a financial instrument defaulting in the next 12 months. Both LTECLs and 12mECLs are calculated on contractual basis.

The significant increase in credit risk (SICR) test

The Bank's policy on staging will include three indicators to determine whether there has been a significant increase in credit risk. These are:

- Primary indicator – This applies a 12-month probability of default (PD) variation approach which uses a notch movement within rating grades (change in credit rating). A SICR is identified if the risk grade at origination is lower than the risk grade at the observation point/ snapshot by 2 notches. This was amended from 3 notches during the course of the year.
- Secondary indicator – Entry onto Watchlist list. This is based on qualitative factors including, but not limited to, the BASEL Committee on Banking Supervision "Guidance on Credit Risk and accounting for Expected Credit Losses".
- Backstop indicator – Days Past Due for all exposures. With a backstop of 30 days past due.

The Bank has an internal rating system that is used to carry out regular credit assessment of borrowers and to provide a credit rating. The credit rating reflects the default risk of the borrower which is computed using the current and future information on the borrowers. For the SICR assessment, the Bank uses the latest internal rating at the reporting date and the internal rating of the borrower at the facility origination date.

Based on the movement in the internal rating between the origination and reporting dates and pre-defined rating notch criteria, the SICR assessment is then carried out. If the movement is more than the agreed notches, the facility is deemed to have increased in credit risk and is classified as stage 2. The use of 12-month PD variation is relative to the structure of the Banks portfolio, repayment pattern (amortising) and frequency of rating review which is annual at the minimum. Per policy requirements, a watchlist account is a credit exposure for which an increased credit risk is perceived. The increased credit risk is identified by potential weaknesses which if left uncorrected could result in a deterioration of repayment prospects. Days Past Due (DPD) at 30 days or more is used as a backstop measure to supplement the PD and secondary indicators to determine a SICR. Regardless of whether there is a breach in PD threshold or entry into the Watchlist list, an exposure would be considered to have experienced a SICR if it is more than 30 DPD.

The occurrence of a SICR is conditional on either of the criteria above being met.

The Bank assesses a SICR based on qualitative and quantitative factors which are used to assign exposures into various stages. The assessment of significant increase in credit risk is detailed below:

Stage	Description	Accounting Implication
Stage 1	No significant changes in credit quality of exposure since initial recognition	12-month expected credit losses Interest calculated on gross carrying amount
Stage 2	The credit risk of the exposure has increased significantly since initial recognition	Lifetime expected credit losses Interest calculated on gross carrying amount
Stage 3	The credit risk of the exposure has increased significantly since initial recognition and there is objective evidence of impairment	Lifetime expected credit losses Interest calculated on net carrying amount

Low credit risk expedient and use of 30 days DPD backstop

Low credit risk expedient is not adopted by the Bank, the assessment of SICR is applied for all exposures at the individual contract level.

Calculation of ECLs

The Bank's ECL model uses risk and financial data such as the Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD) and Effective Interest Rate (EIR) to estimate ECL for each contractual exposure. The ECL is a function of the PD, LGD and EAD discounted to account for the time value of money. A 12-month ECL calculation will be applied on Stage 1 contracts, while a Lifetime ECL calculation will be applied on Stage 2 and 3 contracts.

In estimating the ECL, the Bank incorporates the impact of changing macroeconomic scenarios on ECL computation through consideration of three discrete scenarios (Upturn, Base and Downturn) with probabilities of occurrence (probability weights) applied to each scenario. The sensitivities are intended to indicate how the PD and LGD will change per counterparty until maturity of the exposure. Key elements for the ECL computation are defined below.

The PD is the estimate of the likelihood that a counterparty will default in a defined period. The PD serves as a key parameter in the determination of both 12 month and lifetime ECL.

A default emergence model forecasts the lifetime PD and PD at any given time within the lifetime horizon. This is based on expert judgement using a range of emergence profiles, as well as being based on the "Hybrid" probability of default generated utilising the 13-point rating model calibrated to Moody's rating and PD output.

12-month PD is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months) and is used to calculate the 12-month ECL.

Lifetime PD is the probability that the instrument defaults at any point in its lifetime and is used to calculate the lifetime ECL. Lifetime PDs may be represented by a term structure of marginal PDs. The PD for a counterparty is largely dependent on its specific risk characteristic as well as the economic environment.

Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is a function of the EAD and the recoverable amount. A component-based approach is adopted covering possession post default, forced sale discount, Time to sale, Indexed property valuation and Sales Costs.

Exposure at Default is an estimate of the exposure at a future default date, considering expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. This is performed on a contractual basis following a mechanical approach to forecast monthly default balances based on an amortisation profile.

Post Model Adjustments

The Bank applies Post Model Adjustments (PMA) to the modelled IFRS9 ECL provision where it is deemed necessary. This is reviewed on a periodical basis by the executive team. A key judgement was applied this year to address risks associated with historic default data limitation in the context of model changes applied during the year.

Forward looking information

The Bank's ECL model incorporates forward-looking information to recognise changes in macro-economic conditions and forecasts. LHV Bank relies on a broad range of forward-looking information as economic inputs. These include UK GDP, unemployment, commercial and residential property prices, inflation and interest rates. Materials used by the Bank also focus on emerging UK and global economic and geopolitical risk. The selection of macro-economic variables applied for forward looking adjustments relates to the structure of the Bank's portfolio, risk drivers and correlation with defaults. The Bank's portfolio is segmented for modelling purposes based on current exposure structure and portfolio characteristics.

Definition of default

A facility is considered in "default" when:

- the facility is 90 days past due (DPD); or
- the Bank considers that the borrower is 'unlikely to pay' the facility without recourse by the Bank to such actions as realising the security (if held).

Any facility that is in default will automatically be considered credit impaired.

Exit criterion from stage 3

This is conditional upon meeting any of the following:

- evidence of a significant decrease in credit risk (relative change in PD based on set threshold); or
- evidence that asset is no longer credit impaired, and management consider the borrower likely to pay.

When forbearance measures are extended to non-performing exposures, the exposures may be considered to have ceased being non-performing only when all the following conditions are met:

- comply with 24 months' probation period in line with the EBA requirement;
- no past-due amount or concerns regarding the full repayment of the exposure according to the post forbearance conditions; and
- compliance with the post-forbearance conditions.

Collateral valuation

To mitigate its credit risks on loan portfolio, LHV Bank seeks to obtain collateral, where possible. Such collateral may come in various forms. Collateral, other than cash, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECL. It is generally assessed at a minimum, at inception and re-assessed periodically. However, where the collateral type is cash, it is valued daily.

Non-financial collateral, such as real estate property, is valued based on valuation provided by professional valuers or based on real estate price indices.

The Bank's collateral policies have not materially changed during the reporting period.

Collateral repossessed

The Bank will typically seek legal advice on the most appropriate approach with regards to conditions under which liquidation or insolvency proceedings may be initiated, the method of repossession and other legal requirements to ensure that repossessed security is adequately controlled, managed and efficiently disposed of.

In its normal course of business, the Bank does not physically repossess properties or other assets in its mortgage portfolio but engages external agents to repossess and recover funds to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the real estate properties under legal repossession processes are not recorded on the balance sheet.

Write-offs

Financial assets are written off either partially or in their entirety only when the probability of recovery is very low. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit impairment losses. The Bank writes off loans when there is no reasonable expectation of recovery. This assessment is based on:

- Credit risk evaluations, legal proceedings, or evidence that the borrower is unable to repay.
- For unsecured loans, where no legal proceedings are ongoing, a loan may be written off when it is one year past due, subject to a final recoverability assessment.
- Secured loans are typically written off only after all collateral enforcement actions have been exhausted.
- Recoveries from written-off loans are recognized as income when received, including in cases where enforcement actions remain in progress.
- The Bank follows IFRS 9 Expected Credit Loss principles, maintaining adequate provisions for non-performing loans before writing them off.
- The Bank complies with relevant Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) guidelines on credit risk management and loan write-offs.

Financial Commitments

To meet the financial needs of our customers, we enter into commitments. As at the 31st of December these represent undrawn commitments to lend. Even though these obligations are not recognised on the balance sheet, the requirement of an ECL governed under IFRS 9 is assessed. When these commitments are drawn down or called upon and meet the recognition criteria as detailed in the accounting policies, these are recognised within our loans and advances to customers.

Property, plant and equipment

Items of property, plant and equipment are measured at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on property, plant and equipment so as to write off their carrying value over their expected useful economic lives, using the straight-line method. It is provided at the following range:

Right of use assets

The shorter period of lease term and useful life of the underlying asset

Leasehold improvements	5 years
Fixtures and fittings	3 years
Computer equipment	3 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

Property, plant and equipment is assessed at each balance sheet date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs).

Intangible assets

The Bank has one Intangible asset related to the retail banking app that it has developed. During the development stage the costs are classified as Asset Under Construction. Intangible assets are stated at cost less amortisation and accumulated impairment losses. The related assets are primarily computer software which are amortised on a straight-line basis over their useful life (5 years), starting when the asset is first put into use, in a manner that reflects the pattern to which they contribute to future cash flows. This follows IAS38. Careful judgement was applied to ensure development met all the key recognition criteria to be capitalised under IAS 38 including identifiability, probability and control over future economic benefits and assurance of reliable cost measurement.

The majority of the banks systems are software-as-a-Service (SaaS) arrangement that conveys to the Bank only the right to receive access to a supplier’s application software is accounted for as a service contract. The costs of the SaaS arrangement are recognised as an expense systematically over the duration of the service contract. Where configuration and customisation costs are not distinct and do not result in a separate asset of the Bank (as an intangible asset) such costs are expensed as the related service is received. Where payments are made in advance of services are received, a prepayment asset is recognised.

Where configuration and customisation costs are unique to the Bank and represent a specific asset to the Bank that it controls, then these costs are recognised as an intangible asset when the criteria for capitalisation of development costs under IAS 38 Intangible assets are met.

Amortisation is provided on intangibles so as to write off their carrying value over their expected useful economic lives, using the straight-line method. It is provided at the following range:

Intangible assets	5 years

Impairment of non-financial assets

At each balance sheet date, non-financial assets are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises of the carrying amount of the asset with its recoverable amount, being the higher of the asset’s fair value less cost of disposal or its value in use. Fair value less cost of disposal is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arm’s length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the assets continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis.

The carrying values of fixed assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss relating to a non-financial asset may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the non-financial asset recoverable amount. The carrying amount of the non-financial asset will only be increased up to the amount that it would have been had the original impairment not been recognised.

Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- the Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:

- the Bank has the right to operate the asset; or
- the Bank designed the asset in a way that predetermines how and for what purpose it will be used.

The Bank primarily leases buildings for use as office spaces for its operations. Lease terms are negotiated on an individual basis and contain different terms and conditions, including extension and termination options. On renewal of a lease, the terms may be renegotiated; lease terms range from 1 year to 15 years. The lease agreements do not impose any covenants; leased assets, however, may not be used as security for borrowing purposes. Contracts may contain both lease and non-lease components. The Bank has elected to separate lease and non-lease components and treat them accordingly.

Leases in which the Bank is a lessee

Leases are recognised as a right-of-use asset with a corresponding liability at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost. Where the lease does not transfer ownership of the underlying asset at the end of the lease, the right-of-use asset is depreciated over the shorter of the useful life of the underlying asset or the lease term on a straight-line basis.

Leases in which the Bank is a lessor

The Bank does not have any lease arrangements as a lessor or intermediate lessor.

Lease liabilities

At the commencement date of a lease, the Bank recognises lease liabilities at the present value of lease payments to be made over the lease term. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Bank under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

Where the rate implicit in the lease is not readily determinable, the lease payments are discounted using the Bank's incremental borrowing rate, being the rate that the Bank would have to pay to borrow the funds necessary to obtain an asset of similar value to the right of use asset in a similar economic environment with similar terms, security and conditions.

The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

Right of use assets

Right-of-use assets are initially measured at cost, comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date, less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are depreciated over the lease term on a straight-line basis. If the Bank is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Extension and termination options

Extension and termination options are included in all the Bank's lease arrangements. These are used to maximise operational flexibility in terms of managing the assets used in its operations. Most of the extension options are subject to mutual agreement by the Bank and the lessors and some of the termination options held are exercisable only by the Bank.

Extension and termination options - Determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of properties, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not terminate);
- If any leasehold improvements are expected to have a significant remaining value, the Bank is reasonably certain to extend (or not terminate); or
- Otherwise, the Bank considers other factors, including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and is within the control of the Bank.

Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation as a result of past events and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of profit or loss. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as part of finance costs in the statement of profit or loss. Provisions largely relate to dilapidations.

Income tax

The income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. LHV Bank liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of the assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated using the tax rates and laws that are expected to apply in the year when the liability is settled, or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited to other comprehensive income or directly to equity, in which case the deferred tax is also dealt with in other comprehensive income, or equity, respectively.

Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits with banks together with short-term highly liquid investments, with original maturities of three months or less from inception, that are readily convertible to known amounts of cash and for the purposes of the cash flow statement. Cash and cash equivalents also include deposits with a maturity of three months or less from inception.

Offsetting

Financial assets and financial liabilities are offset with the net amount reported in the financial statement only if there is a current enforceable legal right to offset the recognised amounts, and an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Financial liabilities and equity

LHV Bank classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms.

An instrument is classified as equity if it evidences a residual interest in the assets of LHV Bank after the deduction of liabilities.

The components of a compound financial instrument issued by LHV Bank are classified and accounted for separately as financial liabilities or equity as appropriate.

Deposits from customers

Deposits from customers are recognised initially at fair value, being their issue proceeds net of transaction costs incurred (if any). These instruments are subsequently stated at amortised cost using the effective interest method.

Overdraft from fellow subsidiary

The bank arranged an overdraft facility with a fellow subsidiary (AS LHV Pank) to support the migration of the branch customers to the bank which was measured at amortised cost. This was repaid in January 2024.

Other liabilities

Other liabilities relate to items that are not elsewhere covered in the balance sheet and are measured at fair value of the cash or other resources payable. Transit accounts for customer payments or receipts which settle the next business day are classified as other liabilities along with accruals for expenses, where the cost has already been incurred with the payment yet to settle.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis. Share premium is recognised on new issues of shares where the share issue price is higher than the nominal amount.

Merger reserve

The merger reserve represents the transfer of business from the UK branch to LHV Bank in August 2023 and was classed as a common control transaction under IFRS 3 Business Combinations, as both the UK branch and LHV Bank have the same ultimate parent, AS LHV Group, both before and after the transfer. Common control transactions are exempt from the provisions of IFRS 3. In the absence of explicit IFRS guidance, LHV Bank's internal accounting policy on group restructuring most faithfully represents the substance of the facts and circumstances of the transaction and is in line with both accepted accounting principles and market practice.

LHV Bank used the book value of assets and liabilities at the date of transfer to determine the value of assets and liabilities transferred. There is no new initial recognition point for the assets and liabilities at the date of transferred and they are accounted for as if they have always been in the entity. An impairment was carried out, as required under IAS36, and it was determined that no impairment is required in the 2024 accounts.

Employee benefits

The company operates a defined contribution pension plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown as a liability in the statement of financial position. The assets of the plan are held separately from the company in independently administered funds.

During the year, employees (including three directors) were issued by AS LHV Group, with options to buy shares in the parent company, AS LHV Group, a company listed in Estonia.

In 2024 the recipients and amounts of share options to be granted for the results for 2023 were determined based on this programme. The aim of issuing share options is to create conditions where the long-term objectives and interests of the management and equivalent staff as well as key employees of LHV and the group companies would be harmonised with the long-term interests of the shareholders of LHV.

As part of the programme, there is an annual performance pay added to basic salary, the amount or issue of which depends on the fulfilment of individual and LHV objectives. The objectives of the programme are:

- ensuring a competitive remuneration, to be attractive in the labour market;
- keeping and motivating key personnel through creating a relationship of ownership;
- reconciling the interests of shareholders and employees;
- increasing company value through performance management.

The instruments of performance pay under the option programme are 100% equity options. The term of share options is at least 3 years from the moment the options were granted. An additional criterion applies to options issued to members of senior management[7] – they are not allowed to sell these shares for another year after executing the rights under option. The at least three-year vesting period before issuance of shares gives the opportunity to evaluate the results in the long run. It is not possible to receive the specified amount in cash in lieu of share options. Share options are issued annually in the amount of up to 2% of the total number of LHV shares. LHV has the right to refuse to exercise and issue equity options to the entitled person, in whole or in part, if:

- LHV General Meeting or the Supervisory Board under instructions from the General Meeting does not adopt the decision on the increase of LHV share capital and issuance of shares;
- the Management Board member agreement or the employment relationship of the person entitled to receive options has ceased at the initiative of the person entitled to receive options or pursuant to § 88 of the Employment Contracts Act or, if the Employment Contracts Act is amended, on an analogous basis. However, based on the decision of the Supervisory Board it is possible to make exceptions to the applicability of this paragraph;
- the financial results of LHV or its relevant subsidiary have substantially deteriorated compared to the previous period;
- the person entitled to receive options no longer meets the performance criteria or does not meet the requirements imposed by law on the management or employees of a credit institution or a fund management company;
- LHV or its relevant subsidiary no longer meets the prudential regulations or the company's business risk are not adequately covered by own funds; or
- the issuance of options has been determined based on information which has proven to be materially misstated or incorrect.

The granting and amount of share options were dependent upon the successful achievement of operational targets of the overall company and the targets of individual Management Board members and employees. The shares in AS LHV Group are readily convertible to cash and so the share options are held at their historic fair value at each reporting date. An appropriate share-based payment charge is expensed in the company, together with the foreign exchange impact of translating the closing reserve denominated in Euros (€).

3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported

[7] 'Senior Management' is defined as individuals holding regulated roles – 'Senior Management Function' and 'Material Risk Takers'

amount of revenues, expenses, assets and liabilities, and the accompanying disclosures.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur.

It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the asset or liability affected. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement or estimates are collated below.

<u>Critical accounting judgements</u>

Expected credit loss allowance

The critical accounting judgements that relate to expected credit loss allowance calculated under IFRS 9 is as follows:

- Establishing the criteria for a significant increase in credit risk;
- Determining the appropriate definition of default;
- Determining the application of a Post Model Adjustment on the modelled calculated expected credit loss allowance

Further information on these areas of judgements can be found in the 'Overview of the ECL principles' within the accounting policies section.

Leases

A judgement has been made on the dilapidation charge for leases based on information available at time of the lease inception.

<u>Key sources of estimation uncertainty</u>

Expected credit loss allowance

The key source of uncertainty in relation to the expected credit loss allowance under IFRS 9 is as follows:

- Key estimates are made in applying the accounting policies relate to statistical models (PD, LGD and macro-economic) with judgements applied where data and model limitations exist.

Further information on these areas of estimation can be found in the 'Overview of the ECL principles' within the accounting policies section.

Deferred tax asset

The recognition of a deferred tax asset is driven by the estimation of future profits against which the Bank's unrelieved tax losses can be offset in the future. There is significant estimation uncertainty in the determination of the future profit as the Bank's future performance is subject to several factors that cannot be successfully modelled or measured. IAS 12 requires the recognition of a DTA to the extent that it is probable that future taxable profit will be available against. As LHV Bank has been profitable since March 2023 and forecast continues to be profitable based on the current business model, therefore a deferred tax asset has been recognised.

Impairment assessment of non-financial assets

The review of impairment indicators and related estimation of future cash flow forecasts in the calculation for the value in use for testing of intangible assets is a key estimate for the Bank

4 Net interest income

	31 December 2024 £	31 December 2023 Restated £
Interest and similar income:		
Interest income from central banks	16,593,505	5,002,479
Loans and advances to customer measured at amortised cost	12,803,577	3,331,638
Debt instruments measured at amortised cost	-	344,714
Intra-Group interest income	218,964	265,499
	29,616,046	8,944,329

Refer to note 5b for the detail on the restatement of Intra-Group interest income.

	31 December 2024 £	31 December 2023 £
Interest expense and similar charges:		
Deposits from customers measured at amortised cost	16,269,725	1,161,585
Deposits from customers measured at amortised cost - Group	903,353	2,761,377
Interest on rental assets	46,059	181,462
Other interest Expense	-	471,891
	17,219,137	4,576,314

5a Fee and commission income

	Note	31 December 2024 £	31 December 2023 Restated £
Intra-Group fee income	25	24,320,540	26,710,121
Banking Services income		2,519,336	935,612
		26,839,876	27,645,733

Refer to note 5b for the detail on the restatement of Intra- Group fee income.

'Intra-Group fee income' is income from non- GBP Banking Services activity where the customer contractual relationship is with AS LHV Pank, however the day-to-day business activities and customer contact is managed by the Bank. This activity includes customer deposits placed with AS LHV Pank which are then placed with the ECB, earning interest income at the ECB deposit rate. The Bank and AS LHV Pank have a Partnership Agreement which governs the activities undertaken by each entity and the distribution of income between the entities.

5b Restatement of Intra-Group interest income to Fee and commission income

	31 December 2023 (As previously reported)	*Adjustment 2023*	*31 December 2023 (Restated)*
	£	*£*	*£*
Interest and similar income:			
Interest income from central banks	5,002,479	-	5,002,479
Loans and advances to customer measured at amortised cost	3,331,638	-	3,331,638
Debt instruments measured at amortised cost	344,714	-	344,714
Intra-Group interest income	20,949,564	(20,684,065)	265,499
	29,628,394	(20,684,065)	8,944,329

	31 December 2023 (As previously reported)	*Adjustment 2023*	*31 December 2023 (Restated)*
	£	*£*	*£*
Intra-Group fee income	6,026,056	20,684,065	26,710,121
Banking Services income	935,612	-	935,612
	6,961,668	20,684,065	27,645,733

The adjustment represents £20.7 million reclassified from Interest income to Fee and commission income. The primary drivers of the income from the Partnership Agreement are interest income and fee income and the prior year approach applied a 'look through' to the underlying business activity. This is considered a misclassification as the Bank does not hold the assets that are generating the interest income. The income was reclassified as fee income representing the share of income earned under the Partnership Agreement. There is no impact to profit as a result of the restatement.

6 Fee and commission expense

		31 December 2024	*31 December 2023*
		£	*£*
Intra-Group fee expense	25	10,764	177,240
Other fee expense		1,891,388	24,344
		1,902,152	201,584

7 Personnel expenses

		31 December 2024 £	31 December 2023 £
Wages and salaries		14,493,306	10,245,983
Social security costs		2,187,583	1,479,500
Bonus and share based payments		1,490,856	726,740
Other pension costs	23	488,662	328,920
Other staff benefits		54,341	105,213
		18,714,748	12,886,355

The Bank runs a Long-Term Incentive Plan for certain categories of staff. The Plan is structured such that awards made are vested at future dates subject to strict rules.

The average monthly number of employees was:

	31 December 2024	31 December 2023
Directors (including those not in receipt of remunderation)	8	6
Staff	188	103
	196	109

The total staff number of staff employed (excluding Non-Executive Directors) as of 31 December 2024 was 213 (137 in UK and 76 in Estonia), 163 in December 2023. 2023 includes 61 staff transferred from LHV Pank to LHV Bank in August 2023.

8 Other operating expenses

Other operating expenses include the following:

	31 December 2024	*31 December 2023*
	£	*£*
IT costs	3,980,197	5,581,791
Outsourced services	2,668,729	2,356,048
Legal and Consultancy fees	1,169,135	985,262
Business rates	353,618	443,760
Repairs & Maintenance	254,331	355,585
Audit and accounting fees	578,930	258,951
Other Administrative expenses	4,385,926	2,584,194
	13,390,865	12,565,591

Auditor's remuneration, included in audit and accounting fees, to MHA for the current year in respect statutory audit is £268k (2023: £245k). No other assurance services were provided by MHA in the current or prior period.

9 Directors' remuneration

The Directors' remuneration for the year was as follows:

	31 December 2024	*31 December 2023*
	£	*£*
Emoluments	1,298,701	1,211,002
Value of share awards awarded for current year performance	482,382	567,640
Contributions to defined contribution pension scheme	13,856	10,346
	1,794,938	1,788,988

The highest paid director received emoluments, excluding pension contributions, totalling £328,122 (2023: £319,289) and pension contributions of £13,856 (2023: £10,346). One director received pension benefits in the year of £nil (2023: £10,346). Two Directors salaries and share awards are paid/awarded by other group companies but included in the directors' remuneration.

10 Income tax

Income tax (credited)/charged in the Statement of Comprehensive Income consisted of:

	31 December 2024	*31 December 2023*
	£	*£*
Deferred Tax	904,541	1,710,054
Current year income tax charge	55,991	(53,009)
	960,532	1,657,045

The Bank recognises deferred tax assets in accordance with UK adopted IFRS, specifically IAS 12 Income Taxes. Deferred tax assets arise from temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Analysis of tax charge for the period

	31 December 2024	*31 December 2023*
	£	*£*
Analysis of tax charge/(credit) for the period		
Current tax		
UK corporation tax at 25.00% (PY:23.52%)	430,115	53,009
Inter-company tax	(576,333)	-
	(146,218)	53,009
Adjustments in respect of prior periods	202,208	-
Total current tax charge/(credit)	55,990	53,009
Deferred tax		
Origination and reversal of timing differences	500,173	(1,710,054)
Adj to Tax charge for prior period - Deferred Tax	404,368	
Total deferred tax charge/(credit)	904,541	(1,710,054)
Tax on profit on ordinary activities	960,532	(1,657,045)
Provision for deferred tax		
Fixed asset temporary differences	178,395	77,650
Short term temporary differences	(110,651)	(97,978)
Losses and other deductions	(873,256)	(1,689,726)
Total deferred tax (asset)/liability	(805,512)	(1,710,054)

At the balance sheet date, the Bank has unused tax losses of £3.5 million (2023: £6.2m) available for offset against future profits. A deferred tax asset has been recognised of £0.8 million (2023: £1.7m) for such losses. A deferred tax asset was recognised based on the profit forecast for the foreseeable future.

Reconciliation of Tax charge

	31 December 2024	*31 December 2023*
Reconciliation of tax charge	£	£
Profit on ordinary activities before tax	4,044,276	4,779,562
Tax on profit on ordinary activities at standard CT rate of 25% (PY: 23.52%)	1,011,069	1,124,179
Effects of:		
Fixed asset differences	2,609	7,775
Expenses not deductible for tax purposes	21,622	40,265
R&D expenditure credits	(105,011)	(26,677)
Movement in deferred tax not recognised	-	(2,802,587)
Group relief surrender	(576,333)	-
Adj to Tax charge for prior period	202,208	-
Adj to Tax charge for prior period - Deferred Tax	404,368	-
Other	-	-
Tax charge/(credit) for the period above	960,532	(1,657,045)

Current tax on profits reflects UK corporation tax at the mainstream rate of 25% for the 12-month period ending 31 December 2024 (31 December 2023: 23.52% blended rate). The effective tax rate (ETR) of 23.75% is lower than the mainstream corporation tax rate due to payment for group relief surrendered in the prior year. The ETR of 23.75% is above the prior year ETR (31 December 2023: -34.67) % due to the impact of deferred tax recognition.

11 Cash and cash equivalents

	31 December 2024	*31 December 2023*
	£	*£*
Cash held at central banks	344,141,116	241,879,107
Cash held with other banks	18,158,369	245,774
	362,299,484	242,124,881

Cash held at central banks includes £33.5 million (£41.2 million for 2023) of cash that is encumbered and is collateral supporting the Bank's participation in UK payments schemes. £10.3 million of cash held with other banks is held on deposit with AS LHV Pank (fellow group company).

12 Loans and advances to customers

	31 December 2024 £	31 December 2023 £
Commercial	288,694,665	68,058,894
Premium on purchase of loan portfolio	720,928	1,154,922
	289,415,593	69,213,816
Less:		
Impairment allowance	(616,945)	(205,273)
	288,798,649	69,008,543

The premium paid on purchase of the portfolio from Bank North in 2022, is being amortised over the life of the portfolio purchased. One loan was fully repaid in December 2024 which resulted in accelerating the amortisation of the premium.

Loans and advances to customer and impairment provision by stage

	31 December 2024 Stage 1 12-month ECL £	31 December 2024 Stage 2 Lifetime ECL £	31 December 2024 Stage 3 Lifetime ECL £	31 December 2024 Total £
Commercial Investment Loan	219,529,191	160,811	-	219,690,001
Commercial Mortgage Loan	66,519,548	1,084,726	2,121,318	69,725,592
Total Loan balance	286,048,737	1,245,538	2,121,318	289,415,593
Loss allowance				
Commercial Investment Loan	(316,426)	(5,643)	-	(322,072)
Commercial Mortgage Loan	(139,839)	(46,077)	(108,957)	(294,873)
Total Loss allowance	(456,266)	(51,720)	(108,957)	(616,945)
Total	285,592,469	1,193,818	2,012,361	288,798,649

	31 December 2023 Stage 1 12-month ECL	*31 December 2023 Stage 2 Lifetime ECL*	*31 December 2023 Stage 3 Lifetime ECL*	*31 December 2023 Total*
	£	*£*	*£*	*£*
Commercial Investment Loan	46,339,126	-	-	46,339,126
Commercial Mortgage Loan	22,874,690	-	-	22,874,690
Total Loan balance	69,213,816	-	-	69,213,816
Loss allowance				
Commercial Investment Loan	(136,997)	-	-	(136,997)
Commercial Mortgage Loan	(68,276)	-	-	(68,276)
Total Loss allowance	(205,273)	-	-	(205,273)
Total	69,008,543	-	-	69,008,543

An analysis of changes in ECL allowance is, as follows:

	Stage 1 12-month ECL	*Stage 2 Lifetime ECL*	*Stage 3 Lifetime ECL*	*Total*
	£	*£*	*£*	*£*
As at 1 January 2024	(205,273)	-	-	(205,273)
Transfer between stages	12,522	(5,114)	(7,408)	-
Charge/(credit) to income statement	(273,607)	(46,607)	(101,549)	(421,762)
Write-offs	-	-	-	-
Redemptions	10,091	-	-	10,091
At 31 December 2024	(456,266)	(51,721)	(108,957)	(616,945)

	Stage 1 12-month ECL	*Stage 2 Lifetime ECL*	*Stage 3 Lifetime ECL*	*Total*
	£	*£*	*£*	*£*
As at 1 January 2023	(57,661)	-	-	(57,661)
Movement in year	(147,612)	-	-	(147,612)
Closing balance 31st December 2023	(205,273)	-	-	(205,273)

An analysis of changes in Balances

	Stage 1 12-month ECL £	*Stage 2 Lifetime ECL £*	*Stage 3 Lifetime ECL £*	*Total £*
As at 1 January 2024	69,008,543	-	-	69,008,543
Transfer between stages	(3,264,976)	1,172,384	2,092,592	-
New disbursement / (repayment)	222,504,191	21,434	(80,231)	222,445,394
Write-offs	-	-	-	-
Redemptions	(2,655,290)	-	-	(2,655,290)
At 31 December 2024	285,592,469	1,193,818	2,012,361	288,798,649

	Stage 1 12-month ECL £	*Stage 2 Lifetime ECL £*	*Stage 3 Lifetime ECL £*	*Total £*
As at 1 January 2023	19,526,448	-	-	19,526,448
Transfer between stages	-	-	-	-
New disbursement / (repayment)	49,482,095	-	-	49,482,095
Write-offs	-	-	-	-
Redemptions		-	-	-
At 31 December 2023	69,008,543	-	-	69,008,543

Maturity analysis of loans and advances to customers

	31 December 2024 £	*31 December 2023 £*
Repayable on demand or at short notice	-	-
3 months or less excluding on demand or at short notice	-	-
1 year or less but over 3 months	-	-
5 years or less but over 1 year	286,786,288	69,008,543
Over 5 years	-	-
Non-performing accounts	2,012,361	-
	288,798,649	69,008,543

Loans and advances to customers are categorised as ‘hold to collect’ and measured at amortised cost. In the circumstances where a customer is unable to make payments due on financial assets, for example due to a deterioration in the changing economic environment, LHV Bank will show forbearance and work with its customer to ensure an equitable renegotiation of the terms attached to the financial asset.

Impairment allowance – credit quality and maximum exposure to risk as at 31 December 2024

The common lending principles are as follows: 1. unregulated SME lending with all of loan book collateral backed by first charge mortgages on UK Real Estate. 2. Maximum facility contractual term of 5 years, with amortisation up to a 25-year profile. Loans typically provided on a capital reduction basis during the tenor to mitigate maturity risk. 3. Low single name and connected party concentration risk with further diversification by sector and regional UK geography. 4. Maximum LTV is 75% with an average of 60% (57% 2023) across the portfolio. 5. Experienced underwriting expertise with central oversight, along with a focus on clients and collateral types that are known and understood, with continued investments in people and systems.

Loans are subject to detailed review by experienced underwriters and a Credit Committee quorum that considers affordability, borrower experience, and the ability to maintain repayments under stress. Lending and loan book quality is reported regularly and is subject to Second Line reviews, that are reported to the Board Risk Committee.

The table below shows the credit quality by Investment, Sub-Investment and Default grade at year-end stage classification. The amounts presented are gross of impairment allowances. As at the financial year end only stage 3 are classified as being in default.

	31 December 2024 Stage 1 12-month ECL £	*31 December 2024 Stage 2 Lifetime ECL £*	*31 December 2024 Stage 3 Lifetime ECL £*	*31 December 2024 Total £*
Investment grade	-	-	-	-
Sub-investment grade	286,048,737	1,245,538	-	287,294,275
Default	-	-	2,121,318	2,121,318
Total	286,048,737	1,245,538	2,121,318	289,415,593
Loss allowance	(456,266)	(51,720)	(108,957)	(616,945)
	285,592,469	1,193,818	2,012,361	288,798,649

	31 December 2023 Stage 1 12-month ECL £	*31 December 2023 Stage 2 Lifetime ECL £*	*31 December 2023 Stage 3 Lifetime ECL £*	*31 December 2023 Total £*
Investment grade	-	-	-	-
Sub-investment grade	69,213,816	-	-	69,213,816
Default	-	-	-	-
Total	69,213,816	-	-	69,213,816
Loss allowance	(205,273)	-	-	(205,273)
	69,008,543	-	-	69,008,543

The table below sets out loans and advances to customers by Lower, Medium and High credit risk classification, based on an Internal Credit grading and illustrates the allocation of these per IFRS 9 staging and portfolio type categories. As at year end all medium and low graded customers were deemed performing per IFRS 9 stage allocation. The grading criterion is mapped to “benchmark” curves alongside calibration to Moody’s and S&P rating. An expert-based uplift to the resulting PDs is applied for portfolio specific factors. Broadly, the segmentation definitions are as follows:

Lower Risk: Acceptable profile within the rating approach, with standard monitoring arrangements in place.

Medium Risk: Increase in credit risk requiring additional monitoring and potential concerns over the ability of the borrower to meet obligations as they fall due.

High Risk: Evidence of significant deterioration in credit risk profile which may result full repayment not being achieved and which required enhanced management.

Loans and advances staging by credit grading

	31 December 2024 Stage 1 12-month ECL	*31 December 2024 Stage 2 Lifetime ECL*	*31 December 2024 Stage 3 Lifetime ECL*	*31 December 2024 Total*
Loan Balance	*£*	*£*	*£*	*£*
Lower Risk	160,542,107	-	-	160,542,107
Medium Risk	125,506,629	-	-	125,506,629
High Risk	-	1,245,538	2,121,318	3,366,856
	286,048,737	1,245,538	2,121,318	289,415,593
Less Loss allowance				
Lower Risk	(210,598)	-	-	(210,598)
Medium Risk	(245,669)	-	-	(245,669)
High Risk	-	(51,721)	(108,957)	(160,678)
	(456,266)	(51,721)	(108,957)	(616,945)
	285,592,469	1,193,818	2,012,361	288,798,649

	2023 Stage 1 12-month ECL	*2023 Stage 2 Lifetime ECL*	*2023 Stage 3 Lifetime ECL*	*2023 Total*
Loan Balance	*£*	*£*	*£*	*£*
Lower Risk	7,850,132	-	-	7,850,132
Medium Risk	58,111,771	-	-	58,111,771
High Risk	3,251,913	-	-	3,251,913
	69,213,816	-	-	69,213,816
Less Loss allowance				
Lower Risk	(3,226)	-	-	(3,226)
Medium Risk	(141,488)	-	-	(141,488)
High Risk	(60,559)	-	-	(60,559)
	(205,273)	-	-	(205,273)
	69,008,543	-	-	69,008,543

Loans and advances portfolio by credit grading

	31 December 2024 Low Risk	*31 December 2024 Medium Risk*	*31 December 2024 High Risk*	*31 December 2024 Total*
	£	£	£	£
Commercial Investment Loan	144,478,624	75,050,115	161,262	219,690,001
Commercial Mortgage Loan	16,063,033	50,456,514	3,206,044	69,725,591
Total Loan balance	160,541,656	125,506,629	3,367,306	289,415,593
Loss allowance				
Commercial Investment Loan	(192,488)	(123,941)	(5,644)	(322,073)
Commercial Mortgage Loan	(18,111)	(121,728)	(155,034)	(294,873)
Total Loss allowance	(210,598)	(245,669)	(160,678)	(616,945)
Total	**160,331,055**	**125,260,960**	**3,206,628**	**288,798,649**

	31 December 2024 Low Risk	*31 December 2024 Medium Risk*	*31 December 2024 High Risk*	*31 December 2024 Total*
	£	£	£	£
Commercial Investment Loan	7,700,132	43,666,020	1,885,643	53,251,794
Commercial Mortgage Loan	150,000	14,445,751	1,366,270	15,962,021
Total Loan balance	7,850,132	58,111,771	3,251,913	69,213,816
Loss allowance				
Commercial Investment Loan	(53)	(90,770)	(46,173)	(136,997)
Commercial Mortgage Loan	(3,173)	(50,717)	(14,386)	(68,276)
Total Loss allowance	(3,226)	(141,488)	(60,559)	(205,273)
Total	**7,846,906**	**57,970,283**	**3,191,354**	**69,008,543**

13 Property, plant and equipment

Cost	Leasehold improvements	Fixtures and fittings	Computer Equipment	Right of use asset	Total
At 31 December 2022	**1,359,115**	**226,036**	**123,024**	**4,963,477**	**6,671,653**
Additions	923,816	155,935	-	745,689	1,825,440
At 31 December 2023	**2,282,931**	**381,971**	**123,024**	**5,709,166**	**8,497,093**
Additions	5,000	13,545		-	18,545
Disposals	(40,139)			(1,479,792)	(1,519,931)
At 31 December 2024	**2,247,792**	**395,516**	**123,024**	**4,229,374**	**6,995,707**
Accumulated Depreciation					
At 31 December 2023	**557,560**	**144,002**	**68,325**	**2,290,681**	**3,060,568**
Charge for the Period	450,503	129,595	41,008	470,053	1,091,160
Disposal	(32,290)			(559,133)	(591,423)
At 31 December 2024	**975,773**	**273,597**	**109,333**	**2,201,600**	**3,560,303**
Net book Value 2022	1,133,557	169,179	95,707	3,809,038	5,207,482
Net book Value 31 Dec 2023	1,725,372	237,969	54,699	3,418,485	5,436,526
Net book Value 31 Dec 2024	**1,272,019**	**121,918**	**13,691**	**2,027,775**	**3,435,404**

14 Intangible assets

Cost	Software	Total
At 31 December 2023	-	-
Additions	1,040,771	1,040,771
Disposals	-	-
At 31 December 2024	**1,040,771**	**1,040,771**
Accumulated Depreciation		
At 31 December 2023	**-**	**-**
Charge for the Period	-	-
Disposal		
At 31 December 2024	**-**	**-**
Net book Value 31 Dec 2023	-	-
Net book Value 31 Dec 2024	**1,040,771**	**1,040,771**

Software includes asset under development by LHV Bank. This is measured at cost and will be amortised on a straight-line basis in the income statement over its expected useful life from the date that it is available for use, being 5 years.

15 Other assets

	31 December 2024	*31 December 2023*
	£	*£*
Accounts Receivable	2,523,968	1,467,004
Prepayments	717,017	680,611
Intra-Group Receivables	2,811,410	583,810
	6,052,395	2,731,425

Intra-group receivables refer to invoices raised for the intra-group services performed under the Partnership agreement where cash has not been received, these are settled in cash on a monthly basis.

Maturity analysis of Other Assets at 31 December 2024 is:

	<90 days	91-180 days	181-365 days	1yr to 5 yr	over 5 years	Total
	£	£	£	£	£	£
Accounts Receivable	2,268,256	10,495	21,220	73,997	150,000	2,523,968
Prepayments	308,151	303,809	105,057	-	-	717,017
Intra-Group Receivables	2,811,410	-	-	-	-	2,811,410
	-	-	-	-	-	-
	5,387,817	314,304	126,277	73,997	150,000	6,052,395

16 Deposits from customers

	31 December 2024	*31 December 2023*
	£	*£*
Repayable on demand	225,180,709	96,391,685
With agreed maturity dates or periods of notice by remaining maturity:		
Three months or less but not repayable on demand	180,743,905	36,528,839
One year or less, but over three months	178,595,483	74,077,777
	584,520,097	206,998,301

17 Other liabilities

	31 December 2024 £	31 December 2023 £
Other payables	2,664,531	3,022,155
Accruals	1,166,444	1,652,930
Interest payable	2	675,640
Intra-Group Liabilities	108,428	299,878
	3,939,404	5,650,604

Other payables include transit accounts for payments which settle on the next business day.

Maturity analysis of other liabilities as at 31 December 2024 is:

	<90 days £	91-180 days £	181-365 days £	1yr to 5 yr £	over 5 years £	Total £
Other payables	2,609,471	27,530	27,530	-	-	2,664,531
Accruals	1,166,444	-	-	-	-	1,166,444
Interest payable	2	-	-	-	-	2
Intra-Group Liabilities	108,428	-	-	-	-	108,428
	3,884,345	27,530	27,530	-	-	3,939,404

Maturity analysis of other liabilities as at 31 December 2023 is:

	<90 days £	91-180 days £	181-365 days £	1yr to 5 yr £	over 5 years £	Total £
Other payables	2,978,680	-	43,475	-	-	3,022,155
Accruals	1,652,930	-	-	-	-	1,652,930
Interest payable	578,198	-	97,442	-	-	675,640
Intra-Group Liabilities	299,878	-	-	-	-	299,878
	5,509,687	-	140,917	-	-	5,650,604

18 Commitments and Contingent liabilities

Undrawn facilities

	31 December 2024 £	31 December 2023 -
Within one year	69,061,200	
After more than one year	-	-

All commitments relate to undrawn loan facilities, with committed facilities commencing from 2024.

LHV Bank does not have any contingent liabilities as at 31st December 2024 and there are currently no legal proceedings that the bank is involved in.

19 Lease liability

	31 December 2024 £	*31 December 2023* £
Current lease liabilities	947,837	1,116,855
Non-curent lease liabilities	1,418,771	2,887,358
	2,366,608	4,004,213

	31 December 2024 £	*31 December 2023* £
Opening Balance	4,004,213	4,367,642
Additional lease	-	742,785
Finance charge	136,087	181,462
Rent payments	(1,045,264)	(1,287,676)
Disposals	(728,428)	-
Closing Balance	2,366,608	4,004,213

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank elected to apply the short-term lease exemption to leases with a lease term of less than 12 months.

Maturity analysis of lease liabilities as at 31 December 2024 is:

	<90 days £	91-180 days £	181-365 days £	1yr to 5 yr £	over 5 years £	Total £
Lease Liabilities	233,678	235,780	478,378	1,418,771	-	2,366,608
	233,678	235,780	478,378	1,418,771	-	2,366,608

Maturity analysis of lease liabilities as at 31 December 2023 is:

	<90 days £	91-180 days £	181-365 days £	1yr to 5 yr £	over 5 years £	Total £
Lease Liabilities	293,522	271,953	551,381	2,845,291	42,066	4,004,213
	293,522	271,953	551,381	2,845,291	42,066	4,004,213

20 Provisions

	Property	Property
	£	£
01 January 2023	188,253	54,950
Utilised during the year	-	-
Provided during the year	78,732	133,303
31 December 2024	266,985	188,253

Provisions relate to property dilapidations and is expected to settle at the end of the lease agreements.

21 Share capital

	31 December 2024	*31 December 2023*
	£	£
Opening balance	54,100,000	44,100,000
Issue and allotment of share capital	20,900,000	10,000,000
Closing balance	75,000,000	54,100,000

AS LHV Group of Estonia holds 100% (2023: 100%) of the £1 nominal value of ordinary shares issued. During 2024 £20.9 million £1 fully paid-up shares were issued to AS LHV Group. The Shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; They do not confer any rights of redemption.

22 Reserves

Share capital

Share capital increased by £20.9 million on 27th March 2024 by issuing 20.9 million £1 shares to support the business growth of the Bank. The shares we purchased by AS LHV GROUP and cash was received by LHV Bank.

Accumulated losses

The balance of £3.0 million (£6.1 million in 2023) in the retained earnings account represents the total profit and loss reserves of the Bank.

Other reserves

The balance of £1.1 million (£0.5 million in 2023) is the value of the stock options granted to staff.

The total shared based payment charge in 2024 is £0.7 million (£0.3 million in 2023).

Merger reserves

Merger reserves arose from the transfer of the UK branch of AS Pank to the Bank in August 2023. The balance remains the same of £1.7 million (£1.7 million in 2023).

23 Pension and other schemes

LHV Bank operates a defined contribution pension scheme for staff and contributions were made during the year totalling £488,662 (2023: £328,920). An outstanding balance payable of £47,872 at the reporting date (2023: £33,227).

24 Share-based awards

During the year, employees (including three directors) were issued by AS LHV Group with options to buy shares in the parent company, AS LHV Group, a company listed in Estonia. In 2024 the recipients and amounts of share options to be granted for the results for 2023 were determined based on this programme.

Outstanding amount of share options

	Number of shares	Strike price (EUR)	Year of expiry	Number of people to whom the share options were granted
Outstanding amount of share options at 1 Jan 2023	**34,832**			
Granted during the period	180,853	1.70	2026	19
Exercised during the period	-			
Outstanding amount of share options at 31 Dec 2023	**215,685**			
Granted during the period	605,365	1.74	2027	47
Exercised during the period	(8,040)			
Outstanding amount of share options at 31 Dec 2024	**813,010**			

25 Related party transactions

A number of banking transactions were entered into with related parties in the normal course of business. This included an overdraft facility from AS Pank (fellow group company) in 2023 which was fully repaid in January 2024, cash deposits and support services under the Group Partnership agreement. Outstanding balances at the end of the year and related income and expenses for the year are as follows:

	31 December 2024 £	31 December 2023 £
Assets		
Cash held at fellow subsidiaries	10,836,479	201,733
Amounts due from fellow subsidiaries	2,811,410	583,810
	13,647,889	785,543
Income		
From fellow subsidiaries	24,319,871	26,504,029
	24,319,871	26,504,029
Liabilities		
Amount due to fellow subsidiaries	24,524,609	61,796,027
	24,524,609	61,796,027
Expenses		
To parent	42,839	115,972
To fellow subsidiaries	2,155,300	2,761,377
	2,198,139	2,877,349

These transactions were entered into under normal banking terms and are settled on cash basis. They mainly relate to income earned from the Partnership agreement, expense recharges in relation to the Estonian head office and related group receivables and payables. All transactions are considered to be on an arm's length basis. There were no ECLs on related party balances.

Only the Board of Directors are considered key personnel requiring disclose under IAS 24. The Chief Executive Officer, Chief Technology Officer and Chief Financial Officer were included in the Board of Directors during the year. The Board of Directors meet on a regular basis and any decision outside of risk appetite requires Board approval. All other Executive Committee members are not considered key personnel as at least one board member is included all committees.

Deposit liabilities totalling £1k (2023: £0) were held by the Bank in respect of key personnel, including non-executive directors of LHV Bank. No loans were advanced to key personnel during 31 December 2024 (2023: nil), compensation paid to key management personnel is as disclosed in note 9. Share based payments expensed in the accounts for the year for key personnel amounted to £112,360 (2023: £117,320).

There were no other related party transactions or balances requiring disclosure not already disclosed in note 9.

26 Financial risk management

Financial instruments

LHV Bank's financial instruments comprise of loans and deposits that arise from its operations as a lending and deposit-taking institution. LHV Bank holds and issues financial instruments for three main purposes:

- to earn an interest margin or a fee;
- to finance its operations; and
- to manage the interest rate risks arising from its operations and from its sources of finance.

The main risks arising from LHV Bank's financial instruments are credit risk, market risk and liquidity risk. Market risk includes interest rate risk and foreign currency risk. The management reviews and agrees policies for managing each of these risks and they are summarised below. These policies were reviewed within the period being reported.

Credit risk

Credit risk is the potential for financial loss resulting from a borrower's failure to meet debt obligations. This risk may arise from several factors, including unexpected financial difficulties faced by the borrower that impair their ability to repay, underperformance relative to projected financial targets, or insufficient monitoring of borrower performance by the bank.

LHV Bank's Credit function has established internal controls to ensure that loans are granted in alignment with the Bank's credit policy and that all credit facilities are appropriately monitored on a regular basis following disbursement.

Furthermore, significant shifts in the economy or within specific industries can lead to risks that differ from those anticipated at the balance sheet date. To manage these risks, the Bank applies appropriate credit facility structures and has established exposure limits for borrowers.

Risk appetite and credit risk management

The Risk Appetite is an expression of the level and type of risk LHV Bank is willing and able to accept in pursuit of its strategic objectives expressed in a business plan. The Risk Appetite Statement (RAS) forms the basis for establishing the risk boundaries within which the Bank must operate. The Bank regularly conducts stress tests and monitors key performance indicators (KPI) to ensure that it operates within Board approved thresholds, and where needed, adjust limits in response to changes in the business and/or macroeconomic conditions. Results of the stress scenarios which includes ECL sensitivity are applied to ensure adequate capital and liquidity to support the Bank's strategy and business plan. ECL Sensitivity assumptions and outputs are incorporated into the internal capital assessment process (ICAAP) and business planning.

Management of Credit Risk

Credit risk is a risk for the Bank's business and therefore importance is placed on effective management of this risk. It is created when the Bank commits to, or enters into, an agreement with an obligor or counterparty.

The Credit Risk Policy is the primary reference document for identifying, measuring, approving and reporting credit risk and adopted in conjunction with the impairment policy and other risk related policies. The Credit Risk Management Policy is designed to:

- Provide a comprehensive guide and framework in creating and managing risk assets.
- Ensure prompt identification of problem credits and prudent management of decline in credit quality.
- Outline the requirements for administration and reporting of individual exposures and the overall risk asset portfolio.

Risk limit control and mitigation policies

The Bank manages concentrations of credit risk to individual counterparties and groups, industries and countries. Such risks are monitored on a regular basis and subject to an annual or more frequent reviews where required. Limits on the level of credit risk by product, country industry/sector, obligor or group of related parties are set by the Board of Directors on the recommendation of the Chief Risk Officer.

The measurement of concentration metrics will operate within the defined risk appetite metrics for capital and liquidity with any exposure initiation subject to compliance with capital and liquidity risk appetite ratios.

Credit risk measurement

In measuring credit risk of financial assets, the Bank reflects the following components:

- The character and capacity to pay of the client or counterparty to meet its contractual obligations;
- Current exposures to the counterparty and its likely future performance;
- Credit history of the counterparty; and
- The likely recovery in case of default obligations – value of collateral and other ways out.

Obligor Risk Rating

The Bank has a robust internal rating system it leverages to determine credit worthiness of its borrowers and likelihood of default. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes.

The obligor risk rating grids is based on a 13-master rating scale (2023 – 10 point) which was implemented in Q3 2024 to provide an objective basis for making credit decisions and estimating expected credit loss in line with IFRS 9 requirements. The rating adopted depends on outcome of quantitative and qualitative factors considered on the customer and reflects the inherent risks associated with each customer.

The rating tools are reviewed and upgraded when necessary. The Bank regularly validates the performance of the rating tools and their predictive powers regarding default events.

Arrears and Problem Debt Management

The Bank recognises that there will be occasions when customers cannot meet their direct debit payments as they fall due. For these instances the Bank has a defined arrears framework which contains an expected timeline of events and actions.

As at 31st December 2024, there were two stage 2 (across 1 counterparty) loans and one stage 3 loan. The stage 2 loans related to a counterparty which went through temporary forbearance measures in the year. Stage 3 loan relates to an entity which was also previously under forbearance measures and was in contractual breaches as at 31 December 2024. Provisions for stage 3 loans has been based on a 100% probability of default and the applicable amended market value of the security, with associated forced sale discount applied.

Watchlist

The purpose of the Watchlist is to segregate those customers where a heightened risk of loss exists from the performing book so that they can be more closely managed and monitored. The Watchlist is categorised as follows:

Potential Difficulties Watchlist

Customers who are showing signs of potential financial difficulty. These customers are monitored more frequently both for the purposes of prudent credit risk management and to test if a Significant Increase in Credit Risk has occurred for IFRS9 staging.

Difficulties Watchlist

Customers which are considered to be in financial difficulty and the Bank is working with them in order to rehabilitate the account and minimise the possibility of a default.

Customers in this category may have a performing forbearance arrangement in place or they may have experienced recurring episodes of arrears.

Default and Recoveries

These are customers where the highest risk of loss exists and where the potential for repayment has been considered only to be possible by recourse to the Bank's asset security.
Additionally, these customers may have experienced or caused a documentary Event of Default and therefore until such time as the Event of Default is waived or cured, this loan will be considered to be in default.

Determination of ECL – Economic assumptions

As at 31 December 2024, the Bank incorporated the impact of changing macroeconomic scenarios on ECL computation through consideration of four discrete scenarios (Upside, Baseline, Downside and Severe) with probability weights assigned to these scenarios. The probability weights were maintained at 10%, 55%, 25% and 10% for Upside, Baseline, Downside and Severe scenario. The rationale provides the basis for estimating the scenario weights for the macroeconomic variables (MEVs) which impact on the Bank's portfolio. The MEVs applied to the portfolio are UK GDP growth, the unemployment rate and the inflation adjusted Bank Rate. The core set of weights and economic paths are calibrated by looking at the severity of economic shocks over several cycles. The determination of the updated weights is based on an assessment of where the UK economy is in the economic cycle and a forward-looking view of emerging risk. Key ECL assumptions as at 31 December 2024 and comparatives as at 31 December 2023 are as follows:

2024

Scenario	Probability weighting	GDP growth	Unemployment rate	HPI change	CRE - property prices change	Base rate	CPI
Upside	10%	1%	385%	2%	5%	314%	1%
Base	55%	1%	417%	1%	2%	336%	1%
Downside	25%	1%	513%	0%	2%	286%	1%
Severe	10%	1%	668%	-1%	0%	450%	2%

2023

Scenario	Probability weighting	GDP growth	Unemployment	HPI	CRE	Base rate	CPI
Upside	10%	1%	387%	3%	7%	1%	1%
Base	55%	1%	428%	1%	3%	1%	1%
Downside	25%	1%	511%	0%	3%	1%	1%
Severe	10%	1%	653%	-1%	0%	2%	2%

ECL Sensitivity analysis

The purpose of the sensitivity tests is to show the effect of changing the weights of positive and negative scenarios. Thus, in the sensitivity tests, the weight of the baseline scenario is retained, and one test has been carried out, where 100% upside and downside scenario application is adopted. Please note that this does not constitute an upper and lower range to the ECL but are provided as sensitivities to the macro-economic outlook, which is an area of uncertainty.

	2024	*2023*
Upside 100%	(126,626)	(79,966)
Downside 100%	96,465	30,613

LHV Bank's credit policy documents, Credit Committee terms for reference and risk appetite statement include details on Credit Committee lending authority, large exposures, concentration risk, connected party transactions with parent and affiliates, UK country risk exposure only, industry lending, use of external credit assessments, credit risk collateral and provisioning.

The table below shows the Bank's financial assets and the Bank's exposure to credit risk based on the earlier of the next interest rate re-pricing or residual maturity date. This is before taking account of any collateral and credit risk mitigation, arising from its on-balance sheet and off-balance sheet financial instruments. Cash and cash equivalents are held with the Bank of England (AA- rating), fellow subsidiary LHV Pank (Baa3 rating) and external Bank's NatWest plus Citi Bank (A+ ratings). For off balance sheet instruments, the maximum exposure to credit risk represents the contractual nominal amounts.

	<90 days	91-180 days	181-365 days	1yr to 5 yr	over 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Cash and cash equivalents	362,299	-	-	-	-	362,299
Loans and advances to customers	-	-	-	288,799	-	288,799
Other assets	5,388	314	126	74	150	6,052
Total	367,687	314	126	288,873	150	657,151

As at 31 December 2023

	<90 days	91-180 days	181-365 days	1yr to 5 yr	over 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Cash and cash equivalents	242,125	-	-	-	-	242,125
Loans and advances to customers	-	-	-	69,009	-	69,009
Other assets	2,302	169	2,050	6,931	150	11,603
Total	244,426	169	2,050	75,940	150	322,737

Age analysis of past due but not impaired assets

Modification of financial assets

The Bank can modify the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery. Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. However, no modifications or restructuring was required in 2024.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the subsequent performance of modified assets. The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for three consecutive months. The gross carrying amount of such assets held as at 31 December 2024 was nil (2023: Nil).

Further quantitative analysis on Credit Risk and associated IFRS 9 disclosures can be found in note 12.

Market Risk

Market risk is the risk to LHV's capital and earnings resulting from current or potential adverse movements in market rates, primarily interest rates and foreign exchange rates, which impact positions held in the banking book. The objective of market risk management is to safeguard LHV's capital and earnings by maintaining market risk exposures within defined, acceptable limits while optimizing risk-adjusted returns. This involves continuously monitoring and assessing the potential impact of adverse movements in market rates, primarily interest rates and foreign exchange rates, on positions held in the banking book.

Interest Rate Risk

Interest rate risk originating from banking activities arises due to LHV Bank holding a combination of fixed and variable rate assets and liabilities that arise during the normal course of business.

Interest rate sensitivity analysis

LHV Bank holds fixed and variable rate assets and liabilities along with our customer deposits and SME Lending business. As a consequence of holding variable rate financial instruments, the Bank is exposed to cash flow interest rate risk.

Interest rate sensitivity analysis has been performed on the net cash flow interest rate risk exposures as at the reporting dates. A range of possible upward/downward movements in Base Rates of 200bps has been assumed for the different currencies based on our expectation of future price movements, see below impact.

2024

£000s	0-3 mths	3-6 mths	6-12 mths	> 12 mths	Total
NPV Sensitivity to + shift	(568)	1,249	1,612	(4,533)	(2,240)
NPV Sensitivity to - shift	*580*	*(1,284)*	*(1,669)*	*5,151*	*2,778*

2023

GBP £'000

	0-3 mths	3-6 mths	6-12 mths	Total
NPV Sensitivity to + shift (as derived from above data)	(319)	168	919	768
NPV Sensitivity to - shift (as derived from above data)	327	(173)	(952)	(798)

Foreign exchange risk

Foreign exchange exposure arises from normal banking activities, particularly from the receipt of deposits and the placement of funds denominated in foreign currencies. It is the policy of LHV Bank to match the currencies of its assets and liabilities as far as practicable. It is also the policy of LHV Bank to adhere to the limits laid down by the Board in respect of the "overall net open position". The tables below give details of the LHV Bank's net foreign currency exposures as at 31 December 2024 as a basis of disclosing the Bank's foreign currency sensitivity analysis.

Foreign exchange sensitivity analysis

Foreign currency sensitivity analysis has been performed on the foreign currency exposures inherent in LHV Bank's financial assets and financial liabilities at the reporting dates presented. The sensitivity analysis provides an indication of the impact on LHV Bank's profit or loss of reasonably possible changes in the currency exposures embedded within the functional currency environment that the Bank operates in. Reasonably possible changes are based on an analysis of historical currency volatility, together with any relevant assumptions regarding near-term future volatility.

LHV Bank holds very little financial assets and financial liabilities in foreign currency, with the largest currency being EUR. The net EUR position is EUR 1,207k at 31 December 2024 (EUR 580 - 2023) to support our operations and staff costs based in Estonia.

LHV Bank believes that for each foreign currency net exposure it is reasonable to assume a 5% appreciation/depreciation against the Bank's functional currency. If all other variables are held constant, the tables below present the impact on the Bank's profit or loss if these currency movements had occurred.

As at 31 December 2024	EUR	Other currencies
	£'000	£'000
Net foreign currency exposures	997	89
Impact of 5% increase in foreign currency: GBP rate	48	4
Impact of 5% decrease in foreign currency: GBP rate	52	5

Derivatives

The Bank does not hold any derivatives.

Liquidity risk

LHV Bank is regulated in the United Kingdom by the PRA which sets the required liquidity mismatch parameters.

Maturity analysis

Maturity analysis is based on the (undiscounted) contractual cashflows and on the earlier of the periods to the next interest rate pricing date or the maturity dates.

	<90 days	91-180 days	181-365 days	1yr to 5 yr	over 5 years	Total
	£	£	£	£	£	£
Deposits from customer	307,989,053	157,249,226	119,281,818	-	-	584,520,097
All other liabilities	4,118,023	263,310	505,908	1,685,756	-	6,572,996
	312,107,076	157,512,536	119,787,726	1,685,756	-	591,093,094

27 Capital management

Capital is made up of Tier 1 capital elements. LHV Bank's Tier 1 capital is equivalent to its equity which consists of paid share capital, retained earnings and revaluation reserves as stated in the statement of financial position. The Bank's capital management strategy is to provide a sufficient capital base to cover business risks, future business levels and comply with all regulatory requirements. It aims to maintain healthy capital ratios to support its business. The key capital metrics are reported in the table below:

	31 December 2024	*31 December 2023*
	£'000s	*£'000s*
Available own funds (amounts)		
Common Equity Tier 1 (CET1) capital	68,399	44,532
Tier 1 Capital	68,399	44,532
Total capital	68,399	44,532
Risk-weighted exposure amounts		
Total risk-weighted exposure amount	284,276	140,702
Capital ratios (as a % of risk-weighted exposure amount)		
Common Equity Tier 1 ratio (%)	24.1%	31.7%
Total capital ratio (%)	24.1%	31.7%

The Prudential Regulation Authority (PRA) supervises the Bank, receiving information on the capital adequacy and setting the capital requirements. The Bank actively manages its capital position, reporting regularly to the Board and senior management through Board Risk Committee (BRC) Asset and Liability Committee (ALCo) and other governance committees. BRC is responsible for managing the capital of the Bank in line with the Risk Appetite set out by the Board, including approving policy, overseeing internal controls and setting internal limits for capital ratios. The Bank's approach is based on the three Pillars with the first Pillar based on minimum capital requirements at 8%, the second Pillar uses the Internal Capital Adequacy Assessment process to assess capital risks and to determine the Total capital requirement. Additionally, the PRA sets buffer requirements.

Pillar 3 covers the requirement for disclosures to market participants covering the Bank's capital, risk weighted assets and risk assessment processes. Further details about the Bank's regulatory capital requirement and its management are disclosed in the Bank's Pillar 3 Disclosure document published on its website.

28 Fair value of financial instruments

Fair value measurement recognised in the statement of financial position.

There are no financial instruments held at fair value after initial recognition as at the balance sheet date of LHV Bank.

29 Dividends

No dividend was paid by LHV Bank in respect of the year ended 31 December 2024 (2023: Nil). No Dividend is proposed for 2024.

30 Parent and ultimate parent undertaking

The Bank's immediate and ultimate parent is AS LHV Group incorporated in Estonia which prepares group accounts including all companies within the AS LHV group. The registered address of AS LHV Group is Tartu mnt 2, 10145 Tallinn, Estonia. Copies of such accounts may be obtained from the group website: https://investor.lhv.ee

31 Post balance sheet events

The Directors are not aware of any other material events that have occurred between the date of the Statement of Financial Position and the date of this report, except for £10.0 million £1 fully paid-up shares were issued to AS LHV Group as part of a capital injection on the 6th of March 2025. The Shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; They do not confer any rights of redemption.

Cautionary statement

Certain statements included or incorporated by reference within this report may constitute “forward-looking statements” in respect of the company’s operations, performance, prospects and/or financial condition. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as “anticipates”, “aims”, “due”, “could”, “may”, “will”, “should”, “expects”, “believes”, “intends”, “plans”, “potential”, “targets”, “goal” or “estimates”. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions and actual results or events may differ materially from those expressed or implied by those statements. There are also a number of factors that could cause actual future operations, performance, financial conditions, results or developments to differ materially from the plans, goals and expectations expressed or implied by these forward-looking statements and forecasts. These factors include, but are not limited to, those contained in this report. Accordingly, no assurance can be given that any particular expectation will be met, and reliance should not be placed on any forward-looking statement. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Except as may be required by law or regulation, no responsibility or obligation is accepted to update or revise any forward-looking statement resulting from new information, future events or otherwise. Nothing in this document should be construed as a profit forecast. Past performance cannot be relied upon as a guide to future performance and persons needing advice should consult an independent financial adviser. Statements in this report reflect the knowledge and information available at the time of its preparation. Liability arising from anything in this report shall be governed by English law. Nothing in this report shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.