AS LHV Group
Consolidated annual report 2023

(Translation of the Estonian original)

Consolidated annual report	1 January 2023 – 31 December 2023
Legal name	AS LHV Group
Commercial Registry no.	11098261
Legal address	Tartu mnt 2, 10145 Tallinn
Phone	(+372) 6800400
Fax	(+372) 6800410
E-mail	group@lhv.ee
Main activities	Banking Leasing and other lending Financial advisory Security brokerage Non-life insurance Activities of holding companies
Financial year	1 January – 31 December
Management Board	Madis Toomsalu Meelis Paakspuu Jüri Heero Martti Singi
Supervisory Board	Rain Lõhmus Andres Viisemann Tiina Mõis Heldur Meerits Raivo Hein Tauno Tats Sten Tamkivi
Shares	Listed on the Nasdaq Tallinn Stock Exchange
Auditor	KPMG Baltics OÜ

These are the Group's consolidated financial statements in pdf-format without European Single Electronic Format (ESEF) markups. The original document is submitted in machine-readable .xhtml format to the Nasdaq Tallinn Stock Exchange and digitally signed:

link: https://nasdaqbaltic.com/statistics/en/instrument/EE3100102203/reports

Mandatory elements of the European Single Electronic Format (ESEF) core taxonomy

Name of reporting entity or other means of identification	**AS LHV Group**
Explanation of change in name of reporting entity or other means of identification from end of preceding reporting period	**No changes**
Domicile of entity	**Republic of Estonia**
Legal form of entity	**Public limited company**
Country of incorporation	**Republic of Estonia**
Address of entity's registered office	**Tartu mnt 2, Tallinn, 10145, Republic of Estonia**
Principal place of business	**Republic of Estonia**
Description of nature of entity's operations and principal activities	**Banking, leasing and other lending, financial advisory, security brokerage, non-life insurance, activities of holding companies**
Name of parent entity	**AS LHV Group**
Name of ultimate parent of group	**AS LHV Group**

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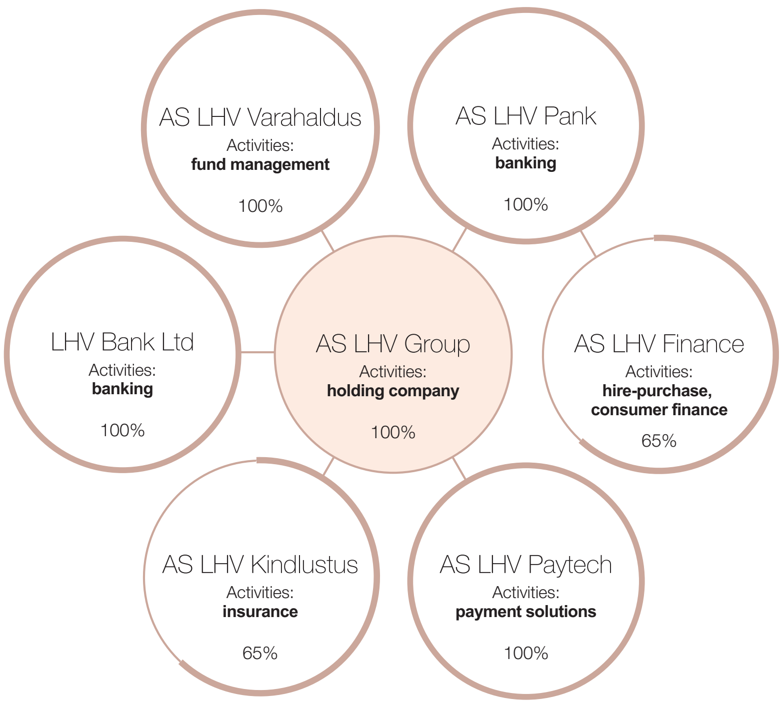
Management report

LHV at a glance

Group overview

AS LHV Group (also the Group, LHV Group or LHV) is the largest domestically owned finance group and capital provider in Estonia. The main subsidiaries of AS LHV Group are AS LHV Pank (LHV Pank), LHV Bank Ltd (LHV Bank), AS LHV Varahaldus (LHV Varahaldus), AS LHV Kindlustus (LHV Kindlustus) and AS LHV Paytech (LHV Paytech). LHV was established in 1999 by people with extensive experience in investing and entrepreneurship. LHV's customer service offices in Estonia are in Tallinn, Tartu and Pärnu. Since 2018, LHV has widened its geographical coverage and entered the UK market. There are three offices in the UK: London, Leeds and Manchester.

LHV employs more than 1,050 people. 417,000 customers use LHV's banking services and LHV's pension funds have 160,000 customers.



Operating principles

LHV concentrates on active and independent customers with an entrepreneurial mindset. Our service range is diverse. For private customers, we have high-quality universal banking services. For corporate customers, we have flexible and customised financing solutions as well as assistance in daily financial operations.

The products and services provided by LHV are simple, transparent and practical. We interact with our customers mainly through modern electronic communication channels. This helps us save on costs and keep the prices of our everyday services affordable.

LHV was created as a partnership and the concept of partnership is central to growing LHV's business. New initiatives will be implemented faster and more successfully if partners share the same interests and support each other in the long term.

LHV is a public company listed on the Tallinn Stock Exchange since May 2016. Thus, all our customers and partners have an opportunity to become LHV's owners.

Vision and mission

Our vision is encouraging people and businesses think big and act big.

Our mission is to provide better access to financial services and capital.

Our long-term goal is to build strong relationships with all 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% return on equity per year for investors; and
- a company with the best management practices, positive social impacts and clear climate goals for society.

Main risks

- The biggest risk for LHV as a traditional banking group is credit risk, which accounts for 90.4% of our total risk weighted assets (RWA). Credit risk arises mainly from loan operations.
- The second biggest risk for LHV is liquidity risk. There is always a large mismatch in assets and liabilities duration in banking. LHV banking services for financial intermediaries business model contains volatile deposit base and therefore LHV keeps a very high liquidity profile.
- The third biggest risk for LHV is operational risk, which accounts for 8.7% of total RWA. Operational risk is the risk of loss arising from inadequate or failed internal processes, people and information systems, or from external events.
- Market risk accounts for 0.9% of the Group's total RWA. Market risk arises from LHV's positions which are exposed to changes in interest rates, foreign exchange rates and securities prices.

Letter from the CEO

Dear reader

2023 can be characterised by trends that have already emerged at the beginning of the year. In several globally important economies, including the European Union, rising interest rates have accelerated in response to price increases. Geopolitical tensions and energy price volatility have highlighted structural economic problems in the regions, which have made planning more difficult. LHV's financial plan, which was published at the beginning of 2023, also proceeded from this finding.

The fact is, however, that we have fared better than planned due to rising business volumes and rising interest rates. This is why we raised our 2023 financial plan goals in September. From the outside, only a tailwind seems to be blowing in the banking sector, but achieving a good result has required a strong commitment and important strategic decisions.

We were faced with a recession in the Estonian economy and a cooling of the UK economy. The launch of LHV Bank in the United Kingdom, the growth of the insurance business, and the transition under the direct supervision of the European Central Bank all required separate attention.

However, the most important thing was to understand that the growth of profits could be followed by a sharp decrease. Interest rates are cyclical, and the very rapid rise has historically been followed by a rapid decline.

To reduce risk, we launched several strategic actions in the second half of the year and focused on cost control. We mainly focused on risk entities, in particular the areas of anti-money laundering, product management, and IT development. We have restructured, and the first results can already be seen; however, we intend to continue with ambitious goals and strategic activities throughout 2024 so that our business will remain efficient and sustainable in the years to come.

A large part of increasing efficiency lies in increasing technological capabilities. LHV has always seen itself as a technological leader, but you have to flesh out your words with deeds. We believe that there are already significant opportunities to employ artificial intelligence in many areas today, and we plan to both look for and use these opportunities.

We are going to face 2024 with the strength and confidence that is characteristic of us. We have always focused on the main thing – forming assumptions. Good results are a consequence of well-formed assumptions. The most important are our employees, customers, and shareholders, as well as the long-term sustainability of our business. 2023 was a good year in this context.

During the year, LHV was named both the most desirable and top employer in Estonia. The results of our internal satisfaction surveys continue to be very good. LHV Pank was recognised as the bank with the best service. This brought us 39,500 new bank customers. Our loan portfolio grew by 11% and the deposit portfolio by 17% during the year, while net profit increased by 129% over the year. LHV was chosen as the company with the best investor relations on the Baltic stock exchanges, and despite the economic downturn, we carried out a bond issue that proved to be very successful.

In the field of sustainability, in addition to assessing and managing the footprint of our activities, we have also made progress in managing the impact of doing business. The assessment of emissions financed through the loan portfolio and the leap forward in the gathering of environmental information have created good conditions for taking the next steps in reducing the negative impact. The main keywords here are raising awareness, limiting business projects that are harmful to the environment, and creating a positive impact through the product portfolio.

We started 2023 under the direct supervision of the European Central Bank. This has been an arduous transition with the relevant costs involved. At the same time, we believe that cooperation delivers a good result, as Europe needs an example of an innovative bank, the profitability of which comes from cost-effectiveness and a high-quality loan portfolio.

Several of LHV's underlying principles are timeless. We have not gone along with the avantgarde business environment, despite the temptations. The fundamental belief that technology can be used with the best people to offer the optimal experience to the customer and the expected rate of return for the shareholder will keep us efficient and effective, even in the years ahead.

LHV is doing well. Now and in the future.

Madis Toomsalu

Chairman of the Management Board of AS LHV Group

Summary of the year 2023

2023 in actions

The year 2023 was characterised by a changing environment, rising interest rates, negative GDP growth in Estonia and cooling economy in the UK. However, we and our customers' activities grew to higher levels than ever before.

LHV Pank

2023 was another complicated year due to a rapidly changing environment. All in all, the number of customers, loan portfolio, regular customers' deposits, customer activity and net income increased. LHV Bank took over the activities of the UK branch of LHV Pank in middle of year, affecting significantly also activities in Estonia. In summary, LHV Pank has a strong position and is profitable.

LHV Bank

LHV Bank received banking licence in early Q2. The business activities of the UK branch of LHV Pank were transferred to LHV Bank in August. LHV Bank is offering currently pound services to financial intermediaries, providing loans to SMEs, and collecting deposits through deposit platforms.

LHV Varahaldus

In 2023 the financial markets didn't manage to keep up with reference index based on social tax collection, reducing the possibility of earning a success fee. LHV Varahaldus has continued to offer stable and positive returns for pension investors in their actively managed pension funds.

LHV Kindlustus

The central topic was increasing the market share and profitability at the same time. 2023 was the first year, when LHV Kindlustus managed to finish the year with net profit. Being a small company, the results have also been affected by one-off larger insurance cases.

LHV Paytech

LHV Paytech's focus has been on developing new payment methods and supporting the Group's strategic goals. The company offers services to the LHV Pank and LHV Bank and in smaller scale also to other market participants.

2023 in numbers

- **LHV share price** increased from EUR 3.34 to 3.495, outperforming the market indexes.
- **The number of bank customers** increased by 39,500 (+10% YoY) and the number of customers actively using LHV Pank for everyday payments increased by 23,900 (+14% YoY). LHV managed to strengthen its market share among private and legal customers, which is supported by the focus on providing a full range of services.
- **Total consolidated assets** reached EUR 7.1 billion (+16% YoY). The increase in the balance sheet volume was driven by growth in deposit base in all customer segments.
- **The loan portfolio** increased by EUR 353 million to EUR 3.6 billion (+11% YoY). Retail loans increased by 10% and loans to corporates by 12%. The quality of the loan portfolio stayed strong, with some individual customers showing signs of weakening.
- **The volume of deposits** increased to EUR 5.7 billion (+17% YoY), from which EUR 1.1 billion were financial intermediaries' deposits. Regular customers' deposits increased by EUR 450 million (+12% YoY). The growth came mostly from term deposits supported by higher interest rates.
- **Assets under management** increased by EUR 187 million to EUR 1.5 billion (+14% YoY) mainly due to positive return of the funds.
- **Net profit** was at the historically highest level of EUR 140.9 million (+129% YoY), an increase of EUR 79.5 million. It was mainly positively affected by the combination of strong credit quality and assets repricing to higher interest rates faster than liabilities.

Financial results

1. Activities of business areas

Looking backwards, 2023 was a complicated year for LHV. On the one hand, we achieved all our financial targets, and our customer satisfaction level was the highest in the banking sector. And even more, we hiked up our financial targets by 30% during the year. Financially the year was anomalous, as assets repriced with higher interest rates, liabilities were either fixed or with slower repricing, and credit risk did not realise as expected. Moreover, the loan portfolio was stronger than in all previous years. At the same time, we saw the sentiment change in the market – the deposits didn't grow, the same on lending side. War in Ukraine affected several customers' supply chain. Markets were afraid of Estonian country risk making it difficult to issue MREL instruments. Financial intermediaries' activities decreased. Stock markets dropped reducing the investors activity and affecting asset management results.

From regulatory side, LHV moved under ECB supervision, which increased significantly the complexity, and during the year asset-quality review was carried out affecting almost 30 people for several months. Also, new higher MREL requirement was indicated by SRB, causing the need for issuing more than EUR 200 million of MREL bonds with high interest rates. The year started with healthy competition for deposits among banks, and continued to heavy competition with targeted offers, as all banks needed to either protect their market share or fund their increasing loan portfolios.

The amount of bureaucracy has significantly increased over the last years. This is valid for both, number and details in regular reporting packages, but also to internal documentation, where sizable number of different contingency type plans have been developed and kept updated. In total, LHV Group has currently 162 unique reports, that are presented to different regulators. Some of the reports are simple containing only handful of numbers, but others are very complicated including enormous amount of data and calculations. Most of the reports are regular. Overall, LHV Group has presented 1,200 reports to regulators in 2023.

Overall, we managed to fulfil our financial profitability targets, lend more than initially planned and successfully issue capital related instruments. It was a challenging year in terms of forecasting and delivering results because there were constant changes during the year. On average, the forecasts held in place only for three months, till they became outdated. Therefore, we updated our financial plan only in September, as we saw that the environment changes quickly. Also, the business focus changed. During the last couple of years, assets have been the limiting factor for growth, but this year the liabilities were.

Corporate banking showed a strong growth in 2023 as the portfolio increased by 12% YoY despite several Scandinavian-owned banks becoming very active in lending. Our market share is around 18% in the corporate loan market. Our corporate loan portfolio amounted to EUR 1,967 million. The quality of the loan portfolio remained strong, with a very low share of non-performing loans.

In retail banking, we focused on home loans, raising awareness of investment services, and developing customer-tailored services. Regarding home loans, we focused on process automation and the use of fully automated decision-making. At the year-end, the retail loan portfolio totalled EUR 1,595 million, representing approximately 10% market share.

In addition to lending, investment activities have been growing in Estonia. During last three years, number of LHV shareholders tripled and is exceeding 37,000.

In financial intermediaries' segment, our primary focus was on transferring pound services to LHV Bank, which effectively took place in August 2023. As part of regular risk management, we carried out risk reduction activities and terminated customer relationship with higher risk customers. In total, the number of customers remained almost the same, but the customer concentration decreased several times. Our business in the UK is profitable and the revenue base is growing, with revenue generated mainly from interest income, payments, currency exchange, card payment mediation, credit services and maintenance fees. In summary, LHV Bank had a very successful year, the bank received banking licence, started business activities and managed to end first year profitable.

The total volume of investment funds under the management of LHV Varahaldus reached EUR 1.5 billion in 2023, increasing by 14% YoY due to the rising capital markets. However, the benchmark index, which is dependent on the social tax collection, continued in rapid growth. Hence, LHV Varahaldus didn't manage to earn success fee. LHV Varahaldus keeps around 29% market share.

LHV Kindlustus had first profitable year. As being still small business, the results are affected by handful of single items. In 2023, LHV Kindlustus started putting more focus on cross-sale with LHV Pank, which continues to be focus point for the next years as well. Starting from 2024, the business line is expected to become profitable in every month.

Financial results for last 7 years

EUR million	2017*	2018*	2019	2020	2021	2022	2023
Net interest income	35.5	39.8	47.3	68.5	97.3	129.1	253.8
Net fee income	22.2	26.0	25.7	33.3	42.6	44.7	54.1
Net other income	1.0	3.4	0.7	1.6	-0.9	-0.6	2.5
Net income	58.7	70.0	73.8	103.4	140.4	173.5	310.5
Expenses	31.9	33.8	39.3	44.0	65.2	89.6	134.3
Profit before credit losses	26.6	36.2	34.6	59.6	75.2	83.9	176.1
Impairments	3.2	5.3	3.2	10.9	3.9	8.1	11.5
Tax expense	1.2	3.8	4.2	8.8	11.0	14.4	23.7
Net profit	22.2	27.2	27.1	39.8	60.3	61.4	140.9
net profit attributable to owners of the parent	17.8	25.2	24.8	38.0	58.3	59.8	139.6

Volumes for last 7 years

EUR million	31 Dec 2017*	31 Dec 2018*	31 Dec 2019	31 Dec 2020	31 Dec 2021	31 Dec 2022	31 Dec 2023
Volume of deposits	1,537	1,422	2,701	4,120	5,808	4,901	5,731
incl. financial intermediates deposits	607	194	376	1,054	2,246	1,281	1,123
Volume of net loans	732	919	1,687	2,209	2,677	3,209	3,562
Volume of assets	1,773	1,677	3,032	4,971	6,845	6,135	7,126
Assets under management	1,103	1,214	1,374	1,537	1,349	1,332	1,519

* includes discontinued operations

The Group's pre-tax profit for 2023 amounted to EUR 164.6 million and net profit totalled EUR 140.9 million (+129% YoY). Net interest income grew 97% and net fee income increased 21%. The Group's net income was EUR 310.5 million (+79% YoY). Operating expenses amounted to EUR 134.3 million (+50% YoY). Most of the increase in expenses has been related to the increased numbers of employees and investments into LHV Bank. The Group fulfilled all the financial ratios published in the initial and in the updated financial plan.

The Group's cost to income ratio was a decent 43.3%, but in current environment we consider it rather modest. The ratio was mainly affected by building the business in the UK, which started active business in middle of year and was still able to deliver 85% cost to income ratio by end of year. In current environment an excellent cost to income ratio would have been around 35%, easily achieved by LHV Pank. A decrease of the Group's cost to income ratio to that level would increase the net profit by 15%.

By the end of December, the total volume of the Group's net loan portfolio amounted to EUR 3.6 billion (December 2022: EUR 3.2 billion), an increase of 11%. More than half of the portfolio were corporate loans that increased by 12% to EUR 2.0 billion (2022: EUR 1.7 billion). Retail loans increased by 10%, amounting to EUR 1.6 billion (2022: EUR 1.5 billion).

The volume of deposits increased by 17% and totalled EUR 5.7 billion by the year-end (2022: EUR 4.9 billion). The share of demand deposits decreased to 66% (31 December 2022: 95%), as interest rates increased and made term deposits more attractive to customers. In 2023, LHV Pank collected EUR 462 million from deposit platforms to have additional buffers in case the collection of Estonian deposits should stall. Platform deposits have remained as insurance buffer on the statement of the financial position.

LHV Group as a stand-alone entity earned a net profit of EUR 0.7 million (2022: EUR 3.5 million). LHV Group's stand-alone business consists mainly of capital and MREL related transactions.

2. Financial ratios

Financial ratios	2017	2018	2019	2020	2021	2022	2023
Common equity Tier 1 %	15.32	15.67	12.39	13.26	14.27	16.02	17.01
Tier 1 %	15.32	15.67	13.88	15.56	16.08	18.43	19.17
CAD %	19.60	21.70	17.96	20.50	19.97	21.72	21.93
MREL %	7.78	11.43	8.70	6.38	-	-	-
MREL-TREA %	-	-	-	-	24.00	29.99	34.16
MREL-LRE %	-	-	-	-	6.90	11.12	12.08
Leverage ratio %	5.01	6.56	6.18	4.40	4.32	6.83	6.78
LCR %	121.3	148.5	144.8	147.9	142.7	139.7	194.2
NSFR %	140.8	147.6	152.9	152.6	163.4	144.0	160.2
Return on equity (ROE) %*	17.6	18.4	14.0	17.3	21.1	16.4	29.0
Return on assets (ROA) %	1.6	1.6	1.2	1.0	1.0	0.9	2.1
CFROI %	22.6	25.4	19.0	26.4	26.4	22.5	36.0
Cost to income ratio %	54.4	48.3	53.2	42.5	46.4	51.7	43.3
Net interest margin (NIM) %	2.66	2.34	2.04	1.73	1.66	2.01	3.88
Spread %	2.62	2.32	1.99	1.70	1.63	1.98	3.75
Loan to deposit %	48.0	65.1	62.5	53.6	46.1	65.5	62.3
Price to earnings ratio	13.6	9.8	13.8	14.8	22.1	17.6	8.0
Dividend to net profit ratio %	21.0	21.6	20.2	13.6	13.9	19.4	9.0
Dividend per share, EUR	0.02	0.02	0.02	0.02	0.03	0.04	0.04

Calculation principles

* Return on equity is calculated based on LHV Group net profit and equity attributable to owners of the parent and does not include non-controlling interests.

capital adequacy levels are calculated as reported in COREP report as at end of each year

MREL = (own funds + qualifying liabilities) / total liabilities * 100

MREL-TREA = (own funds and eligible liabilities) / total risk exposure amount * 100

MREL-LRE = (own funds and eligible liabilities) / leverage ratio exposure measure * 100

LCR, NSFR are calculated as reported in COREP report as of end of each year

return on equity (ROE) = net profit (attributable to owners of the parent) / average equity (attributable to owners of the parent) * 100

return on assets (ROA) = net profit / average assets * 100

CFROI = operating profit / total equity (average)

cost to income ratio = total operating expenses / total net income * 100

net interest margin (NIM) = net interest income / average interest earning assets * 100

spread = yield on interest earning assets – cost of interest-bearing liabilities

loan to deposit = net loans / deposits * 100

price to earnings ratio = share price as at reporting date / net profit for the year attributable to the owners of the parent / number of shares at the end of the period

dividend to net profit ratio = dividend payment during calendar year / net profit for the year

dividend per share = dividend payment during calendar year / number of shares at moment of payment

3. Sensitivity analyses

LHV has four major business lines: Estonian banking, UK banking, asset management and insurance. These business lines are very different in their sensitivities to different risk factors.

Estonian banking is clearly procyclical, meaning that its results are directly affected by macroeconomic developments. In general, there are three major components affecting LHV Pank's results:

- Interest rate
- Credit losses
- Personnel cost

Every 100 bps increase in interest rates will increase LHV net interest income by EUR 12.8 million within the first 12 months. An equivalent interest rate decrease will reduce net interest income by EUR -25.1 million

Credit losses are dependent on the economic situation. LHV has knowledgeable credit risk management, which does not allow excess risk in any economic sector. The rapid growth hides credit losses as a significant part of the portfolio has not yet matured. For understanding the actual levels of credit losses, LHV calculates the credit risk in addition to its current portfolio also for the 12-month-old portfolio. LHV has had very few defaults in history and the only real credit losses LHV Pank has incurred have been related to fraud rather than wrong credit decisions.

Personnel cost is the biggest cost base for LHV Pank and equals around 50% of the total costs. LHV has the internal policy to follow the market levels in compensation packages. LHV offers its services mainly through electronic channels. To offer these services effectively LHV has decided to develop systems in-house. As a result, the IT team accounts for around 25% of the total personnel. As the salary levels for IT personnel have been increasing and seem to increase in the nearest future more than for other personnel segments despite the latest changes in market, LHV has forecasted a higher salary growth than its competitors.

UK banking contains two main business lines: lending and servicing financial intermediaries. First one is partially similar to Estonian banking, where credit losses and collateralisation are important. The second is volume business and it is sensitive to macroeconomic developments, but in a way quite different from banking. In general, there are three major components affecting payment intermediaries' business results:

- Trading activities between countries
- FX rates volatility
- AML risks

The first two are very similar, as most payment intermediaries offer transferring/converting certain currency to another region/currency within a short time frame. The need for such business grows when there are either solid business relationships between countries or when one currency becomes very volatile, and businesses need to hedge their positions quickly. The third area is related to regulations and controlling the AML risk: the financial intermediaries' business models are moving towards more regulations, but from LHV side, bank doesn't see the full chain of transfers meaning that partially it has to rely on financial intermediaries' own activities. LHV does its own controls over transactions and also does on- and off-site inspections to mitigate the risk.

Asset management is almost insensitive to macroeconomic developments. The performance depends on two major items:

- Pension fund management
- Political risk

Pension fund management is key to results. Starting from Q4 2019 the calculation of fund management fees changed to performance bonus principle. LHV has targeted to beat the agreed benchmark over longer period, but not in the coming years. LHV has provided the best pension funds yields in the long-term period.

Another large risk side of the asset management is political risk. In every year during the last 5 years there has been some larger changes in the pension funds management fee calculation. LHV has been successful of managing these changes and being able to deliver good result despite of the constant changes in legislation.

Insurance is relatively insensitive to macroeconomic developments as well. It's more open to fraud, pandemic, weather and strikes risks. The insurance uses reinsurance for reducing the risk to acceptable level. Still the profitability will be hit in case of under or over hedging the risk.

4. Shares and bonds issued by LHV

LHV has been rapidly growing local universal bank with a clear niche towards financial intermediaries.

Over the last years the business model has widened and includes several other financial activities. All these activities have required capital, partially funded from profits and partially issuing capital related instruments. In 2023, there was no new share capital issued to the public, except for share options to employees. LHV redeemed EUR 40 million of Tier 2 bonds and issued EUR 35 million of new Tier 2 bonds. The issue was extremely successful with a subscription of more than EUR 400 million. This marks the highest oversubscription of non-sovereign public bonds in Estonia, with the greatest number of subscribers.

The profits and investments of LHV are not only reflected in the share price, but also in the dividends and interest paid on subordinated bonds.

LHV Group has several securities outstanding:

Shares and bonds outstanding as at 31 Dec 2023	ISIN	Issuer	Outstanding amount	Maturity	Listing
Common share	EE3100102203	AS LHV Group	319,832,743	-	Nasdaq Tallinn main list
Additional Tier 1 subordinated bond	EE3300111780	AS LHV Group	20,000,000	perpetual	not listed
Additional Tier 1 subordinated bond	EE3300001668	AS LHV Group	15,000,000	perpetual	not listed
Additional Tier 1 subordinated bond	EE3300002856	AS LHV Group	20,000,000	perpetual	not listed
Tier 2 subordinated bond	EE3300001791	AS LHV Group	35,000,000	30.09.2030	Nasdaq Baltic bond list
Tier 2 subordinated bond	EE3300003573	AS LHV Group	35,000,000	29.09.2033	Nasdaq Baltic bond list
Senior unsecured bond	XS2379637767	AS LHV Group	200,000,000	09.09.2025	Euronext Dublin
Senior unsecured bond	XS2693753704	AS LHV Group	100,000,000	03.10.2027	Euronext Dublin
Senior unsecured bond	EE3300003250	AS LHV Group	20,000,000	26.05.2027	not listed
Covered bond	XS2185891111	AS LHV Pank	250,000,000	09.06.2025	Euronext Dublin
Covered bond	XS2721494453	AS LHV Pank	250,000,000	20.11.2026	Euronext Dublin

In mid-2022 the share split with 1/10 ratio was carried out, where each shareholder received additional 9 shares for 1 existing share.

LHV Group has very simple share capital structure – there is only one class of shares with nominal value of 0.1 EUR, each share gives 1 voting right.

The shares of LHV Group are traded on NASDAQ Tallinn main list since May 2016

Shareholder statistics as at 31 Dec 2023	
Number of shareholders	37,546
Number of countries represented	45
Share of Estonian residents	76.3%
Share of Estonian residents including two founders	94.8%
Share of legal entities	70.6%
Share of private individuals	27.7%
Share of institutional investors	1.6%
Share of nominee accounts	1.6%
Share of LHV clients	88.4%

46.04% of shares belonged to the members of the Supervisory Board and Management Board and to their related parties.

Geographical distribution of shareholders as at 31 Dec 2023	Percentage
Estonia	76.2%
Switzerland	19.5%
Latvia	2.4%
United States	1.1%
United Kingdom	0.4%
Portugal	0.2%
Lithuania	0.1%
Germany	0.0%
Russia	0.0%
Finland	0.0%
Other	0.1%

Ten largest shareholders as at 31 Dec 2023	Number of shares	Percentage
AS Lõhmus Holdings	37,162,070	11.62%
Viisemann Investments AG	33,910,370	10.60%
Rain Lõhmus	25,449,470	7.96%
Krenno OÜ	12,446,070	3.89%
AS Genteel	11,310,000	3.54%
AS AMALFI	10,875,280	3.40%
Ambient Sound Investments OÜ	10,828,210	3.39%
SIA KRUGMANS	7,188,990	2.25%
Bonaares OÜ	6,691,020	2.09%
OÜ Merona Systems	6,037,590	1.89%

Starting from 2021, when LHV and one another bank significantly lowered prices for trading Baltic equities, the number of new investors has been growing rapidly. LHV's investor base has grown by 5 thousand shareholders within a year, reaching to 37.6 thousand.

5. Share price

The year 2023 started with the share price of EUR 3.34. During the year the share price increased by 4.6%, reaching EUR 3.495 by the end of 2023, outperforming the OMX indexes.

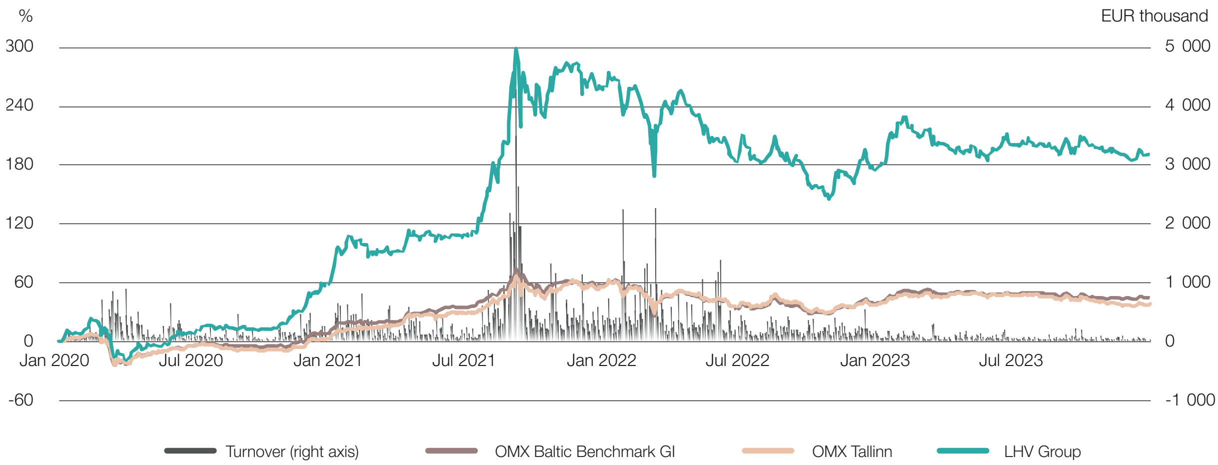
In 2023, the lowest traded price was EUR 3.33 and the highest EUR 3.97. The weighted average price was EUR 3.62.

In total 16.1 million shares were traded with monetary turnover of EUR 58.3 million. Based on the year-end stock price, LHV's market value was EUR 1.1 billion.

Graph below presents LHV Group share performance compared to OMX Tallinn index and OMX Baltics benchmark index. In last three years, LHV Group's share has outperformed both indexes and has risen 84%, when comparison indexes have increased by 32% and 31%, respectively.

Regarding dividend policy, LHV strives to achieve long-term dividend growth without negatively impacting the Group's targeted capital ratios. The annual dividend together with the related taxes should account for 25% of pre-tax profit. Each year's dividend is assessed in the light of prevailing economic conditions and the Group's earnings, growth possibilities, regulatory requirements, and capital position. In addition, LHV has made a conservative decision not to have trading positions in LHV shares nor use them as collateral. In case of exercising share option programmes, the shareholders have delegated the right of issuing new shares to the Supervisory Board.

LHV share price change and daily turnover



Business environment

The global economy witnessed a slowdown in economic activity and heightened divergences across regions in 2023. Although the year commenced with indications of economic resilience, the trajectory shifted in the third quarter. Restrictive monetary policy and increased uncertainty started to take effect, albeit unevenly across countries. The US demonstrated notable resilience, achieving a GDP growth of 1.2% in Q3 compared to the previous quarter, driven by robust consumption, exports, and substantial government spending. In contrast, the United Kingdom entered into standstill, and the euro area saw a decline of -0.1% in Q3, marking the first contraction since the COVID-19 pandemic. Despite facing a challenging environment, economic activity in Asia and the Pacific maintained its course and even surpassed growth expectations in the first half of 2023. However, the growth slowdown is evident due to China's reopening losing momentum and subdued investment, partly influenced by weakened external demand. Yet, central banks continued with restrictive monetary policy as target inflation levels had not been met.

Europe’s economy is suffering from weak demand together with lowering export levels and continued exposure to Russia’s war in Ukraine. The persistent impact of last year's energy price shock, coupled with sustained tightening of monetary policy, is further contributing to a deceleration in growth. The initial slowdown in growth during the first half of the year eventually receded to 0% YoY in Q3. This economic weakening is also evident among Estonia's primary trading partners, where weak domestic consumption, inflation, and elevated interest rates persist. Nordic countries are contending with reduced inventory levels and low investments in the construction sector. Latvia experienced weak growth, primarily influenced by the construction industry, while Lithuania saw a small decline, mainly attributed to contractions in the manufacturing sector, retail, and real estate activities.

The resilience of robust labour market in the euro area shows signs of slowing but has remained tight. The unemployment rate fell to 6.4% in November compared to 6.7% in the year before. The ongoing tightness may be indicative of a delayed adjustment in labour demand. Following the COVID-19 crisis, certain sectors experienced prolonged labour shortages, leading companies to refrain from reducing their workforce, while the manufacturing sector initiated layoffs. Nevertheless, significant disparities persist between countries, with unemployment increasing in some nations and decreasing in others. Specifically, unemployment rates range from nearly 12% in Spain to 2.5% in Malta. Estonia's rate stands just below the euro area average at 6.1%. Youth unemployment (under 25 years) has reached to nearly 28% in Spain but has remained at 5.6% in Germany.

In November, annual inflation in the euro area decreased to 2.4%, marking the lowest level since July 2021. The primary contributors to this decline were the decrease in energy prices and a deceleration in the growth of food prices. The moderation in headline inflation offered some relief to both households and businesses. Core inflation, i.e., consumer price inflation excluding energy and food, proved more difficult to tackle and was still persistent, despite slowing from 4.2% to 3.6% in November. The combination of low unemployment and rapid inflation has also driven wage growth, surpassing 5%. This could potentially lead to entrenched price increases, necessitating additional policy tightening and raising the risk of stagflation.

The uncertainty surrounding the persistence of inflation is substantial, and Europe is currently confronted with the formidable challenge of reinstating price stability. The European Central Bank (ECB) has consistently adhered to a restrictive monetary policy to bring inflation under control. In 2023, there were six consecutive hikes, resulting in a total increase of 2 percentage points in base rates. The Governing Council of the ECB decided to remain base rates unchanged in October and December meeting, with last hike occurring in September. Yet, the ECB's target level of 2% has not yet been attained. The Governing Council emphasises the necessity of maintaining a restrictive monetary policy stance to achieve the target, highlighting the significance of a data-dependent approach in determining future interest rate decisions. As of July 2023, the ECB discontinued reinvestments under the asset purchase program. Throughout the second half of 2024, the pandemic emergency purchase program portfolio is slated to be reduced by an average of €7.5 billion per month.

The adjustments in monetary policy were evident in market interest rates, experiencing a notable surge until November. The 6-month Euribor rate, linked to the majority of loan agreements, had reached 4.1%. Subsequently, rates exhibited a decline in the fourth quarter, aligning with expectations of forthcoming monetary policy easing. By the end of the year, the 6-month Euribor rate had declined to 3.9%. Longer-term interest rates in the interbank money market witnessed a decrease, with the 12-month Euribor dropping below both the 3-month and 6-month Euribor rates.

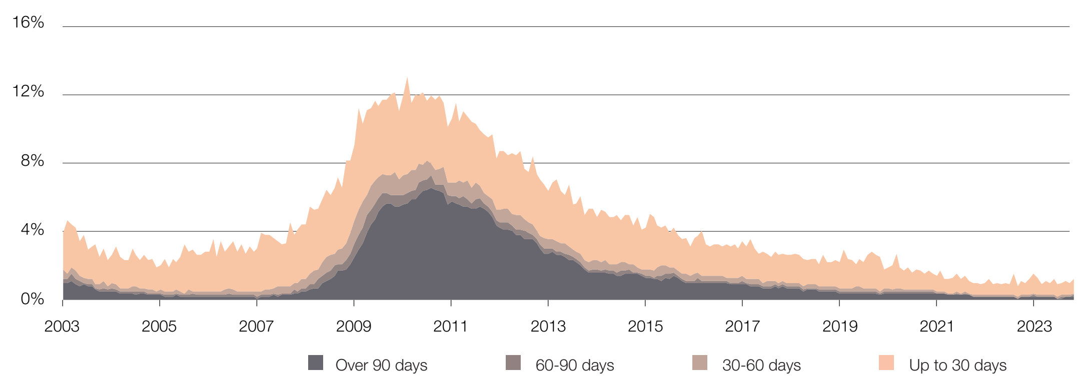
The economic downturn in Estonia has proven to be more severe than initially anticipated, primarily attributed to a decline in exports. During the Q3, Estonia experienced a 3.9% decrease in GDP compared to the same period the previous year and a 1.2% decline compared to the Q2. Heightened uncertainty among households, coupled with increased savings, has constrained demand within the domestic market. Simultaneously, foreign demand has been impeded by the lacklustre performance of Estonia's key export markets and the strengthening of the exchange rate relative to Nordic countries. Continued Russia's war in Ukraine has disrupted numerous supply chains, leading to the disappearance of certain business models. Additionally, elevated uncertainty and rising interest rates have not been conducive to fostering investments.

The added value in various economic sectors witnessed a decline, with a notable impact from activities heavily reliant on exports. Manufacturing experienced a 1.3% decrease, while transporting and storage saw a 1.5% decline. Sectors that have been driving economic growth in the past decade, such as information and communication, recorded a decrease of 0.9%. Conversely, there was a positive uptick in added value observed in the retail trade and public administration activities.

In 2023, the pace of price growth decelerated. Despite this, the cost of the consumer basket has shown little change for more than six months, and the current inflation rate of 4-5% is primarily a result of a lower reference base from the previous year. Although food prices began to decrease early in the year, simultaneously, the overall cost of the food consumer basket continued to rise at a relatively swift pace. A significant contributing factor to the moderation of inflation this year has been the decline in energy prices, particularly in electricity and gas.

Household consumption is constrained by the imperative to rebuild reserves and augment savings. Comparing Q3 to the previous year, consumption witnessed a decline of 2.4%. Under normal circumstances, households typically manage to save around 10% of their income consistently, but the savings rate barely surpassed 0% last year. The volume of term deposits has experienced substantial growth at the expense of demand deposits, expanding nearly three-fold over the year. By October, the average interest rate on households' term deposits exceeded 4%, reaching 4.5% or more for extended terms or promotional periods. In a comparison with the euro area, interest rates on private individuals' term deposits in Estonia are the highest, while those for companies fall within the average range. The loan market has exhibited some stabilisation in both demand and supply. The issuance of housing loans has decreased by approximately 20% in terms of both number and volume compared to the previous year. The annual growth of the corporate loan portfolio has stabilised at 6%.

Market average share of overdue loans in loan portfolio, %



Source: Bank of Estonia

The Estonian economic landscape faces challenges stemming from diminished external demand, ongoing competitiveness issues, and the looming external threat posed by the prolonged Ukraine-Russia war. The compounded uncertainties are further intensified by anticipated tax hikes.

Projections indicate a contraction of Estonia's GDP by 0.4% in 2024. However, a rebound is anticipated in 2025 and 2026, with economic growth approaching 3%. The restoration of quarterly GDP to pre-recession levels is foreseen in 2026.

Key economic indicators of Estonia*

	2017	2018	2019	2020	2021	2022	Bank of Estonia forecast 2023E	2024E	2025E	2026E
Nominal GDP (EUR billion)	23.8	25.9	27.9	27.4	31.1	36.0	37.4	38.9	41.1	43.2
GDP volume**	5.5%	3.9%	3.9%	-0.7%	7.4%	-0.5%	-3.5%	-0.4%	3.2%	3.2%
Private consumption expenditures***	2.5%	4.8%	4.7%	-1.3%	9.1%	2.1%	-1.9%	0.1%	3.3%	2.5%
Government consumption expenditures	1.9%	1.1%	3.2%	3.0%	3.8%	0.1%	1.5%	3.5%	-1.1%	-0.7%
Fixed capital formation	13.8%	10.5%	6.2%	10.8%	7.3%	-4.9%	-6.9%	-5.0%	5.6%	4.9%
Exports	4.8%	2.9%	5.0%	-5.5%	22.1%	3.0%	-8.1%	-1.3%	3.5%	3.6%
Imports	4.0%	5.9%	3.7%	1.3%	23.2%	3.3%	-7.1%	-3.1%	3.2%	2.8%
CPI	3.4%	3.4%	2.3%	-0.4%	4.7%	19.4%	9.2%	3.4%	2.4%	2.2%
Unemployment rate (% of the labour force)	5.8%	5.4%	4.5%	6.8%	6.2%	5.6%	6.8%	9.0%	8.1%	7.8%
Current account (% of GDP)	2.3%	0.9%	2.5%	-1.9%	-2.6%	-3.2%	-3.2%	-4.8%	-4.5%	-3.7%
Budget balance (% of GDP) ****	-0.5%	-0.6%	0.1%	-5.4%	-2.5%	-0.8%	-2.9%	-3.4%	-4.5%	-3.6%

* The figures reported are annual changes in percentage terms unless otherwise indicated;

** GDP and its components are chain-linked;

*** Including NPISH;

**** The budget balance forecast considers only those measures on which sufficient information was available at the date of the forecast.

Source: Bank of Estonia, Statistics Estonia, Eurostat, IMF

Strategy and financial plan

1. Strategy and the future

LHV's home markets are Estonia and the UK. What both markets strategically have in common is our ability to build technological solutions regardless of customers or locations. Our aim is to maximise business growth based on pre-defined risk appetite, our capitalisation and a 20% return on equity. This means that despite our strong ambitions we do not wish to grow at the expense of profitability and risk limits. We are enthusiasts of modern technology, aiming to drive efficiency and customer satisfaction.

We envision LHV as an international financial group that offers the best level of service, regardless of the customer segment, from mobile bank to client offices. In fulfilling our plans, five main companies are included in the group: alongside two banks in Estonia and UK, there are also the asset management, insurance and payment technology companies.

LHV Pank aims to become the largest and most profitable bank in Estonia by 2032, and second largest by 2027. We have made efforts for LHV Pank to have as strong service and product offering as possible to ensure growth. In Estonia, we can finance all companies and our decisions are made promptly and locally. We issue mortgage loans across Estonia, making decisions quickly and with additional terms and conditions suitable for the customer. We also offer free-of-charge payments, the most comprehensive investment service, payment collection services to companies, insurance solutions and pension funds with strong long-term returns. We are able to provide a large part of our services, including trading in securities, retail loan applications and closing loan contracts, via our mobile app.

For retail customers, we are placing an emphasis on growing our customer base and increasing the activity of our customers. We are focusing on Estonian cities where we wish to engage active customers who prefer electronic channels. We aim to attract customers who settle their transactions and whose salary is paid into LHV and who use an LHV bank card for their everyday financial affairs. We are focussed on growing our mortgage loan market share.

In the case of companies, we are focusing on growing the loan portfolio. We aim to attract customers who value a substantive understanding of their business activities and a financing structure based on that. We will continue with one-tier decision-making, which means that all the decisions are made locally, promptly and flexibly. We will also continue with our multi-year IRB project, the aim of which is to improve the return on equity through the efficient distribution of capital.

In the UK, LHV Bank focuses on banking services for financial intermediaries, SME lending, and services to e-merchants. For our financial intermediary customers, we offer real-time euro and sterling payments via our application interface, LHV Connect. Additionally, we continue to provide various accounts, facilitating both making and receiving payments, along with currency services. SMEs can benefit from our loan products starting from GBP 500 thousand. Our offices are in London, Manchester and Leeds.

Our insurance company, LHV Kindlustus, aspires to replicate LHV Pank's success. The goal of LHV Kindlustus is to be a domestic capital-based insurer with products that are simple, innovative and customer-friendly, offered through various channels.

The pension funds managed by LHV Varahaldus prioritise achieving a strong long-term return. We persist in implementing our revised investment strategy, focusing on finding listed companies and bond investments.

The business objectives related to the main business lines are disclosed in our long-term financial plan.

Our long-term goal is to offer strong relationships to our partners by being:

- **A financial service provider with the best service for our customers.**
- **The most insightful financial service provider for international financial intermediaries.**
- **An attractive employer offering people a high satisfaction, development, and self-realisation.**
- **A transparent company for investors, with an annual return on equity at least 20%.**
- **A company with the best management practices, positive social impacts, and clear climate goals.**

LHV is committed to conducting its business activities in a sustainable manner. Recognising the central role of financial sector in directing capital flows into sustainable activities to support the transition to a climate-neutral economy, we aim to guide companies towards more sustainable business activities and reduce business-related risks concerning the changing world and natural environment. We are working on measuring the climate impact of our credit portfolio and investments, upon of which we will establish goals of reducing our environmental and climate impact in the future.

2. Financial plan

LHV is one of a very few listed companies that publishes annually a five-year financial plan. As the forecast horizon is long, only the first year should be taken as commitment, while the plan for the remaining four years serves as a guideline of where LHV sees its business developing over the next few years.

2.1 Assumptions behind the financial plan

There are several assumptions made, especially regarding the macroeconomic environment and interest rates.

The biggest assumption is about the macroeconomic situation, where we use macro forecasts of the Bank of Estonia as a base for forecasting one year horizon. Currently this forecast states negative GDP growth for the year 2024. In long term financial plan, we use modest growth scenario.

The second important assumption is regarding the interest rates, where we prepare our own forecast using market consensus as a base. We expect ECB deposit facility rate to lower almost by 2 percentage points to 2.25% level by the end of 2024 and after that continue to lower till 1.75% level, starting from 2026 it should remain at 2.0% level. 6m Euribor is expected to decrease to 2.5% by the end of 2024 thereafter to decrease even further to 2.1% and then start to slightly rise in end of the forecasting period.

The third assumption is about competition, where in the long-term scenario we do not expect significant changes, no aggressive competitors entering nor leaving the market.

The economic growth will be negative in 2024 and some sectors will be significantly negatively affected. Yet, we expect that the credit portfolio is well diversified, and the economy will be flexible, and credit risk will appear through some individual counterparties, not through systemic crises.

The two main types of changes considered are the impending changes in legislation and market expectations on interest rates. There are no major changes in legislation, but the focus on ESG and capitalisation levels for banks is likely to increase even further.

Financial plan macroeconomic assumptions	**2024**	**2025**	**2026**	**2027**	**2028**
Estonian real GDP growth, %	-0.4%	3.2%	3.2%	2.2%	1.8%
Estonian unemployment rate, %	9.0%	8.1%	7.8%	7.5%	7.2%
Estonian CPI, %	3.4%	2.4%	2.2%	1.9%	2.0%
ECB deposit facility rate, % (annual average)	3.3%	1.8%	2.0%	2.0%	2.0%
BoE Bank Rate, % (annual average)	4.7%	3.4%	3.0%	3.0%	3.0%
6m Euribor, % (annual average)	3.2%	2.2%	2.2%	2.3%	2.4%

2.2 Business areas

The plan is based on LHV's concept of four business areas:

- Estonian banking
- UK banking
- Asset management
- Insurance

Estonian banking and asset management areas are on a solid position. Insurance is a relatively new business with high potential. UK banking consists of two main different business lines: services to financial intermediaries and SME lending. UK banking is clearly in rapid growth phase as licence was received less than three quarters ago and servicing banking service customers started less than two quarters ago. Starting from 2024, the financial intermediaries business line results between Estonian banking and UK banking will still be hard to read, as 80-90% of financial intermediaries business line customers act in the euro area and deals/positions are booked against Estonian bank. At the same time, business line is developed and risks are taken by UK banking.

2.3 Comments regarding financial plan results

Our income sources are broad-based. For some areas income is a function of different assets, for other areas a function of customer activity or the capital markets situation.

In 2024, LHV plans slow growth due to macroeconomic situation both in Estonia and in Europe. The region is facing geopolitical instability and fight with inflation is not finalised. This generates volatility and increases credit risk. Similarly, we expect modest growth in capital markets - too low to earn success fees from asset management. Still, it is expected that all business lines are profitable.

Starting from 2025 we see the macroeconomic situation slightly improving, but it will still remain below last decade average. We plan to grow by 13-18% with the loan portfolio. Also, asset management, insurance and financial intermediaries' business will grow.

The Estonian banking business line is affected mostly by macroeconomic trends and interest rates. Above 90% of capital is utilised by the credit portfolio, which indicates the largest risk in the business area. The portfolio is well diversified and capitalised, but if interest rates and inflation increase in correlation with a decreasing GDP, customer credit risk will increase, generating credit losses. Conversely, increasing GDP together with lowering inflation and still relatively high interest rates will significantly increase the profitability.

The profitability of UK banking is also mainly related to interest rates, but much less affected by changes in GDP. The impact comes from deposits of financial intermediates, which are kept liquid and not used for funding.

The profitability of the asset management business line is mostly driven by the social tax paid to state budget in Estonia and returns of assets under management, which mostly correlate with capital markets.

Insurance as relatively new and small business line has not yet reached its potential. The business line has grown to profitable level in 2023. The profitability is not so much driven by the macroeconomic situation but more by one-off items, especially the occurrence of larger insurance cases.

In addition to base scenario, LHV concludes a negative scenario and uses this as one input for capital management. This scenario is based on lower GDP growth, lower interest rates on assets, but same interest rates on liabilities, and higher inflation. We see that results are mainly affected by three factors: credit risk, interest rates and personnel related costs. Even with around 1 percentage points lower GDP growth expectation compared to base scenario and 0.25% percentage points lower interest rates LHV remains profitable, and capitalisation remains above internal targets.

2.4 Financial plan

Short version of financial plan figures is presented in table below.

Statement of profit or loss

EUR million	2024	2025	2026	2027	2028
Net interest income	238.6	244.2	264.0	309.4	362.0
Net fee and commission income	68.6	85.5	97.7	107.7	131.5
Other income	1.8	2.4	2.9	3.4	3.5
Total revenue	**309.1**	**332.1**	**364.6**	**420.5**	**496.9**
Total operating expenses	**-133.7**	**-141.1**	**-153.5**	**-164.9**	**-175.3**
Amortisation	-9.8	-9.7	-9.4	-8.0	-7.5
Impairment losses on loans and advances	-23.4	-17.7	-18.6	-19.6	-20.3
Earnings before income tax	**142.1**	**163.6**	**183.0**	**228.0**	**293.9**
Income tax	-3.9	-7.5	-11.3	-15.4	-25.1
Advance income tax	-18.1	-23.9	-24.3	-29.6	-35.0
Net profit	**120.1**	**132.3**	**147.5**	**183.0**	**233.8**
Profit attributable to non-controlling interest	0.9	3.2	4.9	6.3	8.7
Profit attributable to owners of the parent	119.2	129.1	142.5	176.8	225.1

Statement of financial position

EUR million	31 Dec 2024	31 Dec 2025	31 Dec 2026	31 Dec 2027	31 Dec 2028
Cash and cash equivalents	3,785	4,437	4,824	5,178	5,785
Financial assets at fair value	358	364	370	378	387
Loans granted (net)	4,037	4,755	5,610	6,510	7,375
Long-term financial investments	7	8	8	9	9
Other assets	106	108	107	110	124
Total assets	**8,293**	**9,673**	**10,920**	**12,185**	**13,681**
Deposits from customers	6,674	7,681	8,723	9,747	10,902
Loans received	676	930	1,006	1,068	1,167
Subordinated debt	152	217	245	281	336
Other liabilities	150	156	165	184	226
Total liabilities	**7,651**	**8,984**	**10,139**	**11,280**	**12,630**
Equity	**642**	**689**	**781**	**906**	**1,052**
Total liabilities and equity	**8,293**	**9,673**	**10,920**	**12,185**	**13,681**

Financial and operational ratios	2024	2025	2026	2027	2028
ROE from profit attributable to the owners of parent	20.3%	20.0%	20.0%	21.8%	24.2%
ROE from pre-tax profit attributable to the owners of the parent	24.0%	24.8%	24.9%	27.2%	30.6%
C/I	46.4%	45.4%	44.7%	41.1%	36.8%
L/D	60.5%	61.9%	64.3%	66.8%	67.7%
CoR	0.6%	0.4%	0.4%	0.3%	0.3%
EPS (EUR)	0.37	0.39	0.43	0.53	0.66
Dividend based on dividend policy (EUR thousand)	41,578	25,935	29,509	29,861	40,289
DPS (EUR)	0.13	0.08	0.09	0.09	0.12
CET1	17.6%	16.0%	15.7%	15.9%	16.3%
T1	19.4%	18.3%	17.9%	18.1%	18.5%
CAD	22.5%	22.0%	21.5%	21.7%	22.6%

Ratios calculation principles

ROE (return on equity) from profit attributable to the owners of parent = net profit (attributable to owners of the parent) / average equity (attributable to owners of the parent) * 100

ROE (return on equity) from pre-tax profit attributable to the owners of parent = net profit before taxes (attributable to owners of the parent) / average equity (attributable to owners of the parent) * 100

C/I (cost to income ratio) = total operating expenses / total net income * 100

L/D (loan to deposit ratio) = net loans / deposits * 100

CoR (cost of risk) = impairment losses on loans / average loan portfolio

EPS (earning per share) = net profit (attributable to owners of the parent) / number of shares

Dividend = dividend payment during calendar year

DPS (dividend per share) = dividend payment during calendar year / number of shares at moment of payment

Capital adequacy levels are calculated in accordance with applicable requirements in Estonia

CET1 (common equity tier 1 capital adequacy ratio) = tier 1 common equity / risk weighted assets

T1 (tier 1 capital adequacy ratio) = tier 1 capital / risk weighted assets

CAD (total capital adequacy ratio) = (tier 1 capital + tier 2 capital) / risk weighted assets

2.5 Updates of the financial plan

LHV reviews the financial plan annually and publishes it in February. In general, there are no updates published during the year.

In case the actual results and a rolling forecast differ by more than 10% from the existing plan, LHV publishes an update to the current year financial plan, but an update to long-term forecast is not published. In 2023, LHV updated financial plan in September and hiked up the profitability targets by 30%.

Overview of the Group's subsidiaries in 2023

1. AS LHV Pank group

LHV Pank is the largest domestic bank in Estonia. We focus on active and independent customers with an entrepreneurial mindset. Our services for private customers include management of daily financial affairs and home loans. Our competitive edge is the best customer experience and offering customers the best options for growing their money. Our services for business customers include flexible and tailored financing solutions and management of daily financial affairs, and our services for financial intermediaries include a single banking platform for both EUR and GBP payments. LHV Pank's products and services are simple, transparent, and relevant. We communicate with customers mainly through modern digital channels and use the resulting cost savings for the benefit of our customers by keeping the prices of everyday banking services affordable.

With a market share of more than 15% in the Estonian daily banking, deposit, and business loan segments, LHV Pank is currently the third largest bank in the daily banking and deposit segments. Estonia is our home market where we wish to be as strong as possible. Our long-term goal is to become the largest and most profitable bank in Estonia, while focusing on efficiency, innovation and best-in-class service. By offering the best market expertise, a proactive approach and services that are innovative and the fastest in the market, we make an impact on entrepreneurship and people's financial behaviour. LHV Pank defines itself as a local bank offering the full range of services to customers that keep their funds at LHV Pank and actively use LHV Pank's services.

LHV Pank has offices in Tallinn, Tartu and Pärnu. LHV Pank's consolidated financial statements comprise the accounts of LHV Pank and its 65% ownership subsidiary AS LHV Finance ('LHV Finance'), which specialises in consumer financing.

1.1 Business activities

In 2023, AS LHV Pank was significantly impacted by the difficult macroeconomic environment, volatility, and changes in regulatory supervision, collectively affecting everyday business activities severely. For the first three quarters of the year, LHV Pank was influenced by the asset quality review process, diverting some focus from business growth. Economic conditions continued a negative trajectory that impacted customers' insecurities about the future, withholding them from making investments. The new environment affected plans towards increasing volumes and fees from investment and forex services, but the year was largely impacted by changes in the European Central Bank's decisions regarding interest rates, positively affecting net interest fees from the loan portfolio. Challenges persisted in building effective sanctions screening and monitoring systems and processes, resulting in an increased number of staff.

Still, LHV Pank continued to grow in 2023. The number of customers increased by 39,000 to 417,000, i.e., by 10%. The youth segment grew by 14% to 81,000 customers, fulfilling our target mission in excess. The growth in customer activity and business volumes was broad-based. LHV Pank's UK branch activities were transferred to LHV Bank, and we continued servicing financial intermediaries in euro payments and safeguarding services.

Deposits from customers increased by 12% to EUR 5,535 million. Deposits from regular customers grew by 11% to EUR 4,081 million, while deposits from financial intermediaries decreased by 23% to EUR 991 million. Competition in the deposit market was severe, but the focus was set on collecting more deposits than the market's organic growth, a goal that was fulfilled. The average cost, compared to the market, wasn't higher. With a high focus on deposits and liquidity, we also collected deposits from European platforms in the amount of EUR 462 million

LHV Pank's loan portfolio grew by 11% to EUR 3,549 million during the year. Corporate loans grew by 9% to EUR 1,887 million and retail loans by 10% to EUR 1,595 million. The breakdown of the retail loan portfolio was as follows: home loans 73%, leases 10% and other loans 17%.

LHV Pank's net profit for the year increased by 75% to EUR 141.4 million. Total net income increased by 61%, total operating expenses increased by 32%. Net interest income increased due to increased corporate and home loan portfolios, but great positive impact arose also from European Central Bank positive interest rate decisions made to tackle high inflation rates in Europe. The decrease in net fee and commission income was 16%. It was mainly impacted by the financial intermediaries business and fee transfer to LHV Bank. Credit losses increased by EUR 8 million and were over EUR 4 million higher than initially planned. Still, the quality of the loan portfolio remained strong, with a very low share of non-performing loans. Results for the year also include EUR 22.1 million deferred tax expense for 2023 payable on the expected future dividend payment. LHV Pank's performance indicators were solid: return on equity (on net profit attributable to shareholders) was 30.9%, the cost to income ratio was 32.8%, and risk cost ratio was 0.3%.

LHV Pank's total assets increased by 12% to EUR 6,755 million in 2023.

Financial results

EUR million	2023	2022	Δ
Net interest income	228.5	129.5	76%
Net fee and commission income	27.2	32.4	-16%
Net financial income	2.7	-0.4	-
Other income	1.7	0.2	779%
Total net income	260.1	161.7	61%
Total operating expenses	85.2	64.5	32%
Impairment losses	11.4	3.0	280%
Income tax expense	22.1	13.3	67%
Net profit	**141.4**	**80.9**	**75%**
Business volumes			
Loans (net)	3,549	3,187	11%
Deposits from customers	5,535	4,957	12%
No of bank customers, thous.	417	378	10%

1.2 Development activities

In 2023, the focus was on customer experience, improving existing services, and enhancing efficiency. The migration of LHV Pank UK branch activities to LHV Bank Ltd was completed in August.

Several improvements were made to customers onboarding processes to improve convenience and speed as the main foundation of great customer experience. Digital channels were also opened to all users of various LHV Group services. Customers can use biometric authentication and payment confirmation, receiving notifications for outgoing transactions, which also serves as a mechanism for preventing and detecting fraudulent transactions. The mobile app gained new features for investment services, and the Financial Portal received a new platform and a modern look. Forward-looking developments for modernising the technological platform were in focus and will continue to be a focus in 2024.

1.3 Organisation

LHV Pank is divided into seven functional areas, each with its own departments. Business areas include retail banking, corporate banking, and financial intermediation. Support areas comprise IT, financial management and support services, risk management, and product management. Credit risk management, initially a separate area, was transferred under the risk management area by the end of the year. Human resource management, marketing and communication, and compliance are bank-wide activities. After transferring the UK branch activities to LHV Bank Ltd, the branch was closed.

In 2023, the number of LHV Pank's employees converted to the full-time equivalent increased by 62 to 826, including inactive and part-time staff, and the 21 employees of LHV Finance.

The year brought several awards and accolades. Once again, LHV Pank was named the bank with the best customer service in Estonia in a survey conducted by the market research company Dive. LHV Pank ranked first in the Most Attractive Employers survey conducted by the job portal CVKeskus.ee and TOP Employer in survey conducted by the job portal CV-Online Estonia. LHV Pank also received highest ranking in the employer reputation survey conducted by employer branding agency Instar by being the most attractive employer. LHV Pank's staff satisfaction survey Q12 reflected continuously a very high level of satisfaction. City Plaza building, where LHV Pank's Tallinn office is located, has a BREEAM (Building Research Establish Environmental Assessment Method) certificate. We received marketing award Kuldmuna for the campaign 'Rahasuhted' and LHV was selected for the Bravest Brand in Estonia.

1.4 Sustainability at LHV Pank

At LHV, we acknowledge the vital role of the financial sector in steering economic shifts and directing resources through lending and investments toward activities that promote a transition to a more sustainable economy. Since 2020, LHV Group has actively been a member of the United Nations Environment Programme Finance Initiative (UNEP FI), a comprehensive framework for sustainable banking developed through a partnership between banks worldwide and the United Nations. In 2023, LHV made substantial progress towards its sustainability goals, focusing on metrics, regulatory frameworks, ESG governance, credit portfolio analysis, and risk management processes.

Looking ahead, LHV is preparing for the sustainability reporting requirements arising from the Corporate Sustainability Reporting Directive (CSRD), demonstrating our ongoing dedication to transparent and responsible sustainability practices. Initiatives such as measuring and disclosing the climate impact of our loan portfolio will continue, with an ongoing commitment to enhancing data quality for more accurate reporting. This analytical approach enables us to identify the most emission-intensive sectors, allowing for targeted actions to reduce emissions within those areas.

In addition to our environmental commitment, LHV is dedicated to making a positive social impact. Recognised as the most attractive employer in Estonia, LHV prioritises organisational development and employee well-being, also targeting diversity and inclusion and a decrease in the gender pay gap. LHV Pank actively supports enterprises and initiatives that contribute to the development of Estonian society. Leading discussions on inclusive economies and backing culturally and socially significant initiatives, LHV remains committed to fostering innovative ideas and projects that enhance the quality of life in Estonia.

2. AS LHV Varahaldus group

LHV Varahaldus is a fund management company focusing mostly on active investment strategies. As of the end of 2023, the funds under management include one UCITS fund, seven II pillar and three III pillar pension funds. The Investment Management Department is supported by the Risk Management, Operations, and Sales Departments.

LHV Varahaldus has a 100% owned subsidiary VH Incorporation Entity OÜ, which was established in 2021. The purpose of VH Incorporation Entity OÜ is to establish companies for real estate transactions of pension funds.

While 2022 presented significant challenges for financial markets, 2023 witnessed a remarkable rebound. Despite initial concerns about major Western economies potentially heading towards a recession amid high inflation, elevated interest rates, ongoing and new regional conflicts, and a weakening job market, economies proved to be resilient. Optimism prevailed, leading to robust returns in the main stock markets. In euro-denominated terms, MSCI World, S&P500, and Euro Stoxx 50 increased by 19.6%, 20.3%, and 22.2%, respectively. The year was particularly favourable for technology companies, with Nasdaq Composite rising by 38.8% over the last twelve months when measured in euros. These returns were largely driven by the so-called Magnificent 7 – big tech companies well positioned to take advantage of expected rapid advancements in artificial intelligence. It's noteworthy that the largest indices haven't seen such concentration levels, where the stocks of the top technology companies constitute close to one-third of the index, since the dot-com bubble in the early 2000s. Additionally, despite the robust returns in 2023, the steep fall in 2022 means that over the last two years, returns of the biggest stock markets are, in many cases, slightly above or below zero.

LHV offers a wide range of investment strategies to its customers within the II pillar pension system, including a passively managed index fund, one Article 8 fund concentrating on green investments, and five actively managed funds with varying risk classes. In recent years, actively managed funds have focused more on alternative asset classes and non-listed securities, guided by the belief that over a long investment horizon, the average annual expected return will exceed that of publicly traded securities. The size of the funds, as well as changes in regulation, have allowed LHV to invest more in local non-listed assets, such as real estate, and provide financing to Estonian companies through debt securities. LHV's pension funds have been among the biggest and most active institutional investors in Estonia in recent years. Allocation between different asset classes should also provide better diversification and a more favourable risk-return relationship, making the results of the funds less dependent on the returns of the largest stock markets.

While this approach worked well in 2022, with the largest actively managed funds showing positive returns despite weak market conditions, the opposite was true in 2023. Returns from real estate, private equity, or direct debt, while still positive, trailed behind the returns of major equity markets. In 2023, three of the largest actively managed II pillar pension funds, M, L, and XL, had net returns of 5.9%, 5.6%, and 6.8%, respectively. Conservative funds also performed well, with S and XS both increasing in value by 6.7%. LHV's II pillar fund, Indeks, which, compared to other index funds in the Estonian market, has a larger allocation to developing economies, gained 14.0%. It was another challenging year for the pension fund Roheline and its green investments, as the fund saw a 5.6% decrease in value.

Growth of assets under management was strong, both in II and III pillar funds, with asset base growing by 13% in II pillar and by 34% in III pillar in 2023. Growth was achieved despite lower-than-average sales results and thus lower than expected client numbers, as fund returns were mostly positive, previously skipped fund payments were compensated by the state in January, and less people decided to opt out from the II pillar system.

LHV with its seven funds in the II pillar pension system is the chosen fund manager for more than 123 thousand people. The company manages the savings for 23.9% of II pillar pension system participants and holds a market share of 28.8% in terms of assets under management. By the end of the year, LHV's three III pillar pension funds had close to 35 thousand customers.

Net profit of LHV Varahaldus was EUR 1.7 million in 2023. It was the second year in a row where no performance fee was earned. Benchmark index, measuring the growth of proceeds from social tax and thus a function of employment and wages, grew by 11.3%, meaning that none of the funds eligible for performance fee were able to show better returns in 2023.

Financial results

EUR million	2023	2022	Δ
Total net operating income	8.8	8.0	11%
Total operating expenses	7.0	7.1	-1%
Operating profit	1.8	0.9	112%
Net financial income	0.3	-0.1	-
Income tax expense	0.5	0.8	-41%
Net profit	**1.7**	**-0.1**	**-**

Business volumes

Assets under management	1,519	1,332	14%
Pension fund customers, thous.	160	164	-2%

3. AS LHV Kindlustus

AS LHV Kindlustus is a non-life insurance company, which was founded in May 2020. The shareholders of LHV Kindlustus are LHV Group (65%) and Toveko Invest OÜ (35%). The company received the licence for insurance activities from the EFSA on 29 December 2020 and started selling insurance policies as of 1 January 2021.

LHV Kindlustus has launched 13 product solutions since 2021. The main products are motor own damage insurance, motor third-party liability insurance, travel insurance, property and liability insurance, payment protection insurance, and extended warranty insurance. The products are sold for both private and commercial customers.

LHV Kindlustus implements a multi-channel sales strategy by using online, insurance intermediaries, brokers, and direct sales. The focus is on supporting LHV Pank and Euronics with best insurance solutions.

The year 2023 was quite a positive year for the whole insurance market. Price increase that started in 2022 continued in first half of 2023, which resulted in stable market situation and growth in premiums for all the insurance market participants. At the same time reimbursement expenses also increased, but not as rapidly as in the previous year. 2023 was the first year where the whole Estonian non-life insurance market premium levels surpassed EUR 500 million level.

As of 31 December 2023, LHV Kindlustus had 229 thousand active insurance contracts and 161 thousand customers. The biggest share of active contracts and customers is related to the extended warranty insurance portfolio, followed by Confido health insurance, and LHV Pank credit card travel and purchase insurance. The year 2023 showed growth of customers in all major business lines.

The annual gross written premiums were EUR 31.4 million (+83% YoY). On an annual basis, the combined gross written premiums of motor own damage and motor third party liability insurance were EUR 16.6 million. The share of property and travel insurance formed 12% of the total portfolio.

In 2023, LHV Kindlustus earned EUR 23 million (+176% YoY) net premiums and paid out EUR 14.9 million as claim indemnities. Customer satisfaction index was a high 95%.

Net losses incurred amounted to EUR 15.4 million. The company registered 55 thousand new claims in 2023, out of which 2,500 are still open as of 31 December 2023.

Net profit for 2023 was EUR 304 thousand. Main reasons for good results were low loss frequency, low amount of large claims and sustainable pricing of our products. Company's financial position stays strong with solvency ratio above 125% at year-end.

Financial results

EUR million	2023	2022	Δ
Total net income	5.0	1.5	237%
Total operating expenses	4.8	3.2	51%
Other income and expenses	0.0	0.0	175%
Net profit	**0.3**	**-1.7**	**-**

Business volumes

Gross written premiums	31,412	17,138	83%
Number of customers, thous.	161	150	8%

4. LHV Bank Ltd

LHV Bank Limited, a wholly owned subsidiary, was founded in February 2021 with the aim of becoming a separate and independent bank in the UK within the LHV Group.

In the beginning of 2023, LHV Bank started issuing SME loans in the UK.

In May 2023, LHV Bank was authorised as a credit institution by the Prudential Regulation Authority.

In August 2023, LHV Bank finalised the business transfer from its Estonian affiliate, AS LHV Pank's UK branch, to its newly licenced entity. As a result, the GBP payment services associated with the banking services for financial intermediaries moved from the previous branch to the new bank. This transition also included the transfer of associated GBP payment scheme memberships and related contracts.

At the same time, LHV Bank implemented a new cloud-based core banking system and successfully migrated the customer data from the Estonian core banking system to the new LHV Bank system in the UK. This modern infrastructure simplified GBP payment systems integration for UK clients, improved reliability, and allowed for better scalability of their operations.

The banking licence allowed LHV Bank to accept customer deposits. In September 2023, LHV Bank launched its deposits offering on Raisin platform and in December 2023, on Flagstone platform.

In 2024, LHV Bank will focus on increasing business volumes, transferring euro payments and launching retail banking app.

LHV Bank operates in three business lines – banking services for financial intermediaries, SME lending and retail banking.

In banking services, LHV Bank offers a single platform to international financial institutions enabling instant payment services in GBP and EUR. LHV Bank positions itself as a new generation bank that links traditional banking and new generation financial services through Open Banking. Modern services and technological solutions allow the bank to provide services to international customers and financial technology companies. LHV Bank is one of the largest providers of banking services for financial intermediaries enabling its customers to reach 500 million end-customers in the UK and Europe. The bank's banking services are used by more than 200 international clients with more than 10 million end-customers.

In SME lending, LHV Bank offers commercial real estate investment loans from GBP 0.5 million to SMEs in the UK secured by commercial real estate and other guarantees. The main sales channel for SME loans are loan brokers. The bank's strengths are a faster lending process and loan managers with long-term experience who understand the needs of local entrepreneurs and keep the promises given in the lending process.

In retail banking, LHV Bank offers deposits to savers in the UK in partnership with deposit aggregators. The bank will launch its own retail banking app for private customers for their everyday banking transactions and savings in 2024.

The operating principle and objectives of LHV Bank are following:

- **Leader in Open Banking.** LHV Bank is a full-service banking services provider. LHV Bank sees itself as an innovative link between businesses and the banking infrastructure and believes it is a prime example of how open banking can work for businesses.
- **Digital.** LHV Bank is a digital bank for the modern digital society and businesses that adopt e-commerce solutions. LHV Bank uses cutting-edge modern technology that allows its customers to incorporate innovative and unique products that fit their goals.
- **User experience driven.** LHV Bank is customer centric, focused on putting the customer at the heart of every product and creating a better user experience. The bank believes in incremental improvements at every step of the customer service process. It will be easy to communicate with LHV Bank – open an account, access the account through e-channels or API connection, and make transactions.

Financial results

EUR million	2023	2022
Net interest income	28.9	0.1
Net fee and commission income	7.8	0.0
Net financial income	-0.1	0.0
Other income	0.1	0.0
Total net income	36.8	0.1
Total operating expenses	31.3	11.7
Impairment losses	0.2	0.0
Income tax expense	0.0	0.0
Net profit	**5.3**	**-11.7**

Business volumes

Loans (net)	79	22
Deposits from customers	239	0

5. AS LHV Paytech

LHV Paytech AS was established in 2012 and in April 2022, LHV Group acquired 100% of LHV Paytech shares. LHV Paytech is developing and operating a cloud-based payment gateway platform for digital payments acceptance in digital environments and is Payment Card Industry Data Security Standard level 1 certified. LHV Paytech's customers are financial institutions that need the platform as a part of their online payments' acceptance offering or for their internal needs. LHV Paytech is not providing services to the merchants directly.

LHV Paytech operates primarily in the Baltics, servicing commercial banks and smaller financial institutions.

In 2023, LHV Paytech was dedicated to enriching its offerings by introducing new payment methods and relevant features. This involved extending integration options for Apple Pay, adding Google Pay, integrating Open Banking payment initiation service APIs' aggregator, and implementing improvements to efficiently handle thousands of payment methods. In the second half of the year, the Paytech team actively worked on setting up the LHV Bank acquiring service and facilitating merchant migration. Aligned with LHV Group's strategic vision, our ongoing commitment involves the incorporation of new payment methods, relevant features, and continuous improvements to overall service quality.

Sustainability report

1. Sustainability at LHV

1.1 Sustainability mission statement

Sustainability is a constant learning process in which we engage stakeholders and external experts to better understand the consequences of our decisions and create long-term value. We aim to strategically enhance in-house competence, develop sustainable financial products and services, improve our business processes, and develop sector-wide partnerships to work toward more responsible business operations.

- We realise how our business decisions affect society and the environment, and we focus on measuring and managing these impacts.
- We aim to be a leader in sustainable development in the financial world by striving toward initiating systemic change and adopting innovative and sustainable solutions.
- We operate transparently and disclose our progress and in voluntary and regulatory sustainability reports and through our corporate communication channels. We are continually improving our know-how on sustainability reporting standards to comply with GRI (Global Reporting Initiative) reporting standards in our annual sustainability reports.
- We are committed to creating the conditions for adhering to our sustainability strategy. This is achieved both by internal capacity building and constant integration of ESG considerations into decision making, business operations and practices.

The aim of sustainability report is to provide an insight to how LHV integrates sustainability matters into its business activities to increase its positive impact on the environment and society. While the following sustainability report has been assessed by an external party, it has not been reviewed or audited.

2. Global sustainability frameworks

2.1 United Nations Environment Programme Finance Initiative Principles for Responsible Banking

The United Nations Environment Programme Finance Initiative (UNEP FI) is a global partnership established between the United Nations Environment Program (UNEP) and the financial sector. The UNEP FI Principles for Responsible Banking (UNEP FI PRB) provide banks with a framework for sustainable operations.

We take part in international cooperation in the financial sector and in sharing best practices.

The 6 principles (indicated below) provide a framework for developing and maintaining a sustainable banking system. They were designed to help the industry make a positive contribution to society. In 2023, we submitted our 3rd PRB report.

Principle 1
Alignment

We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

Principle 2
Impact & target setting

We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

Principle 3
Clients & customers

We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

Principle 4
Stakeholders

We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

Principle 5
Governance & culture

We will implement our commitment to these Principles through effective governance and a culture of responsible banking.

Principle 6
Transparency & accountability

We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

2.2 Partnership for Carbon Accounting Financials

At the end of 2021, we joined the Partnership for Carbon Accounting Financials (PCAF) initiative to better understand our climate impact. The PCAF standard, which is in line with the GHG protocol, provides a consistent methodology for measuring and disclosing emissions from business activities, including those associated with corporate/business loans, commercial real estate loans, residential mortgages, motor vehicle loans, project finance and even the equity and bond positions that banks hold on their statements of financial position. The results are displayed in subsection 5.1.2 of 'Sustainability report'.

These results give us a valuable starting point and help us set emission reduction targets by the end of 2024. For us, this is a big step forward in not only understanding our own climate impact but also a step towards in estimating our customers' environmental performance and working with them on reducing our impact to the environment.

2.3 Global Reporting Initiative

This sustainability report has been prepared in accordance with the widely used Global Reporting Initiative (GRI) Standards: Core Option. It includes a GRI Content Index located at the end of the Sustainability report. Using a standardised approach allows us to report to our stakeholders and the public on our impacts and activities in an even more structured and transparent way.

In this report, we have followed all the reporting principles of the GRI standards (GRI 101):

- stakeholder inclusiveness, sustainability context, materiality, and completeness for defining the scope of the report;
- accuracy, balance, clarity, comparability, reliability, and timeliness in ensuring the quality of the content.

We consider it essential to be more transparent and comprehensive in disclosing our sustainability information and therefore are open to feedback regarding our reporting methods and style. We are also preparing to comply with the emerging sustainability reporting requirements stemming from the Corporate Sustainability Reporting Directive (CSRD) which will apply to us from the beginning of 2025.

3. ESG strategy

3.1 Material ESG and sustainability topics

Our goal is to make an actual impact through the sustainability efforts we make. We devote our resources to addressing the environmental, social and governance (ESG) sustainability matters most affected by our business decisions.

With the help of UNEP FI Portfolio Impact Analysis Tool, we have identified our potential positive and negative environmental and social impacts arising from our business activities. Through engaging both internal and external stakeholder groups, as well as applying proper ESG management approach, we have determined the areas on which LHV has significant impact through its products and services.

Materiality and impact analysis findings

The results of the materiality and impact analysis were validated by the management team during the ESG strategy development process. As an outcome, we identified two environmental and two socioeconomic impact areas where LHV could achieve the most significant impact on sustainable development through its core work across the value chain and portfolio:

- Climate and biodiversity
- Circular economy
- Inclusive and cohesive economy
- Financial literacy and economic security

In addition, an internally relevant material aspect was identified – honest and transparent organisational culture (covering both social and governance aspects).

Based on these impact areas, we have built our sustainability strategy to address the issues by setting KPIs, targets, as well as developing sustainable financing products.

Working with our most material sustainability aspects contributes to these UN SDGs and their specific sub-targets

Sustainable Development Goal (SDG)	Specific SDG target to which LHV contributes	How LHV contributes?
SDG 1. End poverty in all its forms everywhere	1.2. By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions 1.4. By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance	• Integrating social and environmental considerations into the core of our business. • Investing in spreading financial literacy.
SDG 7. Ensure access to affordable, reliable, sustainable, and modern energy for all	7.1. By 2030, ensure universal access to affordable, reliable, and modern energy services 7.2. By 2030, increase substantially the share of renewable energy in the global energy mix	• Offering customers a choice of green financial products. • Improving processes of ESG-related due-diligence for corporate customers and partners.
SDG 8. Promote sustained, inclusive, and sustainable economic growth, full and productive employment and decent work for all	8.3. Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity, and innovation, and encourage the formalisation and growth of micro-, small- and medium-sized enterprises, including through access to financial services 8.10. Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance, and financial services for all	• Driving sustainable growth, creating jobs, encouraging entrepreneurship, and fuelling innovation.
SDG 12. Ensure sustainable consumption and production patterns	12.2. By 2030, achieve the sustainable management and efficient use of natural resources 12.6. Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle	• Considering environmental factors in business decisions. • Advocating for responsible lending and consumption.
SDG 13. Take urgent action to combat climate change and its impacts	13.2. Integrate climate change measures into national policies, strategies, and planning 13.3. Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning	• Encouraging environmentally sustainable business practices within the sector and the State level through supporting sustainable financial sector development.

3.2 Stakeholder engagement

In LHV, we make sure to engage our stakeholders and external experts to ensure that we maximise the impact of our efforts within sustainability. Our stakeholders are the groups and individuals that LHV affects through its activities, and who, in turn, may affect LHV`s operations in the short or long run.

We hold a regular dialogue with the stakeholders with whom we have the most direct relations and with whom LHV could collaborate for better impact on the society. At the same time, we also keep in touch with the stakeholder groups that are part of shaping the trends and setting requirements for the financial market.

Table below outlines our major stakeholder groups, ways of their engagement and their major expectations to LHV.

Stakeholder groups	How we engage	Main expectations and key issues raised
Customers	Active communication and discussions, ESG questionnaire in credit application, green products, and services	Engagement, knowledge building, ESG integration into business and decision making
Employees	Annual survey, individual development and performance reviews, informative sustainability seminars	Feedback, engagement, internal capacity building
Shareholders	Annual shareholder meeting, active communication, ESG reporting	Profitability, engagement, feedback
Policy makers, regulators	Memberships in state level sustainability focused working groups, direct communication with government officials	Policy making input and information about EU legislation on the issues of sustainability and reporting
Business networks, financial sector	Active membership in Estonian Banking Association, Finance Estonia and Rohetiiger	Leadership in ESG promotion
Suppliers, cooperation partners	Direct communication	Sustainability integration into value chain
Sustainability organisations	Active membership in local sustainability focused initiatives and organisations, leading the ESG working group in Estonian Banking Association, member of UNEP FI PRB	Financing sustainable development, enabling green transition
Wider public and society	Active communication, public events and conferences, universities, press and media	Transparency, fair and ethical business conduct

Leadership for sustainable business development in Estonia

- LHV is a signatory to UNEP FI's Principles for Responsible Banking and an active member of several of its working groups.
- We actively take part in the Estonian Banking Association's Sustainable Banking Committee.
- We are a founding member of Rohetiiger, a local initiative that contributes to improving local organisations' knowledge regarding environmental issues, maintains close contact with the state, and advises businesses on how to make the best environmental changes within the organisation and their supply chains.
- We cooperate with other organisations on sustainability initiatives and regularly share our ESG journey with other businesses.
- We cooperate with universities in spreading the word about sustainability in the financial sector.
- We continuously collaborate with external experts to better implement our ESG projects.
- We regularly engage with non-profit organisations and with the public sector.
- We hold seminars and workshops for or with other companies and organisations and talk about our progress, the importance of corporate sustainability and the future of green finance.

4. Management of ESG

The core of our ESG strategy is specified in our ESG policy which sets the goals, ambitions, and approaches for our sustainability efforts in all the subsidiaries of the group. The ESG policy sets a high-level structure and responsibilities for group wide ESG governance. The group CEO as a governing body member is ultimately responsible for ESG supervision, all Heads of LHV Group's subsidiaries are responsible for supervision over everyday ESG matters and ESG activities in their respective subsidiaries, and Communications Manager is responsible for external communication related to environmental and social matters and serves as a contact person for all sustainability-related public enquiries.

Over the past years, we have considerably increased and developed ESG competencies in-house, resulting in ESG-focused positions in the Financial Management, Retail Banking, Compliance, Credit, HR, Risk and Asset Management Departments. The group-wide management of ESG has now resulted smooth integration of sustainability principles into all relevant business lines, processes, strategy building, and risk management. From the beginning of 2024, all group-wide ESG matters will be discussed at the Group Management Board meetings to ensure group-wide development and implementation of various ESG projects and processes.

5. Management of impact areas

5.1 Environment

We understand our role as a financial institution as having a transformational capacity and influence to create positive change. To mitigate the negative impact on the environment, we strive for more sustainable ways of achieving growth and creating value. LHV constantly aims to operate sustainably, and as an Estonian company, we want to help the Estonian economy to adapt to meet the environmental and climate targets.

We carefully follow the green office principles by monitoring our annual footprint of own operations. In addition, we are now also measuring and taking steps to decrease the emissions of our investment and lending activities, which we refer to as financed emissions.

5.1.1 Green office operations

Even though our greatest environmental impact comes from financing and investing activities, it is no less important how we go about our daily business. One way of reducing our carbon footprint is to act to mitigate the negative impact coming from our office operations. Since 2019, we have a Green Office working group, who initiates sustainability projects aiming to increase employee's awareness regarding the impact each one of us can have through our daily activities.

The Green Office Principles have now been embedded throughout the teams in all our offices. During the previous years, we have reached considerable milestones and been awarded for our achievements. We extended Tallinn City Plaza office Green Office certificate and received the same certificate for our Tartu and Pärnu offices. In addition, the BREEAM certificate for building environmental performance for the City Plaza office was extended until the end of 2024.

Waste generation and utilisation is highly prioritised in LHV offices, and we have developed a solid waste sorting procedure. In cooperation with Nutriloop, we recycle our biowaste, which we use to grow plants on the balconies of our office building, as well as donate it to local farmers and gardeners. Employees are encouraged to recycle their waste both at work and at home, for example through allowing them to bring unwanted clothes or hazardous waste into collection boxes installed in the office.

This year we also took part in various charitable projects, for example we made protective nets for the Ukrainian battlefront, we donated Christmas presents to families in a poor economic condition and took part in the charity project '500 dresses', which proceeds donated to the Estonian Cancer Patients Association.

5.1.2 Our carbon footprint

For setting an action plan and targets for emission reductions, it is first necessary to identify and measure the GHG emissions of our business activities and to follow a standardised methodology in the process. We calculate our footprint based on the methodology provided by the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard, an internationally recognised and the most widely used greenhouse gas accounting standard. The results are expressed in CO_2 equivalents, the universal greenhouse gas unit of measurement, indicating the potential for causing global warming.

Based on GHG Protocol, emissions are categorised into three scopes. Scope 1 relates to direct emissions that occur from sources that are controlled or owned by an organisation. Scope 2 emissions refer to indirect emissions associated with purchase of electricity, heating, and cooling. Scope 3 emissions includes all other indirect emissions accounting for emissions coming from our own operations and emissions that are financed through our financing and lending activities.

At the end of each year, we measure the carbon footprint of our office operations through collecting data about business travels, consumption of office buildings, ordered paper, fruits etc. Based on this, we make comparisons with previous years and introduce new activities in the Green Office action plan to further reduce our footprint. Our office activity generates emissions mostly due to the use of heating, power, employee commuting, and business travel.

To evaluate the impacts of employee commuting, a web survey was conducted among the employees, which inquired about the distance between home and work (direct route, without any interim stops) and the modes of transport ordinarily used. 50% of employees responded, and the results were extrapolated to the number of employees working for the company.

The analysis covered the activities of LHV Group's Tallinn, Pärnu and Tartu offices. Similarly, to the assessments of the past years, the 2023 analysis did not consider LHV's UK offices (due to limited availability of data). As the offices in the UK are small, it is not expected to have a significant impact on the carbon footprint of LHV Group as a whole. To perform the calculation of intensity of carbon footprint per employee, the aggregate result was divided by the number of LHV Group's employees at the end of the reporting year.

In 2022, LHV's office activity had a greenhouse gas emission footprint of 1,968 tonnes of CO_2-equivalent, which was 2.5 tonnes per employee at the time of calculation. For 2023 the results were 2,217 tonnes, or 2.4 tonnes per employee. The main reason for the increase in our operational level CO_2 footprint was due to increase of employees and office space.

Emissions from own operations (GRI 305:2016)		2023	2022
	Scope 1	0	0
	Scope 2	737 tCO_2e	567 tCO_2e
	Scope 3 (excl. category 15)	1,480 tCO_2e	1,400 tCO_2e
	Total emissions from own operations	**2,217 tCO_2e**	**1,968 tCO_2e**
	GHG emissions intensity per FTE	2.37 tCO_2e	2.48 tCO_2e

			2023		2022	
	Type	Consumption	tCO_2 e	Share %	tCO_2 e	Share %
Scope 1 - Direct emissions			0	0	0	0
Total Scope 1			**0**	**0**	**0**	**0**
Scope 2 - Indirect, emissions related to purchased electricity and heat	Electricity (renewable electricity): Tallinn office	1,152,400 kWh	0	0	0	0
	Electricity (non-renewable electricity): Tallinn office (Rävala)	31,711 kWh	23	1	0	0
	Electricity (non-renewable electricity): Tartu office	233,943 kWh	167	8	0	0
	Electricity (non-renewable electricity): Pärnu office	43,572 kWh	31	1	16	1
	Heating: Tallinn office	2,015 MWh	501	23	544	28
	Heating: Tallinn office (Rävala)	62 MWh	8	8	0	0
	Heating: Tartu office	183 MWh	5	0	5	0
	Heating: Pärnu office	67 MWh	1	0	1	0
Total Scope 2			**737**	**41**	**567**	**29**
Scope 3 - All other indirect emissions in the value chain	Outsourced materials (trading assets)		51	2	45	2
	Outsourced services (servers and water)		1	0	0	0
	Office furniture		17	1	35	2
	Office equipment		284	13	274	14
	Generated waste		30	1	28	1
	Business travel: plane		177	8	158	8
	Business travel: train		8	0	5	0
	Business travel: bus		5	0	4	0
	Business travel: taxi		1	0	1	0
	Business travel: rental car		1	0	0	0
	Business travel: personal car		32	1	18	1
	Drive home to work: 2023 (934 employees)		384	17	425	22
	Home office (934 employees)		39	2	31	2
	Indirect energy and fuel effects					
	Electricity grid loss		96	4	26	1
	Heating grid loss		80	4	64	3
	Indirect impact related to heating production		275	12	282	14
	Grid loss from production of heating		0	0	1	0
Total Scope 3			**1,480**	**67**	**1,400**	**71**
Total emissions from own operations			**2,217**	**100**	**1,968**	**100**

Estimates of financed emissions

In 2022 we started assessing our emissions under scope 3 category 15 investments (as defined by the GHG Protocol Corporate Value Chain standard) using the PCAF methodology. Assessment of financed emissions is important, since a large share of our emissions is related to our financing activities.

As a new addition in 2023, we estimated emissions for sovereign debt, listed equity & corporate bonds, which make 0.01% of our total financed emissions. We broadened the scope of business loans by estimating emissions of guarantees. We changed the PCAF database rights from AS LHV Pank to LHV Group, which gives us the opportunity to assess emissions of other subsidiaries as well. Previously, only emissions of AS LHV Pank had been evaluated. In 2023, we were able to introduce emissions assessment for LHV Bank Limited, which are included in the results below.

Since 2022 our financed emissions increased by 165,562 tCO_2e, with a total of 728,058 tCO_2e. As of 2023, we have estimated the emissions for six asset classes (business loans, motor vehicle loans, commercial real estate and mortgages, sovereign debt, listed equity & corporate bonds) with an emission intensity of 550.4 tCO_2/EURm. We have assessed 99% of our credit portfolio (business loans, motor vehicle loans, commercial real estate and mortgages) and 100% of sovereign debt, listed equity & corporate bonds. For business loans we report absolute emissions data at the sector level. Electricity, gas, steam and air conditioning supply sector, has the largest tCO_2 e amount with 30.0% of total business loans' tCO_2 e. (See tables below for more detailed overview)

The results of the emission estimations can vary to some extent depending on the quality of the input data used in the calculation models. In 2023 we made continuous work to improve the data quality, although for substantial improvement it is needed to obtain more specific information directly from our clients. Data quality scores for each asset class can be found in the table below. PCAF data quality scores are on a scale of 1-5, where 1 is the highest possible score. Although PCAF's methodology has limitations, as of now it is the best available option and has helped us gain a better overview of our climate impact. Based on these findings we will be able to set emission reduction targets in the future.

Financed emissions	2023	2022
Total Scope 3 (Category 15 – investments)	728,058 tCO_2 e	562,506 tCO_2 e

Financed emissions – scope 3 (Category 15 – investments)					2023
		Absolute emissions		Emission intensity*	PCAF data quality scores
Type	Outstanding amount EUR million	Scope 1-2 tCO_2 e	Scope 3 tCO_2 e	tCO_2 e/ EUR million	
Listed equity & corporate bonds	0	-	-	-	-
Business loans**	1,729	623,067	225,750	360.3	4.1
Mortgages	1,174	42,695	-	36.4	3.5
Commercial real estate	584	55,810	-	95.6	3.5
Motor vehicle loans***	169	5,483	-	49.7	2.9
Sovereign debt	339	1,003	0,661	3.0	1
Total	3,995	728,058	226,411	545.0	3.0

* Scope 1-2

**Scope 3 emissions for energy (oil & gas) and mining, transportation, construction, buildings, materials, and industrial activities

***Emissions from passenger cars, busses, and trucks; other vehicles not covered in PCAF Financed Emissions Standard

Financed emissions				
Business loans				2023
EMTAK	Outstanding amount EUR million	Total tCO_2 e	% of total tCO_2 e	CO_2 intensity tCO_2 e/ EUR
A: Agriculture, forestry and fishing	99.7	24,938	4.0	250.2
B: Mining and quarrying	0.5	12	0.0	26.4
C: Manufacturing	180.7	123,450	19.8	683.38
D: Electricity, gas, steam and air conditioning supply	177.9	186,951	30.0	1,050.8
E: Water supply; sewerage, waste management and remediation activities	23.1	18,855	3.0	816.1
F: Construction	104.0	85,568	13.7	822.5
G: Wholesale and retail trade; repair of motor vehicles and motorcycles	159.9	96,146	15.4	601.5
H: Transportation and storage	58.8	9,642	1.5	164.1
I: Accommodation and food service activities	12.7	3,924	0.6	309.9
J: Information and communication	13.9	2,176	0.3	156.6
K: Financial and insurance activities	234.8	15,565	2.5	66.3
L: Real estate activities	354.3	13,837	2.2	39.1
M: Professional, scientific and technical activities	76.7	8,185	1.3	106.7
N: Administrative and support service activities	80.3	12,011	1.9	149.7
O: Public administration and defence; compulsory social security	64.6	10,687	1.7	165.3
P: Education	5.4	936	0.2	174.7
Q: Human health and social work activities	16.4	4,334	0.7	263.7
R: Arts, entertainment and recreation	54.0	4,332	0.7	80.2
S: Other service activities	12.0	1,519	0.2	126.2
Total	**1,729**	**623,067**	**100**	

Offsetting our carbon footprint locally through innovation

While we have been taking considerable steps to reduce the carbon footprint of our office operations, it can be done only to a certain extent. Therefore, we are collaborating with eAgronom, who provides us a local solution helping us to achieve our first emissions related target. We are using eAgronom's newly developed solution to buy carbon credits from Estonian farmers who sequester carbon dioxide from the air into the soil and thereby improve the soil quality of their fields.

Working together with eAgronom helps us to understand the offset business much better, we can improve local soil quality, store more nutrients in the soil and increase water holding capacity while supporting local farmers in applying the new approach in their everyday farming habits.

5.2 Sustainable products and services

LHV's influence in the Estonian financial sector is growing. As part of an industry that is vital for society, we, directly and indirectly, affect our surroundings and make our most significant contribution through investing and financing. That is why we have decided to channel cash flows from our core activities more concertedly to activities that support the transition to a climate-neutral and sustainable economy. We have developed unique green products that motivate our customers to make everyday consumer and investment decisions that are as environmentally responsible as possible. In this way, we do our part to support economic growth, while at the same time reducing greenhouse gas emissions, pollution, and waste generation.

Green Home Loan

One of the most important consumer decisions a person will ever make – in terms of the financial cost and the environmental impact – is regarding purchasing their home. One-third of the average Estonian's annual CO_2 footprint is related to their home – mostly deriving from energy used for heating and emissions arising from use of household electricity.

We would like to promote the building and buying of the most energy efficient homes, so we're offering our customers the possibility to leverage Estonia's first green home loan.

Green Car Leasing

We aim to promote the purchase of energy-efficient vehicles. The most energy-efficient vehicle you can choose to drive is a fully electric car. But to be sure of its sustainability level, the energy needs to derive from renewable sources entirely. From 2026 onwards, only cars with zero CO_2 emissions per kilometer are considered clean vehicles. Only electric and hydrogen vehicles will meet this standard. We, therefore, offer car leasing for new fully electric vehicles purchased for general use. In line with a longer-term strategy and the desire to contribute to Estonia's climate objectives, LHV Pank has decided that LHV will no longer finance the purchasing of new diesel passenger cars from 2030 onwards.

Green hire-purchase

Renewable energy sources are undeniably an investment for the future. Using solar panels for generating energy and heating homes and household water with geothermal energy is a smart choice. Instead of driving vehicles that run on fossil fuels, we want our customers to try considering electric monowheels or two-wheeled vehicles. We want to make it easier to make energy-efficient choices.

Green Investment Loan for Companies

The Estonian economy is very carbon-intensive. Therefore, investing in lower energy consumption, production of renewable energy, or daily resource efficiency is very profitable and will increase any company's competitive advantage.

Green Loan for Housing Development

For people to have energy-efficient apartments, someone has to build them. Therefore, we offer investment loans for energy class A housing developers with a lower-than-usual interest rate.

Pension Fund Green (II pillar)

In March 2020, we launched Estonia's first green pension fund. We had been working on it for exactly a year. LHV Pension Fund Green is meant for anyone who cares even a little about green philosophies and believes that capital investment should be profitable in the long-term and environmentally sound and sustainable. The fund always invests 75% to 100% into equity. At least half of the portfolio is invested in investment funds that abide by sustainability principles or have environmental themes.

Pension Fund Green Plus (III pillar)

In December 2020, LHV established the Pension Fund Green Plus, which is the sister fund of the first Estonian second pillar fund that makes green investments. The first green third pillar fund's investment portfolio will consist of socially responsible, sustainable, and environmental assets. The equity risk to be taken with the fund will always remain between 75% and 100%. The green second and third pillar funds are aimed at everyone who cares about the green mindset and believes that investments must be productive in the long term and environmentally friendly and sustainable.

5.3 Social

While banks and financial institutions play an integral part in driving economic growth, they also have the power to impact individual lives and communities' overall wellbeing. Our business is always conducted with integrity, transparency, and ethics in mind, with the utmost emphasis on fair dealing and respect towards our partners, customers, and employees.

By acknowledging our role and societal influence at the local level, we do following:

- maintain a budget to support music or arts, education, sports, and community events;
- support external movements and partners to promote the cultural and economic development of local communities;
- stand for equal opportunities for people and companies;
- build the trust of our customers in LHV as a non-discriminatory financial services provider;
- encourage financial literacy and the share of economic knowledge;
- continuously improve our competencies in the field of ESG to further advance social cohesion. The prosperity and welfare of our people is at the core of our business operations.

We realise that good business results and growth cannot be achieved without people who create value, are well taken care of and engaged in their personal and collective mission and feel highly valued.

5.3.1 Social responsibility

We understand our increasing role in the Estonian economy and society in general. In line with our mission, we support activities that allow Estonian people and businesses to think more boldly about the future and realise their plans. We consider it important to increase the feeling of economic security and make the economic environment more coherent. In society at large, we primarily support ventures that make Estonia bigger and contribute to the capabilities of our communities. In addition to contributing to investor education and recognition of entrepreneurs, we have several longer-term and more recent cooperation projects, helping to achieve these goals.

5.3.2 Financial literacy

Since its establishment, LHV has been part of the Estonian investor community. As a market leader in investment services and as a listed enterprise that values investor relations, we actively contribute to educating investors. In our relations with more than 10,000 shareholders, we are open, transparent, and inclusive.

- We organised 33 free seminars as part of the Investment School, with 16,000 participators in 2023.
- We carried out the annual stock market game Börsihai. This year, the number of participants reached 5,460. As part of Börsihai, we facilitated a virtual lesson introducing investing and the stock market game, which reached over 40 Estonian schools.
- At the beginning of the year, we participated in a TV project Rahareede, where on 8 shows we talked about important topics related to personal finances and investing.
- We supported the Investor Toomas conference organised by Äripäev, the Investment Festival carried out by the Investment Club and the Women's Investment Club.
- In collaboration with Äripäeva Kirjastus, we supported the publication of investment-related books in Estonian.

5.3.3 Sponsorships

We do all we can to support activities and initiatives which contribute to the development of Estonian society. In the case of our sponsorship projects, we prefer long-term and substantial cooperation. We are willing to contribute to the realisation of innovative ideas helping to make life in Estonia better. Our other sponsorship contributions are described below.

Estonian culture and society

- Estonian Music Days – for eight years now we have supported the Au-tasu prize for new Estonian music, which was awarded to Ülo Krigul in 2023.
- #TRESKIFEST music festival; concert of Smilers and Red Bull Soundclash – we continued supporting the Estonian music scene.
- EUR 25,000 prize money from the LHV 'Who does it?' support programme aimed at local communities was given to the Kose-Uuemõisa community this year, to restore the park terrace which has a long history.
- Through the charity function for LHV Pank ('Micro donation') we facilitated donations of more than EUR 105,000 to 13 charity organisations.
- 'Charge yourself' programme – we are one of the initiators of the programme giving priority to teaching physics.
- Rakett69 – support to the TV show that popularises science among pupils. In 2023 we also recognised the teacher of the student who won the show.
- Kood/Jõhvi – we are one of the supporting partners of the new IT college in Ida-Virumaa county.
- LHV employees volunteered at Toidupank and organised several charity workshops, where helmet covers and safety nets were knitted together for Ukrainian soldiers.
- OLE ROHKEM. – a network that brings together active Tartu student organisations and trains them. We were their main supporting partner.
- Negavatt – we were the main sponsor for the green business idea competition.

Sport & healthy lifestyle

- Estonian Football Association – LHV Pank has been the main sponsor of the Estonian Football Association and the Estonian national team since 2010. In addition, we supported football clubs with EUR 152,000 in 2023 through the LHV football card support system.
- Maijooks 2023 – LHV continued to be the name sponsor of the biggest women's health sports event in Estonia.
- Estonian Optimist Class Union – we support the development of Estonian sailing.
- Simple Session – we were one of the main sponsors of the top extreme sports event for the third year.
- Estonian Biathlon Federation – we supported Estonian biathletes during the season.
- Estonian Ski Association - LHV Kindlustus supported Estonian ski athletes and their team members in the 2023 season.
- Estonian Basketball Association – LHV became the main sponsor of Estonian women's basketball.
- Disc Golf European Championships 2023 in Tallinn – LHV supported one of the fastest growing sports' championships held in Estonia for the first time.

Estonian economy and business

- EY Estonian Entrepreneur of the Year competition – we have been one of the main sponsors since 2012.
- Young Entrepreneur Award – in cooperation with the Estonian Chamber of Commerce and Industry, we awarded the prize to Kristo Klement.
- Conferences Business Plan, Investment Festival, Investor Toomas – in cooperation with Äripäev, we supported Estonia's leading business and investment conferences.
- TalTech Business Forum – we supported a two-day business festival organised for students.

- Conference of Estonian Real Estate Association
- Latitude59 – we again were sponsors of the large startup meet up.

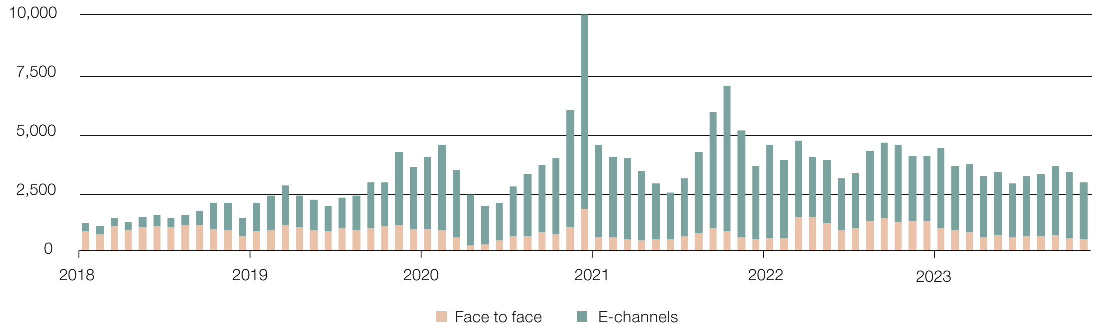
We also support smaller local initiatives with our knowledge, LHV's gifts, advice and the presence of our people. We work with universities. We are a member of the Estonian Information Technology and Telecommunications Association, the Estonian Chamber of Commerce and Industry and the Estonian Employers' Confederation. We consider it important to help Estonian producers and entrepreneurs by preferring their products and services.

5.3.4 Social impact through channels and customer experience

Customer satisfaction and high quality of e-channels has always been a top priority for us. While for the past few years, we have been more focusing on making banking services available online, especially to private customers and simple business structures, we are now working on wider segments and product portfolio, but also more effective communication and customer service tools online. For LHV, it is continually essential to develop our internet bank and mobile app in a way, that will support the growing product offering and cross-sell targets, high customer activity, and make our e-channels available for wider audience including insurance customers, pension funds and consumer credit product users.

In 2023, we have onboarded an average of 4,400 new customers every month. Close to 83% of our new private customers open their bank accounts through our e-channels, either directly online or combining e-channels with face-to-face meeting with the bank representative. The percentage of customers using our services remotely and online has been growing steadily through previous years.

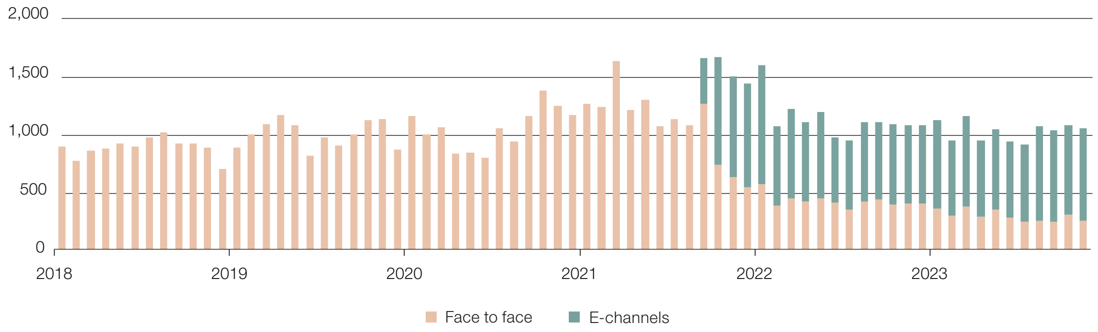
Identification upon onboarding of private persons



Since 2021, when we first introduced digital onboarding to our legal customers, the percentage of bank accounts opened by legal customers in e-channels has been growing steadily from 20% to an average of 75% in Q4 2023.

We will continue working on expanding the possibilities for legal customers, as currently only simple company structures are allowed, and many compliance and risk measures are additionally applied for online onboarding.

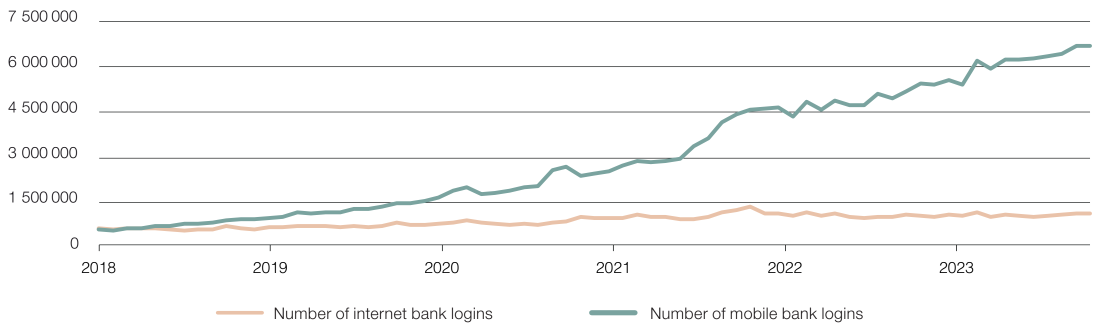
Identification upon onboarding of legal entities



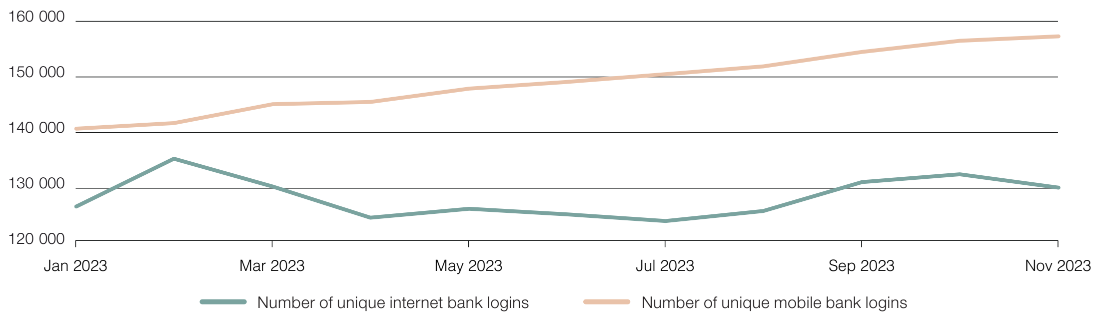
Since 2022 the monthly usage activity of our mobile bank has been exceeding internet bank usage. Our mobile bank app has been rapidly gaining popularity among both, private and legal customers. The monthly usage activity of our mobile bank app is showing approximately six times higher activity rates than internet bank. Also, when the statistics of unique monthly users for recent years have been in the same ballpark for both channels, 2023 has shown a decent growth for mobile bank app reaching approximately 155,000 monthly users.

Improving the usability and look&feel of our electronic channels and making user experience as seamless as possible has been our utmost priority. The percentage of new customers logging into the electronic channels has reached to 80% for mobile bank and up to 95% for internet bank by Dec of 2023. This means that customers are taking advantage of our electronic channels even more than a year before.

LHV internet bank and mobile bank usage activity



LHV internet bank and mobile bank unique users



Opening a bank account online for underage children through our electronic channels has kept popularity among our customers. Currently, child's ID card, passport, or residence permit card issued in Estonia is required in addition to customer data and agreement of the parent opening the account.

As one of the developments in 2023 we have redesigned and simplified the flow to allow the underage account setup without signing the customer agreement with the parent. As a result, we have secured a steady flow of an average of 600 underage accounts opened per month.

LHV insurance services and product portfolio has expanded from insuring homes, cars, trips, equipment, machinery, warranty, and extended warranty insurance to dwelling, corporate and liability insurance. Most of the insurance applications are submitted through our website or mobile app, keeping the ecological footprint minimal and customer satisfaction on a high level. In addition to applications, we are planning to integrate all the insurance claim reporting workflows with the insurance backend software to minimise manual work and improve response metrics.

Focus on customer experience

Excellent customer experience is critical to the sustainable growth of any business. Keeping the high level of customer experience promotes loyalty, helps us retain customers, and encourages brand advocacy. Therefore, when redesigning and improving our electronic channels, we have also considered the needs of visually impaired people and have been working closely together on testing and implementing visual and navigational changes.

We are in progress of developing a Budget Planner tool in our e-channels for customers to promote financial literacy and help them to make smarter financial everyday decisions and support them with an AI based solution. Also, LHV Financial Portal has been redesigned and restructured to provide even more details and insight into investing and saving. We are launching a savings product that encourages customers to save money through gamification and goal setting techniques, while learning about the importance of investing.

LHV has always been acting responsibly when planning our communication and marketing messages, both online and offline. We are working on solutions to ensure that our marketing activities are based on customer segments and the unique needs of those segments. Our goal is to offer most of our products and services online and plan our sales activities increasingly by segments and customer lifecycle.

Increasing phishing and financial crime rates have forced us to proactively warn and educate our customers about possible threats online and take proactive measures to detect unusual usage patterns.

5.3.5 Our societal impact as an employer

LHV, as a large employer and an important part of the society, is responsible for its actions, words, and ways of working. LHV is using leverage to promote high ethical standards and inclusive approach in all customer, investor, and employee relations. We aim to be a responsible organisation, and we also hope to contribute to systematic change towards a more sustainable approach and inclusive society in general.

In our employees we look for the same values and follow this mindset in all our practices, processes, and daily actions internally. We carry out different surveys during the employee lifecycle – e.g., during exit interviews, end-of-probation talks, etc – to evaluate how we are doing in the eyes of our employees, and where we could do better. We have set up a monthly get-together for team leads, where they can share and discuss different topics, where many team leads share their own experiences and ideas of how to make the workplace better.

We use the international Gallup Q12 format to measure employee engagement survey. The survey consists of 16 questions that measure factors affecting employee engagement. The format has been proven internationally to bring out greater performance and facilitate communication between managers and employees. We have concluded two surveys this year, in April and in November. The results were very good, in both we got 4.4 points out of 5. In addition to the results, the surveys have brought up the same topics about growth, communication, caring, friendships, etc. within teams and the whole organisation.

Equality and non-discrimination

LHV is an equality-driven, fair, and inclusive employer. We foster and maintain non-discriminatory business and HR practices. In the leadership and recruitment processes, we are guided by the highest ethical standards, human rights, and equal opportunities. In line with our personnel policy, we take a gender-neutral, non-discriminatory approach in all recruitment and promotion decisions, and base the decisions on equal, measurable qualities, such as experience, education, skills and, if necessary, requirements set by applicable regulations.

It is important for LHV not to discriminate against any minorities. In recruitment processes we choose the best person for the given role, not considering not related factors, such as race, disabilities, political views, sexual orientation, etc. If the person is fit for the job, no other aspects will play a role. Currently, the physical office space is unfortunately not yet adapted to all the needs of people with physical disabilities but working remotely is offered as an alternative.

We have developed and established a Diversity Policy. LHV recognises that people have different values, abilities, and skills, which affects the way they think and see things. LHV wants to take advantage of these differences, especially in decision making, incl. in management bodies. Different backgrounds, experiences, values, opinions, and views are welcome. Individual differences are embraced, respected, and expected to promote thoughtful disagreement. LHV believes in meritocracy, where people are considered based on their skills, experience, and the value of their ideas. In 2023 there were no notifications about labour disputes, discrimination or violations of human rights.

The remuneration policy sets the guidelines for determining the renumeration. The decision must be objective and unaffected by the person. If required, compliance with legislations is checked. We are using the analytical job evaluation method created and developed by Fontes and based on the method recommended by the ILO. It is used in all three Baltic States for market benchmarking. LHV has used Fontes' benchmarking method since 2011 for yearly evaluation. In this method jobs are evaluated based on education and professional experience, work characteristics and accountability. The analytical job evaluation method is universal and is applicable in every organisation and with all jobs. Fontes's analytical job evaluation points scale and job family classification scale are compatible. This ensures that we compare similar value jobs with each other. In 2023, we continued with the same methodology. This year the analysis showed that in specialist categories, where the job requirements and the work are more comparable, the women/men salary ratio ranged from 0,86 to 0,91. In the manager categories the range was slightly higher, from 0.70 to 0.90, but these roles are often more specific, incomparable with each other.

Breakdown of employees by age and gender as at 31 Dec 2023

Age group	Women (%)	Men (%)	Total
19–25	99 (65.6%	52 (34.4%	151
26–40	396 (58.8%)	277 (41.2%)	673
41–55	151 (58.2%)	113 (41.8%)	270
56-…	9 (64.3%)	5 (35.7%)	14
Total	**660 (59.7%)**	**447 (40.3%)**	**1,107**

Staff turnover and job types 2023

	Total employees (change from 2022)	Tallinn office	Tartu office	Pärnu office	London office	Leeds office	Manchester office
Total employees	**1,107 (+209)**	**847**	**142**	**23**	**62**	**21**	**12**
Working part time women (%)	5.9%						
Working part time men (%)	3.1%						
Working contractual basis (of which % in IT Departments)	32 (80%)						
New hires (of which interns)	357 (49)						
Voluntary turnover rate (%)	9.06%						
Overall turnover rate (%)	17.24%						

Gender pay gap as of June 2023:

	Salary ratio (women to men)	Breakdown of female employees
Employees		
Administrative and office services – job value points 91-159	not available	100%
Specialists 1 – job value points 160-210	0.88	82%
Specialists 2 – job value 211-260	0.86	66%
Top specialists 1 – job value points 261-310	0.87	58%
Top specialists 2 – job value points 311-370	0.90	52%
Top specialists 3 – job value points 371-566	0.91	35%
Managers		
First level managers 1 – job value points 184-250	0.84	88%
First level managers 2 – job value points 251-310	not available	100%
First level managers 3 – job value points 311-380	0.75	67%
Middle level managers 1 – job value points 381-440	0.70	52%
Middle level managers 2 – job value points 441-500	0.86	41%
Function/area managers 1 – job value points 501-700	0.90	47%
Function/area managers 2 – job value points over 701	0.78	29%

Inclusive workplace

It is important to us that our employees' ideas, thoughts, and statements are heard and taken into consideration. We believe that great success comes from working together and using our collective intelligence. It is important that employees feel free to express themselves, ensuring their voices reach top management. LHV includes all employees in the process of setting goals for each team, fostering a collaborative team effort.

While we encourage our employees to express their thoughts daily, this focus intensifies at least twice a year during our engagement survey, Q12. In the seventh question of the survey, respondents must indicate their agreement or disagreement with the statement 'At work, my opinions seem to count.' Employees can provide responses on a 5-point scale, in April the score was 4.6 and in November it was 4.5. Additionally, the survey format includes one-on-one conversations for every team member with their manager, allowing for in-depth discussions and proposing actions if improvements are needed. This topic has been identified as one of the key focus areas by HR and communicated to the team leaders.

LHV employees are not covered by a collective agreement, as this is not a very common practice in the financial sector in Estonia. However, we are a member of the Estonian Employers' Confederation.

We value diversity and inclusion through several initiatives aimed at both internal and external communities. One of our main initiatives is organising hackathons within LHV, which bring together individuals from diverse backgrounds and fields to collaborate on solving challenges and generating innovative ideas. In 2023, there was an investment-themed hackathon where the winning work was selected, based on which new value added to our existing services was developed.

Such events not only foster creativity, but also create a platform for showcasing diverse perspectives. An illustration of LHV's commitment to inclusive business and the embrace of diversity is the collaborative development of the benefits package by employees from various backgrounds and fields, utilising the service design method. The company considers different needs and preferences, offering a diverse range of benefits that align with the expectations and lifestyles of its employees.

As a new process, we introduced managers' covision meetings, which facilitate structured discussions to share thoughts and support each other in finding solutions to various management challenges. These meetings contribute to the development of leadership skills, fostering stronger team spirit and enhancing problem-solving abilities, thus creating value for the organisation

The SEMU program is another example of LHV's commitment to inclusive entrepreneurship. It is a mentoring program in which LHV employees take the role of mentors, sharing their experience and knowledge with new colleagues. This program provides an opportunity for new employees to learn from experienced colleagues, contribute to the company's development, and engage in real challenges that foster professional growth.

Conversation evenings around LHV values, where the discussion partners are the company's own employees, show the company's effort to create a platform where employees can encourage each other and share their thoughts and experiences according to the company's core values. In summary, LHV is committed to fostering diversity, inclusion, and open communication through various initiatives, creating an environment where everyone feels valued, and diverse perspectives are not only recognised but also supported.

LHV is a member of The Estonian Employer’s Confederation, Estonian Chamber of Commerce and Industry, Responsible Business Forum in Estonia and Estonian Human Resource Management Association PARE

Employee development

Professional and personal development is part of LHV’s culture, reflecting our commitment to innovation and continuous improvement in delivering smarter solutions to our customers. The ideas for the solutions should come from our employees, and therefore developing one’s skills is part of the daily job. Our training approach is tailored to individual needs, motivations, and goals, aligning with regulatory guidelines for professional development.

In addition to professional trainings, we have contributed to team trainings with the aim of enhancing collaboration within teams. Furthermore, we have intensified our focus on leadership development through a dedicated leadership training program. Our particular emphasis lies in mapping employees' strengths using Gallup's Clifton Strengths Finder test. Over 60% of our teams and employees have taken the test, providing them with a comprehensive overview of their greatest strengths.

Beyond personal and professional development, we regularly organise discussion evenings where guests are LHV's own employees. The topics have included ‘We listen to the customer and offer a solution’, ‘Simple, supportive and effective’, ‘Setting high goals and investing in the future’, ‘Let's talk about things as they are’, ‘Cooperation is important to us’. All these topics are related closely aligned with LHV values.

Every month there is also a workshop aimed at managers, where we deal with issues related to management. The topics have been ‘Insight into LHV through an external eye’, ‘Everyday misconceptions’, ‘Team cohesion’, ‘Q12 experience story’, ‘Many levels of leadership’, ‘Strength Finder Gallup’, ‘Leader as a culture designer’. Our employee engagement survey measures employees’ satisfaction with their development. There are three questions focused on professional growth: is there someone at work who encourages your development; has anyone talked to you about your progress, and have you had opportunities to learn and grow in the past year? In the latest survey, from November 2023, 76% of our employees replied with a 4 or a 5 to first two questions and 80% of the employees say that they have had opportunities to learn and grow in the past year in their role. All these have decreased slightly from last year.

Work-life balance

It is very important to us that our employees have a well-balanced life. An unbalanced life will affect both private and work life. On behalf of the company, we offer a flexible working arrangement that provides an opportunity for balance.

LHV encourages employees to work in the office, and while many prefer this setting, we recognise the importance of flexibility. Our benefits package for employees is diverse, offering days off both for personal and family events. For example, employees are entitled for free days for personal use (3), a wedding (3), in case of the loss of a loved one (3), an employee returning from parental leave (3), participating in a child's school function (1) or to participate in their own school function day (1). During the period of training of reservists, we retain 100% of the employee's salary.

A notable addition to our benefits is the creation of a six-week sabbatical, emphasising the value we place on employee development and work-life balance. This serves as a token of gratitude for those who have contributed significantly to

LHV's development. Above all, we prioritise the ability of our employees to attend important family events.

Promotion of employees' health

To prioritise the health of our employees, LHV provides an extensive occupational health package aimed at both physical and mental well-being. We understand the importance of maintaining a healthy balance between work and private life, as well as fostering a supportive mental and physical working environment.

Supporting mental health, health audits, supporting sports activities, offering joint training sessions within the company, and summer hiking projects are integral to promoting the overall health of LHV employees. By offering opportunities to maintain a balance of both physical and mental health, we contribute to the well-being of our entire company.

Throughout the year, we conducted the Peaasi.ee survey ‘Peaasi.ee Mental health vitamins + Emotional Wellbeing Test’ and the HeBa occupational health service provider ‘HeBA questionnaire: Work related stress’. These assessments help us continually address and improve the well-being of our employees.

A recognised employer

While attractive employer awards have never been the primary goal for LHV, they are still a great acknowledgement. In recent years, LHV has gained a growing reputation for being a desirable employer. Our objective has been to provide our employees with opportunities for professional growth and an inspiring company culture. Throughout this year, we have had numerous opportunities to share our experiences and our leadership culture in various podcasts, conferences, schools and universities.

All of these efforts have not gone unnoticed. We have received acknowledgements in CV-Online’s TOP Employer Survey, being named the 1st choice in both financial sector as well as Top-of-Mind employer in Estonia. Additionally, CV Keskus ranked LHV as the most desirable employer, and in Instar’s survey, we were recognised as the most attractive employer by both students and experienced professionals. This year, we participated in the Dream Employer competition and proudly emerged as the private sector winner.’

Such recognition plays a crucial role in attracting talented individuals to join our company, especially in today’s highly competitive labour market. Throughout this year, we had the opportunity to engage with almost 6,500 applicants, ultimately hiring 5.4% of them. Alongside our job offerings, we have sustained our internship program, actively promoted job-shadowing, and facilitated rotation opportunities. In the summer of 2023, we welcomed 48 interns to contribute to our vibrant and dynamic workplace.

5.4 Governance

LHV is committed to always acting with integrity and in good faith and ensuring that our management policies, business mechanisms, and structures are transparent and reflect accountability, equality, and the highest ethical standards. We manage carefully all potential conflicts of interest, avoid bribery, financial crime, unlawful behaviour, and corruption. To encourage the sustainability mindset across all management levels and the organisation, we:

- maintain a flat, non-hierarchical organisational structure to emphasise the importance of employees taking individual responsibility;
- continuously enhance the integration of ESG factors into our everyday work, management style, recruitment processes, and strategy building;
- focus on engagement and cooperation;
- recognise the integration of ESG factors into our business processes as a change management effort and understand the importance of collaboration to achieve our set goals;
- work toward better analysing and reporting our ESG activities and progress and appropriately disclosing our metrics and achievements to regulators, partners, and the public;
- in order to ensure a transparent management culture, we follow the 'Good Corporate Governance Practices' recommended by the EFSA and the Nasdaq Tallinn Stock Exchange;
- report regularly on the UNEP FI Principles of Responsible Banking;
- have integrated ESG targets into the executive compensation programme.

5.4.1 Responsible management culture

Responsibility and openness in management are the core pillars of our operating principles and are firmly rooted in our mission and values. We strongly believe that our high ethical standards and consideration of all stakeholders, high-level risk management, and lawful behaviour are critical to our success in the long term. All managers and employees of LHV must behave ethically and responsibly and following the Code of Ethics is mandatory. LHV's Code of Ethics is the foundation of LHV's various policies, including the company governance policy, internal regulations, and procedures governing the specifics of adherence to the Code of Ethics. We also have a group ESG policy which clearly states and explains our responsibility and commitment to social and environmental issues. In 2023 we added a comprehensive group ESG governance structure to the ESG policy. Primarily we rely on the lawfulness, best practices, and common-sense principle, doing our job responsibly, transparently, and with a fundamental goal to do no harm. The work of the Supervisory Board of the Group is supported by different committees: the Remuneration Committee, the Nominating Committee, the Audit Committee. LHV's underlying governance principles are described in the 'Corporate governance report'. The LHV management structure is easy to understand and includes clear lines of responsibility. An essential part of responsible governance is meticulous risk management and critically analysing our own activities. The mapping and mitigation of credit risks, liquidity risks, market risks, crime risks, and operational risks are taken very seriously at LHV. We have three lines of defence for risk monitoring and risk control. The internal control framework covers both a well-functioning independent risk management, compliance checks, and staff performing audit functions. We have established committees to advise on risk management. The company gives a comprehensive overview of the risks in this annual report.

5.4.2 Investor relations

LHV actively contributes to developing good relations with the investor community, and we have set high standards for ourselves in being open and transparent, and raising the awareness of our investors. We have set up an investor relations website, making all documents and information available to the shareholders, following the 'Good Corporate Governance Practices' and statutory requirements. LHV treats all shareholders equally and notifies them of all relevant essential circumstances, ensuring equal and quick access to the respective information and being open to questions. Information is disclosed in accordance with the rules set forth for publicly traded companies.

5.5 Sustainability reporting

We continuously work towards improving our sustainability reporting and strive to be transparent in reporting our ESG metrics. Over the past years, we have joined several voluntary non-financial disclosure initiatives (Nasdaq Environmental and Social Disclosure Form, PCAF, UNEP FI). In 2023, we submitted our third report to UNEP FI regarding our progress of implementing the UNEP FI Principles of Responsible Banking and continue to do so in the upcoming year while also considering the feedback received from UNEP FI. We continue to align our ESG reporting practices with GRI requirements as well as the Nasdaq Reporting Guide for Nordic & Baltic Market.

We are preparing for the upcoming CSRD which will require us to report on various aspects on a more detailed level. Aligning our reporting practices with international standards also means disclosing more non-financial information. To do that, we put effort into gathering and analysing ESG data, improving ESG communication and internal processes, developing and publishing more sustainability-related materials and reports, and building in-house capacity for adhering to globally recognised ESG reporting standards.

5.5.1 ESG metrics

Working towards our goals of more sustainable business development, we comprehend the challenges of ESG governance, impact measurement and setting KPIs to sustainability goals. To manage our impacts, we need to be able to measure them. We are also developing a new ESG roadmap for 2024-2030 that will help us move closer to our goals in a more structured manner. Incorporating ESG in all our business decisions and business lines will need to go hand in hand with comprehensive mechanisms for measuring our impact across the board and reporting on it correctly. This will be one of the key ESG-related goals for LHV moving forwards. The goal of 2024 and onward would be to establish a more specific target setting plan for these metrics and include additional business specific ESG targets which are tangible and aligned with both our ambition as well as the global goals.

5.5.2 EU Taxonomy reporting

The EU taxonomy regulation for sustainable finance (EU regulation no. 2020/852) is a system for classifying economic activities as environmentally sustainable. It categorizes economic activities based on their substantial contribution to EU environmental objectives of Climate Change Mitigation (CCM), Climate Change Adaptation (CCA), Water and Marine Resources, Biodiversity, Pollution and Circular Economy. The description and criteria for the economic activities contributing to these objectives are specified in EU regulation no. 2021/2139 (the Climate Delegated Act) and EU regulation no. 2023/2486 (the Environmental Delegated Act). Activity can be taxonomy-eligible by being described in the taxonomy or taxonomy-aligned by meeting all of the taxonomy criteria.

Article 8 of the EU taxonomy regulation (the TR or Taxonomy Regulation) requires any undertaking subject to an obligation to publish non-financial information pursuant to Directive 2013/34/EU (the NFRD companies) to include in its non-financial statement or consolidated non-financial statement information on how and to what extent the undertaking's activities are associated with economic activities that qualify as environmentally sustainable under the TR. The disclosure pursuant to Article 8 is further specified in EU regulation no. 2021/2178 (the Disclosures Delegated Act – the DDA).

LHV Group's approach to taxonomy reporting

LHV Group considers as its main taxonomy alignment KPI the Green Asset Ratio (GAR). See disclosure in Taxonomy table 1. The GAR is the main KPI used for disclosing information on the extent of taxonomy alignment of credit institutions' activities. It shows the proportion of assets financing and invested in taxonomy-aligned economic activities (numerator) and it is computed as a proportion of total covered on-balance sheet assets (denominator).

The GAR is required to be disclosed on the basis of the prudential scope of consolidation specified in the EU regulation no. 575/2013 (the CRR). The consolidated situation based on the prudential scope is different from the scope of consolidation applied to financial statements under the IFRS. In case of LHV Group, the consolidated situation based on the CRR prudential consolidation scope does not include LHV Kindlustus. Complementary to the GAR a separate disclosure is provided on the extent to which LHV Kindlustus underwriting activities are associated with economic activities that qualify as environmentally sustainable under the TR (Taxonomy table 4).

This taxonomy report includes also KPIs on nuclear and fossil gas related activities (Taxonomy table 2) and a KPI for the transitional taxonomy eligibility report based on the new economic activities added to the taxonomy in 2023 (Taxonomy table 3).

Covered assets, content of the KPIs, data limitations

Assets and activities covered by the GAR and other KPIs are exposures to households (mortgages, building renovation loans and motor vehicle loans), non-financial and financial undertakings and local governments as well as certain off-balance sheet assets (assets under management and financial guarantees). Detailed information on covered assets is provided in Taxonomy table 1.

Certain assets are excluded from the calculation of the GAR. Exposures to central governments, central banks and supranational issuers are excluded from both nominator and denominator of GAR. According to the disclosure requirements certain assets may not be considered for taxonomy-eligibility and taxonomy-alignment and are therefore excluded from the numerator. Such assets include for example exposures towards companies who are not under the obligation to publish sustainability reports, i.e. all companies which are not large (over 500 employees) public-interest companies, referred to as non-NFRD. Such assets are reported as non-eligible, regardless of their potential to meet the taxonomy criteria for environmentally sustainable activities. In the coming years more companies will be required to disclose sustainability reports according to the EU Corporate Sustainability Directive and the types of assets which may be considered for taxonomy alignment are expected to be reviewed by lawmakers. This may impact the GAR in the future.

With respect to household exposures LHV assessed that a proportion of the mortgage and motor vehicle loan portfolio meets the technical screening criteria for substantial contribution to the CCM objective, i.e. the buildings financed meet the required level for energy efficiency based on the EPC and motor vehicles financed are low- and zero emission vehicles. However, we have not obtained adequate exposure-specific documentary evidence showing that the DNSH criteria are met. This expectation on the level of certification was specified by the European Commission in its notice on the taxonomy reporting requirements published late in December 2023, providing for the first time an insight into whether and how the DNSH criteria should be assessed for households. Therefore, for financial year 2023 the mortgage and motor vehicle loan portfolios are reported as taxonomy-eligible but not as taxonomy-aligned. As the underlying data for the KPIs must in part be based on the taxonomy reporting disclosed by NFRD companies, LHV is relying on the level of detail and data quality in annual reports which may vary depending on the company. If the taxonomy reporting data from NFRD companies is not available, (for example taxonomy-alignment KPIs of financial undertakings which are only disclosed for the first time in 2024), the exposure is reported as not aligned.

For the assets under management LHV has used the services of data provider Morningstar Sustainalytics to obtain the counterparties' reported taxonomy information.

Currently the reporting requirements are not clear on whether an exposure towards a subsidiary under the control of an NFRD parent company can be considered for taxonomy alignment, especially in case of general-purpose lending. In disclosure year 2024, LHV has not included exposures towards subsidiaries of NFRD parent companies in the numerator of KPIs.

In disclosure years 2024-2025 the GAR will only show the proportion of LHV's assets financing and invested in those taxonomy-aligned economic activities which contribute to the CCM and CCA objectives. Proportion of taxonomy-aligned economic activities to all six environmental objectives shall be disclosed as of disclosure year 2026 as required by the DDA.

Impact of the Taxonomy Regulation to strategy, products and clients

The EU sustainable finance taxonomy may be seen as a guiding framework, steering both LHV and our clients toward sustainable economic activities. During 2023 LHV was following the regulatory developments related to the taxonomy, such as the adoption of the Environmental Delegated Act. We are also proactively considering the business environment developments related to the potential use of the Taxonomy Regulation as a standard for green loans and mortgages. This adaptive approach allows us to consider aligning our operations with emerging standards while acknowledging the dynamic and complex nature of sustainable finance regulations.

Green Asset Ratio (GAR) and other KPIs disclosure

Taxonomy table 1. Green Asset Ratio (GAR) and off-balance sheet KPIs

Summary of KPIs under Article 8 Taxonomy Regulation, 31 Dec 2023

		Total environmentally sustainable assets (EUR million)	KPI** (%)	KPI*** (%)	% coverage (over total assets)*	% of assets excluded from the numerator of the GAR	% of assets excluded from the denominator of the GAR
Main KPI	Green asset ratio (GAR) stock	0.0	0.0%	-	52.6%	32.5%	47.4%
		Total environmentally sustainable activities (EUR million)	KPI** (%)	KPI*** (%)	% coverage (over total assets)	% of assets excluded from the numerator of the GAR	% of assets excluded from the denominator of the GAR
Additional KPIs	GAR (flow)	0.0	0.0%	-	-	-	-
	Financial guarantees	0.0	0.0%	-	-	-	-
	Assets under management	94.9	5.1%	3.6%	-	-	-

* % of assets covered by the KPI over banks´ total assets

**based on the Turnover KPI of the counterparty

***based on the capex KPI of the counterparty

Assets for the calculation of GAR, 31 Dec 2023

	Total gross carrying amount	TOTAL (CCM+CCA*)				
		Climate Change Mitigation (CCM)				
		Of which towards taxonomy relevant sectors (Taxonomy-eligible)				
			Of which environmentally sustainable (Taxonomy-aligned)			
EUR million				Of which use of proceeds	Of which transi-tional	Of which enabling
GAR - Covered assets in both numerator and denominator						
Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	1,431.9	1,181.8	0.0			
Financial undertakings	0.0	0.0	0.0			
Credit institutions	0.0	0.0	0.0			
Loans and advances	0.0	0.0	0.0			
Debt securities, including UoP	0.0	0.0	0.0			
Equity instruments	0.0	0.0	0.0	-		
Other financial corporations	0.0	0.0	0.0			
Non-financial undertakings	**0.5**	**0.5**	**0.0**			
Loans and advances	0.5	0.5	0.0			
Debt securities, including UoP	0.0	0.0	0.0			
Equity instruments	0.0	0.0	0.0	-		
Households	**1,363.3**	**1,181.3**	**0.0**			
of which loans collateralised by residential immovable property	1,205.8	1,162.1	0.0			
of which building renovation loans	0.0	0.0	0.0			
of which motor vehicle loans	31.1	19.2	0.0			
Local governments financing	**68.1**	**0.0**	**0.0**			
Housing financing	0.0	0.0	0.0			
Other local government financing	68.1	0.0	0.0			

Collateral obtained by taking possession: residential and commercial immovable properties						
Assets excluded from the numerator for GAR calculation (covered in the denominator)	**2,315.1**	**-**	**-**	**-**	**-**	**-**
Financial and Non-financial undertakings	**2,159.6**	**-**	**-**	**-**	**-**	**-**
(including EU and non-EU SMEs and NFCs (other than SMEs) not subject to NFRD disclosure obligations)						
Derivatives	**0.0**	-	**-**	**-**	**-**	**-**
On demand interbank loans	**51.7**	**-**	**-**	**-**	**-**	**-**
Cash and cash-related assets	**0.0**	**-**	**-**	**-**	**-**	**-**
Other categories of assets (e.g. Goodwill, commodities etc.)	**103.8**	**-**	**-**	**-**	**-**	**-**
Total GAR assets	**3,747.0**	**1,181,8**				
Assets not covered for GAR calculation	**3,394.6**		**-**	**-**	**-**	**-**
Central governments and Supranational issuers	**326.2**	**-**	**-**	**-**	**-**	**-**
Central banks exposure	**3,067.7**	**-**	**-**	**-**	**-**	**-**
Trading book	**0.7**	**-**	**-**	**-**	**-**	**-**
Total assets	**7,125,6**	**1,181,8**	**-**	**-**	**-**	**-**
Financial guarantees	0.0	0.0	0.0	0.0	0.0	0.0
Assets under management	1,797.0	115.0	94.9	0.0	28.5	86.5
Of which debt securities	395.1	20.3	19.8	0.0	13.2	19.2
Of which equity instruments	1,207.4	94.8	75.1	0.0	15.3	67.3

* No taxonomy relevant exposures contributing towards Climate Change Adaptation (CCA) objective are disclosed for on-balance sheet assets. The Total (CCM+CCA) amount for on-balance sheet assets equals the amount of exposures towards Climate Change Mitigation (CCM) objective. For off-balance sheet assets the Total column includes also CCA activities and the breakdown by CCM and CCA is provided in the template for the off-balance sheet assets.

1. The following accounting categories of financial assets are considered: Financial assets at amortised cost, financial assets at fair value through other comprehensive income, investments in subsidiaries, joint ventures and associates, financial assets designated at fair value through profit or loss and non-trading financial assets mandatorily at fair value through profit or loss, and real estate collaterals obtained by credit institutions by taking possession in exchange in of cancellation of debts.

2. For motor vehicle loans, only those exposures generated after 1 January 2022 are considered.

3. Information on disclosure reference date T-1 shall be reported as of disclosure year 2025.

4. LHV is not disclosing on a best effort basis a separate GAR for non-EU exposures considering the current volume of non-EU exposures.

GAR breakdown by sector, 31 Dec 2023

	Non-Financial corporates (Subject to NFRD)					
	CCM		CCA		TOTAL (CCM + CCA)	
	Gross carrying amount		Gross carrying amount		-Gross carrying amount	
EUR million		Of which environmentally sustainable (CCM)		Of which environmentally sustainable (CCA)		Of which environmentally sustainable (CCM + CCA)
N77.1.1 - Renting and leasing of cars and light motor vehicles	0.5	0.0	0.0	0.0	0.5	0.0

In the table above information on exposures in the banking book towards those sectors covered by the Taxonomy (NACE sectors 4 levels of detail) are disclosed.

GAR KPI stock, 31 Dec 2023

	Total (CCM+CCA*)					
	Climate Change Mitigation (CCM)					
	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
% (compared to total covered assets in the denominator)			Of which Use of Proceeds	Of which transitional	Of which enabling	Proportion of total assets covered
GAR - Covered assets in both numerator and denominator						
Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	32.9%	0.0%				20.1%
Households	**32.9%**	**0.0%**				**19.1%**
of which loans collateralised by residential immovable property	32.4%	0.0%				16.9%
of which building renovation loans	0.0%	0.0%				0.0%
of which motor vehicle loans	0.5%	0.0%				0.4%
Total GAR assets	**32.9%**	**0.0%**				**52.6%**

* No taxonomy relevant exposures contributing towards Climate Change Adaptation (CCA) objective are disclosed. The Total (CCM+CCA) amount equals the amount of exposures towards Climate Change Mitigation (CCM) objective.

With regard to taxonomy-eligible proportion of covered household exposures, LHV includes all mortgages and motor vehicle loans (only motor vehicle loans generated from 2022) as taxonomy-eligible towards the CCM objective based on the activity descriptions under CDA Annex I sections 7.7 and 6.5. As required under the regulation, exposures to non-NFRD companies were not considered for taxonomy-eligibility and taxonomy-alignment assessment, regardless of their potential to meet the taxonomy criteria.

GAR KPIs stock template is not duplicated for turnover based and CapEx based disclosures as no general purpose lending exposures to NFRD non-financial companies were considered for taxonomy eligibility and alignment assessment.

GAR KPI flow, 31 Dec 2023

% (compared to flow of total covered assets)	Total (CCM+CCA*) Climate Change Mitigation (CCM) Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)	Of which Use of Proceeds	Of which transitional	Of which enabling	Proportion of total new assets covered
GAR - Covered assets in both numerator and denominator						
Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	22.6%	0.0%				-
Households	22.6%	**0.0%**				**-**
of which loans collateralised by residential immovable property	21.3%	0.0%				-
of which building renovation loans	0.0%	0.0%				-
of which motor vehicle loans	**1.3%**	0.0%				
Total GAR assets	**22.6%**	**0.0%**				**-**

* No taxonomy relevant exposures contributing towards Climate Change Adaptation (CCA) objective are disclosed.
The Total (CCM+CCA) amount equals the amount of exposures towards Climate Change Mitigation (CCM) objective.

In the above table the GAR KPIs on flow of loans and other exposures calculated (new loans on a net basis) is disclosed based on the data disclosed on covered assets. Proportion of total new assets covered is not reported in this disclosure.

KPI off-balance sheet exposures

In the following tables the assets under management KPIs (including portfolio management and funds) for off-balance sheet exposures are disclosed calculated based on the data disclosed on covered assets. Financial guarantees KPI column is not disclosed based on data disclosed on covered assets. AuM KPI capex-based disclosure does not include financial undertakings' relevant KPIs. For financial year 2023, only disclosure of stock is provided.

KPIs stock turnover based, 31 Dec 2023

% (compared to total eligible off-balance sheet assets)				Assets under management (AuM KPI)
CCM	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			5.4%
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)		5.1%
			Of which Use of Proceeds	0.0%
			Of which transitional	1.6%
			Of which enabling	4.6%
CCA	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			0.0%
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)		0.0%
			Of which Use of Proceeds	0.0%
			Of which enabling	0.0%
TOTAL (CCM + CCA)	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			5.4%
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)		5.1%
			Of which Use of Proceeds	0.0%
			Of which transitional	1.6%
			Of which enabling	4.6%

KPIs stock Capex based, 31 Dec 2023

% (compared to total eligible off-balance sheet assets)				Assets under management (AuM KPI)
CCM	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			4.9%
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)		3.6%
			Of which Use of Proceeds	0.0%
			Of which transitional	0.6%
			Of which enabling	3.1%
CCA	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			0.0%
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)		0.0%
			Of which Use of Proceeds	0.0%
			Of which enabling	0.0%
TOTAL (CCM + CCA)	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			4.9%
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)		3.6%
			Of which Use of Proceeds	0.0%
			Of which transitional	0.6%
			Of which enabling	3.1%

Taxonomy table 2. Information on nuclear and fossil gas related activities Nuclear and fossil gas related activities, 31 Dec 2023	On-balance sheet	Off-balance sheet
Nuclear energy related activities exposures		
Research, development, demonstration and deployment of innovative electricity generation facilities that produce energy from nuclear processes with minimal waste from the fuel cycle.	No	No
Construction and safe operation of new nuclear installations to produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production, as well as their safety upgrades, using best available technologies.	No	Yes
Safe operation of existing nuclear installations that produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production from nuclear energy, as well as their safety upgrades.	No	Yes
Fossil gas related activities exposures		
Construction or operation of electricity generation facilities that produce electricity using fossil gaseous fuels.	No	Yes
Construction, refurbishment, and operation of combined heat/cool and power generation facilities using fossil gaseous fuels.	No	Yes
Construction, refurbishment and operation of heat generation facilities that produce heat/cool using fossil gaseous fuels.	No	No

For on-balance sheet assets no taxonomy-eligible or taxonomy-aligned exposures to nuclear and fossil gas related economic activities described in sections 4.26, 4.27, 4.28, 4,29, 4.30 or 4.31 of Annex I and Annex II of the CDA (regulation 2021/2139) are reported. For off-balance sheet assets LHV identified a proportion of taxonomy-eligible and taxonomy-aligned activities, however for financial year 2023 this proportion is assessed as non-material for disclosure.

Taxonomy table 3. Transitional reporting of taxonomy eligibility KPI in disclosure years 2024-2025

In 2024 and 2025 LHV Group shall report the share of taxonomy-eligible assets pursuant to the DDA article 10(7). This report shows the proportion in total covered on-balance sheet assets of exposures to taxonomy non-eligible and taxonomy-eligible economic activities pursuant to the Environmental Delegated Act and the new sections 3.18 to 3.21, sections 6.18 to 6.20 of Annex I and sections 5.13, 8.4, 9.3, 14.1 and 14.2 of Annex II to the Climate Delegated Act. Detailed information on covered assets is provided in Table 1. Where an exposure has already been determined taxonomy-eligible towards economic activities other than the activities covered here, this exposure was not considered for eligibility for this transitional reporting, for example household mortgages and motor vehicle loans contributing to the CCM objective.

Transitional taxonomy eligibility report

EUR million	Taxonomy eligible	Taxonomy non-eligible	Taxonomy-eligible share %
Art 10(7) Total covered GAR assets	0	3,747.0	0.0%

Taxonomy table 4. KPIs on underwriting activities (LHV Kindlustus)

LHV Kindlustus eligibility of underwriting activities *EUR million*	Taxonomy eligible	Taxonomy non-eligible	Share of taxonomy-eligible activities, %	Taxonomy aligned	Share of taxonomy-aligned activities, %
Underwriting activities, including	16.8	14.6	53%	0.0	0%
Land vehicle insurance (section 10.1.e)	11.0	-	35%	0.0	0%
Fire and other property damage insurance (section 10.1.g)	5.8	-	18%	0.0	0%

Share of taxonomy-eligible underwriting activities includes the gross premiums written insurance revenue corresponding to taxonomy-eligible insurance activities specified in the Climate Delegated Act Annex II section 10.1. For financial year 2023 no taxonomy-aligned underwriting activities are disclosed.

5.5.3 GRI content index and ESG metrics

The report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core Option. As GRI does not provide enough financial-sector specific disclosures for reporting on portfolio impact, various non-GRI disclosures have been used. Such non-GRI disclosures have been categorised by material topics, and listed in the GRI content index below, to provide an overview of all main ESG and sustainability indicators covered in the report.

GRI standard	Disclosure number	Disclosure	Location in report and/or explanation See sections:
Foundation (GRI 101: 2016)			
General disclosures (GRI 102:2016)			
Organisational profile	102-1	Name of the organisation	• Legal name • Note 1 General information
	102-2	Activities, brands, products, and services	• Management report • Note 1 General information • Activities of business areas
	102-3	Location of headquarters	• Legal address • Note 1 General information
	102-4	Location of operations	• Legal address • Note 1 General information
	102-5	Ownership and legal form	• General Meeting (for legal form) • Shares and bonds issued by LHV (for ownership) • Note 1 General information (for legal form) • Note 6 Subsidiaries and goodwill
	102-6	Markets served	• Strategy and financial plan • Note 1 General information
	102-7	Scale of the organisation	• Strategy and financial plan • Note 1 General information
	102-8	Information on employees and other workers	• Strategy and financial plan • Note 1 General information
	102-9	Supply chain	• Green office operations • Estimates of financed emissions
	102-10	Significant changes to the organisation and its supply chain	• Green office operations
	102-11	Precautionary principle or approach	• ESG risks in credit risk • ESG risks
	102-12	External initiatives	• Global sustainability frameworks • Leadership for sustainable business development in Estonia
	102-13	Membership of associations	• Global sustainability frameworks • Leadership for sustainable business development in Estonia
Strategy	102-14	Statement from senior decision-maker	• Letter from the CEO
Ethics and integrity	102-16	Values, principles, standards, and norms of behaviour	• Governance of the group
	102-17	Mechanisms for advice and concerns about ethics	• Equality and non-discrimination
Governance	102-18	Governance structure	• Note 1 General information

GRI standard	Disclosure number	Disclosure	Location in report and/or explanation See sections:
Stakeholders' engagement	102-40	List of stakeholder groups	• Stakeholder engagement
	102-41	Collective bargaining agreements	• Inclusive workplace
	102-42	Identifying and selecting stakeholders	• Stakeholder engagement
	102-43	Approach to stakeholder engagement	
	102-44	Key topics and concerns raised	
Reporting practice	102-45	Entities included in the consolidated financial statements	• Note 1 General information
	102-46	Defining report content and topic boundaries	• Sustainability mission statement • GRI
	102-47	List of material topics	• Material ESG and sustainability topics
	102-49	Changes in reporting	• Summary of significant accounting policies/ basis of preparation
	102-50	Reporting period	January 2023 – December 2023
	102-51	Date of most recent report	28 February 2023
	102-52	Reporting cycle	Annual
	102-53	Contact point for questions regarding the report	info@lhv.ee
	102-54	Claim of reporting in accordance with the GRI Standards	• Global sustainability frameworks – GRI • GRI content index
	102-55	GRI content index	• GRI content index and ESG metrics
	102-56	External assurance	• Independent auditors report

Material impact areas

1. Climate and biodiversity

Portfolio impact on climate and biodiversity (non-GRI disclosures)			See sections:
Management approach (GRI 103: 2016)	103-1 until 103-3		• ESG strategy • Stakeholder engagement • Management of ESG • Management of impact areas - Environment

Emissions (GRI 305: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		• Our carbon footprint
	305-1	Direct (Scope 1) GHG emissions	
	305-2	Energy indirect (Scope 2) GHG emissions	
	305-3	Other indirect (Scope 3) GHG emissions	
	305-4	GHG emissions intensity	

Waste (GRI 306:2020)			
Management approach (GRI 103:2016)	103-1 until 103-3		• Our carbon footprint
	306-3	Waste generated	

Waste and effluents (GRI 303: 2018)			
Management approach (GRI 103: 2016)	103-1 until 103-3		• Our carbon footprint
	303-5	Water consumption	

2. Circular economy

Portfolio impact on circular economy (non-GRI disclosures)			
Management approach (GRI 103: 2016)	103-1 until 103-3		• Material ESG and sustainability topics

3. Inclusive and cohesive economy

Indirect economic impacts (GRI 203: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		• ESG strategy • Stakeholder engagement • Management of ESG • Management of impact areas - Social
	203-2	Significant indirect economic impacts	• Social responsibility • Financial literacy • Sponsorships • Social impact through channels and customer experience

4. Financial literacy and economic sense of security

Indirect economic impacts (GRI 203: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		• ESG strategy • Stakeholder engagement - • Management of ESG • Management of impact areas - Social

	203-2	Significant indirect economic impacts	• Social responsibility • Financial literacy • Sponsorship • Social impact through channels and customer experience
5. Honest and transparent organisational culture			
Anti-corruption (GRI 205:206)			
Management approach (GRI 103: 2016)	103-1 until 103-3		GRI content index
	205-3	Confirmed incidents of corruption and actions taken	none
Socioeconomic compliance (GRI 419: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		• Management of ESG • Management of impact areas – Governance • Management of impact areas – Social • Management of impact areas • Corporate Governance Report
	419-1	Non-compliance with laws and regulations in the social and economic area	None
Diversity and equal opportunities (GRI 405: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		• Management of ESG • Management of impact areas – Social • Our societal impact as an employer - Equality and non-discrimination
	405-1	Diversity of governance bodies and employees	• Equality and non-discrimination • GRI content index and ESG metrics
	405-2	Ratio of basic salary and remuneration of women to men	• Equality and non-discrimination • GRI content index and ESG metrics
Stakeholder engagement (non-GRI disclosure)			
Management approach (GRI 103-2016)	103-1 until 103-3		• Stakeholder engagement • Management of ESG

ESG key performance indicators (KPIs)

Table below depicts our defined ESG key performance indicators (KPIs) that help us better understand the environmental, social and governance impact of our business. These KPIs have been selected based on the areas where LHV has most impact through our business activities.

Within the impact area of climate and environment, we have committed to phasing out the financing of new diesel cars by 2030 and have additionally set a target to gradually decrease the average CO_2 emissions of our vehicle leasing portfolio over the upcoming years. We understand that our main climate impact comes from our loan portfolio, which is why we have set a target to increase the share of renewable energy projects in our energy sector portfolio to 90% by 2030. In addition, we have defined a goal that by 2030 – at least 50% of our annually signed mortgage contracts will be done for A and B energy class housing. Our intention for

2024 is to set science-based emission reduction targets for our loan portfolio.

In LHV, we acknowledge our role in the society when it comes to improving the financial resilience of our clients. We believe that educating society about responsible borrowing and financial habits will eventually improve their possibilities of gaining access to financing. We have therefore set a target to increase the coverage rate of investment services contracts among young (up to 26 years old) clients to reach 60% by 2030.

Since gender pay gap is a major concern within the financial sector, we have decided to be transparent regarding our gender pay gap across all levels and set a target to completely abolish gender pay gap in LHV by 2030. In addition, we aim to improve our employee satisfaction score to reach 5 (maximum score) by 2030.

ESG key performance indicators in LHV Group

1. Climate and biodiversity (E)	2023	2022	2021
Contract value for new renewable energy projects added to the corporate loan portfolio (EUR million)	90.21	107.1	41.4
Number of new energy class A apartments financed annually through housing developments	822	532	-
Share of annually signed mortgage contracts for A and B energy class housing in the mortgage portfolio	26.1%	29.8%	-
Average CO_2 emissions in Group's car leasing portfolio (gCO_2/km)	98.2	122.3	134.9

2. Inclusive and cohesive economy (S)			
Use of digital channels among private customers*	60.1%	59.4%	59.3%
Use of digital channels among private customers with native language other than Estonian*	66.09%	66.2%	64.3%
Use of digital channels among private customers older than 65*	45.0%	40.8%	39.2%
Share of retail customer base outside big cities (Tallinn, Tartu, Pärnu)	33.1%	32.7%	32.4%

* logging in at least once a month

3. Financial literacy and economic sense of security (S)			
Share of young people (up to 26 years old) with an investment services contract	47.0%	46.1%	45.7%
Share of private clients with an investment services contract	41.3%	40.8%	41.1%
Share of female private clients with an investment services contract	37.3%	36.3%	36.0%
Number of microloans granted	1,251	1,068	1,001
Share of LHV Pank customers with 2nd pillar pension	26%	35%	-
Total number of Investment School attendees	16,000	19,262	12,000

4. Honest and transparent organisational culture (G)			
Confirmed incidents of corruption and actions taken	0	0	0
Customer satisfaction level	96.8%	95.7%	95.8%
Number of legal proceedings pending against the company as of end of year	2	1	1
Proportion of female employees in LHV	59.7%	57.6%	63%
Percentage of female employees in leadership positions	42.1%	48.4%	46.1%
The ratio of the CEO's salary to median FTE salary at LHV	5	5.26	5.26
Gender pay-gap	0.83	0.92	0.87
Employee satisfaction indicator (on a 5-point scale)	4.5	4.5	4.5

Governance of the Group

Supervisory board

Rain Lõhmus is one of the founders of LHV and the Chairman of the Supervisory Board of LHV Group. He is a member of the Supervisory Board of LHV Pank and belongs to the Supervisory Board of Kodumaja AS. He is the owner and a member of the Management Boards of AS Lõhmus Holdings and Lohmus Capital OÜ and the owner of OÜ Merona Systems and Kõrberebane OÜ. Additionally, he is the Management Board member and one of the owners of Zerospotnrg OÜ and Umblu Records OÜ, additionally one of the owners of OÜ KODRESTE. Rain Lõhmus graduated from Tallinn University of Technology (TalTech) and the management programme of Harvard Business School. Rain Lõhmus and persons related to him (Lõhmus Holdings OÜ, OÜ Merona Systems) own altogether 68,649,130 shares, representing 21.46% of all shares of LHV Group.

Andres Viisemann is one of the founders of LHV and the manager of LHV pension funds. He is a member of the Supervisory Boards of LHV Group, LHV Pank and AS LHV Varahaldus. He also belongs to the Supervisory Boards of AS Fertilitas, AS Viimsi Haigla and to the Management Board of VHM Medical OÜ. He is the owner and a member of the Management Board of Viisemann Holdings OÜ and the owner of Viisemann Investments AG and OÜ Miura Investeeringud. Andres Viisemann graduated from the University of Tartu and obtained a master's degree from INSEAD in International Business Management. Andres Viisemann and the persons related to him (Viisemann Investments AG and Viisemann Holdings OÜ) own altogether 35,756,210 shares, representing 11.18% of all shares of LHV Group. Due to his position as the head of LHV pension funds, Andres Viisemann is entitled to subscribe a total of 153,899 shares of LHV Group for options issued in 2021, 2022 and 2023.

Raivo Hein is a member of the Supervisory Boards of LHV Group and LHV Pank. He also belongs to the Supervisory Board of AS Puumarket and to the Management Board of MTÜ Pärtli. He is the owner and the member of Management Board of OÜ Kakssada Kakskümmend Volti and a Management Board member of E-Finance OÜ, Põhjala Kellad OÜ and several other companies established for the management of personal investments. Raivo Hein graduated from Tallinn University of Technology (TalTech). Raivo Hein does not own shares of LHV Group. Persons related to him, OÜ Kakssada Kakskümmend Volti, Lame Maakera OÜ and Astrum OÜ own altogether 5,490,694 shares, representing 1.72% of all shares of LHV Group.

Heldur Meerits is a member of the Supervisory Boards of LHV Group and LHV Pank. He is also a member of the Supervisory Boards of Kodumaja AS and the foundations SA Põltsamaa Ühisgümnaasiumi Toetusfond, SA Tähelaps and Audentese Koolide SA. Heldur Meerits is also the owner and a member of the Management Boards of the companies established for the management of personal economic interests, AS Amalfi, AS Altamira and SIA Valdemara Group, and the protector and beneficiary of Castra Hiberna Foundation. Heldur Meerits graduated from the Faculty of Economics and Business Administration of the University of Tartu. Heldur Meerits does not own shares of LHV Group. The persons related to him, AS Amalfi and SIA Valdemara Group, own 10,975,280 shares, representing 3.43% of all shares of LHV Group.

Tiina Mõis is a member of the Supervisory Boards of LHV Group and LHV Pank. She also belongs to the Supervisory Boards of Rocca al Mare Kooli AS and Rocca al Mare Kooli SA. She is the owner and a Management Board member of AS Genteel and one of the owners and a Management Board member of Nine Lives OÜ. Tiina Mõis graduated from Tallinn University of Technology (TalTech). Tiina Mõis and persons related to her (AS Genteel and Rocca al Mare Kooli SA) own altogether 11,359,990 shares, representing 3.55% of all shares of LHV Group.

Sten Tamkivi is a member of the Supervisory Board of LHV Group. He belongs to the Supervisory Boards of ASI Private Equity AS, Salv Technologies OÜ and Kistler-Ritso Eesti SA. In addition, he is the owner and a Management Board member of Seikatsu OÜ and Osaluste Hellalt Hoidmise OÜ and a Management Board member of OÜ Notorious, Kaigun OÜ, TBD Holdco OÜ and Plural Estonia OÜ. He is also one of the owners of OÜ E laen. Sten Tamkivi graduated from Stanford University Graduate School of Business. Sten Tamkivi and persons related to him (Seikatsu OÜ and OÜ Notorious) own altogether 335,630 shares, representing 0.10% of all shares of LHV Group.

Tauno Tats is a member of the Supervisory Board of LHV Group. He is also a member of the Supervisory Board of OÜ Eesti Killustik and a member of the Management Boards of Ammende Hotell OÜ and MTÜ Plate torn. He is also Management board member and owner of Õueala OÜ. He is the Management Board member and one of the owners at Ambient Sound Investments OÜ as well as a Management Board member of companies established for the management of investments of the aforementioned companies. Tauno Tats graduated from Tallinn University of Technology (TalTech). Tauno Tats does not own shares of LHV Group. Ambient Sound Investments OÜ owns 10,828,210 shares, representing 3.39% of all shares of LHV Group.

Management board

Madis Toomsalu is a member of the Management Board of LHV Group and the Chairman of the Supervisory Boards of LHV Pank, AS LHV Kindlustus, AS LHV Varahaldus and AS LHV Paytech, a member of the Supervisory Board of AS LHV Finance, and the Chairman of the Board of Directors of LHV Bank Limited. He is also a member of the Management Board of MTÜ FinanceEstonia, a member of the council of the foundation SA Rohetiiger. Madis Toomsalu has obtained a bachelor's degree in business management from Tallinn University of Technology (TalTech) in 2009 and a master's degree in 2011 in public sector finance. Madis Toomsalu and persons related to him own altogether 1,231,690 shares, representing 0.39% of all shares of LHV Group. With the options issued in 2021, 2022 and 2023, Madis Toomsalu has the right to subscribe a total of 709,658 shares of LHV Group.

Meelis Paakspuu has been a member of the Management Board and CFO of LHV Pank since 2015 and a member of the Management Board and CFO of LHV Group since 2022. He is not a member of the governing bodies of any other company. Meelis Paakspuu graduated from the University of Tartu in 1996 with a degree in economics. Meelis Paakspuu and a person related to him own altogether 611,440 shares, representing 0.19% of all shares of LHV Group. With the options issued in 2021, 2022 and 2023, Meelis Paakspuu has the right to subscribe a total of 506,288 shares of LHV Group.

Martti Singi has been a member of the Management Board and CRO of LHV Pank since 2012 and a member of the Management Board and CRO of LHV Group since 2022. He is not a member of the governing bodies of any other company. Martti Singi obtained a master's degree in international business administration from Estonian Business School in 2009. Martti Singi and persons related to him (incl. OÜ Unitas) own altogether 929,719 shares, representing 0.29% of all shares of LHV Group. With the options issued in 2021, 2022 and 2023, Martti Singi has the right to subscribe a total of 484,998 shares of LHV Group.

Jüri Heero has been member of the Management Board and CIO of LHV Pank since 2007 and a member of the Management Board and CIO of LHV Group since 2022. He is also the owner and Management Board member of Heero Invest OÜ. Jüri Heero graduated from the University of Tartu in 1999 with a degree in economics. Jüri Heero and persons related to him (incl. Heero Invest OÜ) own altogether 1,095,800 shares, representing 0.34% of all shares of LHV Group. With the options issued in 2021, 2022 and 2023, Jüri Heero has the right to subscribe a total of 484,998 shares of LHV Group.

Committees formed on Supervisory Board level

Audit Committee

Verner Uibo is the Head of Finance in the investment company Plural Platform and is a member of the Management Board of Plural Estonia OÜ. Previously, from 2006 to 2022, he was the lead auditor of the financial audit department of AS PricewaterhouseCoopers. He is the owner and the member of the Management Board of TriVer Konsultatsioonid OÜ and VUPCV OÜ and a member of the Management Board of MAOLEN OÜ. Verner Uibo has a bachelor's degree from University of Tartu Pärnu College, and he was an Estonian certified public accountant until September 2023 and has obtained ACCA (Association of Chartered Certified Accountants) qualification without being an active member. Verner Uibo does not own any shares of LHV Group.

Raivo Hein (member of the Supervisory Boards of LHV Group and LHV Pank)

Tauno Tats (member of the Supervisory Board of AS LHV Group)

Remuneration Committee

Tiina Mõis (member of the Supervisory Boards of LHV Group and LHV Pank)

Rain Lõhmus (chairman of the Supervisory Board of LHV Group and member of the Supervisory Board of LHV Pank)

Andres Viisemann (member of the Supervisory Boards of LHV Group, LHV Pank and AS LHV Varahaldus)

Nomination Committee

Tiina Mõis (member of the Supervisory Boards of LHV Group and LHV Pank)

Rain Lõhmus (chairman of the Supervisory Board of LHV Group and member of the Supervisory Board of LHV Pank)

Andres Viisemann (member of the Supervisory Boards of LHV Group, LHV Pank and AS LHV Varahaldus)

Risk and Capital Committee (formed on both LHV Group and LHV Pank Supervisory Board level)

Rain Lõhmus (chairman of the Supervisory Board of LHV Group and member of the Supervisory Board of LHV Pank)

Andres Viisemann (member of the Supervisory Boards of LHV Group, LHV Pank and AS LHV Varahaldus)

Heldur Meerits (member of the Supervisory Boards of LHV Group and LHV Pank)

Madis Toomsalu (member of the Management Board LHV Group, Chairman of the Supervisory Boards of LHV Pank, AS LHV Varahaldus, AS LHV Kindlustus and AS LHV Paytech, member of the Supervisory Board of AS LHV Finance and the Chairman of the Board of Directors of LHV Bank Ltd). Madis Toomsalu only belongs to the Risk and Capital Committee of LHV Pank.

Supervisory and Management Boards of the subsidiaries

AS LHV Pank

Supervisory Board: Madis Toomsalu (Chairman, until 31 March 2026), Rain Lõhmus (until 31 December 2024), Andres Viisemann (until 31 March 2027), Tiina Mõis (until 31 December 2024), Heldur Meerits (until 31 March 2026), Raivo Hein (until 31 March 2027)

Management Board: Kadri Kiisel (Chairman), Indrek Nuume, Jüri Heero, Andres Kitter, Meelis Paakspuu, Martti Singi (all until 31 March 2027)

AS LHV Finance

Supervisory Board: Kadri Kiisel (Chairman, until 29 January 2025), Madis Toomsalu (until 26 June 2025), Veiko Poolgas (until 24 August 2028), Jaan Koppel (until 24 August 2028)

Management Board: Heidy Kütt (until 18 January 2028)

AS LHV Varahaldus

Supervisory Board: Madis Toomsalu (Chairman, until 31 March 2026), Kadri Kiisel (until 31 March 2027), Andres Viisemann (until 31 March 2026)

Management Board: Vahur Vallistu (Chairman, until 5 June 2024), Joel Kukemelk (until 31 March 2027), Eve Sirel (until 1 June 2028).

AS LHV Kindlustus

Supervisory Board: Madis Toomsalu (Chairman), Erki Kilu, Veiko Poolgas, Jaan Koppel (all until 6 May 2025)

Management Board: Martti-Sten Merilai (Chairman, until 24 November 2027), Taavi Lehemaa (until 8 December 2028)

LHV Bank Ltd

Board of Directors: Madis Toomsalu (appointed on 4 February 2021), Erki Kilu (appointed on 4 February 2021), Andres Kitter (appointed on 4 February 2021, Paul Horner (appointed on 4 January 2022), Keith Butcher (appointed on 1 May 2022), Sally Veitch (appointed on 1 July 2022)

AS LHV Paytech

Supervisory Board: Madis Toomsalu (Chairman) Andres Kitter, Erki Kilu, Kadri Kiisel (all until 4 April 2027)

Management Board: Lauri Teder (until 4 April 2025)

Corporate governance report

This report, which is presented in accordance with the Accounting Act of the Republic of Estonia, provides an overview of the governance of AS LHV Group (LHV) and the compliance of governance with the recommendatory guidelines 'Corporate Governance Recommendations' (CGR) of the EFSA and Nasdaq Tallinn Stock Exchange. LHV complies with the CGR, unless indicated otherwise in this report.

1. General Meeting

LHV is a public limited company whose governing bodies are the General Meeting, the Supervisory Board, and the Management Board.

The General Meeting where shareholders exercise their rights is the highest governing body of LHV. The primary duties of the General Meeting include amending the Articles of Association, increasing and decreasing share capital (including approving share option programmes), taking decisions on the issuance of convertible bonds, electing and extending the authorisation of Supervisory Board members, removing Supervisory Board members before the expiry of their term of office, approving the annual report and allocation of profit, determining the number of auditors, appointing and removing the auditor(s), designating a special audit, deciding on the conclusion of transactions which are beyond the scope of everyday economic activities with members of the Supervisory Board, deciding on the dissolution, merger, division or transformation of LHV and taking other decisions within the power of the General Meeting under the law and the Articles of Association.

A resolution on the amendment of the Articles of Association is adopted when at least two-thirds of the votes represented at the General Meeting are in favour. A resolution on the amendment of the Articles of Association and a new redaction of the Articles of Association enters into force at the time when the corresponding entry is made in the commercial register. The resolution of the General Meeting on the amendment of the Articles of Association and the new text of the Articles of Association are attached to the application filed with the commercial register.

A shareholder has the right to participate in the General Meeting, address the General Meeting regarding items on the agenda, ask reasoned questions and make proposals. Furthermore, the shareholders have additional rights as provided by law or specified in the Articles of Association.

The General Meeting is called by the Management Board, unless otherwise provided by law, The Annual General Meeting whose agenda includes the approval of the annual report is called at least once a year. The Management Board calls the Annual General Meeting within six months after the end of the financial year at the latest, unless otherwise provided by law. The Management Board gives at least three weeks' notice of Annual or Extraordinary General Meetings.

The agenda of the General Meeting, proposals of the Management Board and Supervisory Board, draft resolutions and other relevant materials are made available to the shareholders prior to the General Meeting. The materials are made available on LHV's website. The shareholders not wishing to participate in the meeting in person are granted the opportunity to vote on the draft resolutions on the agenda of the General Meeting prior to the General Meeting or to participate in the General Meeting electronically on the meeting website and to watch the meeting via video broadcast. Shareholders are given an opportunity to ask questions about items on the agenda before the General Meeting. The option to participate in the General Meeting and exercise the rights using electronic means without physically attending the General Meeting via secure electronic means is provided in the Articles of Association.

The list of shareholders entitled to participate in the General Meeting is determined based on the share register seven days before the General Meeting.

In 2023, the Annual General Meeting was held on 22 March 2023. The agenda included the approval of the annual report for 2022, the profit allocation for the 2022 financial year, and the payment of dividends; the approval of the remuneration principles; and the extension of the authorities of the Supervisory Board members. In addition, an overview was given of the financial results, the business environment for the first two months of 2023 and the financial forecast for the next five years. No extraordinary General Meetings were held in 2023.

The Annual General Meeting in 2023 was held in Estonian and chaired by Daniel Haab, the Head of Legal of LHV Pank, who introduced the procedure for conducting the General Meetings and the procedure for asking the Management Board questions regarding the company's activities.

The Annual General Meeting was attended by Madis Toomsalu, the Chairman of the Management Board, and Rain Lõhmus, the Chairman of the Supervisory Board and members of the Supervisory Board Tiina Mõis, Raivo Hein and Tauno Tats. The other members of the Supervisory Board, i.e., Andres Viisemann, Heldur Meerits and Sten Tamkivi participated in the Annual General Meeting using electronic means. The auditor, Eero Kaup (KPMG), was also present.

No shareholders of LHV hold shares which would grant them special control or voting rights. LHV is not aware of any agreements between shareholders regarding coordinated exercise of shareholder rights.

The shareholders with significant influence are Rain Lõhmus and persons related to him, who hold 21.46% of share capital as of 29 December 2023 in aggregate and Andres Viisemann and persons related to him, who hold 11.18% of share capital as of 29 December 2023 in aggregate.

2. Management Board

2.1 Composition and duties of Management Board

The Management Board is the governing body representing and managing LHV. The members of the Management Board are elected and removed by the Supervisory Board. To elect a member of the Management Board, the candidate's written consent is required. Only a person who has sufficient knowledge and experience to participate in the work of the Management Board and to fulfil the duties of a member of the Management Board and who meets the requirements arising from LHV's Articles of Association, Terms of Reference of the Management Board and other internal regulations, and legislation, may be appointed as a member of the Management Board. Before appointment, the suitability of the person for the position is assessed in accordance with LHV's Rules of Suitability Assessment of Management Body Members, Management Bodies and Key Function Holders and the suitability assessment guidelines of the European Central Bank (ECB) and the joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders under Directive 2013/36/EU and Directive 2014/65/EU, taking into account the specific nature of LHV's operations.

According to the Articles of Association of LHV, the Management Board has one to five members. A member of the Management Board is appointed for a term of up to five years. The extension of the term of office of a member of the Management Board may not be decided earlier than one year before the scheduled expiry of the term of office or for a period exceeding the maximum period permitted by law or the Articles of Association. If the Management Board of LHV has more than two members, the Supervisory Board appoints the chairman of the Management Board. The chairman of the Management Board organises the work of the Management Board. The Supervisory Board may remove a member of the Management Board regardless of the reason. A member of the Management Board may resign from the board, regardless of the reason, by informing the Supervisory Board. The rights and obligations arising from a contract entered with a member of the Management Board expire in accordance with the contract.

Until 31 October 2022 LHV's Management Board had one member: Madis Toomsalu. From 1 November 2022 the Management Board has four members: Madis Toomsalu (the chairman of the Management Board, CEO), Meelis Paakspuu (responsible for financial management function, CFO), Martti Singi (responsible for risk management function, CRO) and Jüri Heero (responsible for IT operations, IT development and information security functions, CIO).

The Supervisory Board has established the terms and condition and decided the conclusion of contracts with the Management Board members. The Supervisory Board determines inter alia the remuneration principles of the members of the Management Board and compensation for early termination of the contract. The term of office of Madis Toomsalu expires on 31 March 2026 and the terms of office of the newly elected members of the Management Board, i.e., Meelis Paakspuu, Martti Singi and Jüri Heero, expire on 31 March 2027.

The Management Board makes everyday management decisions at its own discretion and in the best interests of LHV and its shareholders, putting aside personal interests. The duties of a member of the Management Board include day-to-day management of LHV, representing the company, managing LHV's operations in foreign markets and communicating with investors, coordinating the development of LHV's strategy and implementing the strategy. The right of representation specification of the members of the Management Board resulting from the Articles of Association of LHV has also been entered in the Commercial Register: the chairman of the Management Board alone or two members of the Management Board jointly may represent LHV in transactions.

The Management Board ensures that LHV has risk management and internal control systems appropriate for its operations and business area. LHV's internal control system covers all activities carried out by LHV's Supervisory Board, management, and employees to ensure efficiency of operations, adequate risk management, reliability and accuracy of internal and external reporting and unconditional compliance with all laws and regulations. The internal control system covers all business, support, and control units.

The objectives of risk management within LHV are to identify, correctly quantify and manage risks. The wider objective of risk management is to increase the value of the company by minimising losses and reducing volatility of results.

LHV's risk management is based on a strong risk culture and follows the principle of three lines of defence. The first line of defence, i.e., represented mainly by the business lines, alongside other support functions, is responsible for risk-taking and daily risk management. The second line of defence, i.e., the risk management function and the compliance function, including the AFC compliance function, is responsible for ownership, continuous review, and implementation of a risk management framework. The third line of defence, i.e., the independent internal audit function, exercises supervision over the entire organisation, i.e., reviews, through conducting internal audits, the internal governance arrangements, processes, and mechanisms to ascertain that they are sound, effective, implemented and consistently applied.

2.2 Principles of remuneration of the Management Board

The purpose of LHV's remuneration principles is to provide fair, motivating, transparent and lawful remuneration.

The authority to determine the remuneration principles and remuneration of the Management Board is vested in the Supervisory Board. The Remuneration Committee reviews the bases of the remuneration of the Management Board on an annual basis. In assessing the activities of the Management Board, the Remuneration Committee considers, above all, the duties and activities of the members of the Management Board as well as LHV's financial position, the current status and outlook of business operations in comparison with other companies operating in the same sector.

The remuneration payable to a member of the Management Board, including the options programme, must motivate the person to act in the best interests of LHV and to avoid a situation of conflict of interest by refraining from acting in the personal or other interests. The basic salary and remuneration principles of the members of the Management Board are set forth in the Management Board member contracts concluded with them. The principles of remuneration of the members of the Management Board engaged in internal control and risk management must ensure their independence and objectivity in the performance of their risk management / internal control duties. The remuneration of those persons must not depend on the results of the areas under their supervision. The goals set must be described at an individual level.

In setting the key quantitative and qualitative performance indicators and risk assessment metrics, LHV is governed by the following principles:

- The performance criteria developed by LHV must not stimulate excessive risk-taking or sale of inappropriate products.
- The performance criteria must not consist only of performance efficiency indicators (e.g., profit, revenue, return, costs, and volume indicators) or market-based indicators (e.g., share price or bond yield) but must be adjusted for risk-based indicators (e.g., capital adequacy, liquidity).
- The criteria used for measuring risks and results must be as closely as possible related to the decisions of the member of the Management Board whose results are being appraised, and they should ensure that remuneration is determined in a way that has the desired impact on the Management Board member's behaviour.
- The performance criteria must be developed by ensuring a good balance between quantitative and qualitative as well as absolute and relative criteria.
- The quantitative criteria must cover a period that is sufficiently long to take into account the risks taken by the member of the Management Board or units they are responsible for, and they should be risk-adjusted and contain economic efficiency indicators.
- The examples of qualitative criteria include achievement of strategic objectives, customer satisfaction, adherence to the risk management policy, compliance with internal and external regulations, management skills, teamwork, creativity, motivation and cooperation with other business units and the internal control function.

LHV applies a long-term incentive plan (LTI plan), i.e., an option programme. The basic salaries of Management Board members, top management and key personnel included in the option programme (including staff members considered equal to Management Board members) are added an annual performance pay the amount and disbursement of which depend on the achievement of individual targets and LHV's targets. The lower limit of the performance pay, approved by the shareholders, is EUR 0 and the upper limit is 200% of the annual remuneration. As a rule, if the financial plan is met, options will be granted to the extent of 2% of the total number of LHV shares. The bases for assigning performance pay through the options programme must be objective and justified and pre-determine the period for which performance pay is paid. The performance pay instruments consist fully of share options.

Severance compensation payable to members of the Management Board is related to their previous performance. No severance compensation is paid if this would damage the interests of LHV. The size of the severance compensation must correspond to the results achieved over time and to the remuneration received.

The Chairman of the Management Board of LHV, Madis Toomsalu was paid a monthly remuneration of EUR 16 thousand in 2023, i.e., his annual remuneration in 2023 was EUR 192 thousand under his Management Board member contract concluded with LHV. Management Board members Meelis Paakspuu, Martti Singi and Jüri Heero were paid a monthly remuneration of EUR 13 thousand, i.e. an annual remuneration in 2023 EUR 156 thousand under their Management Board member contracts concluded with LHV Pank. The Management Board members are not entitled to any additional remuneration, bonuses or benefits for performing the duties of the Management Board members of LHV other than the LHV's Option Programme approved by the Annual General Meeting of Shareholders of LHV Group resolution on 13 March 2020, on the basis of which the pre-emptive right to subscribe new shares in LHV belongs to the management and equivalent staff as well as key employees of LHV and group companies designated by LHV's Supervisory Board, with whom LHV Group has concluded relevant options agreements.

According to the options agreements concluded under the Option Programme, Madis Toomsalu is entitled to subscribe, as performance pay, a total of 709,658 LHV shares, Meelis Paakspuu is entitled to subscribe, as performance pay, a total of 506,288 LHV shares and Martti Singi and Jüri Heero, are each entitled to subscribe, as performance pay, a total of 484,998 LHV shares for the options granted in 2021, 2022 and 2023.

2.3 Conflicts of interests

The Management Board submits a declaration of economic interests and conflicts of economic interests once a year. There have been no conflicts of interest; accordingly, no corrective measures have been applied.

Transactions between LHV and the Management Board, their close family members or persons related to them, and the terms of these transactions must be approved by the Supervisory Board prior to the transaction taking place. In 2023, there were no such transactions between the members of the Management Board, their close family members, or related persons and LHV, nor are there any valid contracts of that nature from earlier periods. The Management Board members have no shareholdings above 5% in other companies who are LHV's business partners, suppliers, clients or other related companies.

None of the Management Board members of LHV are Management Board members or Supervisory Board members at any other company whose shares have been admitted to trading on a regulated market operating in Estonia. The Management Board members have not been granted the authority to issue or buy back shares of LHV.

3. Supervisory Board

3.1 Composition and duties of Supervisory Board

The Supervisory Board is a governing body of LHV which plans the activities of LHV, organises the management of LHV and conducts supervision over the activities of the Management Board. The Supervisory Board determines and regularly reviews LHV's strategy, the general action plan, risk management principles and the annual budget. The Supervisory Board has five to seven members. The members of the Supervisory Board are appointed for a term of up to three years. The members of the Supervisory Board elect from among themselves the chairman of the Supervisory Board, who organises the activities of the Supervisory Board. The authority to elect, recall and to extend the mandate of the Supervisory Board members is vested in the General Meeting.

Only a person who has sufficient knowledge and experience to participate in the work of the Supervisory Board and to fulfil the duties of a member of the Supervisory Board and who meets the requirements arising from the Articles of Association, Terms of Reference of the Supervisory Board and other internal regulations, and applicable legislation, may be elected as a member of the Supervisory Board. Before appointment, the suitability of the person for the position is assessed in accordance with LHV's Rules of Suitability Assessment of Management Body Members, Management Bodies and Key Function Holders and the suitability assessment guidelines of the European Central Bank (ECB) and the joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders under Directive 2013/36/EU and Directive 2014/65/EU, taking into account the specific nature of LHV's operations.

The members of the Supervisory Board of LHV are Rain Lõhmus (the Chairman of the Supervisory Board), Andres Viisemann, Tiina Mõis, Heldur Meerits, Raivo Hein, Tauno Tats and Sten Tamkivi. The term of office of Supervisory Board members lasts until 29 March 2026, except for Sten Tamkivi, whose term of office will end on 29 March 2024.

In 2023 the Supervisory Board had eleven ordinary meetings and on five occasions decisions were adopted electronically. During the year, four members of the Supervisory Board (Rain Lõhmus, Raivo Hein, Tiina Mõis and Tauno Tats) participated in all Supervisory Board meetings and two members of the Supervisory Board (Andres Viisemann, Heldur Meerits) were absent from one Supervisory Board meetings and one member of the Supervisory Board (Sten Tamkivi) was absent from two Supervisory Board meetings. All the members of the Supervisory Board cast their vote electronically on all of the five occasions the Supervisory Board adopted their decisions electronically in 2023.

Four committees have been formed at the Supervisory Board level of LHV, which are responsible for advising the Supervisory Board in matters related to audit, remuneration, the suitability assessment of management board members and key function holders and risk and capital management as described in subsections 3.3–3.6 of 'Corporate governance report'.

In the framework of its meetings in 2023, the Supervisory Board received regular overviews of the operating and financial results of LHV and its subsidiaries, and the activities, development, and results of the related areas. Risk reports and the internal auditor's and Audit Committee reports, compliance reports were reviewed on a quarterly basis. In Q1 2023, the Supervisory Board approved the annual report for 2022 and the report on the activities of the Supervisory Board. The Supervisory Board submitted the documents to the General Meeting for approval and made other various proposals for approval to the General Meeting (described in section 1 of 'Corporate governance report'). The proposals of the Nominating Committee for the regular assessment of the individual suitability of the Management Board members, the Supervisory Board members and the collective suitability of the Management Board and the Supervisory Board were approved in February 2023. The pricing of share options, the grant of share options for the results of 2022 (the LTI plan), and the exercise of share options for the 2019 results were approved, in addition the establishment decision of LHV´s Risk and Capital Committee was adopted in February 2023. The decision to increase the share capital of LHV in connection with the exercise of the option programme (LTI plan) was adopted in April 2023. In both, March and June 2023, the Supervisory Board's decisions to approve and issue the guarantee to the Bank of England were adopted. In both, June and August 2023, the Supervisory Board's consent was given to increase the share capital of LHV Bank. At the regular meeting of the Supervisory Board in August 2023, the primary focus was on the discussion of the strategy of LHV and its subsidiaries. The issuances of Tier 2 and MREL bonds were also decided. In September 2023, the updated financial plan was approved. In October 2023, financial calendar for 2024 and the early redemption of 2028 Tier 2 bonds issued by LHV in the amount of EURm 40 were decided. In addition, the proposal of the Nominating Committee for the assessment of the individual suitability of the new potential Supervisory Board member and the collective suitability of the Supervisory Board with a new composition, were approved. In November 2023, the Supervisory Board decided to approve the amendments of terms of references of management bodies. At the last two meetings of the year, the Supervisory Board discussed the assumptions for next year's operational and financial plans and the 5-year financial forecast of LHV and its subsidiaries. In December 2023, the Supervisory Board reviewed the outcome of Supervisory Review and Evaluation Process by the ECB and set LHV's internal capital targets. During the year, overviews of the AFC/AML trends, results of the employee survey questionnaire Q12 of LHV and its subsidiaries were presented. In addition, several additional procedures, policies, and internal regulations of LHV and its subsidiaries were reviewed, updated, and approved, the main aim of which on the LHV level was to reorganise the organisational structure and governance of LHV as a financial holding company.

3.2 Principles of remuneration of the Supervisory Board and conflicts of interest

The size of the remuneration of the members of the Supervisory Board and remuneration procedure are decided by the General Meeting, which takes into account, among other things, the duties of the Supervisory Board and their scope as well as the members' participation in the meetings and the activities of the Supervisory Board as a governing body. A member of the Supervisory Board may be assigned additional remuneration for participation in the activities of the Audit Committee or another body of the Supervisory Board.

The General Meeting has resolved to provide members of the Supervisory Board with a gross remuneration of EUR 1,500 per each ordinary meeting of the Supervisory Board in which the member participates. The remuneration is paid out on the next working day following the Supervisory Board meeting at the latest. No separate additional or performance payments, bonuses or benefits have been established.

In 2023, the total amount of remuneration paid to LHV's Supervisory Board was EUR 109.5 thousand, including all taxes, out of which four members (Rain Lõhmus, Raivo Hein, Tiina Mõis and Tauno Tats) received EUR 16.5 thousand each (participated in all 11 ordinary meetings), two members (Andres Viisemann, Heldur Meerits) received EUR 15 thousand each (participated in 10 ordinary meetings) and one member (Sten Tamkivi) received EUR 13.5 thousand (participated in 9 ordinary meetings).

For reasons of clarity, LHV considers it important to note that for Supervisory Board member Andres Viisemann LHV applies the LTI plan, i.e., the option programme, based on his activity as the Head of Pension Funds at LHV's subsidiary LHV Varahaldus. The LTI instrument comprises fully of share options. Andres Viisemann is entitled to subscribe a total of 153,899 shares of LHV for the options issued in 2021, 2022 and 2023.

Once a year, the members of the Supervisory Board submit a declaration of economic interests and conflicts of economic interests. LHV did not conduct any significant transactions with its Supervisory Board members, their close family members or related parties in 2023, nor are there any valid contracts of that nature from earlier periods. There have been no conflicts of interest and accordingly, no corrective measures have been applied. The Supervisory Board members have no shareholdings above 5% in other companies who are LHV's business partners, suppliers, clients or other related companies.

3.3 Audit Committee

The Audit Committee is an advisory body formed by the Supervisory Board for exercising oversight over the effectiveness of accounting and reporting (including the budgeting process), audit, risk and capital management, the internal control system and internal audit as well as legal and regulatory compliance. The Audit Committee is governed in its activities primarily by the Auditors Activities Act and the rules of procedure established by the Supervisory Board of LHV.

One of the responsibilities of the Audit Committee is to monitor and analyse the processes which must ensure the accurate and efficient preparation of monthly reports and annual accounts, the efficiency of the audit of the group companies' annual accounts, the independence of the audit firm and the auditor representing the audit firm on the basis of the law, and the compliance of their activities with the requirements of the Auditors Activities Act.

The Audit Committee is responsible for making proposals to the Supervisory Board and providing recommendations for the appointment or removal of the audit firm, the appointment or removal of the internal auditor, prevention or elimination of problems and inefficiencies within the organisation and ensuring compliance with laws and regulations and with best practice.

The Audit Committee has at least three members. Members of the Audit Committee are appointed by the Supervisory Board for a term of three years in a manner that should ensure diversity of competences and independence of committee members. The persons selected for the Audit Committee must be sufficiently independent of LHV in order to fulfil their role effectively, and at least two of them must be experts in accounting, finance or law. LHV's employee, member of the Management Board, internal auditor, authorised signatory or audit service provider may not be a member of the Audit Committee. For the appointment of a member of the Audit Committee, the candidate's written consent is required. The size of remuneration paid to the members of the Audit Committee is decided by the Supervisory Board of LHV.

The members of the Audit Committee are Raivo Hein, Tauno Tats and Verner Uibo (the Chairman). The term of office of the Audit Committee lasts until 31 March 2026. Further information on the members of the Audit Committee is presented in the Governance of the Group section of this annual report. LHV's Audit Committee members are paid a monthly gross remuneration of EUR 500 and the chairman of EUR 1000.

According to its rules of procedure, the Audit Committee meets at least quarterly, however, in 2023 the Audit Committee had eleven meetings. At five meetings, representatives of the Risk Management Department provided the members of the Audit Committee with an overview of various risk management topics, bank and group risk exposures, and the indicators and measures used to monitor and manage them, including matters related to credit risk management, financial crime risk, management of operational risk and specifically IT risks, ESG risk, management of liquidity and related risks and compliance control.

In most meetings, the topics discussed included issues raised by the internal audit, particularly those related to audit reports. The internal auditor gave an overview of the concluded audits. The Audit Committee has reviewed all internal audit reports, discussed the observations raised and formed an opinion on them. At the first meeting of the year, the internal audit work plan for 2023 was approved and at the last meeting held in December instructions for the internal audit work plan for 2024 were discussed. The plan was approved in January 2024.

Three meetings were attended by the external auditor (KPMG). In February, the external auditor gave an overview of the 2022 annual report audit process and findings. In October, KPMG provided an overview of the risk assessment, plan, team, and schedule of the financial audit of 2023. At the December meeting, the external auditor presented the findings raised during the interim audit.

Starting from service provision for the Annual Financial Statements for 2024, the General Meeting appointed PwC as the external auditor. PwC attended a committee meeting in September to introduce the audit takeover plan and in December to highlight the first observations.

During the year, the Audit Committee confirmed and approved specific additional services to be provided by the external auditor. No conflicts of interest were identified.

3.4 Remuneration Committee

The Remuneration Committee is a body established by the Supervisory Boards of LHV, LHV Pank, LHV Finance and LHV Kindlustus for the development, implementation, and supervision of a remuneration strategy for the employees and members of the Management Board of the companies. One of the tasks of the Remuneration Committee is to evaluate the impact of any remuneration-related decision on compliance with the requirements established for the management of risks, own funds, and liquidity.

The Remuneration Committee exercises oversight over the remuneration of the Management Board members and employees of LHV, LHV Pank, LHV Finance and LHV Kindlustus, evaluates the implementation of the remuneration policy at least annually and, where necessary, makes proposals for updating the remuneration principles and prepares the related draft resolutions for the Supervisory Board.

The Remuneration Committee has at least three members who are elected from among the matching members of the Supervisory Boards of LHV Group and LHV Pank. The members of the Remuneration Committee are appointed and removed by the Supervisory Board of LHV. A member of the Remuneration Committee is appointed for a term of three years. Members of the Remuneration Committee can be re-elected, and their mandate extended unlimited times. A person elected to the Remuneration Committee must have sufficient relevant knowledge, expertise, and experience in the area of remuneration policy and practices, risk management and control. The size of remuneration payable to the members of the Remuneration Committee is decided by the Supervisory Board of LHV. It has been decided to pay EUR 1,000 to the Chair of the Remuneration Committee and EUR 500 to each Remuneration Committee member, for each committee meeting attended with the effect from 1 April 2023.

Members of LHV's Remuneration Committee are Tiina Mõis (the Chair), Rain Lõhmus and Andres Viisemann, whose term of office lasts until 22 March 2026. Further information on the members of the Remuneration Committee is presented in the Governance of the Group section of this annual report.

In 2023, the Remuneration Committee met twice, in January and in February, and adopted one resolution electronically and one written resolution in February. In January, the Remuneration Policy and strategic remuneration principles, the Remuneration Systems of LHV Pank and LHV Kindlustus, the Remuneration Principles of the Management Board of LHV and the 2022 Remuneration Report for the Management Board of LHV were reviewed. The market comparison, critical and planned positions for 2023 and the financial supervision's expectations on payment and adjustment of performance fees were examined. The committee also discussed and made a proposal to the Supervisory Board regarding the recipients and amounts of share options to be granted for the results for 2022 (LTI plan, i.e., the option programme), as well as the pricing of the share options. In addition, the committee approved the exercise of the options granted in 2020 for the results of 2019, thoroughly examined the ex-post risk adjustment process conducted regarding the exercise of share options granted as performance pay in 2020 and approved the retention of the options of the employees whose employment contracts had been terminated in 2022 or were known to be terminated before the option exercise due date in 2023, and allowed the beforementioned employees to exercise the options issued to them, considering the results of the ex-post risk adjustment results. The Remuneration Systems of LHV Pank and LHV Kindlustus, including the annual targets and remuneration of the members of the Management Board of LHV and its Estonian subsidiaries were reviewed and submitted for approval to the Supervisory Board. In February, the Remuneration Committee reviewed the LHV's performance fee program pursuant to LHV Bank's performance fee requirements, noted the forward planner for 2023, approved the issuance of share options for the results for 2022 and submitted it for approval to the Supervisory Board

3.4.1 Remuneration policy

The remuneration principles for LHV and its affiliated companies (Group companies) are described in the internal remuneration policy.

There are no regional differences in the remuneration principles of the Group companies. The most significant differences between the Group companies are that LHV Varahaldus has no remuneration committee and applies specific disclosure requirements and LHV Bank applies rules arising from its country of operations.

The purpose of establishing remuneration principles within the Group companies is to ensure the organisation of fair, motivating and transparent remuneration in accordance with the law. A broader goal of the remuneration policy is the recruitment of employees with the capabilities, skills, and experience necessary to implement the strategy, to reconcile the interests of employees and shareholders, to motivate employees and to ensure effective risk management for growing business activities. The remuneration system consists of basic remuneration, compensations, and employee benefits. The Group companies do not provide employees with services at a lower than the market price, do not make payments to a III pillar pension fund at the expense of the employer and do not provide benefits such as a company car, a mobile phone or a laptop for personal use.

The general remuneration strategy is to ensure a motivating pay to achieve long-term goals, creating a strong link between remuneration and the financial results of the Group companies. When measuring the key quantitative and qualitative results and assessing the risk, the Group companies are governed by the following principles:

- The performance criteria are in line with sound and effective risk management principles. The performance criteria established must keep in mind the long-term interests of the Group companies and not stimulate excessive risk-taking or the sale of unsuitable products.
- The performance criteria must not merely contain performance efficiency indicators (e.g., profit, revenue, profitability, expenditure, and volume indicators) or market-based indicators (e.g., stock price or bond yield) but must also be adjusted with risk-based indicators (e.g., capital adequacy, liquidity).
- The criteria used for measuring risks and results must be as closely as possible related to the decisions of the staff member whose results are being appraised and should ensure that the process of determining the remuneration would have an appropriate impact on the staff member's professional behaviour. In the interest of long-term goals, the assessment and control of risk behaviour will take place at an individual employee level.
- A good balance of both quantitative and qualitative as well as absolute and relative criteria must be used for specifying the performance criteria.
- Quantitative criteria must cover a sufficient period to allow consideration of the risks taken by the staff members or business units. The criteria must be risk-adjusted and contain economic efficiency indicators.
- Examples of qualitative criteria include achievement of strategic objectives, customer satisfaction, adherence to the risk management policy, adherence to internal or external rules of procedure, management skills, creativity, motivation and cooperation with other business units and the internal control function.

The recruitment strategy is to find, engage and keep the best people in the labour market. In determining remuneration, the Group companies are willing to make exceptions rather than restrict its choices with strict remuneration intervals for a specific position, while keeping in mind fair pay for the role. To keep its employees, the Group companies will develop their benefits and compensations in cooperation with their employees. In 2023 a working group has gathered to analyse current benefits. In determining remuneration, the following is considered:

- Commitment and results of the employee
- Workload
- Responsibility
- The required level of education
- Management level
- Intensity of work
- The necessary knowledge and experience for the position
- The existence of additional benefits

- The situation in the labour market
- The pay level of the geographical location
- The level of criticality of the position.

The determination of the amount of remuneration must be objective. The remuneration is paid according to the work done and its value, not according to the personality, gender, age, origin, etc. of the employee.

The Group companies apply a general principle that employees should not use personal hedging strategies or remuneration and liability insurance, which would undermine the effectiveness of the hedging of risks integrated into the remuneration policy. In the decisions concerning the remuneration policy, the financial situation and sustainability of the capital base of the Group companies are taken into account.

The Group companies carry out regular self-assessment, the purpose of which is to identify all employees whose professional activities affect or may significantly affect the risk profile of the Group companies. These specified groups of employees are listed in the table below together with ratios between basic and variable remuneration paid in 2023:

Basic and variable remuneration ratio of group of employees who affect the Group's risk profile, as at 31 Dec 2023

Senior management	1.19
Staff performing control functions	0.23
Employees with significant impact on the credit risk position (the nominal value of transactions made by the employee is at least 0.5% of LHV Tier 1 own funds and amounts to at least EUR 5 million)	0.40

Self-assessment is carried out once a year at the beginning of the financial year. The assessment covers the past period (including financial results, risk analysis) and considers the forthcoming financial year. The identified employees during the self-assessment are required, within a period of one calendar year after exercising the options, to maintain ownership of the relevant LHV shares, and not to transfer or encumber (including pledge) them in any form. The identified employees are forbidden to transfer the risk of impairment of shares to another party, for example, through insurance or certain types of financial instruments. The self-assessment takes account of the degree of responsibilities and decision-making power, as well as qualitative and quantitative performance indicators. The analysis is conducted by the management board of the Group company in the form of a discussion at a management board or board (LHV Bank) meeting. The self-assessment is initiated by the Human Resources Department, the compliance of the process and results are assessed by the Compliance Control Department, whose representative is also present at the self-assessment. The Remuneration Committee reviews annually the qualitative and quantitative criteria related to the employee and the self-assessment process, which are used for decision-making. The results of the self-assessment are independently reviewed by the Internal Audit Department. The results are summarised and presented to the supervisory boards of the relevant Group companies.

Share options

In 2020 LHV shareholders approved the result-based share option programme for the Management Boards and equivalent staff as well as key employees of LHV and the group companies to be implemented from 2020 until 2024. In 2023 the recipients and amounts of share options to be granted for the results for 2022 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. Another objective is to offer a system of compensation on the labour market that is equal to competitors.

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 Management Board members – 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 risks are not adequately covered by own funds;
- the issuance of options has been determined based on information which has proven to be materially misstated or incorrect.

The share options have been issued annually from 2015 to 2023. In 2023, the options issued in 2020 were fully exercised. The next share options issue could be in 2024 based on the Supervisory Board's decision.

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. In 2023, share options were granted to 182 people in the amount of EUR 5,980 thousand. In 2022, share options were granted to 167 people in the amount of EUR 7,727 thousand. In 2021, share options were granted to 138 people in the amount of EUR 3,684 thousand. The company entered into share option agreements with the members of the Management Boards and employees for a three-year term for the granting of share options.

The share options issued in 2021 can be exercised between the period from 1 April 2024 to 30 April 2024 and shares with the nominal value of EUR 0.1 can be acquired for EUR 0.923 per share. The share options issued in 2022 can be exercised between the period from 1 April 2025 to 30 April 2025 and shares with the nominal value of EUR 0.1 can be acquired for EUR 2.182 per share. The share options issued in 2023 can be exercised between the period from 1 April 2026 to 30 April 2026 and shares with the nominal value of EUR 0.1 can be acquired for EUR 1.70 per share.

Expenses related to share option program in 2023 amounted to EUR 5,584 thousand (2022: EUR 4,661 thousand).

3.5 Nomination Committee

The purpose of the Nomination Committee is to support the Supervisory Boards of LHV, LHV Pank and LHV Finance in matters related to the selection process and eligibility requirements for the members of the Management Boards, Supervisory Boards and the key function holders (if applicable) of the mentioned companies. The responsibilities of the Nomination Committee include individual assessment of the suitability of candidates for members of governing bodies and key function holders, collective suitability assessment of governing bodies, assessment of the composition, structure and activities of the governing bodies, continuous monitoring of the decision-making process by the governing bodies, periodical review and decision-making on the content, format and frequency of the risk information received, ensuring the involvement of Risk Management, Compliance, Internal Audit and other department managers where appropriate in relevant matters. Inter alia, the Nomination Committee is guided by the Diversity Policy in its activities, which relies on overarching principles stated with the ECB's guide to fit and proper assessments and EU directive on gender balance on corporate boards. As a result, it has been concluded that Tiina Mõis is a member of the Supervisory Board of LHV, also the Chair of the Remuneration Committee and the Nomination Committee and Relika Mell is a key function holder as the Head of Internal Audit in LHV, in addition LHV's Estonian subsidiaries employ a total of 150 middle-level managers of whom 74 are women; and there are 12 Management Board members including 2 women. In 2023, on the proposal of the Nomination Committee, the Supervisory Board of LHV decided to nominate Liisi Znatokov as a candidate for a new member of the Supervisory Board, which will be submitted to the shareholders at the Annual General Meeting to be held on 20 March 2024.

The Nomination Committee is comprised of at least three members, who are selected from among the matching members of the Supervisory Boards of LHV and LHV Pank. The persons elected to the Nominating Committee must have, individually and collectively, sufficient and relevant knowledge, expertise, and experience in the area of the selection process and eligibility requirements, including knowledge of the requirements provided in the EBA and ESMA guidelines for assessing the suitability of members of management bodies and key function holders. The responsibilities, rights and operating principles of the committee and the remuneration of committee members are decided by the Supervisory Board of LHV.

Tiina Mõis (the Chair), Rain Lõhmus and Andres Viisemann are the members of the Nomination Committee, and their term of office lasts until 22 March 2026. Further information on the members of the Nominating Committee is presented in the Governance of the Group section of this annual report. The size of remuneration payable to the members of the Nominating Committee is decided by the Supervisory Board of LHV. It has been decided to pay EUR 1,000 to the Chair of the Nominating Committee and EUR 500 to the Nominating Committee member, for each committee meeting attended with the effect from 1 April 2023.

Four meetings of the Nomination Committee were held, and one written resolution adopted in 2023. In January, the regular assessment of the individual and collective suitability of the members of the Management Board and the Supervisory Board and the management bodies, and if necessary, of key function holders, of LHV, LHV Pank and LHV Finance was analysed and sent to the Supervisory Board for approval. In May the Nomination Committee met to discuss the nomination process and the profile of the new Supervisory Board member of LHV to be appointed. In July the candidates for the prospective new Supervisory Board member were reviewed and relevant action plan was approved. In August, the Nomination committee assessed the individual suitability of the two of the Supervisory Board members of LHV Finance and the collective suitability the Supervisory Board of LHV Finance in connection with the proposed extension of the term of office of the mentioned members. In October, the assessment of the individual suitability of the proposed new member of the Supervisory Board of LHV and the proposed additional member of the Supervisory Board of LHV Pank and the collective suitability of both mentioned management bodies were carried out. In addition, the re-assessment of the individual suitability of the Chairman of the Management Board of LHV Pank and the collective suitability of the Management Board was carried out in connection to the precept issued by the EFSA as a result of supervisory proceedings in 2022 and a fine for misdemeanour.

3.6 Risk and Capital Committee

The purpose of the Risk and Capital Committee is to perform supervision over the implementation of the risk management policy and the capital management policy on the LHV Group consolidated level, which includes the assessment of the aspects of risk, capital, liquidity and the probability and timing of revenue as well as the consideration of the business model and the risk management principles. The Risk and Capital Committee is responsible for the review of the reports prepared by the risk management department and the review and approval of all the risk limits, including the review of the company's internal liquidity adequacy assessment process (ILAAP), the internal capital adequacy assessment process (ICAAP), the recovery plans and crisis resolution plans (RPP), and other significant risk related policies and for proposing these to the Supervisory Board for approval. The competence of the Risk and Capital Committee also includes the performance of supervision regarding LHV's investments, risks and capital management.

The members of the Risk and Capital Committee are selected from among the members of LHV's Supervisory Board. The persons elected to the Risk and Capital Committee must have the necessary knowledge, skills and experience to understand and continuously monitor the risk management principles and risk tolerance. The responsibilities, rights and operating principles of the committee and the remuneration of committee members are decided by the Supervisory Board of LHV.

Rain Lõhmus (the Chair), Heldur Meerits and Andres Viisemann are the members of the Risk and Capital Committee, and their term of office lasts until 31 March 2026. Further information on the members of the Risk and Capital Committee is presented in the Governance of the Group section of this annual report. The size of remuneration payable to the members of the Risk and Capital Committee is decided by the Supervisory Board of LHV. It has been decided to pay EUR 1,000 to the Chair of the Risk and Capital Committee and EUR 500 to the Risk and Capital Committee member, for each committee meeting attended with the effect from 1 April 2023, considering the difference stipulated regarding the common remuneration with the Risk and Capital Committee formed at the Supervisory Board level of AS LHV Pank.

Six meetings of the Risk and Capital Committee were held in 2023, during which focus was put on a comprehensive review of risk reports at the group companies' level. Key discussions included the examination of the recovery plan, the ICAAP macro scenario, and its subsequent updates. The process for developing the risk appetite framework was introduced. Additionally, a risk opinion was provided regarding the migration of the banking services for financial intermediaries business line from LHV Pank to LHV Bank. The preliminary SREP was presented, and several revised risk policies were proposed for approval but were deemed to be further analysed. The financial planning process also underwent a review, where both the base and negative scenarios of the financial plan were discussed. The forward planner for 2024 was also acknowledged.

4. Cooperation of Management Board and Supervisory Board

The Management Board and Supervisory Board work in close cooperation to best protect the interests of LHV. The cooperation is, above all, based on an open exchange of views between and within the Management Board and the Supervisory Board.

The Management Board and the Supervisory Board collaborate in developing the goals and strategy of LHV. In managing LHV, the Management Board observes the strategic instructions of the Supervisory Board. The Management Board discusses strategic management issues with the Supervisory Board regularly, honestly, and openly. The Management Board is invited to participate in the monthly meetings of the Supervisory Board.

The Management Board regularly informs the Supervisory Board of all significant circumstances related to LHV's business planning, operations and performance, risk exposures and risk management.

There were no conflicts of interest in the financial year 2023 and accordingly, no corrective measures have been applied.

5. Disclosure of information

LHV treats all shareholders equally and notifies all shareholders of significant circumstances equitably, ensuring quick and equal access to relevant information. Information is disclosed in accordance with the rules established for publicly traded companies.

LHV contributes actively to the development of good relations with the investor community and to raising the awareness of investors. LHV has set up an investor relations website, where it makes all documents and information available to shareholders in accordance with the CGR and legal requirements. LHV publishes monthly financial results as well as next-year and five-year financial forecasts. The website of LHV includes the financial calendar for the current and the next year, which outlines the publication dates of the annual report and interim reports and the date of the Annual General Meeting. The disclosed information is available on the website in Estonian, English and Russian. LHV also discloses its annual plans and monthly results in its stock exchange announcements.

LHV organises quarterly investor meetings and webinars, the summaries of which are available on LHV's website. Additional meetings with analysts and presentations and press conferences for analysts, investors or institutional investors are arranged when needed and if requested by stakeholder groups. On its website, LHV explains its goals, directions and opinions about possible trends and changes in the regulatory and business environment. LHV strives to be approachable, transparent, and accountable to investors. In 2019, 2020 and 2023 LHV was named the winner of the Nasdaq Baltic Award – an award which recognises Nasdaq Baltic-listed companies in transparency, sound corporate governance and investor relations – in the main category Investor Relations of the Year. In 2023, AS LHV Pank was named the Stock Exchange Member of the Year, for the eight time, for most actively contributing to capital market development initiatives.

LHV's dividend policy, available on LHV's website, sets out the dividend distribution principles, according to which the key precondition for dividend distribution is sustainable compliance with both external and internal regulatory capital requirements. Depending on its growth and/or investment plans, LHV may decide not to pay a dividend. Provided the preconditions are met, LHV will distribute 25% of profit before tax attributable to LHV shareholders as dividends, income tax included.

6. Financial reporting and auditing

LHV publishes an annual report, which is audited, approved by the Supervisory Board and ultimately approved by the General Meeting.

The number of auditors is determined, and the auditors are appointed by the General Meeting, which also determines the auditors' remuneration procedure. The key criteria that the Audit Committee considers in making a proposal to the General Meeting for the appointment of an auditor include the 'auditor's prior experience in the financial services sector and auditing public interest entities, teamwork skills, expertise and ability to involve experts and, in the case of significant differences, the audit fee. Auditors are appointed for a single audit or for a specified term.

In 2023, the auditor provided the group companies with contractual services, including audits of the annual accounts of group companies and reviews of the profits reported in quarterly financial statements, translation services, tax advisory services, advisory services related to the planned amendments to the Investment Funds Act and other assurance services, which are required by the Credit Institutions Act, the Securities Market Act and the Investment Funds Act.

Transactions with related parties are disclosed in Note 24 to the financial statements.

In 2019, the Management Board and the Audit Committee organised a competition for selecting an auditor for the audit of the annual reports for the years 2020–2022. The four biggest internationally recognised audit firms were asked to submit their offers and meetings with their representatives were held. In selecting the auditor, the candidates' previous professional experience, competence, expertise, reliability, transparency of communication and terms offered compared to market terms as well as LHV's business-specific criteria were assessed. An invitation to participate was sent to the three largest audit firms and from the two firms that submitted an offer KPMG Baltics OÜ was selected and appointed as the auditor of group companies for the financial years 2020–2022 at the Annual General Meeting of 2019. In 2022 Annual General Meeting agreed to prolong the agreement by 1 year.

In 2023, the fees paid or payable for the services provided by the auditor amounted to EUR 316 thousand of which EUR 259 thousand was for audits and EUR 57 thousand was for other services.

7. Declaration of conformity

LHV complies with the CGR, except for the following instruction and recommendation for the reasons stated below:

‘3.2.2. At least half of the members of the Supervisory Board of the Issuer shall be independent. If the Supervisory Board has an odd number of members, then there may be one independent member less than the number dependent members.’

At present, the Supervisory Board of LHV has no independent members subject to the features set out in the ‘Requirements of independence’ annex to the CGR. Due to the continuous active development and growth stage, LHV has so far preferred people with long-term management and banking experience as members of the Supervisory Board. The current Supervisory Board members are also the largest shareholders of LHV. LHV believes that in their capacity as members of the Supervisory Board, the largest shareholders are best motivated to contribute to the management and long-term development of LHV. Based on objective and verifiable data, two of the current seven members of the Supervisory Board have significant ownership interests (Rain Lõhmus and related persons hold 21.46% of share capital and Andres Viisemann and related persons hold 11.18% of share capital). No member of the Supervisory Board has the power to appoint, by any means, the majority of the members of the Management Board or Supervisory Board of LHV or to control LHV in some other manner; they are not connected with LHV through a material business interest; they are not related to a shareholder of LHV that exercises control over LHV; they are not employees or business partners of LHV or members of the key personnel of a business partner. Accordingly, LHV has not considered it necessary to apply any corrective measures and considers the Supervisory Board of LHV in its present composition to be suitable, including in terms of independence. Furthermore, when assessing the independence of the members of the Supervisory Board, it has been concluded that their behavioural skills include courage, conviction, and strength to effectively assess and challenge the proposed decisions of other members of the Supervisory Board and being able to resist group-thinking. However, at the Annual General meeting held on 22 March 2023, the shareholders decided to extend the mandate of the Supervisory Board member, Sten Tamkivi, for only one year at his own request. One of the objectives in defining the profile of the new Supervisory Board member was to find an individual who would also meet the independence criteria set out in the ‘Requirements of independence’ annex to the CGR. Following the Nomination Committee's suggestion, the Supervisory Board has decided to propose Liisi Znatokov as a candidate for the new Supervisory Board member, who meets also the independence criteria. The proposal for the election of the new Supervisory Board member will be presented to the shareholders at the Annual General Meeting to be held on 20 March 2024. Election to the Supervisory Board will be subject to the approval of the European Central Bank for compliance with the eligibility requirements.

Remuneration report

This remuneration report has been prepared in accordance with the Estonian Securities Market Act and provides an overview of the remuneration paid to the Management Board of AS LHV Group (LHV Group) according to the remuneration principles approved by the General Meeting for the 2023 financial year. In the context of the Estonian Securities Market Act, the managers of LHV Group are Madis Toomsalu, the chairman of the Management Board, and Meelis Paakspuu, Martti Singi and Jüri Heero, the members of the Management Board. The remuneration principles of LHV Group are described in the internal remuneration policy of LHV Group, in the section of the annual report titled ‘Corporate governance report’ and in the remuneration principles approved by the General Meeting.

1. Remuneration of members of Management Board

1.1 Overview

Under the terms of the contract of Management Board member concluded with LHV Group, Madis Toomsalu, the Chairman of the Management Board, was paid a monthly basic remuneration of EUR 16 thousand, i.e., an annual remuneration of EUR 192 thousand in total in 2023. The Management Board members Meelis Paakspuu, Martti Singi and Jüri Heero were each paid a monthly basic remuneration of EUR 13 thousand, i.e., each an annual remuneration of EUR 156 thousand under their contracts of Management Board member concluded with LHV Pank, a subsidiary of LHV Group.

The amounts and payment procedure of the basic remuneration to the members of the Management Board were determined by resolutions of the Supervisory Board of LHV Group. According to the Management Board member contracts concluded with LHV Group and Meelis Paakspuu, Martti Singi and Jüri Heero, they do not receive any basic remuneration for the performance of duties of the Management Board members of LHV Group, as their performance is remunerated at the level of LHV Pank and when evaluating the performance of the members of the Management Board, the Remuneration Committee, which makes the associated suggestions to the Supervisory Board, considers among other factors the tasks and activities of each member of the Management Board as a whole on the entire LHV Group level on a consolidated basis.

LHV Group implements a long-term incentive plan (LTI plan) for the payment of performance fees, i.e., the option programme, which has been approved by the Annual General Meeting of the shareholders. Madis Toomsalu, Meelis Paakspuu, Martti Singi and Jüri Heero are subject to the option programme approved by the resolution of the General Meeting of LHV Group of 13 March 2020. This option programme also sets out the conditions for reducing or cancelling options.

In accordance with the resolutions of the Supervisory Board adopted on the basis of the above-mentioned option programme and the option contracts concluded with the Management Board members, Madis Toomsalu is entitled to subscribe a total of 709,658 shares of LHV Group as a performance fee for options granted in 2021, 2022, and 2023, of which the options granted in 2023 amount to a total of 219,948 shares in the amount of EUR 384 thousand. Meelis Paakspuu is entitled to subscribe a total of 506,288 shares of LHV Group as a performance fee for options issued in 2021, 2022, and 2023, of which the options granted in 2023 amount to a total of 178,708 shares in the amount of EUR 312 thousand. Martti Singi and Jüri Heero, are each entitled to subscribe a total of 484,998 shares of LHV Group as a performance fee for options granted in 2021, 2022, and 2023, of which the options granted in 2023 amount to a total of 178,708 shares in the amount of EUR 312 thousand.

As a result of the option programme, Madis Toomsalu, Meelis Paakspuu, Martti Singi and Jüri Heero are subject to a retention period of at least one year from the date of exercise of the options, during which all of them undertake to hold the shares of LHV Group underlying the options in their ownership and not to transfer or encumber them in any form.

As options are granted for the results of the previous financial year, in 2023 options were granted for the results of 2022. Since the vesting period of options is at least three years from the grant date, the options granted in 2020 for the 2019 results were exercised in 2023. In 2023, the right to reduce or cancel options granted to the Management Board members under the option programme established by the shareholders was not exercised.

An overview of the key performance indicators, the remuneration paid to Madis Toomsalu, Meelis Paakspuu, Martti Singi and Jüri Heero on a consolidated basis and the performance indicators of LHV Group over the last five financial years is presented in the table below, while other performance indicators are disclosed in the consolidated accounts of LHV Group:

Remuneration of the Management Board and employees of LHV Group		2019	2020	2021	2022	2023
Annual basic remuneration of the Management Board (gross, EUR thousand)	Madis Toomsalu	144	144	156	189	192
	Meelis Paakspuu	105	108	120	153	156
	Martti Singi	105	108	120	153	156
	Jüri Heero	105	108	120	153	156
Remuneration of full-time employees (gross, EUR thousand)		-	-	-	-	30*
Annual performance pay granted to the Management Board	Madis Toomsalu	333,050 shares (EUR 144 thousand)	370,600 shares (EUR 200 thousand)	340,540 shares (EUR 288 thousand)	149,170 shares (EUR 312 thousand)	219,948 shares (EUR 384 thousand)
	Meelis Paakspuu	173,470 shares (EUR 75 thousand)	200,120 shares (EUR 108 thousand)	212,840 shares (EUR 180 thousand)	114,740 shares (EUR 240 thousand)	178,708 shares (EUR 312 thousand)
	Martti Singi	173,470 shares (EUR 75 thousand)	200,120 shares (EUR 108 thousand)	191,550 shares (EUR 162 thousand)	114,740 shares (EUR 240 thousand)	178,708 shares (EUR 312 thousand)
	Jüri Heero	208,160 shares (EUR 90 thousand)	200,120 shares (EUR 108 thousand)	191,550 shares (EUR 162 thousand)	114,740 shares (EUR 240 thousand)	178,708 shares (EUR 312 thousand)
Consolidated profit of LHV Group (EUR thousand)		27,092	39,846	60,263	61,432	140,938
Return on equity (ROE)		14.0%	17.3%	22.1%	16.4%	29.0%

*since September 2023

LHV Group has signed on 1 September 2023 one employment contract. Other persons are performing official duties in LHV Group under their Management Board member contracts.

Madis Toomsalu, Meelis Paakspuu, Martti Singi and Jüri Heero were not granted any exceptions to, or exemptions from, the remuneration principles in 2023. They are not eligible to any financial benefits other than those described in this section for performing their duties in LHV Group and its subsidiaries.

1.2 Compatibility of remuneration with remuneration principles

According to the Management Board member contract concluded between LHV Group and the Chairman of the Management Board of LHV Group, Madis Toomsalu, was paid an average monthly remuneration of EUR 16 thousand in 2023 as the basic remuneration, which amounts to an annual basic remuneration of EUR 192 thousand. As a performance fee, Madis Toomsalu was granted the right to subscribe to a total of 219,948 shares of LHV Group in the amount of EUR 384 thousand in 2023. In 2023, Madis Toomsalu exercised his right for a performance fee for the results of the 2019 financial year according to the LTI plan and share option agreement concluded with him in 2020. He subscribed to all 370,600 options granted to him in 2020 for the results of the previous financial year in the amount of EUR 200 thousand.

According to the Management Board member contracts concluded between LHV Pank and the other three members of the Management Board of LHV Group, Meelis Paakspuu, Martti Singi and Jüri Heero, they were paid an average monthly remuneration of EUR 13 thousand in 2023 as the basic remuneration, which amounts to an annual basic remuneration of EUR 156 thousand on a consolidated basis. As a performance fee, they were each granted the right to subscribe to a total of 178,708 shares of LHV Group in the amount of EUR 312 thousand in 2023. In 2023, they all exercised their rights for performance fees for the results of the 2019 financial year according to the LTI plan and share option agreements concluded with them in 2020. Jüri Heero, Meelis Paakspuu and Martti Singi each subscribed to all 200,120 options granted to them in 2020 for the results of the previous financial year in the amount of EUR 108 thousand.

According to the proposal of the Remuneration Committee, the Supervisory Board of LHV Group has set the monthly basic remuneration of Madis Toomsalu at EUR 16 thousand, and the Supervisory Board of LHV Pank has set the monthly basic remuneration of Meelis Paakspuu, Martti Singi and Jüri Heero at EUR 13 thousand, while taking into account, among other things, the dedication and performance, the entrepreneurial spirit, the scope, responsibility, and intensity of each duties, the situation on the labour market, the remuneration level and importance of the position in the geographical location, the economic situation of LHV Group and LHV Pank, the current and future business performance and trends in comparison with the companies in the same economic sector, as well as the changed and continuously changing environment. The establishment of the basic remuneration also reflects the principle that basic remuneration should represent a sufficiently large part of the total remuneration to allow, where appropriate, not assigning or paying the performance fee in accordance with the option programme established by the shareholders. Further, considering the fact that LHV Group is the largest domestic financial group and capital provider in Estonia, and in view of the strategic trends and long-term objectives of LHV Group, the Supervisory Boards deemed the monthly remunerations set to be such as to motivate the members of the Management Board to act in the best interests of LHV Group and to refrain from acting in personal or other persons' interests, and to act in a way that is fair, transparent, and in compliance with the law. In 2023 the monthly basic remuneration of Management Board members was not amended.

At the beginning of 2023, the Remuneration Committee, established at the level of the Supervisory Board of LHV Group, discussed and set the objectives for the Chairman and other members of the Management Board of LHV Group for 2023, assessed the performance of them in 2022 and determined their performance fee accordingly. As a result of the achievement of the previously agreed objectives set for the Management Board members on an individual basis and their performance in 2022, the Supervisory Board of LHV Group, on the proposal of the Remuneration Committee, decided to use the approval of the shareholders of LHV Group to set the performance fee at the maximum amount and to approve the amount of the performance fees for members of Management Board in 2023 at 200% of their annual remuneration in 2022.

The Remuneration Committee also discussed and found, in connection with the exercise of the options granted in 2023, that there had been no subsequent changes to the 2019 financial results and no subsequent material weaknesses had been identified that would indicate that the members of the Management Board had been compromised in the proper performance of their duties in meeting their objectives. As there were no such additional details on their contribution to the 2019 accrual period which would make it necessary to revise the estimate of the number of options to be exercised in 2023 and reduce the number of instruments granted, the Supervisory Board of LHV Group approved the performance bonuses of the members of the Management Board in 2023 for the results of the 2019 financial year and the rights of the Management Board members to subscribe to all options granted to them in 2020 for the results of the previous financial year. Each of the Management Board members exercised their rights.

In 2023, the implementation of the remuneration principles was also reviewed by the Remuneration Committee of LHV Group, whose members have sufficient knowledge and experience in risk management and remuneration. In addition, LHV Group Internal Audit and Compliance Control monitored the compliance of the internal remuneration policy with the legislation on remuneration and other internal rules of LHV Group. There were no observations about non-compliance in 2023.

In the light of the above, in 2023 the remuneration of Madis Toomsalu, Meelis Paakspuu, Martti Singi and Jüri Heero complies with the remuneration principles of LHV Group, which are described in the internal remuneration policy of LHV Group, in the section of the annual report titled 'Corporate governance report' and in the remuneration principles approved by the General Meeting.

Consolidated financial statements

Risk management

Risk is defined as a potential negative deviation from the expected financial results. LHV encounters several risks in its day-to-day operations. The objective of risk management at LHV 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 LHV by minimising losses and reducing the volatility of results. Risk management at LHV is based on a strong risk culture and follows the principle of three lines of defence. 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 in the Group, including ownership of the relevant methodologies defined in the policies, and for holistically ensuring that risk identification, assessment, measurement, management, mitigation, monitoring, and reporting is well executed in the Group.

The third line of defence, the internal audit, exercises independent supervision over the entire Group. Risk management principles, requirements and areas of responsibility are described in the risk management policy. The principles and objectives of capital management are described in internal documents (the capital management policy and capital objectives). More detailed risk management processes are described in the policies of the respective fields.

Under the initiative of the independent risk management unit, LHV has developed a group-wide risk appetite framework, approved by the Supervisory Board. LHV's risk appetite reflects its readiness to take specific risks. The larger the risk appetite, the more risk can be assumed. The risk appetite is set in line with the desired risk profile, reflecting the nature of LHV's business model.

Risk framework

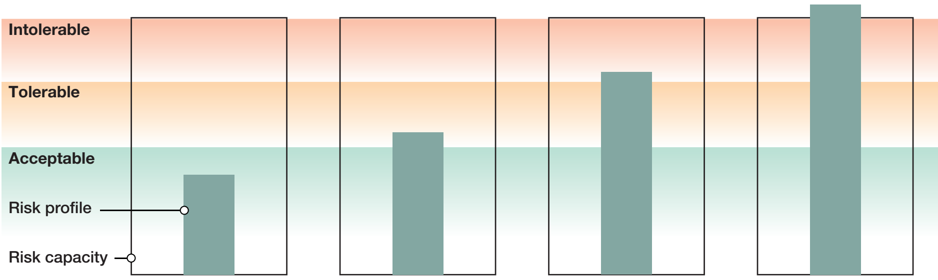
Risk management principles, roles and responsibilities	Goals, measures and controls
• Risk management and control principles • Ethics principles • Remuneration principles • Organizational structure • Roles and responsibilities	• Risk tolerance levels • Measurement of risks • Rights and limits
Internal and external reporting	

Risk appetite has been defined in risk appetite statement for all risks LHV 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 group-wide risk profile of LHV. 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 of risk must be properly assessed, and an action plan defined to return to the acceptable area; the assessment results and the action plan must be reported at least to the Management Board of LHV;
- intolerable – a hard limit violation, the level of risk LHV 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 Supervisory Board of LHV.

Risk appetite framework



The actual risk profile is inside the acceptable range. Risk profile is under control and no specific action needed.

The actual risk profile is inside the tolerable range which indicates an early warning signal. An action plan must be submitted to the management.

The actual risk profile is inside the intolerable range. An action plan has been launched to reduce the risk profile.

The actual risk profile exceeds LHV risk capacity. Financial recovery plan has been launched.

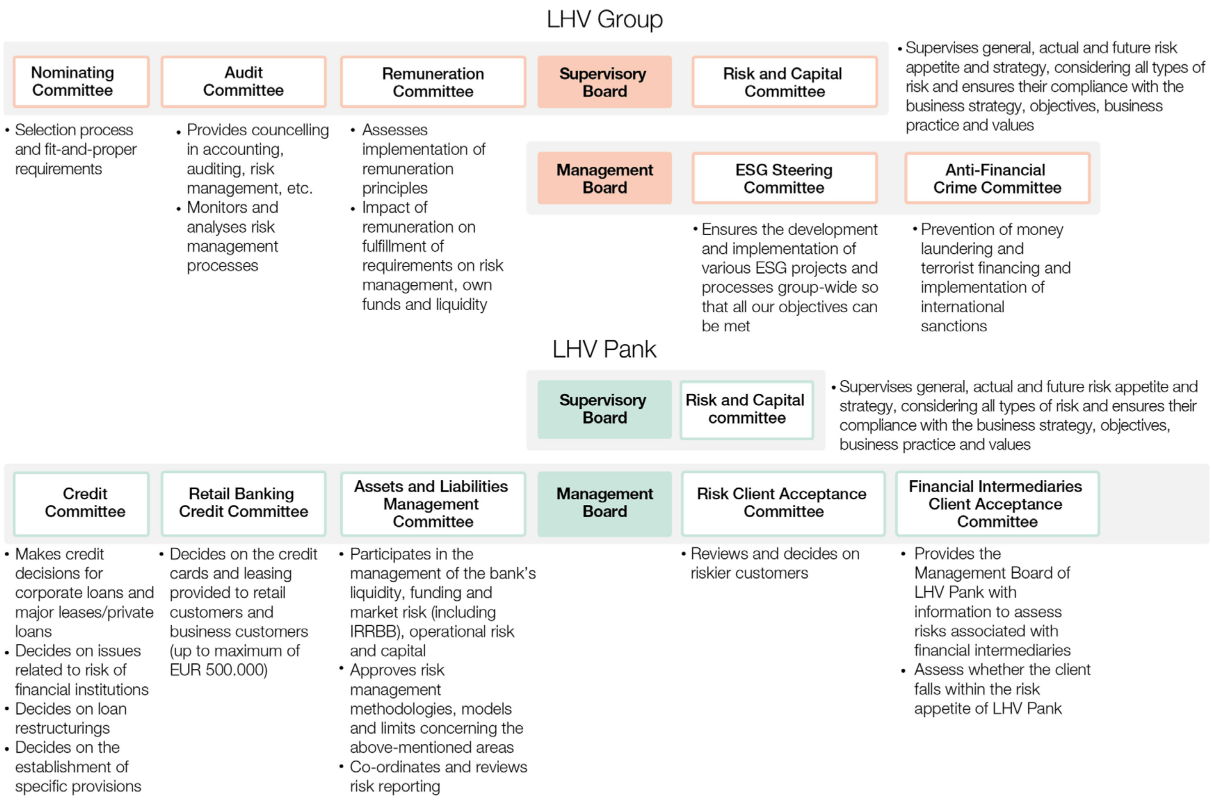
Risk capacity – the maximum amount of risk LHV is capable to take given its capital base, its risk management and control capabilities, and its regulatory constraints.

Risk appetite – the aggregate level and types of risk LHV is willing to assume within its risk capacity, in line with its business model, to achieve its strategic objectives.

Risk profile – combination of the real risks of LHV resulting from the nature, scale and complexity of LHV activities and operation environment.

As seen from the figure, 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 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. It is also necessary to inform the Management Board in this case. 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 Supervisory Board in this case. The first line of defence is responsible for managing LHV's risk profile and ensuring it stays within the risk appetite limits, while independent monitoring and reporting is the responsibility of the Risk Management Department. Within the framework of the financial recovery plan, LHV 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 solvency risk, credit risk, market risk, operational risk, funding and liquidity risk, insurance risk and financial crime risk. The risk appetite limits are defined in each of the respective risk policies, which are approved by the Supervisory Board. The policies are accompanied of detailed instructions and guidelines. LHV has a system of committees and decision-making competencies. The functions of the main committees are shown in the figure below.



As part of the risk policy framework, LHV has developed a risk reporting process. The table below gives an overview of the main reports prepared by the Risk Management Department, which are presented to the governing bodies, and the reporting frequency.

Governing body	Members	Title of the report	Report frequency	Coverage of risks
Supervisory Board of the LHV Group	All the members of the Supervisory Board of the LHV Group	Risk report	Quarterly	All main risk types
		Compliance overview	Monthly	Compliance risk
		ICAAP report, ICAAP macro scenario, SREP report	Once a year	All main risk types
Supervisory Board of LHV Pank	All the members of the Supervisory Board of LHV Pank	Risk report	Monthly	All main risk types
		ICAAP report, ICAAP macro scenario, SREP report	Once a year	All main risk types
Risk and Capital Committee of LHV Pank	Rain Lõhmus Andres Viisemann Tiina Mõis Madis Toomsalu	Risk report	Quarterly	All main risk types
Audit Committee	Kristel Aarna, Urmas Peiker Tauno Tats	Risk report	Quarterly	All main risk types
CEO of the LHV Group, the chairman of the Supervisory Board of LHV Pank	Madis Toomsalu	Risk report	Monthly	All main risk types
Assets and Liability Committee of LHV Pank	Management Board members of LHV Pank, Head of Treasury	Risk report	Monthly	Credit risk, market risk, interest rate risk, liquidity risk, operational risk
		Business continuity test and planning	After each test	Operational risks
		Risk self-assessment	After assessment	Operational risks
Management Board of LHV Pank	Management Board members of LHV Pank	Compliance overview	Once in a year	Compliance risks
		Anti-financial crime overview	Once in a year	Financial crime risks
		Monitoring of legislation	Monthly	Compliance risks
		Compliance audit	After each audit	Compliance risks
		ICAAP report, ICAAP macro scenario, SREP report	Once a year	All the risks

LHV has established a risk management policy, which sets the risk management framework. Separate policies are set for major risk categories. The risks are analysed and monitored and reported to different levels of management on a monthly and quarterly basis. The monthly risk report presents information by type of risk. The risk report also includes information on capital adequacy. It provides a regular overview of all the important risks at the company level, allowing to monitor risk development, identify bottlenecks, and react promptly.

Within the overall risk management framework, specific risk types are managed via dedicated frameworks. As LHV's business model and the external environment are continuously developing, the type and size of LHV's risk exposures are constantly changing, and the risk management framework is adapted accordingly.

In developing the risk management framework, LHV has considered the relative materiality of current and estimated future exposures, as illustrated in the risk heat map below. The risk types with material exposures, i.e., where potential losses are substantial and the likelihood of such losses materialising is higher, are managed more closely. The specific framework elements, including methodology, processes, tools, people, and perimeter of application, reflect the specific nature of these risks.

The framework for addressing the main risk types the Group is more significantly exposed to, including solvency risk, credit risk, market risk, funding and liquidity risk, operational risk, and financial crime risk are described in detail in the following sections.

Within the overall risk management framework, special attention is given also to ESG risk management, i.e., managing the risk of losses resulting from current or prospective impacts from environmental, social and/or governance factors. LHV recognises the growing materiality of this risk going forwards and is strengthening its risk management framework accordingly.

Risk management framework

This includes, similarly to all material risk categories, defining risk appetite and ensuring the Group stays within the risk appetite limits. Where appropriate, the ESG perspective is included in the aspects of the risk management framework directly addressing credit, market, operational, liquidity and funding, and strategic risks. Defining a common taxonomy and considering emerging regulations and best practices are parts of strengthening this framework. LHV maintains an exclusion list of industries and types of transactions that are not eligible for financing due to their negative environmental or social impact.

1. Capital management

The net capital of a credit institution must be at all times equal to or exceed the minimum amount of share capital prescribed in the Credit Institutions Act. The capital of banks and investment firms in the European Union is subject to a legal framework CRD IV and CRD V, largely based on the Basel III framework, as agreed in the Basel Committee on Banking Supervision. The objective of the framework is to strengthen the resilience of the financial sector to adverse economic shocks and thereby ensure adequate and sustainable financing of the economy. Significant changes implemented by the new requirements include the requirement for credit institutions to maintain a higher level and quality of capital than before and a unified framework for designing liquidity buffers. The CRD IV & V also define measures for macro-prudential supervision that member states can use to mitigate the procyclical behaviour of credit institutions and to alleviate risks arising from market structure. Every year smaller changes have been implemented in the regulations.

The goals of the Group's capital management are:

- to ensure the Group's business continuity and ability to generate return for its shareholders;
- to maintain a strong capital base supporting business development;
- to comply with capital requirements as established by supervisory authorities.

The Group considers net own funds, as defined in the capital adequacy regulation, as capital. Its own funds consist of Common Equity Tier 1 (CET1) capital, Additional Tier 1 capital and Tier 2 capital. The amount of net own funds that the Group managed as at 31 December 2023 was EUR 557,561 thousand (31 December 2022: EUR 494,956 thousand). The goals of the Group's capital management are set based on both regulative requirements and additional internal buffer requirements.

The Group follows these general principles in its capital management:

- The Group must be adequately capitalised at all times, to ensure economic sustainability and enable financing new profitable growth opportunities.
- The main focus of the capital management is on Core Tier 1 own funds, because only Core Tier 1 own funds

can absorb losses. All other capital layers in use are dependent on the volume of these funds.

- The Group's capital is divided into: 1) regulated minimum capital; 2) capital buffer held by the Group and 3) qualifying liabilities for MREL.
- MREL ratios can be met with suitable liabilities instead of own funds.
- Within the Group's legal structure, the capital should be located as high as possible. This increases the Group's ability to allocate the capital to subsidiaries based on their business needs.

To reach its long-term economic goals, the Group must strive towards a proportional lowering of the regulated minimum capital (through risk minimisation and high transparency). At the same time, the Group must strive towards a sufficient and conservative capital reserve, which will ensure economic sustainability even in the event of a severe negative risk scenario.

The risk appetite set by the Group is an important input to capital management planning and capital goal setting. Larger risk appetite requires maintaining a higher capital buffer.

The CRD IV, which is directly applicable in the member states, obligates all credit institutions operating in the European Union (including their consolidating holding companies) and investment firms to maintain a CET 1 capital ratio of 4.5% (the Common Equity Tier 1 capital as a percentage of the total risk-weighted assets) and a Tier 1 capital ratio of 6% (the Tier 1 capital as a percentage of the total risk-weighted assets). The overall Capital Adequacy Requirement (CAD), including both Tier 1 and Tier 2 capital, remains at the current level of 8.0%.

In addition to the main requirements based on uniform rules, the directive defines the principles for forming capital buffers.

First ECB sets Pillar 2 capital charge, which is credit institution based capital requirement. Base capital requirement and Pillar 2 capital charge layers together form SREP capital requirement, the minimum capitalisation level credit institution must fulfil to retain the licence.

In addition to SREP capital buffers there are set several additional buffers that banks need to cover. Credit institutions have been subjected to capital maintenance and systemic risk buffers called capital conservation buffer of 2.5% imposed by the EFSA; other systematically important institutions buffers set individually to larger institutions of 2.0% (imposed by the Bank of Estonia); the countercyclical capital buffer set by the Bank of Estonia is set to 1.5%. Only systemic risk buffer is currently set at 0.0% (imposed by the Bank of Estonia).

Breaching capitalisation levels triggers different actions from the regulator's side. These actions start with limitations for dividend payments and increase in different steps until losing the licence.

LHV received the SREP report in December 2023 and internal capital targets have been adjusted based on that. Overview of capital requirements based on the report is provided in the table below:

Capital requirements of LHV Group	CET1	Tier 1	CAD
Base capital requirement	4.50%	6.00%	8.00%
Pillar 2 capital charge	1.91%	2.55%	3.40%
Total SREP capital requirements	**6.41%**	**8.55%**	**11.40%**
Capital conservation buffer	2.50%	2.50%	2.50%
Other systematically important institutions buffer	2.00%	2.00%	2.00%
Systemic risk buffer	0.00%	0.00%	0.00%
Countercyclical buffer	1.50%	1.50%	1.50%
Regulatory capital requirements	**12.41%**	**14.55%**	**17.40%**
Pillar 2 guidance	2.00%	2.00%	2.00%
Capital requirements total	**14.41%**	**16.55%**	**19.40%**

In addition to the regulatory capital requirements, the ECB has set Pillar 2 guidance for LHV at 2.00% on each capitalisation level. LHV meets this requirement as part of internal buffers.

LHV has kept a conservative approach in capital management and keeps additional internal buffers beyond the regulatory ones. Capitalisation requirements have been increased mainly due to LHV Pank's increasing market share and weaker macro-economic situation.

Starting from 2022, the LHV Group is also subject to the minimum requirement for own funds and eligible liabilities (MREL) which is a building block of the resolution plan. LHV has to maintain sufficient own funds and qualifying liabilities which can be used to cover losses in resolution planning. There are two separate MREL ratios which have to be complied with on the consolidation group level for LHV Group. MREL-TREA is calculated based on total risk weighted assets. MREL-LRE is calculated based on total assets. The final targets for the MREL ratios have been applied with a transitional period until 1st of January 2024. The final target levels of the ratios have been indicated at 26.30% for MREL-TREA and 5.91% for MREL-LRE. The interim targets were at 19.08% for MREL-TREA and 5.91% for MREL-LRE. To distribute earnings, additional buffers must be applied on top of the abovementioned targets. Each year the regulator will recalibrate the MREL requirements.

Internal capital adequacy targets as at 31 Dec 2023 were as follows:

Internal capitalisation targets of LHV Group	**%**
Core Tier 1 capital adequacy	14.70%
Tier 1 capital adequacy	16.85%
Total capital adequacy	19.70%
MREL-TREA (until 2024)	19.50%
MREL-TREA (starting from 2024)	26.50%
MREL-LRE	6.20%
Leverage ratio	3.50%

The Group uses the standard method for calculating capital requirements for credit and market risk and basic indicator approach calculating operational risk capital requirement. The Group and its subsidiaries have complied with all the capital requirements during the financial year and in previous years. LHV Group is planning to start using the internal model-based capitalisation (IRB) in future and has been preparing the internal processes. LHV Group expects to apply for IRB licence in 2024 and hopefully will receive the licence year later.

Capital adequacy and the use of regulatory capital are managed by the Finance Department based on regular prudential reporting on capital requirements.

Each year, the Group's Supervisory Board approves the goals of capitalisation and the target level of capital adequacy to cover potential risks arising from financial plan for next five years.

In addition to these, capitalisation situation is forecasted on monthly bases based on the actual performance and economic outlook; and if needed adjustments are made to capital plans. Risk Management Department is separately preparing several stress scenarios all affecting the capitalisation and which are taken into account in planning phase.

Each year, an internal capital adequacy assessment process (ICAAP) is performed, the aim of which is to identify potential internal capital needs in addition to regulatory capital requirements.

In addition to LHV Group, separate regulative capital requirements have been set for several subsidiaries: LHV Pank on stand-alone level, LHV Bank, LHV Varahaldus and LHV Kindlustus. All these companies follow both regulatory requirements and the Group's capitalisation targets in daily capital management.

Capital management in 2023

The Group is strongly capitalised.

The Group's total capital adequacy ratio equalled 21.93% as at 31 December 2023 (31 December 2022: 21.72%). The Tier 1 and CET 1 capital ratios equalled 19.17% and 17.01% as at 31 December 2023, respectively (31 December 2022: 18.43% and 16.02% respectively).

All capital ratios remained strong and well above both the internal and regulatory requirements despite decent growth of risk weighted assets. This is attributable to very strong internal capital generation through profits. Thus, as of 31 December 2023, the Group complied with all of the regulatory and internal capital requirements.

LHV Group issued EUR 35 million of Tier 2 bonds in October 2023. The issue was very successful and was oversubscribed by more than 16 times. Subsequently, EUR 40 million of Tier 2 bonds were called back in November 2023 because the bonds would have otherwise become inefficient as capital instruments.

LHV Group issued EUR 18,15 million of MREL eligible bonds in May 2023 and an additional EUR 100 million of MREL eligible bonds in October 2023 to fulfil the MREL target ratios.

As of 31 December 2023, the Group's MREL-TREA ratio equalled 34.16% (31 December 2022: 29.99%) and the Group's MREL-LRE ratio equalled 12.08% (31 December 2022: 11.12%), thus complying with the regulatory requirements.

The Group's leverage ratio amounted to 6.78% as of 31 December 2023 (31 December 2022 6.83%).

Capital base

EUR thousand	31 Dec 2023	31 Dec 2022
Paid-in share capital	31,983	31,542
Share premium	143,372	141,186
Legal reserves transferred from net profit	4,713	4,713
Other reserves	-996	-1,441
Retained earnings	288,132	216,190
Intangible assets (subtracted)	-21,278	-23,333
Net profit for the reporting period (COREP)	0	0
Other adjustments	-8	-369
CET1 capital elements or deductions	-9,860	0
CET1 instruments of financial sector entities where the institution has a significant investment	-3,496	-3,351
CET1 instruments of financial sector entities where the institution does not have a significant investment	0	-181
Tier 1 capital	**432,562**	**364,956**
Additional Tier 1 capital	55,000	55,000
Total Tier 1 capital	**487,562**	**419,956**
Subordinated debt	70,000	75,000
Total Tier 2 capital	**70,000**	**75,000**
Net own funds for capital adequacy	**557,562**	**494,956**

Risk weighted assets		
Central governments and central bank under standard method	0	0
Credit institutions and investment companies under standard method	12,316	11,553
Companies under standard method	1,300,707	1,204,523
Retail claims under standard method	226,592	219,031
Public sector under standard method	0	0
Housing real estate under standard method	610,181	513,483
Overdue claims under standard method	19,759	8,004
Investment funds' shares under standard method	188	186
Other assets under standard method	109,295	102,697
Total capital requirements for covering the credit risk and counter-party credit risk	**2,279,038**	**2,059,477**
Foreign currency risk	1,793	18,324
Interest position risk	0	0
Equity portfolio risk	746	740
Credit valuation adjustment risk	1,966	2,228
Operational risk under base method	259,437	197,920
Total risk weighted assets	**2,542,980**	**2,278,689**
Capital adequacy (%)	**21.93**	**21.72**
Tier 1 capital ratio (%)	**19.17**	**18.43**
Core Tier 1 capital ratio (%)	**17.01**	**16.02**

2. Credit risk

Credit risk is the risk of suffering financial loss, should any of the Group's customers or market counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises from cash and cash equivalents, derivatives and deposits with banks and other financial institutions and debt securities, but mainly from credit exposures to customers, including outstanding loans, issued guarantees, other receivables, and commitments.

Credit risk is one of the largest risks for the Group's business. Therefore, management carefully manages its exposure to credit risk. A central principle for LHV is that each of LHV´s credit business units have full responsibility for their credit risks, that credit decisions adhere to the credit process and decisions are in line with LHV`s business and credit strategies. The credit risk management and control are distributed across the three lines of defence, with responsibilities concentrated in a dedicated independent Credit Risk Management Department, which reports regularly to the Management Board and Supervisory Board. The responsibilities of the Credit Risk Management Department include debt and risk assets management, real estate collateral assessment, corporate (exposure to LHV > EUR 500 thousand) credit risk analysis and first-line credit control and monitoring units.

Depending on the size and nature of each loan the credit process is performed based on the principle that low-risk loans can be approved through a more cost-efficient and faster process, while for riskier and larger exposures more in-depth analysis and process are carried out. Accordingly, the lending decisions are made by the Credit Committee (exposures > EUR 500 thousand), by the Retail Banking Credit Committee or at a lower decision level which includes decisions made by credit officers or fully automated decisions made by the system for consumer financing. For credit decisions either rating or scoring systems are used to assess customer credit risk (see subsection 2.1 Credit risk measurement and distribution). In the credit decision-making process LHV considers the principles of responsible lending and sustainability, including environmental considerations, social responsibility, and business ethics (see also subsection 'General ESG principles' of this section).

For an early identification of significant increase in credit risk a continuous monitoring is carried out after issuing the loan. Quarterly monitoring is performed based on the customer´s financial position for corporate customers (exposure to LHV > EUR 500 thousand). In addition, information from external sources like credit bureaus, the tax office and other public registers are used. At least annually all ratings of corporate customers, financial institutions and sovereigns are individually reviewed. Customers with a significant increase in credit risk are included in a watchlist. The financial position, liquidity, and collateral value of watchlist customers is thoroughly monitored and a monthly overview is given to the Credit Committee. For retail business, after the date of initial recognition, the borrower's payment behaviour is monitored on a periodic basis to develop a behavioural score. Any other known information about the borrower which impacts their creditworthiness – such as unemployment and previous delinquency history – is also incorporated into the behavioural score. Customers with increased credit risk in retail portfolio are generally managed based on the customer´s payment behaviour.

The Group employs a range of policies and practices for mitigating credit risk. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

Impact from cooling economy

The escalated conflict in Ukraine in early 2022, did not have direct impact to LHV credit portfolio, because of historical restrictive lending to customers exposed to risks outside EU. However, increasing energy prices need to be considered, when issuing credits both to corporates and retail clients going forward. For example, some business models need to change and both commercial and residential buildings need to become more energy efficient.

During the year 2023, the Estonian economy was in a mild recession. So far, the cooling economy has had only slight negative impact on the credit portfolio quality. The forborne and the overdue portfolio have been increasing in consumer finance and somewhat also among corporates throughout the year 2023. As precaution measure, the lending principles have been revised to more restrictive in consumer finance, while impairment allowance levels increased across all credit portfolios, due to uncertain outlook. LHV is continuously monitoring credit portfolio quality and is in close dialog with customers, so that in case of a need, potential risks could be mitigated.

ESG risks in credit risk

As there is growing evidence that ESG factors may affect credit risk, ESG considerations have become increasingly important in LHV Pank's credit risk decision processes including risk appetite principles, policies, and procedures.

ESG risks are defined in the context of this chapter as risks of any negative financial impact on the group stemming from the current or prospective impacts of ESG factors on its counterparties or invested assets. Environmental risk drivers are categorised as physical risks and transition risks. Physical risks are direct negative impacts from climate change and environmental degradation, which could result in reduced production capacity, increased raw material costs, asset impairment, increased labour and capital costs, etc. Transition risks refer to the uncertainty related to the timing and speed of the process of adjustment to an environmentally sustainable economy. This process may be affected by three drivers: policy, technology, and consumer preferences. The main changes in this field are happening in carbon-intensive sectors (e.g., climate-related policy actions may have an impact on asset prices). Social risks involve social factors that may have a positive or negative impact on the financial performance or solvency of a counterparty, such as the rights, well-being and interests of people and communities including (in)equality, health, inclusiveness, labour relations, workplace health and safety, human capital, and community life.

ESG risks can materialise in two ways, reflecting their potential double materiality. Financial institutions can be impacted by (outside-in perspective) ESG risks through their counterparties and invested assets, as these may be impacted by (outside-in perspective) or have an impact on (inside-out perspective) ESG factors. For example, a counterparty's environmentally harmful business activities (negative inside-out impact on environmental factors) might make it more vulnerable to the implementation of transition policies targeting environmental degradation (negative outside-in impact of environmental factors).

Considering the impact of its business activity, LHV has set a goal to promote an environmentally and socially sustainable and responsible economy and expedite progress toward solutions to key environmental and climate problems, by motivating customers to make more sustainable choices in their business activities and investment decisions.

LHV will refrain from knowingly offering credit products to customers whose activities bear clear evidence of human rights violations and serious environmental harm. Based on the principles of sustainable and responsible activity, it is against credit policy to credit customers whose volume of credit products from LHV exceeds EUR 500 thousand and whose operations are related to any of the areas listed in exclusion list in the table below.

Restricted fields of activity	Description
Forestry	• Those engaged in illegal logging
Endangered plant and animal species, well-being of animals	• Those engaged in trading in endangered or Red List plants and animals; • Those engaged in illegal animal testing as defined by European Union legal acts; • Activities related to the forcible feeding of ducks and geese; • Keeping of animals for the purpose of fur production
Arms industry	• Those whose area of activity is the production or distribution of weapons or weapons components prohibited under international law (cluster bombs, infantry mines, biological and chemical weapons, nuclear weapons, laser weapons designed to cause permanent blindness)
Energy industry	• Coal and oil shale mining and generation of electricity from them; • Activities in the preliminary phase of the oil production chain
Hazardous materials	• Asbestos mining and production, marketing and use of asbestos fibres and products and compounds containing these fibres; • Export of mercury and mercury compounds and the production, export and import of many mercury containing products
Tobacco	• Distribution of tobacco products or e-cigarettes if it is the primary area of activity of the company (>50% of revenue)
Fishing	• Practising ecologically unsustainable fishing methods, such as drifting nets, deep sea bottom trawls, use of explosives or cyanide
Transport	• Transport of oil or other hazardous materials on ships that do not meet the requirements of the International Maritime Organisation; • Financing new diesel-powered passenger cars in 2030 or later

General ESG principles

In addition to exclusion list of certain sub-sectors, LHV has also adopted the general ESG principles, which restrict crediting of activities like:

- production and trading of all goods that are illegal under the laws and regulations of the Republic of Estonia or international conventions and agreements;
- use of forced labour or human rights violations;
- facilitation of prostitution or production of pornographic material;
- distribution of prohibited substances and trading without required export or import licences;
- activities that have a negative impact on UNESCO World Heritage sites;
- activities that have a negative impact on national parks and natural protection areas or wetlands covered by the Ramsar Convention;
- activities prohibited under the legal acts of the Republic of Estonia or international conventions related to protection of biological diversity resources or cultural heritage;
- illegal forced expulsion of persons, groups of communities.

In the lending process ESG risks are taken into consideration in loan reviews. A detailed ESG risks analysis is done for corporate loan applications of over EUR 0.5 million.

For other customers a basic assessment of ESG factors is made based on the nature and complexity of the loan product and the customer's field of activity. To identify borrowers that are exposed, directly or indirectly, to increased risk associated with ESG factors, a comprehensive heat map of ESG risks for individual economic (sub) sectors has been developed in cooperation with environmental and social field experts. The heat map highlights environmental and social risks assessment for each individual economic sector, considering the corresponding risk classifications of rating agencies and international financial institutions, as well as local and EU regulations and Estonian national dimension where relevant.

Overview of LHV credit portfolio by environmental and social risks classification of economic sectors is given in the following table.

Credit portfolio distribution by risk classification

	Risk level	2023	2022
Environmental and climate change risk (E)	High	13.5%	10.9%
	Medium	56.6%	54.7%
	Low	29.9%	34.3%
Social risk (S)	High	13.5%	10.9%
	Medium	62.3%	55.9%
	Low	24.2%	33.1%

For exposures related to higher ESG risk (high or medium sectoral risk level according to the heatmap) and risk exposures above EUR 0.5 million, a more intensive analysis is conducted regarding the client's openness and management of ESG risks. This assessment is complemented by a tool for corporate client ESG analysis, which employs a quantifiable methodology to focus on the most critical ESG factors in each sector. With the help of this tool LHV can manage ESG risks at both client and portfolio levels by calculating sector risk levels and client-specific ESG ratings. The rating is based on 1) determining the openness to each sector's ESG factors (physical climate risks, transition risk, water usage, waste management, employee health and safety) based on the client's primary economic activities and 2) assessing the client's ESG governance capabilities through a management questionnaire.

2.1 Credit risk measurement and distribution

The Group classifies the financial assets exposed to credit risk in the following key categories:

a) Cash and cash equivalents, due from central banks and credit institutions (referred to as 'banks' in the tables) and investment companies

b) debt securities and derivatives

c) loans to legal entities

d) loans to individuals

a) Cash and cash equivalents, due from central banks and investment companies

Management estimates that the credit risk exposure from cash and cash equivalents, held at the central bank, other correspondent banks and investment institutions is inherently low. Loans and advances to central banks, credit institutions and investments companies are generally unsecured. The funds of the Group are assessed according to ratings given by Standard & Poor's or equivalent (central banks are without a rating). In case there are ratings available from more than one rating agency, the average, or the most conservative rating is used.

If Estonian local credit institutions do not have external ratings and they are subsidiaries of large EU banks, the rating of the parent company is used. Management has assessed that the expected credit loss (ECL) from credit institutions' and investment companies' exposures is immaterial due to the strong ratings of the counterparties and as the Group holds only very liquid positions with them.

b) Debt securities and derivatives

The Credit Committee sets limits on taking credit risk associated with debt securities considering the issuer's rating.

No principal and accrued interest receivables arising from debt securities are overdue. The bonds have no collateral.

c) Loans to legal entities

Loan portfolio of legal entities includes credit to companies, local governments, non-profit associations (incl. apartment associations) etc., including the following products:

- corporate loans (corporate lending)
- leasing
- overdraft (corporate lending)
- trade finance (corporate lending)
- leveraged loans (investment financing)
- credit cards and hire-purchase (consumer financing)
- apartment association loans (corporate lending)
- credit letters (consumer financing)

Credits to legal entities (except apartment association loans) with total exposure to LHV of more than EUR 500 thousand are evaluated using expert-based rating model. After issuing the loan, follow-up monitoring is performed usually at least on a quarterly basis for each customer's financial position. At least annually all customer ratings are reviewed. Customers with significant increase in credit risks are listed in watchlist. The financial position, liquidity, and collateral value of watchlist customers is thoroughly monitored more frequently.

Credits below EUR 500 thousand to legal entities and loans to apartment associations irrespective of the loan amount are analysed with a more time-efficient scoring process. The scoring process is carried out at the time of submission of the loan application, and it is one of the criteria for issuing the loan. The probability of default (PD) is calculated by reference to the customer's financial data and payment behaviour.

d) Loans to private individuals

The loan portfolio to private individuals includes secured and unsecured credit and leasing products to private individuals, including the following products:

Credit products to private individuals	Explanation
mortgage loans (private lending)	secured loan for acquiring an apartment or house (home loan)
private loans (private lending)	secured loan for free use (investment activity, renovation, etc.)
consumer loans (consumer financing)	unsecured consumer loan (issuer: subsidiary AS LHV Finance)
hire-purchase (consumer financing)	unsecured instalment payment product offered by merchants (issuer: subsidiary AS LHV Finance)
leasing	leasing for the purchase of vehicles
leveraged loans (investment financing)	loan against the collateral of publicly traded securities
credit card loans (consumer financing)	unsecured credit card loan
overdraft (private lending)	unsecured overdraft
study loan (private lending)	loan to students with a state guarantee
real estate leasing (private lending)	mortgage loan (property is owned by LHV)

Credits to private individuals are also analysed with a time-efficient scoring process. The scoring process is carried out at the time of loan application, and it is one of the criteria for issuing the credit. The PD estimate is calculated based on social-demographic, delinquency and other characteristics. Credit decisions are made by the Retail Banking Credit Committee or at a lower decision level. Consumer financing products to private individuals are offered through the subsidiary LHV Finance in Estonia.

Credit risk measurement

For all issued credit products LHV uses either rating or scoring systems to assess customer credit worthiness, as outlined in the table below. For credit decisions in the corporate segment (exposure to LHV > EUR 500 thousand) expert-based rating model is used and in retail statistical scoring PD models are used. There are also separate models to cover the dimensions of Loss Given Default (LGD) and Credit Conversion Factor (CCF).

Models used for credit worthiness assessment

Portfolio	Segment	Definition	PD	LGD	CCF/EAD
Corporate	Corporate exposures	Loans to companies with total exposure to LHV > EUR 500 thousand	Rating models	Model	Model
Retail	SME, incl. micro enterprises	Loans to companies with total exposure to LHV <= EUR 500 thousand, loans to apartment associations irrespective of total exposure to LHV	Scoring models		
	Private mortgage	All mortgage loans to private individuals	Scoring models		
	Private non-mortgage	All consumer financing products and car leasing to private individuals	Scoring models		

- **Retail**

In retail portfolio, the risk assessment is firstly done at loan origination. After the initial recognition, the transactional and payment behaviour of the borrower is monitored and incorporated into monthly automated update of risk estimates. Any other known information about the borrower which impacts their creditworthiness – such as financial statements of legal entities – is also incorporated into the score.

- **Corporate**

For corporate business, the rating is determined at the borrower level. A credit analyst will incorporate any updated or new information/credit assessments into the credit system on an ongoing basis. In addition, the analyst will update information about the creditworthiness of the borrower at least annually from sources such as public financial statements. This will determine the updated internal credit rating and PD.

Credit rating is assigned to a customer considering a combination of the customer's financial status and business risk. The specific financial ratios and business risk aspects considered depend on the rating model used: corporate, commercial real estate, residential development, local government, and commodity.

- **Treasury**

For debt securities in the Treasury portfolio, the credit standing of the security is determined based on the ratings of external rating agencies. These ratings are continuously monitored and updated. The PDs associated with each rating are mapped to LHV's rating scale.

Credit risk ratings

The Group's rating method used for evaluating the PD consists of a total of 13 credit ratings where 1 stands for the lowest and 13 for the highest credit risk (default). Ratings 1 and 2 are attributed only to international enterprises, organisations, local governments, and countries whose solvency has been confirmed by the rating agencies with their investment grade rating. The rating classes 3-13 are also partly based on the evaluation of rating agencies, although this category includes mainly Estonian enterprises that do not have an international rating.

Internal rating scale for corporate loans and mapping of external ratings

LHV rating	LHV description	PD%	S&P	Moody's
1		0.03	AAA	Aaa
2		0.05	AA+	Aa1
3		0.10	AA, AA-	Aa2, Aa3
4		0.20	A+,A,A-	A1,A2,A3
5	Investment grade	0.30	BBB+	Baa1
6		0.40	BBB	Baa2
7		0.50	BBB-	Baa3
8		1.00	BB+,BB	Ba1,Ba2
9		2.50	BB-	Ba3
10	Non-investment grade	5.00	B+	B1
11	(including special monitoring)	10.00	B,B-	B2,B3
12		30.00	CCC/C	Caa
13	Default	100.00	D	C

The rating methods are subject to annual validation and recalibration so that they reflect the latest projections in the light of all actually observed defaults.

Ratings are divided into three groups: investment grade, non-investment grade and default. Investment grade is allocated when the counterparty is not overdue as at the reporting date. Special monitoring status is allocated when the rating of the counterparty is 10-13. Rating 13 (default status) is based on the definition of default.

The LGD and CCF estimates are categorised across product types, collateralisation, and remaining balance.

Collateral

Even though the Group only issues credits to creditworthy customers from payment ability perspective, LHV also employs a range of policies and practices to mitigate credit risk. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The valuations of the market value of collaterals are based on the principle of conservatism, which takes into account the type of collateral, its location, the likelihood of realisation and liquidity.

Expert evaluations are used to evaluate immovables. To ensure that market values are up to date, the individual valuations of commercial real estate are updated at least once a year. In the case of residential and other homogeneous types of real estate, statistical indexation models are also used for regular re-evaluation.

The main collateral types for loans and advances are:

- Mortgage
- Commercial pledge
- Commodity pledge
- Deposit
- Credit insurance
- Marketable securities
- Unlisted securities
- Pledge over the right of claim
- Guarantee of Estonian Business and Innovation Agency, the Rural Development Foundation, or the European Investment Fund
- Letter of credit
- Surety of a private person or legal entity
- Vehicle, machinery, aircraft, equipment etc.

The Group prefers collateral in the case of which there is no strong correlation between the customer's default risk and the value of the collateral. In general, the pledged assets need to be insured, the life of the collateral needs to be longer than the due date of the loan and the market value of the collateral needs to exceed the outstanding loan balance.

Unsecured loans can be issued to private customers up to a specified amount. For corporate customers this is only allowed when the cash flow forecast shows stable and significantly strong cash flows and/or the customer's credit risk is low.

Collaterals for leveraged loans are monitored daily and, if collateral value is falling, immediate measures are taken to avoid credit losses. Consumer loans and credit card loans are issued without collateral and risk is mitigated by regular monitoring of customers' payment behaviour. Leasing and mortgage loans are all over-collateralised. Regarding leasing, hire purchase, mortgage loans and overdraft to private individuals, the Group monitors customers in arrears on a regular basis.

In relation to under-collateralised corporate loans, it should be taken into consideration that the Group has assessed the market value of certain collaterals conservatively (personal sureties, commercial pledges). Under-collateralised loans are mainly considered to bear higher risk, for which the Group carries out monthly monitoring in the Credit Committee, to mitigate potential credit losses.

2.2 Expected credit loss measurement

IFRS 9 outlines a three-stage model for impairment based on changes in credit quality since initial recognition as summarised below.

A financial instrument that is not credit-impaired on initial recognition is classified to 'Stage 1' and its credit risk is continuously monitored by the Group.

If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. Please refer to subsection 2.2.1 'Significant increase in credit risk' for a description of how the Group determines whether a significant increase in credit risk has occurred.

If the financial instrument is credit-impaired, the financial instrument is moved to Stage 3. Please refer to subsection 2.2.2 'Definition of default and credit-impaired assets' for a description of how the Group defines 'credit-impaired' and 'default'.

For financial instruments in Stage 1, the ECL is measured at an amount equal to the portion of lifetime ECLs that results from default events possible within the next 12 months. For instruments in Stages 2 or 3, the ECL is measured based on ECLs on a lifetime basis. Please refer to subsection 2.2.3 'Measuring ECL – Explanation of inputs, assumptions, and estimation techniques' for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

A pervasive concept in measuring the ECL in accordance with IFRS 9 is the consideration of forward-looking information. Subsection 2.2.4 'Forward-looking information incorporated in the ECL model' includes an explanation of how the Group has incorporated this in its ECL models.

Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in credit quality since initial recognition		
Stage 1	**Stage 2**	**Stage 3**
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed below.

2.2.1 Significant increase in credit risk

The Group considers a financial instrument to have experienced a significant increase in credit risk (SICR) when one or more of the following quantitative or backstop criteria have been met:

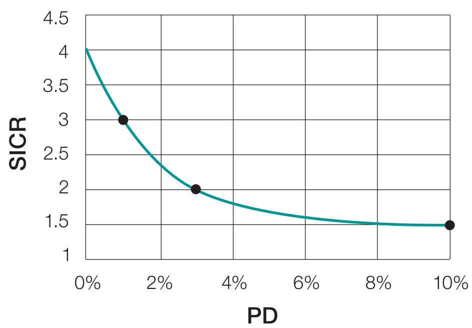
Quantitative criteria

The remaining lifetime PD at the reporting date has increased, compared to the lifetime PD expected at the reporting date when the exposure was first recognised, if it exceeds the relevant threshold per the table below:

Lifetime PD band at initial recognition	Increase in lifetime PD at reporting date which is considered significant
X%	≥100 bps
And	Current PD_life/Initial PD_life > 2.50+exp(0.45-50.00*Initial PD_life)

Retail portfolio

To illustrate the formula, see the SICR curve graphic below. In addition to the curve, the PD increase must be at least 100 bps. The SICR curve shows the relation between the origination PD and the significance threshold (PD increase in number of times) for identifying significant increase in default risk.



To illustrate the application of these thresholds, take for example a 3-year retail business loan agreement initiated on 13th February 2018, which at initial recognition had a lifetime PD of 3.36 % and was expected to have a residual lifetime PD of 2.76% ten months later at the current reporting date. If at the current reporting date the loan has a current lifetime PD of 8.86% then this exceeds the expected PD of 2.76% by more than the threshold shown above. Therefore, a SICR has occurred.

These thresholds have been determined by assessing how the lifetime PD moves prior to an instrument becoming delinquent. The lifetime PD movements on instruments which do not subsequently become delinquent have also been assessed, to identify the natural movement in the lifetime PD, which is not considered indicative of a SICR. The average maturity of the corporate portfolio is short at 2.5 years.

Backstop

A backstop is applied and the financial instrument considered to have experienced a SICR if the borrower is more than 30 days past due on contractual payments.

Low credit risk exemption

The Group has used a low credit risk exemption for cash and nostro accounts fulfilling the liquidity portfolio criteria.

2.2.2 Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower has breached the materiality threshold in 90 consecutive days.

Qualitative criteria

The following circumstances are considered as indicators that the customer may not be able to pay the debt in full:

- there are indications of unlikeliness to pay, which show that the borrower is in significant financial difficulty;

distressed restructuring has occurred;

- additional forbearance measures have been applied on the probation period for existing forbearance measures;
- the contract is terminated.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of 'default' used for internal credit risk management purposes. The definition has been applied consistently to model the PD, EAD and LGD throughout the Group's expected loss calculations.

In applying the default status, a customer-based approach is used for the corporate portfolio and a contract-based approach is used for the retail portfolio.

An instrument ceases to be in default when it no longer meets any of the default criteria throughout the probation period. The probation period should not be shorter than 3 months from the moment that the default criteria cease to exist.

Loans under distressed restructuring are considered to require particular attention in the reclassification to non-defaulted status because the assessment of days past due is based on the modified payment arrangement and the exposure cannot stop being restructured until the time it is fully repaid. Therefore, the probation period for these loans is defined as at least 1 year from the latest of:

- the moment of extending the restructuring measures;
- the moment when the exposure has been classified as defaulted;
- other end of grace period included in the restructuring arrangements.

2.2.3 Measuring ECL – Explanation of inputs, assumptions, and estimation techniques

The aim of the ECL model is to calculate the 12-month and lifetime expected credit losses that:

- are unbiased, i.e., do not include any conservatism or optimism;
- are probability-weighted amounts that are determined by evaluating three provisioning scenarios (base scenario, upside scenario and downside scenario);
- reflect the time value of money;
- use reasonable and supportable information about past events, current conditions, and forecasts of future economic conditions.

The Group's ECL model follows the widely accepted sum of marginal losses approach, whereby ECLs are calculated as the sum of the marginal losses occurring in each period (month) from the reporting date. The marginal losses are derived from individual risk parameters (PD, LGD, EAD) that estimate exposures and losses in the case of default and the marginal PD for each period (the probability of default between time periods t and t+1.

ECL calculations are based on four components:

- PD is an estimate of the likelihood of default over a given time horizon.
- EAD is an estimate of the exposure at a future default date, taking into account the expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.
- LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that LHV would expect to receive, including from any collateral. LGD is expressed as a percentage of EAD.
- Discount factor is used to discount an expected loss to a present value at the reporting date.

Mathematically, the ECL amount for the prediction horizon T (12 months or lifetime, depending on whether 12-month or lifetime ECL estimates are calculated) is expressed as follows:

$$ECL_T = \sum_{t=1}^{T} PD_t * LGD_t * EAD_t * d_t$$

Where:

t = 0
T – a one-month period within the prediction horizon
T; for a 12-month ECL estimate
T = 12 months; for a lifetime ECL estimate
T = expected life of the lending exposure
PDt – marginal PD for month t
LGDt – LGD as estimated for month t
EADt – exposure amount, incl. expected drawdowns of undrawn commitments, at month t
dt – discount factor for month t

The discount rate represents the effective interest rate (EIR) for the financial instrument or an approximation thereof.

A simplified example of the calculation logic is given in the table below. Note that in this example for secured loans, LGD is directly derived from the collateral value and as a simplification, fair value is assumed to be constant. However, the actual ECL model takes into account the possible decrease of collateral fair value over time through different scenarios.

ECL (EUR)	31 Jan 2024	28 Feb 2024	31 Mar 2024	30 Apr 2024	31 May 2024	30 Jun 2024	31 Jul 2024	31 Aug 2024	30 Sep 2024
(1) Exposure (EAD)	4,000	3,500	3,000	2,500	2,000	1,500	1,000	500	0
(2) Marginal PD, %	0.40%	0.38%	0.36%	0.34%	0.32%	0.30%	0.28%	0.26%	0.24%
(3) Collateral value	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
(4) Potential loss amount [Max(0:1-3)]	2,000	1,500	1,000	500	0	0	0	0	0
(5) Expected marginal loss [2*4]	8.00	5.70	3.60	1.70	0.00	0.00	0.00	0.00	0.00
(6) Expected marginal loss, discounted	7.97	5.65	3.56	1.67	0.00	0.00	0.00	0.00	0.00
Lifetime ECL at 31/12/2023 [Sum (6)]	18.85								

Note. Discounting is done, assuming the current reporting date 31 December 2023 and a 5% discount rate.

For the defaulted exposures, ECL is computed as:

$$ECL_T \sum_{t=1}^{T} LGD_t * Exposure_t * d_t$$

Each of the risk dimensions (PD, LGD, EAD) is covered with internally developed rating and scoring models. These models have been developed for business and credit management.

The key issue in ECL modelling is to transform the available risk parameter values into forward-looking point-in-time (PiT) estimates and feed them into the expected credit loss calculation formula.

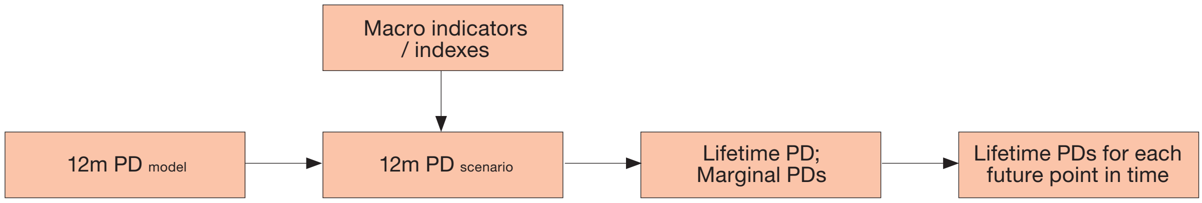
	IFRS 9 parameters
PD	• 12-month PD; lifetime PD broken down further into marginal probabilities for sub-periods • Forward-looking PiT estimate, reflecting assessment of current and future economic conditions, and a range of possible future outcomes • No regulatory floors or margins of conservatism applied
LGD	• Neutral PiT projections • Consider current and future economic conditions, and a range of possible future outcomes • Recoveries discounted, using EIR as discount rate • No regulatory floors or margins of conservatism applied
CCF/EAD	• Reflects expected changes in the balance outstanding over the lifetime of the lending exposure, incl. scheduled loan payments and prepayments
ECL	• PV of cash shortfalls. For Stage 1 exposures, 12-month PD is used. For Stage 2 exposures, lifetime PD is used. For Stage 3 exposures, PD = 100%

The following paragraphs outline how the existing underlying models are leveraged off for the ECL measurement. Each risk dimension is discussed in detail in the following chapters.

Feeding PDs from underlying rating and scoring models into ECL model

Instead of the historically based or long-run average 12-month PDs (model PDs), forward-looking 12-month and lifetime PiT estimates and marginal PDs are required for the expected credit loss calculation in accordance with IFRS 9.

The transformation of the model PD (PD model) is performed in the following flow:



Next, forward-looking 12-month PiT estimate is converted to lifetime PD and marginal PDs. This is done using the segment-specific standard default curve which gives the timing of the expected defaults for the remaining life of an exposure.

Lastly, lifetime PDs for each of the future points in time till the end of the expected life of the exposure are calculated.

Feeding LGDs from underlying models into ECL model

In the LGD dimension, the use of the underlying LGD models differs for secured and unsecured lending exposures.

The LGD for the secured part of the secured loan is estimated from fire-sale price of the collateral.

LGDs for the unsecured exposures and unsecured parts of the secured exposures rely on historical portfolio level statistics.

Further, macroeconomic scenarios are incorporated into both secured and unsecured LGDs as applicable for the defined provisioning scenarios.

Feeding CCF estimates from underlying models into ECL model

Internal CCF estimates feed directly into the ECL model and are used in the calculation of EAD. No further adjustments are needed for the CCF (because the internal estimates do not include margins of conservatism), through the cycle (TtC) nor downturn adjustments.

2.2.4 Forward-looking information incorporated in the ECL model

In order to incorporate forward-looking information into the ECL measurement and capture a range of possible outcomes for the future conditions, probability-weighted ECL amounts based on the three provisioning scenarios (base, upside and downside) are calculated. This approach enables to reflect non-linear relationships between alternative scenarios and the ECL.

Mathematically:

$$ECL = p_{base} * ECL_{base} + p_{up} * ECL_{up} + p_{down} * ECL_{down}$$

Where:

p_{base}, p_{up}, p_{down} – probabilities of the base, upside and downside scenarios, respectively

ECL_{base}, ECL_{up}, ECL_{down} – expected credit loss amounts calculated for each of the defined scenarios

ECLs for each of the defined scenarios are derived based on the general formula, using scenario specific risk parameter values.

Probability-weighted lifetime PD estimates for the purpose of assessing significant increase in credit risk are calculated in the same way:

$$PD = p_{base} * PD_{base} + p_{up} * PD_{up} + p_{down} * PD_{down}$$

Where:

PD_{base}, PD_{up}, PD_{down} – lifetime PD estimates corresponding to each of the defined scenarios

Selected indicators for private individuals credit portfolios

The relative importance of selected macro indicators for private individuals credit portfolios are shown in the table below.

	Weights
Euribor + Margin	29%
HPI growth	14%
Household consumption growth	19%
Real GDP growth	17%
Unemployment rate	21%
Total	**100%**

Note. The relative importance of each of the indicator is calculated based on the indicator's weights.

Selected indicators for companies

A wide range of macroeconomic and sector-specific indicators was considered for companies. The analysis was conducted based on two industry breakdowns:

1) broad industry sector level based on letter codes of the NACE Rev.2 classification, and
2) sub-sectors based on lower-level numerical codes of the NACE Rev.2 classification.

The following conclusions were drawn from the analysis:

- All sectors have been affected by the same credit cycle and have experienced major sector-wide financial difficulties at the same time. Despite that, there are certain idiosyncratic differences between the industry sub-sectors, e.g., in manufacturing.
- There are only a few variables that work; the variables that have explanatory power tend to work similarly for most of the industry sectors:
  - GDP growth, which explains the general state of economy,
  - change in turnover,
  - change in number of persons employed.
- Change in an industry sector's profit/loss was also tested but it tends to be too volatile for drawing conclusions on substantial change in default risk.
- A few macro indicators are significant for certain industry sectors, sub-sectors and/or groupings of sub-sectors even if correlations are difficult to show due to low numbers of observations and/or because of a relatively short observation period. e.g.:
  - export conditions for export-oriented industries such as: metal products, chemical products, and electrical equipment,
  - population growth and income growth for residential real estate,
  - household consumption growth for industries that focus on internal consumption such as retail trade.
- In conclusion, the gross value added by industry sectors was selected as the indicator for companies, given several considerations:
  - observed correlation with the considered proxies for default rates;
  - GDP, which is a close indicator to the gross value added, is the preferred approach at the industry level;
  - it is easier to project for a macroeconomist than alternative indicators.

Economic variable assumptions

Macroeconomic scenarios (forecasts) with their indicators (incl. corporate portfolio PD and LGD estimates) are developed at least once a year internally in the Financial Risk Department that consults with the macro analysts and experts from credit management, business and finance units.

Macro developments are monitored on a quarterly basis as new macroeconomic data becomes available. Forecasts are updated as necessary to ensure timely inclusion of new forward-looking information into the ECL estimates.

The provisioning scenarios and significant updates to the scenarios are approved in the Asset and Liabilities Committee.

The most significant period-end assumptions used for the ECL estimate as at 31 December 2023 are set out below. The base, downside and upside scenarios were used for all portfolios.

Assumptions in companies ECL estimate, valid at 31 Dec 2023

General macro-financial indicators	Base scenario 2024E	Base scenario 2025E	Downside scenario 2024E	Downside scenario 2025E	Upside scenario 2024E	Upside scenario 2025E
Real GDP growth, %	-0.4%	3.2%	-1.0%	2.0%	0.0%	4.0%
Household consumption, %	0.1%	3.3%	-0.5%	2.5%	0.5%	3.9%
Government consumption, %	3.5%	-1.1%	-1.0%	0.0%	4.5%	0.0%
Gross fixed capital formation, %	-5.0%	5.6%	-7.0%	3.6%	-3.0%	7.5%
Exports of goods and services, %	-1.3%	3.5%	-2.3%	1.5%	0.0%	4.0%
Imports of goods and services, %	-3.1%	3.2%	-4.5%	1.5%	0.0%	4.5%
Nominal GDP, EUR million	39,100	41,319	39,345	41,537	39,286	41,756
GDP deflator, % change	4.3%	2.4%	5.7%	3.5%	3.8%	2.2%
Consumer price growth, %	3.4%	1.9%	5.0%	4.0%	3.0%	1.7%
Unemployment rate, %	9.0%	8.1%	9.5%	8.5%	6.7%	6.5%
Change in employment, %	-3.3%	0.1%	-3.9%	0.0%	-1.9%	1.0%
Net monthly wage growth, %	4.2%	4.3%	3.6%	3.8%	4.6%	5.3%
House price index growth, %	-5.0%	5.0%	-6.0%	3.0%	-3.0%	5.5%
Euribor 6m	3.3%	2.5%	3.5%	3.3%	3.2%	2.4%
Bank lending margins on new loans (NFC)	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%

Nominal growth

Gross value added by sectors, YoY growth rates	Base scenario 2024E	Base scenario 2025E	Downside scenario 2024E	Downside scenario 2025E	Upside scenario 2024E	Upside scenario 2025E
Total - all NACE activities	4.8%	6.6%	5.8%	8.3%	4.7%	7.7%
Agriculture, forestry, and fishing	-0.5%	5.7%	0.2%	5.6%	1.7%	6.3%
Industrial sector, except construction	3.9%	6.3%	7.8%	6.2%	5.1%	6.3%
Industrial sector, except construction and manufacturing (mostly energy related)	3.9%	3.7%	12.5%	3.7%	3.8%	6.3%
Manufacturing	3.9%	7.5%	5.6%	7.4%	5.7%	6.3%
Construction	7.7%	9.4%	2.7%	19.8%	7.4%	8.1%
Wholesale and retail trade, transport, accommodation, and food service activities	4.5%	6.3%	8.9%	9.1%	4.4%	6.9%
Information and communication	6.7%	7.8%	6.1%	8.4%	7.3%	7.7%
Financial and insurance activities	6.3%	0.9%	7.1%	0.8%	1.4%	7.3%
Real estate activities	5.1%	7.6%	7.2%	7.5%	5.6%	8.3%
Professional, scientific, and technical activities; administrative and support service activities	5.2%	8.9%	6.0%	8.8%	5.8%	9.5%
Public administration, defence, education, human health and social work activities	4.6%	5.7%	1.0%	8.6%	2.4%	9.4%
Arts, entertainment, and recreation; other service activities; activities of household and extra-territorial organisations and bodies	2.0%	6.6%	2.3%	8.0%	3.8%	6.3%

The weightings assigned to each economic scenario were as follows:

Weights of economic scenarios

	Base scenario	Downside scenario	Upside scenario
Valid on 31 Dec 2023	60%	25%	15%
Valid on 31 Dec 2022	60%	25%	15%

The most significant period-end assumptions used for the ECL estimate as at 31 December 2022 are set out below. The base, downside and upside scenarios were used for all portfolios

Assumptions in companies ECL estimate, valid at 31 Dec 2022

	Base scenario		Downside scenario		Upside scenario	
General macro-financial indicators	**2023E**	**2024E**	**2023E**	**2024E**	**2023E**	**2024E**
Real GDP growth, %	0.4%	3.1%	-3.5%	2.5%	1.0%	3.5%
Household consumption, %	-1.1%	2.1%	-4.0%	2.0%	-0.5%	3.3%
Government consumption, %	3.9%	-2.9%	-2.0%	-1.0%	3.5%	0.5%
Gross fixed capital formation, %	-0.5%	5.1%	-5.0%	5.0%	0.0%	7.0%
Exports of goods and services, %	-0.1%	2.8%	-3.0%	3.2%	0.0%	4.0%
Imports of goods and services, %	-5.4%	1.5%	-0.5%	2.9%	-0.4%	3.8%
Nominal GDP, EUR million	38,486	40,353	37,985	39,324	38,569	40,997
GDP deflator, % change	5.8%	1.7%	8.1%	1.0%	5.4%	2.7%
Consumer price growth, %	9.3%	2.8%	12.0%	1.5%	7.0%	2.5%
Unemployment rate, %	7.4%	6.8%	9.0%	7.8%	7.0%	6.5%
Change in employment, %	-1.3%	1.0%	-0.5%	0.7%	-0.5%	1.2%
Net monthly wage growth, %	7.2%	6.5%	5.8%	4.2%	9.1%	7.6%
House price index growth, %	-10.0%	0.0%	-15.0%	-5.0%	-5.0%	6.0%
Euribor 6m	3.2%	3.0%	3.2%	3.0%	3.2%	3.0%
Bank lending margins on new loans (NFC)	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%

Nominal growth

	Base scenario		Downside scenario		Upside scenario	
Gross value added by sectors, YoY growth rates	**2023E**	**2024E**	**2023E**	**2024E**	**2023E**	**2024E**
Total - all NACE activities	6.5%	5.1%	4.7%	3.8%	6.7%	6.5%
Agriculture, forestry, and fishing	40.3%	24.5%	29.8%	17.3%	40.6%	26.2%
Industrial sector, except construction	5.2%	4.9%	1.5%	5.9%	5.5%	6.3%
Industrial sector, except construction and manufacturing (mostly energy related)	5.2%	2.8%	-0.3%	5.7%	5.5%	4.2%
Manufacturing	5.2%	5.7%	2.2%	6.0%	5.4%	7.1%
Construction	4.1%	4.9%	-2.4%	9.0%	4.3%	6.3%
Wholesale and retail trade, transport, accommodation, and food service activities	6.2%	5.5%	4.8%	4.1%	6.5%	6.9%
Information and communication	10.3%	7.6%	10.3%	4.2%	10.6%	9.1%
Financial and insurance activities	8.2%	7.5%	6.8%	6.2%	8.4%	9.0%
Real estate activities	1.0%	6.1%	-1.5%	6.0%	1.2%	7.6%
Professional, scientific, and technical activities; administrative and support service activities	3.5%	1.4%	2.1%	0.1%	3.7%	2.8%
Public administration, defence, education, human health and social work activities	10.4%	3.3%	11.3%	-0.1%	10.6%	4.8%
Arts, entertainment, and recreation; other service activities; activities of household and extra-territorial organisations and bodies	1.4%	6.3%	-1.3%	5.0%	1.6%	7.8%

2.2.5 Credit loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) in credit risk or becoming credit-impaired in the period, and the consequent step up (or step down) between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular update of model inputs;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period (see subsection 2.2.6).

Allowances based on individual assessments

Allowances based on individual assessments are formed, using discounted cash flow approach. The amount of the loan loss allowance is measured as the difference between the lending exposure's carrying amount and the estimated future cash flows discounted at the effective interest rate. Individual loss allowances are assessed on a conservative basis for exposures of corporate customers classified as non-performing (default, rating 13) customers when the loan payments have not been collected by the due date and/or there is high uncertainty that expected cash flows from the realisation of collateral are not sufficient for covering the carrying amount of the loan principal and interest payments.

Minimum provisioning level for loans that become non-performing

All non-performing exposures should have following minimum provisioning levels (percentage of exposure):

	Years in default									
Type of contract	1	2	3	4	5	6	7	8	9	10
Unsecured exposure			35	100	100	100	100	100	100	100
Secured (immovable property collateral)				25	35	55	70	80	85	100
Secured (other collateral)				25	35	55	80	100	100	100
Export credit guarantee/insurance								100	100	100

In case non-performing exposure is only partly secured, the unsecured part of non-performing exposure is considered as unsecured exposure and the provision level of unsecured exposure should be used for this part of non-performing exposure.

2.2.6 Write-off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event.

Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovery.

If it is not feasible or economically reasonable for the Group to take measures to recover the claims that are being discounted, the claim is assessed as non-performing and is removed from the statement of financial position. If an irrecoverable claim is received subsequently, receipts are recognised as income.

At least one of the conditions must be filled to declare a claim irredeemable based on the product class.

Credit cards, consumer loan and hire purchase

- There has been no significant contribution in 12 months since the customer's insolvency (default) and the court proceedings relating to arrears have terminated to the Group's detriment or the customer fails to comply with the court decision
- The customer has been declared bankrupt or insolvent
- The court has approved a debt restructuring plan (the claim recognised in the plan is less than the actual claim)
- Criminal proceedings have been initiated in relation to issued credit or fraud has been used to obtain credit

- The customer is dead and bankruptcy is declared after the inventory of the estate
- The customer associated with the claim handed over to the bailiff has a foreign address or none at all.

Leasing, private and business loans

- The customer does not voluntarily reimburse the Group's claim resulting from the difference between the original claim and the realisation of the collateral.

2.2.7 Modifications of financial assets

The Group sometimes modifies 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. Restructuring is most commonly applied to term loans.

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 Group monitors the subsequent performance of modified assets. The Group may determine that 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 six consecutive months or more.

2.3 Credit risk exposure

The following tables contain an analysis of the credit risk exposure of financial instruments. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets. Information on how the ECL is measured and how the three stages are determined is included in subsection 2.2. 'Expected credit loss measurement'.

2.3.1 Risk concentration

Financial assets and liabilities by geographic region as at 31 Dec 2023

EUR thousand	Note	Estonia	Germany	Other EU	USA	UK	Other	Total
Cash and cash equivalents, due from central banks and investment companies	10	2,444,445	0	367,348	27,363	280,092	146	**3,119,394**
Financial assets at fair value	11	8,998	6	9,140	303	1	5	**18,453**
Financial assets measured at amortised cost	11	166,205	0	155,683	0	0	0	**321,888**
Loans and advances to customers	12	3,448,545	845	25,917	560	80,913	5,011	**3,561,791**
Receivables from customers	14	49,505	0	0	0	0	0	**49,505**
Other financial assets	15	173	0	0	100	0	0	**273**
Total financial assets		**6,117,871**	**851**	**558,088**	**28,326**	**361,006**	**5,162**	**7,071,304**
Amounts owed to central banks (TLTRO)	17	0	0	0	0	0	0	**0**
Deposits from customers	17	4,056,689	132,432	1,023,330	72,933	402,667	42,954	**5,731,005**
Loans received and debt securities in issue	17	0	0	563,728	0	0	0	**563,728**
Subordinated debt	20	126,653	0	0	0	0	0	**126,653**
Accounts payable and other financial liabilities	18	128,456	0	0	0	0	0	**128,456**
Financial liabilities at fair value	11	1,843	0	0	0	0	0	**1,843**
Total financial liabilities		**4,313,641**	**132,432**	**1,587,058**	**72,933**	**402,667**	**42,954**	**6,551,685**

Financial assets and liabilities by geographic region as at 31 Dec 2022

EUR thousand	Note	Estonia	Germany	Other EU	USA	UK	Other	Total
Cash and cash equivalents, due from central banks and investment companies	10	1,938,118	0	329,496	24,727	189,847	101	**2,482,288**
Financial assets at fair value	11	8,715	7	601	21	3	6	**9,354**
Financial assets measured at amortised cost	11	236,130	4,966	123,134	0	0	0	**364,230**
Loans and advances to customers	12	3,161,803	612	17,867	622	22,974	4,694	**3,208,572**
Receivables from customers	14	21,019	0	0	0	0	0	**21,019**
Other financial assets	15	24	0	0	100	0	0	124
Total financial assets		**5,365,809**	**5,585**	**471,098**	**25,470**	**212,823**	**4,801**	**6,085,587**
Amounts owed to central banks (TLTRO)	17	147,841	0	0	0	0	0	**147,841**
Deposits from customers	17	3,617,636	5,292	794,100	14,890	439,714	28,883	**4,900,515**
Loans received and debt securities in issue	17	0	0	438,642	0	0	0	**438,642**
Subordinated debt	20	130,843	0	0	0	0	0	**130,843**
Accounts payable and other financial liabilities	18	84,125	0	0	0	0	0	**84,125**
Financial liabilities at fair value	11	3,850	0	0	0	0	0	**3,850**
Total financial liabilities		**3,984,295**	**5,292**	**1,232,742**	**14,890**	**439,714**	**28,883**	**5,705,816**

2.3.2 Distribution of loans granted by industry

Distribution of loans granted by industry (net)

EUR thousand	31 Dec 2023	%	31 Dec 2022	%
Individuals	1,356,775	38.09%	1,245,358	38.81%
Agriculture	100,564	2.82%	79,448	2.48%
Mining and quarrying	1,471	0.04%	1,630	0.05%
Manufacturing	173,535	4.87%	154,069	4.80%
Energy	175,504	4.93%	93,170	2.90%
Water and utilities	17,435	0.49%	29,129	0.91%
Construction	98,500	2.77%	109,941	3.43%
Wholesale and retail	198,414	5.57%	150,330	4.69%
Transport and logistics	76,883	2.16%	24,831	0.77%
Hotels and restaurants	25,676	0.72%	33,803	1.05%
Information and communication	15,971	0.45%	13,810	0.43%
Financial services	103,213	2.90%	127,950	3.99%
Real estate	866,163	24.32%	790,309	24.63%
Professional, scientific, and technical activities	84,613	2.38%	75,173	2.34%
Administrative activities	102,490	2.88%	116,551	3.63%
Public management	63,062	1.77%	79,145	2.47%
Education	6,873	0.19%	5,445	0.17%
Health	23,096	0.65%	14,767	0.46%
Art and entertainment	57,939	1.63%	55,271	1.72%
Other servicing activities	13,614	0.38%	8,442	0.26%
Total (Note 12)	**3,561,791**	**100.00%**	**3,208,572**	**100.00%**

2.3.3 Loan portfolio by ratings

Distribution of legal entity financing by internal ratings

EUR thousand	31 Dec 2023	31 Dec 2022	Grading
3 low credit risk	0	0	Investment grade
4 low credit risk	8,741	34,069	
5 low credit risk	100,869	48,410	
6 low credit risk	385,896	365,287	
7 medium credit risk	441,332	432,662	
8 medium credit risk	649,032	591,503	
9 heightened credit risk	255,224	196,840	
10 high credit risk	52,606	39,252	Non-investment grade (incl. special monitoring)
11 high credit risk	38,858	55,843	
12 non-satisfactory rating	12,011	18,912	
13 insolvent	9,924	717	Default
Total corporates	**1,954,493**	**1,783,495**	
Retail SMEs	250,523	179,720	
Total	**2,205,016**	**1,963,215**	

Unused portions of corporate loans and financial guarantee limits are presented in the following table.

Credit quality of commitments accounted for off the statement of financial position
(unused loan commitments for corporate loans and financial guarantees)

EUR thousand	31 Dec 2023	31 Dec 2022
3 low credit risk	0	100,000
4 low credit risk	0	35,000
5 low credit risk	69,556	10,078
6 low credit risk	58,147	106,057
7 medium credit risk	25,298	81,181
8 medium credit risk	282,101	143,622
9 heightened credit risk	81,093	109,119
10 high credit risk	2,804	7,742
11 high credit risk	1	3,346
12 non-satisfactory rating	636	1,718
13 insolvent	4,466	0
Non-rated (retail clients)	25,935	85,142
Total	**550,037**	**683,005**

2.4 Quality of credit portfolio

2.4.1 Distribution of loans by economic sectors and stages

Loans by economic sectors and stages as at 31 Dec 2023 (net)

EUR thousand	Stage 1	Stage 2	Stage 3	Allowance for credit losses	Total
Individuals	1,266,071	89,683	7,593	-6,572	1,356,775
Agriculture	96,489	4,410	6	-341	100,564
Mining and quarrying	915	583	54	-81	1,471
Manufacturing	137,540	28,214	12,816	-5,035	173,535
Energy	176,400	170	12	-1,078	175,504
Water and utilities	17,619	25	0	-209	17,435
Construction	84,648	15,426	33	-1,607	98,500
Wholesale and retail	184,463	14,518	1,336	-1,903	198,414
Transport and logistics	67,992	9,586	0	-695	76,883
Hotels and restaurants	22,591	2,862	406	-183	25,676
Information and communication	15,434	551	45	-59	15,971
Financial services	103,638	174	0	-599	103,213
Real estate	784,846	87,849	824	-7,356	866,163
Professional, scientific, and technical activities	81,198	3,307	376	-268	84,613
Administrative activities	100,311	2,746	17	-584	102,490
Public management	58,391	4,946	0	-275	63,062
Education	4,954	3,300	3	-1,384	6,873
Health	22,701	504	0	-109	23,096
Art and entertainment	37,591	21,657	0	-1,309	57,939
Other servicing activities	12,858	827	7	-78	13,614
Total	**3,276,650**	**291,338**	**23,528**	**-29,725**	
Allowance for credit losses	-11,906	-9,766	-8,053		
Total loan portfolio	**3,264,744**	**281,572**	**15,475**		**3,561,791**

Loans by economic sectors and stages as at 31 Dec 2022 (net)

EUR thousand	Stage 1	Stage 2	Stage 3	Allowance for credit losses	Total
Individuals	1,127,636	115,433	5,446	-3,157	1,245,358
Agriculture	76,817	2,743	0	-112	79,448
Mining and quarrying	1,038	519	122	-49	1,630
Manufacturing	126,670	28,626	81	-1,308	154,069
Energy	92,186	1,305	0	-321	93,170
Water and utilities	29,314	90	0	-275	29,129
Construction	106,356	5,243	58	-1,716	109,941
Wholesale and retail	144,586	6,599	69	-924	150,330
Transport and logistics	15,198	10,323	1	-691	24,831
Hotels and restaurants	11,844	23,446	44	-1,531	33,803
Information and communication	10,839	3,004	1	-34	13,810
Financial services	119,436	9,337	0	-823	127,950
Real estate	757,443	34,577	1,558	-3,269	790,309
Professional, scientific, and technical activities	68,001	7,313	30	-171	75,173
Administrative activities	115,072	4,563	32	-3,116	116,551
Public management	79,272	0	0	-127	79,145
Education	5,151	596	0	-302	5,445
Health	14,312	541	0	-86	14,767
Art and entertainment	27,619	30,225	15	-2,588	55,271
Other servicing activities	6,970	1,503	11	-42	8,442
Total	**2,935,760**	**285,986**	**7,468**	**-20,642**	
Allowance for credit losses	-10,938	-7,632	-2,072		
Total loan portfolio	**2,924,822**	**278,354**	**5,396**		**3,208,572**

2.4.2 Distribution of loans by loan types and stages

The following tables explain the changes in the credit loss allowances as well as changes in stages by loan types between the beginning and the end of the reporting period due to factors described in subsection 2.2 of this section.

Loans by loan types and stages

EUR thousand	Stage 1	Stage 2	Stage 3	Purchased or Initiated credit impaired	Allowance for credit losses	Total
Corporate lending	1,894,240	178,453	13,841	0	-21,068	2,065,466
Consumer financing	90,697	16,128	2,473	0	-4,310	104,988
Investment financing	9,951	23	7	0	-11	9,970
Leasing	141,420	24,277	2,103	0	-2,107	165,693
Private lending	1,140,342	72,457	5,104	0	-2,229	1,215,674
Total as at 31 Dec 2023	**3,276,650**	**291,338**	**23,528**	**0**	**-29,725**	**3,561,791**
Corporate lending	1,709,606	145,015	637	0	-15,498	1,839,760
Consumer financing	94,818	6,661	1,145	0	-2,108	100,516
Investment financing	10,532	4	0	0	-13	10,523
Leasing	122,832	28,419	1,442	0	-2,009	150,684
Private lending	997,972	105,887	4,244	0	-1,014	1,107,089
Total as at 31 Dec 2022	**2,935,760**	**285,986**	**7,468**	**0**	**-20,642**	**3,208,572**

Stage 1

EUR thousand	Initial	New	Unwind	Migration	Allowance for credit losses	Total
Corporate lending	1,699,780	733,913	-431,833	-107,620	-10,552	1,883,688
Consumer financing	94,376	40,803	-35,940	-8,542	-536	90,161
Investment financing	10,519	2,233	-2,771	-30	-9	9,942
Leasing	122,458	67,362	-47,218	-1,182	-477	140,943
Private lending	997,689	196,413	-81,324	27,564	-332	1,140,010
Total	**2,924,822**	**1,040,724**	**-599,086**	**-89,810**	**-11,906**	**3,264,744**

Stage 2

EUR thousand	Initial	New	Unwind	Migration	Allowance for credit losses	Total
Corporate lending	139,644	9,816	-64,204	93,197	-6,261	172,192
Consumer financing	6,035	6,519	-3,280	6,854	-1,905	14,223
Investment financing	4	1	-6	24	0	23
Leasing	27,361	4,142	-7,381	155	-884	23,393
Private lending	105,310	6,004	-8,911	-29,946	-716	71,741
Total	**278,354**	**26,482**	**-83,782**	**70,284**	**-9,766**	**281,572**

Stage 3

EUR thousand	Initial	New	Unwind	Migration	Allowance for credit losses	Total
Corporate lending	336	601	-914	13,818	-4,254	9,587
Consumer financing	105	265	-189	2,292	-1,869	604
Investment financing	0	0	1	6	-2	5
Leasing	865	274	-540	1,504	-747	1,356
Private lending	4,090	56	-948	1,906	-1,181	3,923
Total	**5,396**	**1,196**	**-2,590**	**19,526**	**-8,053**	**15,475**

2.4.3 Transfers between stages

The following table explains the changes in the loan stages between the beginning and the end of the reporting period due to factors described in subsection 2.2 of this section.

Inter-stage transfers in 2023 (gross)

EUR thousand	1 > 2	1 > 3	2 > 1	2 > 3	3 > 1	3 > 2
Corporate lending	141,777	977	46,990	11,896	0	16
Consumer financing	7,343	890	970	739	0	111
Investment financing	18	7	0	0	0	0
Leasing	7,393	413	6,780	425	0	16
Private lending	35,153	1,013	96,862	1,513	0	646
Total	**191,684**	**3,300**	**151,602**	**14,573**	**0**	**789**

2.4.4 Loans against collateral

In the tables below, collateral information of loans and advances is disclosed based on the collateral type and carrying amount or fair value (if lower) of the collateral held. The under-collateralised amount of secured loans is presented as unsecured loans.

Loans against collateral as at 31 Dec 2023 (net)

EUR thousand	Corporate lending	Consumer financing	Investment financing	Leasing	Private lending	Total
Listed securities	0	0	8,925	0	0	**8,925**
Unlisted equity securities	23,419	0	0	0	3,573	**26,992**
Mortgages, real estate	1,185,368	0	0	0	1,180,791	**2,366,159**
Guarantee of Estonian Business and Innovation Agency and Rural Development Foundation	45,859	0	0	0	4,690	**50,549**
Pledges of rights of claim	147,919	0	0	0	0	**147,919**
Deposits	6,942	0	658	0	1,300	**8,900**
Leased assets	0	0	0	130,340	0	**130,340**
Others	37,695	0	0	0	7930	**45,625**
Unsecured loans or unsecured part of secured loans	618,264	104,988	387	35,353	17,390	**776,382**
Total	**2,065,466**	**104,988**	**9,970**	**165,693**	**1,215,674**	**3,561,791**

Loans against collateral as at 31 Dec 2022 (net)

EUR thousand	Corporate lending	Consumer financing	Investment financing	Leasing	Private lending	Total
Listed securities	0	0	9,184	0	0	**9,184**
Unlisted equity securities	23,137	0	0	0	2,031	**25,168**
Mortgages, real estate	1,078,341	0	0	0	1,085,002	**2,163,343**
Guarantee of Estonian Business and Innovation Agency and Rural Development Foundation	37,543	0	0	0	2,521	**40,064**
Pledges of rights of claim	117,570	0	0	0	0	**117,570**
Deposits	3,361	0	818	0	2,000	**6,179**
Leased assets	0	0	0	84,054	0	**84,054**
Others	51,821	0	0	0	6159	**57,980**
Unsecured loans or unsecured part of secured loans	527,987	100,516	521	66,630	9,376	**705,030**
Total	**1,839,760**	**100,516**	**10,523**	**150,684**	**1,107,089**	**3,208,572**

Over and under-collateralised loans (net)

	Over-collateralised loans		Under-collateralised loans		Total	
EUR thousand	Carrying value	Fair value of collateral	Carrying value	Fair value of collateral	Carrying value	Fair value of collateral
31 Dec 2023	**1,774,369**	**2,840,469**	**1,787,422**	**1,011,080**	**3,561,791**	**3,851,549**
Corporate lending	738,049	1,066,778	1,327,417	709,152	2,065,466	1,775,930
Consumer financing	0	0	104,988	0	104,988	0
Investment financing	7,690	28,055	2,280	1,893	9,970	29,948
Leasing	24,840	36,880	140,853	105,500	165,693	142,380
Private lending	1,003,790	1,708,756	211,884	194,535	1,215,674	1,903,291
31 Dec 2022	**1,740,958**	**2,825,209**	**1,467,614**	**762,610**	**3,208,572**	**3,587,819**
Corporate lending	732,788	1,075,592	1,106,972	579,012	1,839,760	1,654,604
Consumer financing	0	0	100,517	0	100,516	0
Investment financing	8,093	29,836	2,430	1,909	10,523	31,745
Leasing	17,684	30,171	133,000	66,370	150,684	96,541
Private lending	982,393	1,689,610	124,696	115,319	1,107,089	1,804,929

Over and under-collateralised loans by stages as at 31 Dec 2023 (net)

	Over-collateralised loans		Under-collateralised loans		Total	
EUR thousand	Carrying value	Fair value of collateral	Carrying value	Fair value of collateral	Carrying value	Fair value of collateral
Stage 1	**1,601,382**	**2,568,667**	**1,663,359**	**939,492**	**3,264,741**	**3,508,159**
Corporate lending	642,083	940,685	1,241,603	654,198	1,883,686	1,594,883
Consumer financing	0	0	90,161	0	90,161	0
Investment financing	7,676	28,032	2,265	1,888	9,941	29,920
Leasing	18,937	27,210	122,006	92,015	140,943	119,225
Private lending	932,686	1,572,740	207,324	191,391	1,140,010	1,764,131
Stage 2	**162,772**	**251,716**	**118,802**	**68,017**	**281,574**	**319,733**
Corporate lending	90,801	118,633	81,392	51,598	172,193	170,231
Consumer financing	0	0	14,223	0	14,223	0
Investment financing	9	15	14	4	23	19
Leasing	4,781	7,823	18,613	13,271	23,394	21,094
Private lending	67,181	125,245	4,560	3,144	71,741	128,389
Stage 3	**10,215**	**20,086**	**5,261**	**3,571**	**15,476**	**23,657**
Corporate lending	5,166	7,459	4,421	3,357	9,587	10,816
Consumer financing	0	0	604	0	604	0
Investment financing	5	9	1	0	6	9
Leasing	1,121	1,847	235	214	1,356	2,061
Private lending	3,923	10,771	0	0	3,923	10,771

2.4.5 ECL sensitivity analysis

The following tables show the impact of changing the PD thresholds for SICR on the ECL allowance as at 31 December 2023 and 31 December 2022. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised.

Loan portfolio as at 31 Dec 2023

EUR thousand	Effect on impairment
+10% change in SICR	-195
-10% change in SICR	141
SICR with 0.5% threshold	4
SICR with 1.5% threshold	-5

Loan portfolio as at 31 Dec 2022

EUR thousand	Effect on impairment
+10% change in SICR	-379
-10% change in SICR	340
SICR with 0.5% threshold	5
SICR with 1.5% threshold	-9

As evidenced by the tables, changing SICR by +/- 10% or changing the 1% threshold to 0.5% or 1.5% have limited impact on the overall ECL of the Group.

However, the most significant assumptions affecting the ECL allowance are as follows:

Retail portfolio

- Unemployment rate
- Interest rate
- Household consumption growth
- Real GDP growth
- House price index
- GVA

Corporate portfolio

- Estimated portfolio PiT PD values for each scenario

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 two tests have been carried out, where the weights of the positive and negative scenarios have been changed by +/- 5pp, respectively. The table below illustrates the impact of changing scenario weights of positive and negative scenarios to the portfolio as it was on 31 December 2023 and 31 December 2022.

31 Dec 2023

EUR thousand	60-10-30 (base/up/down)	60-20-20 (base/up/down)
Change in scenario weights	1,055	-1,074

31 Dec 2022

EUR thousand	65-10-30 (base/up/down)	60-20-20 (base/up/down)
Change in scenario weights	896	-896

Set out below are the changes to the ECL as at 31 December 2023 and 31 December 2022 that would result from reasonably possible changes in these parameters compared with the actual values used in the Group's economic variable assumptions:

Impact on ECL, 31 Dec 2023

EUR thousand	Impact of increase	Impact of decrease
Unemployment rate +/-1pp	102	-104
Interest rate +/- 1pp	129	-218
Household consumption growth +/-1pp	-49	45
Real GDP growth +/-1pp	-42	40
House price index +/- 5pp	-64	54
Gross value added by sectors, YoY growth rates +/- 5pp	-192	266

Impact on ECL, 31 Dec 2022

EUR thousand	Impact of increase	Impact of decrease
Unemployment rate +/-1pp	135	-156
Interest rate +/- 1pp	177	-276
Household consumption growth +/-1pp	-89	88
Real GDP growth +/-1pp	-83	85
House price index +/- 5pp	-12	8
Gross value added by sectors, YoY growth rates +/- 5pp	-177	228

The Group has also performed scenarios where both PD and LGD estimates where modified. The impact of these tests on impairment is aggregated in the table below. The table includes loans, which are assessed for impairment collectively and which have material balances and potential impact.

2023

EUR thousand	Impact on credit loss allowances
LGD negative 0.80	885
LGD negative 0.90	-845
Average PiT PD -0.5pp	-3,375
Average PiT PD +0.5pp	3,080

2022

EUR thousand	Impact on credit loss allowances
LGD negative 0.80	803
LGD negative 0.90	-608
Average PiT PD -0.5pp	-3,527
Average PiT PD +0.5pp	3,369

3. Market risk

Market risk is the risk of losses caused by adverse movements in market prices, including the market prices of foreign currencies, interest rates, and securities. Market risk arises from items accounted for on and off the statement of financial position and can arise from both banking and trading book positions. The purpose of market risk management in the Group is to correctly identify and quantify market risk and ensure that risk-conscious decisions are taken on market risk.

The Group is exposed to the following types of market risk:

- Foreign exchange risk from the Group's net open positions in foreign currencies;
- Price risk from the Group's positions in securities and derivatives, including those taken for the purposes of investment, risk management and brokerage;
- Interest rate risk from interest rate sensitive instruments, primarily in the banking book of LHV Pank.

The Group's market risk management is documented in the market risk management policy and other internal rules, which set out the Group's risk appetite for foreign currency risk, price risk and interest rate risk in the banking book. Based on the market risk management policy, the Group's appetite for market risk is low.

The Treasury Department of LHV Pank, the Assets and Liabilities Management Committee (ALCO) formed in LHV Pank, and the Management Boards of the Group's other subsidiaries have key roles in managing market risk as the first line of defence. The Risk Control Department and the Internal Audit Department are responsible for the second line of defence and the third line of defence functions, respectively.

3.1 Foreign currency risk

Foreign currency risk arises from the mismatch of the Group's foreign currency assets and liabilities. Most items in the Group's statement of financial position are denominated in euros but a mismatch could result from the foreign currency transactions of LHV Pank's customers. Additionally, there is some foreign currency risk inherent in the fund units of own-managed pension funds that must be held by LHV Varahaldus as prescribed by legislation.

Foreign currency risk is measured by estimating the potential loss to the Group from its net open foreign currency position in a stress scenario. The loss from foreign currency risk should not exceed a prescribed level of the Group's net own funds.

In addition to the risk appetite levels approved at the LHV Group level, LHV Pank's ALCO has implemented additional risk limits for various types of market risks in LHV Pank. Foreign currency risk limits in LHV Pank are fixed as maximum nominal net open position limits in euro equivalent for each currency. If the open currency position exceeds the limits set by the ALCO, measures must be implemented to close or reduce such positions.

A sensitivity analysis has been performed to show the effect of movements in foreign exchange rates on the statement of profit or loss, with the assumption of other conditions remaining constant. The sensitivity has been measured against a potential exchange rate movement of +/- 6% which is in line with the stress scenario used by the Group for measuring foreign currency risk of its net open positions (2022: +/- 7%). The Group's foreign currency risk exposure is very low.

Impact on statement of profit or loss

EUR thousand	2023	2022
USD exchange rate	+/-30	+/-262
SEK exchange rate	+/-6	+/-2
GBP exchange rate	+/-2,616	+/-1,221
CHF exchange rate	+/-6	+/-3

Open currency exposures

The following tables present the risks arising from open currency exposures. Assets and liabilities denominated in foreign currencies have been presented in euro equivalent in respective columns, according to the exchange rate prevailing at the end of the reporting period. Derivatives reported at fair value in the statement of financial position have been included at contractual amounts under assets and liabilities accounted for off the statement of financial position. Open currency exposure and the volume of financial assets and liabilities of the Group at the end of the reporting period do not significantly differ from the average exposure during the year. Foreign exchange forwards are shown in the table at their full contractual cash flow amounts as assets and liabilities accounted for off the statement of financial position. The table does not include the assets (property, plant and equipment and intangible assets) and liabilities (provisions) not bearing currency risk, or equity.

Currency risk exposures as at 31 Dec 2023

EUR thousand	Note	EUR	CHF	GBP	SEK	USD	Other	Total
Financial assets bearing currency risk								
Cash and cash equivalents, due from central banks and investment companies	10	2,810,963	1,047	283,486	1,480	13,570	8,849	**3,119,394**
Investments in debt and equity securities	11	334,032	1	0	6,275	31	2	**340,341**
Loans and advances to customers	12	3,473,113	23	79,674	189	8,676	116	**3,561,791**
Receivables from customers	14	47,706	0	1,494	168	1,822	-1,685	**49,505**
Other financial assets	15	100	0	173	0	0	0	**273**
Total financial assets bearing currency risk		**6,665,914**	**1,071**	**364,827**	**8,112**	**24,099**	**7,281**	**7,071,304**
Financial liabilities bearing currency risk								
Amounts owed to central banks (TLTRO)	17	0	0	0	0	0	0	**0**
Deposits from customers	17	5,296,501	9,494	255,272	8,867	151,070	9,801	**5,731,005**
Loans received and debt securities in issue	17	563,728	0	0	0	0	0	**563,728**
Financial liabilities at fair value	11	1,843	0	0	0	0	0	**1,843**
Accounts payable and other financial liabilities	18	107,544	30	11,775	479	6,597	2,031	**128,456**
Subordinated debt	20	126,653	0	0	0	0	0	**126,653**
Total financial liabilities bearing currency risk		**6,096,269**	**9,524**	**267,047**	**9,346**	**157,667**	**11,832**	**6,551,685**
Open gross position derivative assets at contractual value		0	8,359	0	1,334	133,071	5,633	**148,397**
Open gross position derivative liabilities at contractual value		94,218	0	54,179	0	**0**	0	**148,397**
Open foreign currency position		**475,427**	**-94**	**43,601**	**100**	**-497**	**1,082**	**519,619**

Currency risk exposures as at 31 Dec 2022

EUR thousand	Note	EUR	CHF	GBP	SEK	USD	Other	Total
Financial assets bearing currency risk								
Cash and cash equivalents, due from central banks and investment companies	10	2,255,128	1,466	197,580	2,538	17,806	7,769	**2,482,288**
Investments in debt and equity securities	11	373,514	0	2	1	26	42	**373,584**
Loans and advances to customers	12	3,180,499	74	22,306	385	5,068	241	**3,208,572**
Receivables from customers	14	25,865	5	751	241	-4,512	-1,330	**21,019**
Other financial assets	15	124	0	0	0	0	0	**124**
Total financial assets bearing currency risk		**5,835,130**	**1,545**	**220,639**	**3,164**	**18,388**	**6,721**	**6,085,587**
Financial liabilities bearing currency risk								
Amounts owed to central banks (TLTRO)	17	147,841	0	0	0	0	0	**147,841**
Deposits from customers	17	4,533,633	5,323	193,442	10,968	148,058	9,089	**4,900,515**
Loans received and debt securities in issue	17	438,642	0	0	0	0	0	**438,642**
Financial liabilities at fair value	11	0	0	0	0	3,849	1	**3,850**
Accounts payable and other financial liabilities	18	65,099	19	9,757	172	8,987	91	**84,125**
Subordinated debt	20	130,843	0	0	0	0	0	**130,843**
Total financial liabilities bearing currency risk		**5,316,058**	**5,343**	**203,199**	**11,140**	**160,895**	**9,182**	**5,705,817**
Open gross position derivative assets at contractual value		0	3,757	0	8,001	157,565	2,371	**171,694**
Open gross position derivative liabilities at contractual value		171,694	0	0	0	0	0	**171,694**
Open foreign currency position		**347,377**	**-40**	**17,440**	**25**	**15,058**	**-89**	**379,770**

3.2 Price risk

Price risk arises from securities held by the Group in the liquidity portfolio, trading portfolio and investment portfolios (Notes 11, 12). The portfolios mainly comprise securities held by LHV Pank. Additionally, the pension fund units held by LHV Varahaldus are subject to price risk. The investment portfolio of LHV Kindlustus carries minimal price risk.

Price risk is measured by estimating the potential loss that can be incurred by the Group in a stress scenario. The loss from price risk in the stress scenario should not exceed a prescribed percentage of the Group's net own funds. In LHV Pank, the ALCO has set additional limits on the size of the trading and investment portfolios. There are criteria in place for acceptable credit ratings as well as other parameters of the debt securities that can be held by LHV Pank. In LHV Kindlustus, there are also criteria in place for the securities that can be included in the investment portfolio. Pursuant to the Investment Funds Act, LHV Varahaldus as a pension fund management company is obliged to hold a minimum of 0.5% of the number of units in each of the II pillar pension funds managed by it.

A sensitivity analysis has been performed to show the effect of movements in securities prices on the net result of the Group. The potential securities price movements used in the sensitivity analysis are in line with the stress scenarios used by the Group for measuring price risk and have been derived from actual historical volatility of the instruments included in the relevant portfolios. Only LHV Pank's debt securities portfolio that is measured in fair value through profit and loss is subject to price risk. Price risk in such portfolio is measured through a stress scenario that assumes an instant 2 percentage points adverse movement in market yields.

Impact on statement of profit or loss (profit after tax)

EUR thousand	2023	2022
Equity securities and fund units +/-26% (2022: +/-25%)	+/-186	+/-269
II pillar pension fund units +/-5%	+/-293	+/-374
Debt securities +/-2.0%	+/-231	+/-15

Most of LHV Pank's debt securities are valued at amortised cost, so the materialisation of the price risk would not result in an immediate impact on the statement of profit or loss.

LHV Pank does not hold significant amounts of equity securities (see Note 12); accordingly, the sensitivity to change in the market price of these positions is marginal. Some price risk is also contributed from holdings of II pillar pension fund units by LHV Varahaldus. The price risk of the investment portfolio of LHV Kindlustus is low.

3.3 Interest rate risk

Interest rate risk arises from the mismatch of the term structure of interest rate sensitive assets and liabilities (gap risk), imperfect correlation of base rates (basis risk), the optionality inherent in the interest rate sensitive instruments (option risk) and the change in credit spreads (credit spread risk). Interest rate risk can arise both from items accounted for on and off the statement of financial position. In the context of the Group, interest rate risk is relevant for the banking portfolio of LHV Pank.

Interest rate risk in the banking book is measured by estimating the change of net interest income (NII) and the economic value of equity (EVE) in a number of stress scenarios compared to the base scenario. The Group's risk appetite prescribes that the negative impact on NII or EVE in stress scenarios should not exceed a certain level of LHV Pank's net own funds.

LHV Pank's ALCO has approved the stress scenarios and other inputs and methodologies for calculating the change in NII and EVE. Market-implied interest rate curve is used as the base scenario. Six stress scenarios are used:

- parallel shock up;
- parallel shock down;
- steepener shock (short rates down and long rates up);
- flattener shock (short rates up and long rates down);
- short rates shock up; and
- short rates shock down.

The analysis of the change in the economic value of equity (change in EVE) aims to assess the change in the economic value of the assets, liabilities, and equity in different interest rate scenarios. The measure of interest rate risk is the change in EVE in interest rate shock scenario compared to the base scenario. To calculate the change in EVE, the net present value of the cash flows arising from the banking book assets, liabilities and items accounted for off the statement of financial position is found under each scenario. The cash flows are calculated on a run-off balance sheet basis by applying the assumptions detailed below. All cash flows from the assets, liabilities and items accounted for off the statement of financial position are discounted using the same interest rate curve (swap curve depending on the scenario).

The analysis of the change in net interest income (change in NII) assesses the impact of interest rate changes on net interest income in the next 12-month period. To calculate the change in NII, all interest-bearing assets, liabilities and items accounted for off the statement of financial position are split into different time buckets according to their repricing date. Following repricing dates, interest-sensitive assets and liabilities are assumed to reprice at new interest rates specific to the scenario and change in NII in different scenarios can be determined. The NII analysis is performed on a constant statement of financial position.

The main assumptions for the calculation of the change in EVE and change in NII are as follows:

- The repricing terms of demand deposits of households and non-financial corporations vary between 1 day and 10 years, depending on their interest rate sensitivity.
- For deposits of financial institutions, immediate repricing is assumed.
- A 0% interest rate floor is applied to deposits of retail customers.
- For term deposits, contractual maturities are used.
- For loans, contract-specific interest rate floors are used.
- Conditional prepayment rate is used in the assessment of the early repayment of loans.
- Term deposit redemption rate is used in the assessment of the early redemption of the term deposits.
- In the case of items accounted for off the statement of financial position (e.g., loan commitments and credit limits), the credit conversion factor is included in the model, and it is assumed that the use of the limit will increase on a straight-line basis until the expiry date.

The following table presents the changes in EVE and next 12 months' NII that have been estimated in the six stress scenarios compared to the base scenario. There was a significant change in the interest environment in reporting period which has an impact on the results of the following stress tests.

Stress tests scenarios impacts, valid at 31 Dec 2023

EUR thousand	Change in the economic value of equity	Change in the next 12 months' net interest income
Parallel shock up	-7,614	25,816
Parallel shock down	-10,692	-50,172
Steepener shock	9,279	-29,155
Flattener shock	-10,623	20,552
Short rates shock up	-9,787	27,645
Short rates shock down	-90	-53,643

Stress tests scenarios impacts, valid at 31 Dec 2022

EUR thousand	Change in the economic value of equity	Change in the next 12 months' net interest income
Parallel shock up	19,955	22,911
Parallel shock down	-20,787	-22,901
Steepener shock	775	-7,477
Flattener shock	2,552	11,448
Short rates shock up	8,038	17,619
Short rates shock down	-8,778	-17,609

The table below shows the structure of the interest-bearing assets and interest-bearing liabilities of LHV Group grouped by the recalculation dates of interest rates at the principal amounts of receivables and liabilities.

Interest rate sensitivity gap as at 31 Dec 2023

EUR thousand	Note	Up to 3 months	3-12 months	1-5 years	Over 5 years	Subtotal	Accrued interest	Impair-ments	Total
Financial assets									
Cash and cash equivalents, due from central banks and investment companies	10	3,117,544	1,850	0	0	3,119,394	0	0	3,119,394
Financial assets at fair value (debt securities)	11	8,211	0	1,912	1,428	11,551	0	0	11,551
Financial assets measured at amortised cost (debt securities)	11	89,282	153,577	77,944	0	320,803	1,165	-80	321,888
Loans and advances to customers	12	1638,717	1,730,430	151,011	55,473	3,575,631	15,885	-29,725	3,561,791
Total		**4,853,754**	**1,885,857**	**230,867**	**56,901**	**7,027,379**	**17,050**	**-29,805**	**7,014,624**
Financial liabilities									
Deposits from customers	17	3,410,890	1,714,191	424,280	156,756	5,706,117	24,888	0	5,731,005
Loans received and debt securities in issue	17	0	195,373	365,302	0	560,675	3,053	0	563,728
Subordinated debt	20	0	20,000	105,000	747	125,747	906	0	126,653
Total		**3,410,890**	**1,929,564**	**894,582**	**157,503**	**6,392,539**	**28,847**	**0**	**6,421,386**
Net interest sensitivity gap		**1,442,864**	**-43,707**	**-663,715**	**-100,602**	**634,840**			

Interest rate sensitivity gap as at 31 Dec 2022

EUR thousand	Note	Up to 3 months	3-12 months	1-5 years	Over 5 years	Subtotal	Accrued interest	Impair-ments	Total
Financial assets									
Cash and cash equivalents, due from central banks and investment companies	10	2,482,288	0	0	0	2,482,288	0	0	2,482,288
Financial assets at fair value (debt securities)	11	0	0	294	471	765	0	0	765
Financial assets measured at amortised cost (debt securities)	11	236,130	4,965	122,671	0	363,766	555	-91	364,230
Loans and advances to customers	12	1,475,880	1,622,099	90,799	31,931	3,220,709	8,505	-20,642	3,208,572
Total		**4,194,298**	**1,627,064**	**213,764**	**32,402**	**6,067,528**	**9,060**	**-20,733**	**6,055,855**
Financial liabilities									
Amounts owed to central banks (TLTRO)	17	0	150,000	0	0	150,000	-2,159	0	147,841
Deposits from customers	17	3,775,569	304,833	819,416	0	4,899,818	697	0	4,900,515
Loans received and debt securities in issue	17	0	0	437,956	0	437,956	686	0	438,642
Subordinated debt	20	0	40,000	90,000	0	130,000	843	0	130,843
Total		**3,775,569**	**494,833**	**1,347,372**	**0**	**5,617,774**	**67**	**0**	**5,617,841**
Net interest sensitivity gap		**418,729**	**1,132,231**	**-1,133,608**	**32,402**	**449,754**			

3.4 Credit valuation adjustment risk

Credit valuation adjustment (CVA) risk is defined as the risk of losses arising from changing CVA values in response to movements in counterparty credit spreads and market risk factors that drive prices of derivative transactions. LHV Pank applies the standardised approach to calculate the capital charge for CVA risk. LHV Pank's capital requirement for CVA risk as of 31 December 2023 amounted to EUR 157 thousand (2022: EUR 178 thousand).

4. Liquidity risk

Liquidity risk is the risk that the Group is unable to fund increases in the Group's assets as envisaged in its business plan or pay its liabilities as they fall due, without incurring material losses or disrupting its normal business operations. Liquidity risk arises from items accounted for both on and off the statement of financial position. The purpose of the Group's liquidity risk management is to correctly identify, measure, control and monitor liquidity risk, and to ensure timely decisions can be taken so that sufficient liquidity with adequate margin can be always maintained.

The Group assesses liquidity risk from the following separate perspectives:

- Funding risk is the risk that the Group is unable to attract funding in a timely way, in necessary amount and at acceptable cost without a negative impact to its daily activities or financial position. Funding risk also encompasses the risk related to liquidity outflows from withdrawal of deposits or redemption of wholesale funding. Intraday liquidity risk is also evaluated in this perspective.
- Market liquidity risk is the risk that it is not possible to execute a transaction such as selling of a security or pledging of an asset in a timely manner without incurring unacceptable losses, due to low trading activity, market disruption or limitations set by other market participants.
- Asset encumbrance risk is the risk that due to an excessive share of assets being encumbered as collateral the Group harms its ability to attract further unsecured or secured funding, due to unsecured creditors becoming effectively subordinated or due to the shortage of assets available to be pledged as collateral.

In the context of liquidity risk management, LHV Pank is the most relevant out of all Group companies, as the largest share of the Group's funding is raised by LHV Pank (mostly through deposits) that are used for funding long term assets (mostly loans).

The Group's liquidity risk management is documented in the liquidity and funding risk management policy and other internal rules, which set out the Group's funding strategy and liquidity risk appetite, early warning indicators and various internal procedures such as reporting routines and contingency plans. LHV Pank's Treasury Department and Assets and Liabilities Management Committee (ALCO) have key roles in managing liquidity risk as the first line of defence. The Financial Risks Department and the Internal Audit Department are responsible for the second and third line of defence functions, respectively.

The Group's liquidity risk appetite is defined through the following metrics:

- Liquidity Coverage Ratio (LCR);
- Net Stable Funding Ratio (NSFR);
- Asset Encumbrance Ratio.

Limits have been set for each of the above risk appetite metrics with buffers over regulatory requirements (if applicable). First two are defined as regulatory requirements and third is internal. These metrics are calculated and reported monthly.

In addition to the regulatory and risk appetite metrics, additional liquidity risk indicators such as survival period in stress scenarios are calculated, limited and monitored.

The regulatory LCR and the internally defined minimum survival period in stress scenarios both assess the risk of liquidity outflows in a relatively short-term time horizon. To survive the stress scenario and the expected deposit outflows, the Group keeps a counterbalancing buffer of high-quality liquid assets that can be used in either a market-wide or idiosyncratic stress scenario. The liquidity buffer of the Group consists of cash and deposits with the central bank and liquid securities, which can be readily sold or used as collateral in funding operations. For calculating the survival horizon, behavioural assumptions are used for modelling liquidity outflows and inflows.

NSFR is used for assessing longer-term structural funding risk. The Group should have an appropriate funding structure where long-term assets are matched with sufficient stable and well-diversified funding sources. Encumbrance ratio is observed to ensure that the Group is not exposed to excessive asset encumbrance that could limit its access to funding markets.

As set out in the LHV Group's funding policy, diversification of the funding profile is an important element of the Group's liquidity risk management framework. The Group's most stable funding source is retail deposits from its Estonian customers. Other deposits and wholesale unsecured and secured funding are used as additional sources of funding. LHV Group has issued covered bonds to raise targeted funding for its residential mortgage loans portfolio. It has also issued unsecured bonds which are used for both funding and for complying with the regulatory MREL requirement.

To manage longer-term funding risk, Treasury Department drafts funding plans as part of the LHV Group's financial planning cycle. The funding plan presents a longer-term view of the funding required to support the LHV Group's business along with key liquidity metrics for the LHV Group.

Liquidity management in 2023

The Group's volume of deposits increased during 2023, mainly due to the increase of term deposits from retail and corporate customers. Deposits from financial intermediaries remained relatively stable in 2023, though they are not used for funding the Group's lending activities. The Group has also fully repaid the remaining funding obtained from the ECB by means of TLTRO loans. In 2023, the Group issued EUR 250 million of retained covered bonds, replacing prematurely cancelled EUR 100 million retained covered bonds with initial maturity 28 February 2024. Retained covered bonds can be readily used as collateral in liquidity providing operations.

The following table presents the values of the LCR and NSFR ratios in comparison to regulatory thresholds. Both ratios exceeded regulatory requirements with a healthy buffer characterising the Group's conservative approach to managing liquidity risk.

Ratio	Regulatory requirement	Actual 31 Dec 2023	Actual 31 Dec 2022
LCR	Minimum 100%	194.2%	139.7%
NSFR	Minimum 100%	160.2%	144.0%

The level of the LCR ratio improved significantly over the reporting year. The ratio was positively impacted by the rising volume of term deposits and stable retail deposits in particular, contributing to a sound and granular deposit base and more efficient liquidity management.

The NSFR ratio improved over the year due to the Group's collection of stable retail deposits that are considered as available stable funding. The level of the ratio exceeds the regulatory and internal requirements with a wide headroom.

The following tables present the distribution of financial assets and liabilities, excl. derivatives, by due dates and by future contractual undiscounted cash flows. The carrying amounts are disclosed in a separate column. In the maturity analysis, the cash flows are split into the maturity buckets in which the cash flows occur (including interest cash flows).

Financial assets and liabilities by maturities 31 Dec 2023

EUR thousand	Note	On demand	Up to 3 months	3-12 Months	1-5 Years	Over 5 years	Total	Carrying amount
Liabilities by contractual maturity dates								
Deposits from customers	17	3,789,133	578,393	1,328,891	70,035	339	**5,766,791**	**5,731,005**
Loans received and debt securities in issue		0	318	211,703	379,056	0	**591,077**	**563,728**
Subordinated debt	20	0	1,806	28,809	127,368	0	**157,983**	**126,653**
Accounts payable and other financial liabilities	18	0	128,456	0	0	0	**128,456**	**128,456**
Unused loan commitments	23	0	495,653	0	0	0	**495,653**	**0**
Financial guarantees by contractual amounts	23	0	55,061	0	0	0	**55,061**	**0**
Foreign exchange derivatives (gross settled)		0	148,397	0	0	0	**148,397**	**0**
Financial liabilities at fair value	11	0	1,843	0	0	0	**1,843**	**1,843**
Total liabilities		**3,789,133**	**1,409,927**	**1,569,403**	**576,459**	**339**	**7,345,261**	**6,551,685**
Assets held for managing liquidity risk by contractual maturity dates								
Cash and cash equivalents, due from central banks and investment companies	10	3,117,544	0	1,850	0	0	3,119,394	3,119,394
Investments in debt and equity securities	11	0	98,658	153,577	79,856	1,380	**333,471**	**333,815**
Loans and advances to customers	12	0	234,191	542,038	2,641,711	1,692,834	**5,110,774**	**3,561,791**
Receivables from customers	14	0	49,505	0	0	**0**	**49,505**	**49,505**
Other financial assets	15	273	0	0	0	0	**273**	**273**
Foreign exchange derivatives (gross settled)		0	148,397	0	0	0	**148,397**	**0**
Total assets held for managing liquidity risk		**3,117,817**	**530,751**	**697,465**	**2,721,567**	**1,694,214**	**8,761,814**	**7,064,778**
Maturity gap from assets and liabilities		**-671,316**	**-879,176**	**-871,938**	**2,145,108**	**1,693,875**	**1,416,553**	

Financial assets and liabilities by maturities 31 Dec 2022

EUR thousand	Note	On demand	Up to 3 months	3-12 Months	1-5 Years	Over 5 years	Total	Carrying amount
Liabilities by contractual maturity dates								
Amounts owed to central banks (TLTRO)		0	0	0	150,082		**150,082**	**147,841**
Deposits from customers	17	4,643,310	95,807	143,740	18,082	0	**4,900,939**	**4,900,515**
Loans received and debt securities in issue		0	0	2,000	452,250	0	**454,250**	**438,642**
Subordinated debt	20	0	2,406	46,694	105,538	0	**154,638**	**130,843**
Accounts payable and other financial liabilities	18	0	84,125	0	0	0	**84,125**	**84,125**
Unused loan commitments	23	0	601,093	0	0	0	**601,093**	**0**
Financial guarantees by contractual amounts	23	0	52,577	0	0	0	**52,577**	**0**
Foreign exchange derivatives (gross settled)		0	171,694	0	0	0	**171,694**	**0**
Financial liabilities at fair value	11	0	3,850	0	0	0	**3,850**	**3,850**
Total liabilities		**4,643,310**	**1,011,552**	**192,434**	**725,952**	**0**	**6,573,248**	**5,705,816**
Assets held for managing liquidity risk by contractual maturity dates								
Cash and cash equivalents, due from central banks and investment companies	10	2,482,288	0	0	0	0	**2,482,288**	**2,482,288**
Investments in debt and equity securities	11	0	236,130	4,966	123,519	471	**365,086**	**365,313**
Loans and advances to customers	12	0	186,547	487,298	2,115,010	1,258,430	**4,047,285**	**3,208,572**
Receivables from customers	14	0	21,019	0	0	0	**21,019**	**21,019**
Other financial assets	15	124	0	0	0	0	**124**	**124**
Foreign exchange derivatives (gross settled)		0	171,694	0	0	0	**171,694**	**0**
Total assets held for managing liquidity risk		**2,482,412**	**615,390**	**492,264**	**2,238,529**	**1,258,901**	**7,087,496**	**6,077,316**
Maturity gap from assets and liabilities		**-2,160,898**	**-396,162**	**299,830**	**1,512,577**	**1,258,901**	**514,248**	

The following table presents the distribution of assets and liabilities by classification of current and non-current.

Assets and liabilities by classification of current and non-current

EUR thousand	Note	31 Dec 2023	31 Dec 2022
Current assets			
Cash and cash equivalents	10	52,145	87,933
Due from central bank	10	3,052,890	2,390,964
Due from investment companies	10	12,509	3,391
Due from credit institutions	10	1,850	0
Financial assets at fair value through profit or loss	11	12,597	1,880
Financial assets at amortised cost	11	243,944	241,005
Loans and advances to customers	12	507,535	508,297
Receivables from customers	14	49,505	21,019
Other assets	15	8,184	6,775
Total current assets		**3,941,159**	**3,261,264**
Non-current assets			
Financial assets at fair value through profit or loss	11	5,856	7,474
Financial assets at amortised cost	11	77,944	123,225
Loans and advances to customers	14	3,054,256	2,700,275
Other financial assets	15	273	124
Property, plant and equipment	16	22,109	16,858
Intangible assets	16	13,843	13,854
Financial investment	6	1,000	1,180
Goodwill	6	9,150	10,748
Total non-current assets		**3,184,431**	**2,873,738**
Total assets	**5**	**7,125,590**	**6,135,002**
Liabilities			
Current liabilities			
Deposits from customers	17	5,665,929	4,882,954
Loans received	17	0	2,000
Financial liabilities at fair value through profit or loss	11	1,843	3,850
Accounts payable and other liabilities	18	147,648	93,305
Total current liabilities		**5,815,420**	**4,982,109**
Non-current liabilities			
Amounts owed to central banks (TLTRO)	17	0	147,841
Deposits from customers	17	65,076	17,561
Loans received and debt securities in issue	17	563,728	436,642
Subordinated debt	20	125,000	130,000
Total non-current liabilities		**753,804**	**732,044**
Total liabilities	**5**	**6,569,224**	**5,714,153**

5. Operational risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes, people, and systems or from external events. Operational risk includes legal risk, ICT risk and reputational risk, but excludes strategic risk. Operational risk is inherent in all products, activities, processes, and systems.

Each manager in LHV is responsible for managing operational risk within their responsibility area. Risk Division is acting as the second line of defence and providing both proper trainings and guidance to implement the operational risk framework, as well as oversight to ensure that the risk profile is within the desired level as described in risk appetite statements.

The operational risk framework is described in the operational risk policy and in other relevant operational risk management procedures. The main processes and tools to manage, i.e., to identify, assess, mitigate, and monitor operational risks are as follows.

Risk and control self-assessment

There is a unified process and method across LHV to assess operational risks of all products and processes. The regularity of self-assessment depends on the criticality level of the product and the process and must ensure that all managers are aware of the risks they are responsible for and apply relevant mitigating and monitoring measures to keep the risk profile within the desired risk level.

Change management and approval process in case of new or significantly changed products, IT systems, processes, organisation, partners (incl. outsourcing), or in case of exceptional transactions

Change management and approval process is designed to ensure all significant changes in products, IT systems, processes, organisation, partners (incl. outsourcing) or significant exceptional transactions are managed with due care and no change is approved before all risk considerations have been taken into account. To achieve this, pre-described risk management rules are implemented, accompanied by independent opinions from the Risk and Compliance Divisions.

Operational risk event and business continuity management

The objective of the operational risk event management is to ensure all events are managed in a proper manner, as well as to learn from the events and use the lessons to prevent similar cases from happening in the future.

Event management activities depend on the event type and severity level. For critical processes business continuity plans are in place and will be activated in case there is a disruption in a critical process. Critical IT systems have recovery plans in place for the same reasons. If needed, crisis management will be applied, steered by the Crisis Committee.

Business continuity plans are regularly reviewed and tested to ensure they are up-to-date and applicable in the event of critical process disruptions.

All events must be reported centrally and registered in a central database for further analysis conducted by the Risk Division. The event data is also used for capital calculation purposes within the ICAAP.

Key risk indicators

Key risk indicators (KRI) are the main tools to monitor if risks are at desired level and controls are working effectively. KRIs are used to monitor risks at different levels, i.e., across LHV as well as at the level of specific units. Action plans will be implemented if KRIs indicate undesired changes in risk level or deficiencies in existing controls.

Capital calculation

The operational risk capital charge is calculated based on the basic indicator approach and amounts to EUR 20,755 thousand as at 31 December 2023 (31 December 2022: EUR 15,834 thousand).

ICT and information security risk management

One of our main goals is to be a trustworthy banking partner to our customers with the focus on providing customer-friendly, secure and resilient digital banking services. Secure and resilient IT systems are key for this objective.

In addition to the general operational risk management framework, dedicated ICT and information security risk management tools and methods are applied to protect the information and customers' assets and ensure the IT systems are available. For example:

- reasonable conservatism is being applied when implementing new configurations to products and services;
- regular security monitoring;
- vulnerability management process;
- security controls in the software development lifecycle
- training of our personnel to increase awareness and prevent actions that may cause security incidents on IT systems and services;
- up-to-date information about developments in the security scene to understand potential weaknesses.

We take seriously and react to all malicious attacks targeted at our own infrastructure, the customer data in our possession, and our customers.

6. Compliance risk

The number of regulatory requirements and their constant changes make compliance risk a significant operational risk, the realisation of which can lead to both financial and reputational damage.

The task of compliance function is to manage the compliance risk through various activities. The compliance covers the entire activity of LHV and is not limited to specific areas. However, LHV has separated the AFC compliance function from the general compliance function.

In addition to the tasks set out in the regulatory requirements, compliance function is involved in maintaining and developing the culture of the organisation to promote a culture that supports compliance.

To perform its tasks efficiently, the compliance function, among other things, constantly assesses the need for resources and makes proposals for enhancing and developing the function, where appropriate. Going forward continuous adaptation to supervisory expectations of the ECB and the SRB will influence compliance risk management and thus the compliance function.

7. Anti-financial crime (AFC)

7.1. AFC governance

A high level of awareness and commitment towards risk management and AFC issues is the foundation of a strong AFC culture which is further supported by continuous activities of awareness raising, information and dissemination, networking and exchange of best practices, training, and reporting. 2023 is marked as the first year where the enterprise-wide risk assessment of financial crime risks was conducted as a group-wide exercise. All obliged entities of the LHV Group assessed their risk based on the same methodology. This enables more in-depth analyses of group-wide risks and implement aligned practices that affect LHV's operations.

The Management Board and the Supervisory Board of LHV Group and LHV Pank have a strong commitment towards implementing, maintaining and developing AFC regime across all the group entities. Related policies and procedures for AFC are revised at least yearly to properly reflect changes in the environment. In 2023 the Management Board's dedicated committee was reorganised and brought to the LHV Group level, as the new AFC Committee, providing consolidated overview for financial crime issues and further possibilities for co-operation and coordination between group units in this important area.

In addition to the investments in IT systems (continuation and development of Salv), the number of employees directly and indirectly involved in AFC has increased. New positions were created in both the AML Compliance Department and the business units' AML functions, respectively.

7.2 AFC governance structure

Supervisory Board

- Gives guidelines for general AFC risk appetite
- Supervisory role
- Regular reporting

Management Board

- Adopts AFC procedures and guidelines
- Adopts risk assessment and risk appetite framework
- Receives regular input on AFC topics and provides guidance
- Accepts high risk customers

High Risk Customer Acceptance Committee

- Accepts high-risk customers (retail

Banking Services Customers Assessment Committee

- Assesses financial intermediaries prior to approval by Management Board

First line of defence		Second line of defence	Third line of defence
Customer relations	**Business units' AFC departments**	**AFC compliance**	**Internal audit**
• Implementation onboarding and on-going KYC	• Responsibility of onboarding of higher risk clients • Performs EDD, incl. AFC monitoring and screening • Improves measures related to risk clients in accordance with the regulations • Cooperates with the AFC compliance, ensuring their implementation • Ensures customer data quality	• Coordinates AFC procedures and processes • Evaluates the risks of higher risk customers, countries and services • Advises first line of defence • Exercises assessment and scrutiny over first line activities • Performs AFC inspections and compliance audits • Raises awareness on AFC and conducts trainings • Assess AFC compliance risks associated with new services and processes • Reports to governing bodies and FIU	• Exercises assessment and scrutiny over first and second line's activities • Carries out independent assessment of AFC measures • Reports to Supervisory Board and Audit Committee

7.3 Anti-financial crime framework

AFC framework at LHV is based on 10 core principles that showcase high ethical principles, high standards of compliance and risk management. These are:

1) Risk-based approach;
2) Assessment of risks and establishment of risk appetite;
3) KYC – know-your-customer;
4) Due diligence measures – applying control measures when doing business;
5) Monitoring and screening – applying technical solutions to detect malicious activities;
6) Reporting of suspicious activities – any detected suspicions are duly reported;
7) Prohibited business relationships – certain customers or activities are not accepted;
8) Information sharing and escalation – information is shared within LHV and with our counterparts in accordance with regulations;
9) Training – key to effective financial crime prevention is knowledgeable people;
10) Data retention - records of data concerning financial fraud are retained in accordance with laws to ensure auditability and investigation.

7.4 Banking services for financial intermediaries

Via banking services business line, LHV continued to provide services to other financial institutions (including fintech companies) that in turn can provide financial services to their own customers. Provision of correspondent services to other financial institutions present a different portfolio of financial crime risks due to LHV being exposed to the customers of our clients. As such, LHV has carefully considered the risks associated with this client population and has applied additional risk-based measures to mitigate risks associated with servicing clients of banking services business line. LHV employs dedicated Client Relationship Managers to this sector, alongside specific first-line and second-line units that monitor and mitigate potential financial crime risks arising from these clients. Enhanced Due Diligence is applied to the fintech client base to reflect the correspondent risk that is posed, including assessing the financial crime programme that we expect to be both commensurate with our own and suitable for the client's own business. During the onboarding and periodic review processes, LHV assesses the business model, ownership structure, leadership, AFC measures, technical capabilities for screening and monitoring, target market, and customer and jurisdiction risk segmentation as part of its assessment of the client. LHV undertakes a programme of periodic on-site visits to assess AFC framework of clients. LHV employs a transaction monitoring programme designed to identify characteristics in client behaviour that indicate financial crime. If LHV identifies risk associated with one of its clients that falls outside of its appetite, remediation actions are taken to address the risk, up to and including termination of the relationship.

7.5 Estonian AFC system and the outlook

The sanctions' packages introduced by the EU and the western allies, including UK, as a direct response to the Russian war of aggression against Ukraine brought out the need to allocate substantial resources to the implementation of sanctions also by LHV. Throughout the year the decoupling the Estonian and, at large, European economy from the Russian oligarchs and Russian and Belorussian impact continued. The growing number and reach of sanctions' packages grew increasingly difficult to navigate. To ensure the effective implementation of international sanctions, LHV implemented multiples measures throughout the year, such as introducing increased pricing for payment transactions related to high-risk jurisdictions in May, effectively limiting payments related to countries linked to potential sanctions evasion attempts and restricting card payments connected to Belarus in September 2023. Therefore, this showcases the focus to strengthen the scope of the control measures to be implemented to avoid the risks of circumvention of sanctions.

The regulatory landscape remained stable as the outcome of Estonian assessment by MONEYVAL, report published in January 2023, was perceived as positive. The ranking of Estonia in the Basel AML Index of 2023 put the country in third place globally as being least affected by ML/TF risk.

There is growing anticipation of the new EU AML Package, including the establishment of the new AML supervisory authority, AMLA, which will be laid out in detail during 2024. The regulation and harmonisation in EU will be brough to a new era, affecting LHV in the foreseeable future.

8. Other risks

8.1 Underwriting risk

Underwriting risk is one of the most important risks for the insurance subsidiary reflecting the core business of insurance, i.e., taking and managing insurance risk. The most important aspect of underwriting risk is the insurance premium and reserve risk deriving from the possible inadequacy of the pricing of insurance contracts and the assumptions used in the assessment of contractual liabilities.

Underwriting risk includes catastrophe accumulation risk deriving from extreme or extraordinary events (e.g., windstorms, floods, hailstorms, damage attributable to human causes) during which the materialisation of risks insured under individual insurance contracts accumulate extraordinarily.

Above all, underwriting risk involves risks associated with pricing, technical provisions, and adequacy of the reinsurance cover.

Underwriting risk is managed and controlled via the following processes:

- establishment of the insurance subsidiary's risk strategy in accordance with the business strategy;
- using actuarial analysis and sound assumptions in pricing of insurance contracts;
- calculation of technical provisions and solvency capital requirement (SCR) by using Solvency II standard formula and holding the necessary liquid assets accordingly;
- assessment of loss reserving assumptions, performing liability adequacy tests and monitoring the profitability of the insurance portfolio;
- conduct regular/irregular own risk and solvency assessment (ORSA);
- use of the reinsurance programme for reinsuring major risks.

8.2 Strategic risk

Strategic risk is the risk of losses, including in the form of foregone revenues or additional costs, due to poor strategical planning and/or decisions or due to poor reputation not supporting strategic goals. Strategic risk includes both business, as well as sustainability strategy risk.

Main triggers for strategic risk are changes in different external factors to which LHV does not timely and appropriately adapt to, for example competitive landscape, technological shifts, customer preferences, ESG, especially climate changes, changes in regulation, and industry and product profitability.

Strategic risk is mitigated through the well understanding of the business environment and home markets, as well as risks threatening strategic goals, and considering them in the strategy planning process.

In addition, members of management in Group and subsidiaries (both the Management Board and the Supervisory Board) have long-term experience in the banking sector and/or entrepreneurship. Prior to entering new markets and sectors, professionals in the field will always be involved and a thorough analysis will be carried out.

8.3 ESG risks

Moving towards a greener way of doing things brings challenges and opportunities for both the economy and banks. The palpable impact of climate change and environmental degradation on the real economy and financial system stands as a force that cannot be underestimated.

ESG risk is a risk of loss resulting from current or prospective impacts of ESG factors, i.e., from environmental, social and/or governance factors, as applied directly to the Group or towards its counterparties or invested assets.

ESG risk materialises through other risk categories, such as credit risk, market risk, operational risk, liquidity and funding risk, strategic risk, i.e., acts as a cross-taxonomy risk driver. If ESG risk impact towards main risk is material, it shall be reflected, as a sub-risk under this main risk.

For the identification of material ESG risks a dedicated materiality assessment is conducted, which is the main input for setting risk appetite and relevant risk limits, as well as relevant qualitative risk management tools, for example client engagement.

To gain a thorough understanding of the risks and opportunities embedded in LHV's portfolio and services, we've embarked on an extensive materiality assessment update in 2023, a process scheduled for completion in 2024. This comprehensive undertaking involves meticulous risk and business mapping, adopting a holistic approach that spans the long, medium, and short term.

This forward-thinking approach not only underscores our commitment to responsible business practices but ensures that our risk management frameworks and strategic initiatives are dynamic and responsive, aligned with the evolving challenges and opportunities that define our path forward.

8.4 Reputational risk

Reputational risk, i.e., loss of reputation is one of negative consequences resulting from several LHV main risks. Loss of reputation occurs due to failure to meet stakeholders' (investors, employees, regulators, clients etc) expectations as a result of any event, behaviour, action or inaction, either by LHV itself, its employees or those with whom LHV is associated, that may cause stakeholders to form a negative view of LHV, either justified or not.

Good reputation and trust from existing and possible new clients, investors and employees is one of the enablers to achieve strategic business goals. Reputational risk is treated as a gross-taxonomy risk consequence and its management is integrated into existing risk management processes covering LHV's main risk types.

Consolidated statement of profit or loss and other comprehensive income

EUR thousand	Note	2023	2022
Interest income		336,620	152,413
incl. interest income based on the effective interest rate		316,883	146,216
Interest expense		-82,801	-23,302
Net interest income	5, 7	**253,819**	**129,111**
Fee and commission income		70,727	61,495
Fee and commission expense		-16,581	-16,595
Net fee and commission income	5, 8, 27	**54,146**	**44,900**
Net loss from financial assets measured at fair value	5, 11	-728	-2,008
Foreign exchange gain		1,457	1,414
Net gain/loss from financial assets	5	**729**	**-594**
Other income		1,792	228
Other expense		-28	-102
Net other income		**1,764**	**126**
Net income		**310,458**	**173,543**
Staff costs	9	-66,472	-46,795
Administrative and other operating expenses	9	-67,849	-42,843
Profit before impairment losses		**176,137**	**83,905**
Impairment losses on financial instruments at fair value	11	9	-5,056
Impairment losses on financial instruments measured at amortised cost	13	-11,548	-2,996
Profit before income tax		**164,598**	**75,853**
Income tax expense	5, 6, 26	-23,660	-14,421
Net profit for the reporting period	5	**140,938**	**61,432**
Total profit of the reporting period attributable to:			
Owners of the parent		139,602	59,808
Non-controlling interests		1,336	1,624
Net profit for the reporting period	5	**140,938**	**61,432**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Unrealised exchange differences on translating the financial statements of foreign operations		834	-1,489
Total comprehensive income for the reporting period		**141,772**	**59,943**
Total comprehensive income attributable to:			
Owners of the parent		140,436	58,319
Non-controlling interests		1,336	1,624
Total comprehensive income for the reporting period		**141,772**	**59,943**
Basic earnings per share (in euros)	25	0.44	0.19
Diluted earnings per share (in euros)	25	0.43	0.19

Pages 83 to 169 are an integral part of the consolidated financial statements.

Consolidated statement of financial position

EUR thousand	Note	31 Dec 2023	31 Dec 2022
Assets			
Cash and cash equivalents	10	52,145	87,933
Due from central banks	10	3,052,890	2,390,964
Due from investment companies	10	12,509	3,391
Due from credit institutions	10	1,850	0
Financial assets at fair value through profit or loss	11	18,453	9,354
Financial assets measured at amortised cost	11	321,888	364,230
Loans and advances to customers	12	3,561,791	3,208,572
Receivables from customers	14	49,505	21,019
Other financial assets	15	273	124
Other assets	15	8,184	6,775
Strategic financial investments	11	1,000	1,180
Property, plant and equipment	16	11,249	9,552
Right-of-use assets	16	10,860	7,307
Intangible assets	16	13,843	13,853
Goodwill	6	9,150	10,748
Total assets	**5**	**7,125,590**	**6,135,002**
Liabilities			
Amounts owed to central banks (TLTRO)	17	0	147,841
Deposits from customers	17	5,731,005	4,900,515
Loans received and debt securities in issue	17	563,728	438,642
Financial liabilities at fair value through profit or loss	11	1,843	3,850
Accounts payable and other liabilities	18	145,995	92,462
Subordinated debt	20	126,653	130,843
Total liabilities	**5**	**6,569,224**	**5,714,153**
Equity			
Share capital	21	31,983	31,542
Share premium	21	143,372	141,186
Legal reserve	21	4,713	4,713
Other reserves	21	9,333	5,683
Retained earnings		359,029	229,817
Total equity attributable to owners of the parent		**548,430**	**412,941**
Non-controlling interests	6	7,936	7,908
Total equity		**556,366**	**420,849**
Total liabilities and equity		**7,125,590**	**6,135,002**

Pages 83 to 169 are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

EUR thousand	Note	2023	2022
Cash flows from operating activities			
Interest received		328,464	149,230
Interest paid		-57,074	-21,159
Fees and commissions received		70,702	61,493
Fees and commissions paid		-16,581	-16,595
Other income received		-1,171	-2,095
Staff costs paid		-60,271	-40,894
Administrative and other operating expenses paid		-59,570	-31,365
Income tax paid		-23,655	-12,732
Cash flows from operating activities before changes in operating assets and liabilities		**180,844**	**85,883**
Increases/decreases in operating assets:			
Net increase/decrease in financial assets at fair value through profit or loss		-6,539	-35
Loans and advances to customers		-357,992	-540,335
Mandatory reserves at central banks		-7,211	8,609
Security deposits		24	2,112
Other assets		-25,168	-4,053
Due from credit institutions (deposits over 3 months)		-1,850	0
Increases/decreases in operating liabilities:			
Demand deposits of customers		-859,141	-1,006,749
Term deposits of customers		1,665,447	97,695
Loans received		0	88,267
Repayments of loans received		-147,547	-49,216
Financial liabilities at fair value through profit or loss		-2,007	3,693
Other liabilities		63,211	23,942
Net cash from/used in operating activities		**502,071**	**-1,290,187**
Cash flows used in investing activities			
Purchase of PPE and intangible assets	16	-16,901	-11,299
Acquisition of strategic financial investment		0	-8,966
Proceeds from disposal and redemption of investment securities at fair value through other comprehensive income		42,342	0
Net change in investment securities at fair value through profit or loss and amortised cost	11	-1,286	-235,818
Net cash used in investing activities		**24,155**	**-256,083**
Cash flows from financing activities			
Paid in share capital (incl. share premium)	21	2,627	45,503
Dividends paid	21	-13,842	-14,046
Subordinated debt raised	20	153,431	20,264
Subordinated debt settled	20	-40,000	0
Repayments of lease principal	19	-1,945	-1,423
Net cash from financing activities		**100,271**	**50,298**
Effect of changes in foreign exchange rates on cash and cash equivalents		**1,549**	**-441**
Increase/decrease in cash and cash equivalents		**628,046**	**-1,496,413**
Cash and cash equivalents at the beginning of the year	**10**	**2,433,599**	**3,930,012**
Cash and cash equivalents at the end of the year	**10**	**3,061,645**	**2,433,599**

Pages 83 to 169 are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

EUR thousand	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance as at 1 Jan 2022	**29,864**	**97,361**	**4,713**	**4,733**	**179,746**	**316,417**	**8,384**	**324,801**
Paid in share capital	1,678	43,825	0	0	0	**45,503**	0	**45,503**
Dividends paid	0	0	0	0	-11,946	**-11,946**	-2,100	**-14,046**
Share options	0	0	0	2,439	2,209	**4,648**	0	**4,648**
Net profit for the year	0	0	0	0	59,808	**59,808**	1,624	**61,432**
Other comprehensive income	0	0	0	-1,489	0	**-1,489**	0	**-1,489**
Total comprehensive income	0	0	0	-1,489	59,808	**58,319**	1,624	**59,943**
Balance as at 31 Dec 2022	**31,542**	**141,186**	**4,713**	**5,683**	**229,817**	**412,941**	**7,908**	**420,849**
Balance as at 1 Jan 2023	**31,542**	**141,186**	**4,713**	**5,683**	**229,817**	**412,941**	**7,908**	**420,849**
Paid in share capital	441	2,186	0	0	0	**2,627**	0	**2,627**
Dividends paid	0	0	0	0	-12,617	**-12,617**	-1,225	**-13,842**
Share options	0	0	0	2,816	2,380	**5,196**	0	**5,196**
Change in accounting policies	0	0	0	0	-153	**-153**	-83	**-236**
Net profit for the year	0	0	0	0	139,602	**139,602**	1,336	**140,938**
Other comprehensive income	0	0	0	834	0	**834**	0	**834**
Total comprehensive income	**0**	**0**	**0**	**834**	**139,602**	**140,436**	**1,336**	**141,772**
Balance as at 31 Dec 2023	**31,983**	**143,372**	**4,713**	**9,333**	**359,029**	**548,430**	**7,936**	**556,366**

Additional information on equity is provided in Note 21.

Material accounting policy information

Material accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented and to all the consolidated group entities unless stated otherwise.

1. Basis of preparation

The Group's consolidated financial statements for 2023 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in European Union. The financial statements have been prepared under the historical cost convention. As an exception, some financial assets and liabilities, including derivatives, are stated at their fair values as described in the accounting policies below.

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying accounting policies.

The areas involving a higher degree of judgement or complexity, and areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

The financial year started on 1 January 2023 and ended on 31 December 2023. The financial figures have been presented in thousands of euros (EUR) unless otherwise indicated.

The content of this chapter was changed from 'Summary of significant accounting policies' to 'Material accounting policy information' due to the adoption of the amendment to IAS 1 regarding the disclosure of accounting policies.

Summary of new reporting requirements

Certain new standards, interpretations and amendments are effective for annual periods beginning on or after 1 January 2023 but did not have a material impact on the Group's financial statements, except for IFRS 17 described in the following paragraphs.

New currently effective requirements

Amendments to IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2023; to be applied retrospectively; early application is permitted). These amendments are not yet endorsed by the EU.

The amendments clarify that the classification of liabilities as current or non-current is based solely on the entity's right to defer settlement at the end of the reporting period. The entity's right to defer settlement for at least 12 months from the reporting date need not be unconditional but must have substance. The classification is not affected by management's intentions or expectations about whether and when the entity will exercise its right. The amendments also clarify the situations that are considered settlement of a liability.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Accounting Policies, Changes in Accounting Estimates and Errors – Amendments to IAS 8 (effective for annual periods beginning on or after 1 January 2023; early application is permitted)

The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The amendments did not have a material impact on the Group's financial statements

Income Taxes - Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2023; early application is permitted)

The amendments clarify the accounting for deferred tax on transactions that involve recognising both an asset and a liability with a single tax treatment related to both.

The amendments did not have a material impact on the Group's financial statements.

IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2023; to be applied retrospectively, comparison data is adjusted since 1 January 2022)

IFRS 17 replaces IFRS 4, which granted companies dispensation to carry on accounting for insurance contracts using existing practices. Consequently, it was difficult for investors to compare the financial performance of similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds.

The standard requires recognition and measurement of groups of insurance contracts at a non-financial risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus, if this value is a liability or minus if this value is an asset; an amount related to services for which the company expects to receive payment (Liability for Remaining Coverage - "LRC"). The company allocates expected insurance premiums to each period based on the principle of the passage of time, except for groups of contracts where the expected risk release model during the relevant insurance coverage period significantly differs over time. If a group of contracts is unprofitable or becomes unprofitable, the company must recognize the loss in the consolidated income statement and increase the LRC to the extent that the current estimates of cash flows related to the LRC exceed the residual value of the LRC.

Similarly to IFRS 4, IFRS 17 needs a distinction between different products and depending on the product different approaches may be used. LHV Kindlustus uses the Premium Allocation Approach (PAA). PAA may be used for insurance contracts that are less than a year long or longer contracts that perform the same or similar under the PAA as if using the General Measurement Model (GMM) approach. For this reason, LHV Kindlustus has conducted PAA eligibility test to determine if this approach is acceptable.

LHV Kindlustus does not use a discount rate for modelling, as all cash flows are settled during the year (except for potential annuity payments in MTPs, which the LHV Kindlustus does not have). In case there is a need to use discounting, EIOPA's risk-free interest rates are used. The risk adjustment coefficients are determined based on the Solvency 2 MCR linear formula factors which give 85% VaR. We believe that 85% VaR is too extreme for IFRS 17, so we use 50% of these factors, resulting in an expected value at risk of 75-80% depending on the product.

The full retrospective approach is applied for IFRS 17. The deferred acquisition costs (DAC) are recognised as assets and are amortised.

The Group had an impact of EUR 852 thousand to equity balances as of 01.01.2022. The impact of this change was not significant for the Group and therefore the Group has not prepared three balance sheets.

The Group had an impact of EUR 237 thousand in 2022, which was recognised in 2023 as liability and a decrease in retained earnings. The impact of this change was not significant for the Group. Therefore, there were no adjustments made to financial statements of the year 2022.

New requirements not yet effective

Lease Liability in a Sale and Leaseback– Amendments to IFRS 16 (effective for annual periods beginning on or after 1 January 2024)

Amendments to IFRS 16 Leases impact how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction. The Group is currently assessing the impact of the amendments on its financial statements.

Classification of Liabilities as Current or Non-current – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2024)

The amendments clarify the requirements for the presentation of liabilities in the statement of financial position. The Group is currently assessing the impact of the standard on its financial statements.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2024)

These amendments require the disclosures of the entity's supplier finance arrangements that would enable the users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

2. Consolidation

The consolidated financial statements for 2023 comprise the financial statements of AS LHV Group (the parent company) and its subsidiaries AS LHV Pank, AS LHV Finance (a subsidiary of AS LHV Pank), AS LHV Varahaldus, AS LHV Kindlustus, LHV Bank Ltd (established in 2021) and AS LHV Paytech (acquired in 2022, former name EveryPay AS). AS LHV Group holds a 65% interest in LHV Finance through AS LHV Pank. AS LHV Group holds a 65% interest in LHV Kindlustus.

Subsidiaries are entities which are controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Acquisitions of subsidiaries and businesses are accounted for using the acquisition method (except for business combinations of entities under common control). The cost of an acquisition is measured as the acquisition-date fair value of the assets acquired, equity instruments issued, and liabilities incurred or assumed.

Transaction costs incurred on issuing equity instruments are deducted from equity; transaction costs incurred on issuing debt instruments are deducted from their carrying amounts and all other transaction costs associated with the acquisition are expensed. According to the acquisition method, the identifiable assets, liabilities, and contingent liabilities of the acquired subsidiary are recognised at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures a non-controlling interest that represents a present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction-by-transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of the net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held interest in the acquiree. Any negative amount (bargain purchase gain) is recognised in profit or loss, after management reassesses whether it has identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews the appropriateness of their measurement.

The revenues and expenses of subsidiaries acquired during the financial year are consolidated in the Group's statement of profit or loss and other comprehensive income from the date of acquisition to the end of the financial year. The results of operations of subsidiaries disposed of during the financial year are consolidated in Group's statement of profit or loss and other comprehensive income from the beginning of the financial year to the date of disposal.

Consistent with the Accounting Act of the Republic of Estonia, the primary financial statements of the consolidating entity (the parent company) have to be disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the parent, the same accounting policies have been used as in preparing the consolidated financial statements, except for investments in subsidiaries, which in the parent's separate primary financial statements (see Note 28) are accounted for at cost less any impairment losses.

3. Functional and presentation currency

The functional and presentation currency of Group entities is the euro (EUR), except for LHV Bank Ltd in the UK whose functional currency is the pound sterling (GBP).

4. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits with central and other banks and investment companies, and term deposits with original maturities of three months or less that are available for use without any restrictions and subject to an insignificant risk of changes in value but excludes mandatory cash balances with central banks, which represent non-interest-bearing mandatory reserve deposits which are not available to finance LHV's day to day operations.

5. Financial assets

5.1 Initial recognition and derecognition

Financial assets are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument and measured at fair value on initial recognition. Transaction costs are included in the initial fair value except for financial assets at fair value through profit or loss whose transaction costs are recognised in profit or loss. Financial assets measured at fair value and financial assets measured at amortised cost are recognised in the statement of financial position on the trade date.

Financial assets are derecognised when (a) the assets are redeemed or the rights to the cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership, but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

5.2 Subsequent measurement

The Group classifies its financial assets as subsequently measured at fair value through profit or loss, fair value through other comprehensive income or amortised cost. The classification depends on whether the financial asset is a debt instrument, an equity instrument or a derivative.

5.3 Debt instruments (loans and debt securities)

The classification is based on a combination of assessing the business model for managing the financial assets and whether the contractual cash flows are solely payments of principal and interest (SPPI). The business model assessment is performed for homogenous portfolios/products identified based on how the business is managed in the

Group's divisions. The assessment is based on reasonable scenarios taking into consideration how the portfolio is evaluated and reported to management; the risks affecting the performance of the portfolio and how these risks are managed; how managers are compensated; and the frequency, value and timing of sales including the reasons for the sales. In determining if the contractual cash flows are solely payments of principal and interest, principal is defined as the fair value of the debt instrument at initial recognition. The principal amount can change over the life of the instrument if there are repayments of principal or interest is capitalised. Interest cash flows are consistent with the components of a basic lending arrangement including consideration for the time value of money, credit risk, liquidity risk as well as administrative costs and a profit margin. If there are contractual terms introducing exposure to other risks or volatility, the cash flows are not considered to be solely payments of principal and interest. SPPI tests are performed as a part of new product approval tests.

Debt instruments are presented in the statement of financial position within cash and cash equivalents, due from central banks, due from credit institutions, due from investment companies, loans and advances to customers, financial assets at fair value through profit or loss, financial assets measured at amortised cost, receivables from customers and other financial assets and they include instruments in the following measurement categories.

Fair value through profit or loss: Debt instruments are classified into this category if they do not meet the criteria for amortised cost or fair value through other comprehensive income. This is the case if the instrument is held for trading. Financial assets are held for trading if they are held for the purpose of selling in the short term and profit-taking. Debt instruments are measured at fair value through profit or loss if they are managed and measured on a fair value basis or held with the intention to sell, or if their cash flows are not solely payments of principal and interest.

Fair value through other comprehensive income: Debt instruments are classified into this category if both of the following criteria are met: (a) the business model objective is to both hold the assets to collect contractual cash flows and to sell the assets and (b) the contractual cash flows are solely payments of principal and interest. The assets are measured at fair value and any gains and losses arising from changes in fair value are reported in other comprehensive income and accumulated in equity. The cumulative gain or loss is reclassified from equity to profit or loss upon the derecognition of the debt instrument. Interest on interest-bearing financial assets is calculated by applying the effective interest method and expected credit losses are recognised in profit or loss.

Amortised cost: Debt instruments are classified into this category if both of the following criteria are met. (a) the business model objective is to hold the assets to collect contractual cash flows and (b) the contractual cash flows are solely payments of principal and interest. The gross carrying amount of these assets is measured using the effective interest method and adjusted for expected credit losses.

5.4 Equity instruments

Equity instruments are by default classified as financial assets at fair value through profit or loss. However, an irrevocable election can be made on initial recognition to classify equity instruments (not held for trading) as measured at fair value through other comprehensive income.

5.5 Derivatives

Derivatives (held for trading) are classified as measured at fair value through profit or loss.

5.6 Modification

The Group may renegotiate loans and modify contractual terms. If the new terms are substantially different from the original ones, the Group derecognises the original financial asset and recognises a new asset. The Group also assesses whether the new financial asset is credit-impaired at initial recognition. If the terms are not substantially different, the modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the new cash flows using the original effective interest rate of the financial asset and recognises a modification gain or loss.

5.7 Reclassification

In rare circumstances debt instruments (financial assets) excluding those designated at fair value through profit or loss on initial recognition, can be reclassified if there has been a change in the business model for managing the affected financial assets.

5.8 Write-off

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event.

Indications of no reasonable expectation of recovery include (i) ceasing of debt collection activities and (ii) where the Group's recovery method is foreclosing on collateral, determining that the value of the collateral is such that there is no reasonable expectation of recovery.

If it is not feasible or economically reasonable for the Group to take measures to recover a receivable, the receivable is classified into non-performing and removed from the statement of financial position. At least one of the conditions has to be filled to classify a receivable into non-performing.

If a receivable which has been written off as uncollectable is subsequently collected, the amount received is recognised as income.

IFRS 9 measurement category		Asset class		31 Dec 2023	31 Dec 2022
Financial assets	Amortised cost	Cash and cash equivalents, due from central banks and investment companies		3,119,394	2,482,288
		Loans and advances to customers	Loans to legal entities	2,205,016	1,963,215
			Loans to individuals	1,356,775	1,245,357
		Debt securities		321,888	364,230
		Receivables from customers		49,505	21,019
		Other financial assets		273	124
	Fair value through profit or loss	Shares and fund units		745	1,075
		Listed bonds		11,551	765
		Derivatives		301	40
		Pension fund units		5,856	7,474
Financial liabilities	Amortised cost	Amounts owed to central banks (TLTRO)		0	147,841
		Deposits from customers		5,731,005	4,900,515
		Loans received and debt securities in issue		563,728	438,642
		Accounts payable and other liabilities		145,995	92,462
		Subordinated debt		126,653	130,843
	Fair value through profit or loss	Derivatives		1,843	3,850

6. Impairment of financial assets

The impairment requirements are based on an expected credit loss (ECL) model. The guiding principle of the ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments.

All financial assets measured at amortised cost and fair value through other comprehensive income, as well as lease receivables, financial guarantee contracts, contract assets and certain loan commitments are in the scope for the recognition of ECLs.

ECLs on financial assets measured at amortised cost and lease receivables are presented as allowances, i.e., as an integral part of the measurement of those assets in the statement of financial position. The allowance reduces the gross carrying amount. ECLs on loan commitments and financial guarantee contracts are presented as provisions, i.e., as liabilities, in the statement of financial position. Adjustments to the loss allowances and provisions due to changes in ECLs are recognised in profit or loss as net expected credit losses.

The assessment of credit risk and the estimation of the ECL must be unbiased and probability-weighted and incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. LHV calculates ECLs using both models and individual assessments which are based on input from experts.

The ECL model has a three-stage approach based on changes in credit risk. A 12-month ECL (Stage 1) applies to all items unless there has been a significant increase in credit risk since initial recognition. For items whose credit risk has increased significantly (Stage 2) or which are in default (Stage 3), a lifetime ECL applies.

The detailed description of credit risk measurement, definition of default, ECL modelling and incorporation of forward-looking information into credit risk measurement are described in subsection ‘2. Credit risk’ under the ‘Risk management’ section.

7. Property, plant and equipment

Property, plant and equipment (PPE) are non-current assets used in the Group’s operating activities that have a useful life of over one year. PPE is initially recognised at its cost, which consists of the purchase price (incl. customs duties and other non-refundable taxes) and any directly attributable expenditure on bringing the asset to its operating condition and location. Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to operating expenses during the reporting period in which they are incurred.

PPE is carried in the statement of financial position at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight-line basis. The annual depreciation rate for computers, furniture and fixtures is 33%. Improvements of rental space are either depreciated at the rate of 20% per year or over the lease term, depending on which is shorter. Depreciation is calculated starting from the month of acquisition until the carrying amount decreases to the residual value of the asset. When the residual value is greater than the carrying amount of the asset, depreciation ceases.

The depreciation methods used, and the residual values and useful lives of assets are reviewed, and adjusted if appropriate, at the end of each reporting period. The Group performs an impairment test when there are circumstances which indicate impairment. Where an asset's carrying amount is greater than its estimated recoverable amount (the higher of an asset's fair value less costs of disposal and its value in use), the asset is immediately written down to its recoverable amount by recognising an impairment loss in the statement of profit or loss for the reporting period. Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the asset. The gains and losses are included in other income and operating expenses, respectively, in the statement of profit or loss for the reporting period.

8. Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance. An intangible asset is initially measured at cost, comprising of its purchase price and any directly attributable expenditure on preparing the asset for its intended use. After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line basis, except for contracts with customers (see below). The annual amortisation rate for purchased licenses is 33%.

Sales costs related to the acquisition of new contracts with customers are capitalised. The capitalised acquisition costs of contracts with customers are amortised using the diminishing balance method. The annual amortisation rate for the capitalised acquisition costs is 12% of the residual value of those assets. The appropriateness of amortisation rates, methods and residual values is assessed at the end of each reporting period. The Group reviews intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset’s fair value less costs of disposal and value in use.

9. Impairment of non-financial assets

Assets that have indefinite useful lives (including goodwill) are not subject to amortisation. Instead, they are tested annually for impairment by comparing their carrying amounts with their recoverable amounts.

Assets with an unlimited useful life and depreciable assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. In the event of such circumstances, the recoverable amount of the asset is assessed and compared with its carrying amount.

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 fair value less costs of disposal and value in use. For assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit).

Impairment losses are recognised in profit or loss.

At the end of each following reporting period, assets that have been written down are assessed to determine whether their recoverable amount has increased (except for impairment losses on goodwill that are not reversed). If the impairment test indicates that the recoverable amount of an asset or asset group (cash-generating unit) has increased above its carrying amount, the previous impairment loss is reversed up to the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. Reversals of impairment losses are recognised in profit or loss as a reduction of the impairment loss.

10. Loan commitments, financial guarantees, and performance guarantees

The Group issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below-market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Group cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

The Group issues financial guarantees. Financial guarantees represent irrevocable assurances to make payments if a customer fails to make payment to third parties and carry the same credit risk as loans. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the financial guarantee. At the end of each reporting period, the financial guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected credit loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of the reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as loans and receivables upon transfer of the loss compensation to the guarantee's beneficiary.

11. Financial liabilities

The Group classifies financial liabilities as either:

a) financial liabilities measured at fair value through profit or loss;

b) financial liabilities measured at amortised cost; or

c) financial guarantee contracts and loan commitments.

Derivates are classified as financial liabilities at fair value through profit or loss as disclosed in 'Material accounting policy information' section 5. All other financial liabilities are subsequently measured at amortised cost using the effective interest method. Transaction costs are included in the calculation of the effective interest rate. The difference between the proceeds (less transaction costs) and redemption value are recognised in profit or loss during the term of the instrument using the effective interest rate. Interest expense is reported in profit or loss within interest expense.

Deposits from customers are initially recorded on their settlement date at their fair value less transaction costs and are subsequently measured at amortised cost using the effective interest method. Accrued interest liabilities are included in the same item.

Loans received, debt securities issued, and similar subordinated debts are initially recognised at fair value less transaction costs (cash received less transaction costs). Subordinated debts are those liabilities which in the case of the liquidation of a credit institution or declaration of bankruptcy are settled after the satisfaction of the justifiable claims of other creditors. Other financial liabilities (trade payables, accrued expenses and other borrowings) are initially recognised at fair value less transaction costs and are subsequently carried at amortised cost.

Financial liabilities are derecognised when they are extinguished (i.e., when the obligation specified in the contract is discharged, cancelled, or expires).

12. Share-based payments

AS LHV Group operates a share-based compensation programme, under which the company receives services from the Group's employees as consideration for the equity instruments (options) of LHV Group. The fair value of the employee services received in exchange for the grant of the options is recognised during the share-based compensation programme as the Group's staff costs and as an increase in equity (other reserves). The total amount to be expensed is determined by the fair value at the time of issuing the options. The fair value of the options granted is determined by:

- including any market-based performance conditions (market conditions) that influence the options price (e.g., the LHV Group share price);
- excluding the impact of any service and non-market conditions (vesting conditions other than market conditions) e.g., profitability, sales growth targets and remaining an employee of the Group over a specified period).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the vesting conditions (other than market conditions). It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

When the options are exercised, LHV Group issues new shares.

The grant by LHV Group of options to acquire its equity instruments to the employees of subsidiary undertakings is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase in investments in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts. According to the law, there are no social security charges when the options are exercised after a 3-year period.

13. Contingent liabilities

Contingent obligations (guarantees, excluding financial guarantees, and other commitments) whose realisation is less probable than non-realisation or amount cannot be estimated reliably but which may transform into liabilities in certain circumstances, are disclosed in the notes to the financial statements as contingent liabilities. Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable on a portfolio basis.

If it becomes probable that an outflow of future economic benefits will be required for an item or a portfolio of items previously classified as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

14. Fee and commission income and expenses

Fee and commission income comprises revenue from contracts with customers. It does not include revenue from lease contracts or financial instruments and other contractual obligations within the scope of IFRS 9 Financial Instruments.

Fees that are included in the calculation of the effective interest rate of a financial instrument measured at amortised cost, such as loan origination fees, are allocated over the expected tenor of the instrument by applying the effective interest method and presented in net interest income.

Fee and commission income is recognised to depict the transfer of promised services to customers in an amount that reflects the consideration to which LHV expects to be entitled in exchange for the services.

Fee and commission income is recognised over time on a straight-line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Group's performance. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Other fee and commission income is recognised at a point in time when the Group satisfies its performance obligation, usually upon the execution of the underlying transaction. The amount of a fee or commission received, or receivable represents the transaction price for the services identified as distinct performance obligations.

The main types of fees are described below.

Fee and commission income for asset custody and asset management provided to customers is recognised as revenue over the period in which the services are provided. Performance-based fees are recognised when it is highly probable that a significant reversal of recognised revenue will not occur, which is most often when the performance criteria are fulfilled.

Brokerage fees, commissions, and fees from negotiating a transaction for a third party, such as arrangement of acquisitions or the purchase or sale of a business, are recognised on the completion of the transaction.

Expenses that are directly related to the generation of fee and commission income are recognised as fee and commission expense.

15. Asset management services

The Group provides asset management services (Note 22). Assets managed by the Group that belong to third parties are accounted for off the statement of financial position. The Group derives service fees from the holding and management of such assets. The services do not involve any credit or market risks for the Group.

16. Corporate income tax

16.1 Corporate income tax in Estonia

Estonian companies generally do not pay corporate income tax on profit earned in a financial year. Income tax is paid on profit distributions, both direct (dividends, other distributions from equity) and indirect ones (non-business expenses, transfer price adjustments, certain payments to tax havens, etc.). The income tax rate for dividends and other profit distributions is 20% (the amount of tax payable is calculated as 20/80 of the net distribution). Starting from 2019, the income tax rate for regular dividend distributions is 14% (the amount of tax payable is calculated as 14/86 of the net distribution). The lower tax rate applies to a dividend distribution to the extent of the three preceding years' average dividend distribution on which tax has been paid. Corporate income tax arising from dividend distributions is recognised as a liability and income tax expense when the dividend is declared. Income tax must be paid by the 10th day of the month following the distribution of the dividend.

Starting from Q2 2018 credit institutions have to make advance payments of income tax at the rate of 14% of their quarterly profits (Note 26). The tax has to be paid by the 10th day of the third month following the quarter. Advance income tax payments are non-refundable and thus recognised as an expense, but they can be used to reduce the income tax payable on future dividend distributions. LHV is a growing company and cannot utilise the paid advance income tax in the foreseeable future. Therefore, the tax is recognised as an expense.

16.2 Corporate income tax in other countries

The profit of the entity located in the United Kingdom that has been adjusted for permanent and temporary differences as permitted by local tax laws is subject to corporate income tax.

Corporate income tax rates	2023	2022
United Kingdom	19-25%	20%

17. Classification of insurance contracts

An insurance contract is a written agreement between the insurer and the policyholder under which the policyholder undertakes to pay the insurance premiums specified in the contract, and the insurer undertakes to pay the insured amount or the insurance benefits or to fulfil other contractual obligations when the insured event occurs. All contracts concluded between the Group's insurance company and its customers qualify as insurance contracts.

The contracts issued by the company are non-life insurance contracts and in most cases the contract term is one year. Exceptions include short-term travel insurance contracts, which provide cover for one trip and are entered into for the duration of the trip, and equipment insurance and extended warranty contracts, which may have a term exceeding one year.

Reinsurance

Reinsurance is partial transfer of the insurance risks taken by the insurer to a reinsurer under a reinsurance contract. Reinsurance contracts are usually signed for a term of one year. As an exception, proportional reinsurance contracts in motor third party liability insurance are signed for a term of three years.

Reinsurers' share of the liability for remaining coverage and the liability for incurred claims is recognised in accordance with the reinsurance contracts.

Liability for remaining coverage

The Liability for Remaining Coverage (LRC) is calculated using current assumptions about future cash flows, which are then, if necessary, discounted to their present value . As the Company does not have insurance contacts that last longer than a year the cash flows are not discounted. This liability reflects the portion of the insurance contract that remains to be fulfilled in the future.

In order to assess the adequacy of the LRC, the Company organises an onerousity test at least once a year. In case the result of the test is negative and the group of contracts must actually be unprofitable, the Company increases the LRCs and reflects the loss of the group of contracts.

Reinsurers' share of the liability for remaining coverage is calculated only for those contracts that are covered by a proportional reinsurance contract.

Liability for incurred claims

The liability for incurred claims refers to the obligation of insurers to cover claims that have already occurred but have not yet been settled. It involves estimating the cost of claims based on available information, historical data, and actuarial calculations.

A significant component of the liability for incurred claims in addition to case reserves (handled but not settled and reported but not handled) is incurred-but-no-reported (IBNR) claims. These are claims that have occurred but haven't been reported to the insurer by the reporting date. Estimating IBNR claims involves using statistical methods and historical patterns to predict future claims. As of 31 December 2023 this takes up approximately 20% of LIC.

IFRS 17 requires insurers to consider the time value of money when estimating the cost of settling these claims, especially when there's a significant time gap between the occurrence of the claim and its settlement. Since majority of these claims are settled within a year after their emergence they are not discounted.

Notes to the consolidated financial statements

NOTE 1 General information

The consolidated financial statements of AS LHV Group and its subsidiaries (collectively referred to as the Group or LHV) for the year ended 31 December 2023 have been prepared in accordance with International Financial Reporting Standards as adopted by European Union.

The subsidiaries are AS LHV Pank, AS LHV Finance (a subsidiary of AS LHV Pank), AS LHV Varahaldus, AS LHV Kindlustus, AS LHV Paytech and LHV Bank Ltd. AS LHV Group holds a 65% interest in LHV Finance through AS LHV Pank and a 65% interest in AS LHV Kindlustus.

AS LHV Group is a limited liability company incorporated and domiciled in Estonia. The address of its registered office is Tartu mnt 2, Tallinn. AS LHV Group is a holding company. AS LHV Pank provides banking, financial advisory and securities brokerage services to customers in Estonia and in the UK. It has customer service offices in Tallinn, Tartu and Pärnu. Branch in London was closed in 2023. LHV Bank Ltd, which was established in 2021, is based in the UK. AS LHV Finance offers hire-purchase and consumer finance services. AS LHV Varahaldus offers pension and other fund management services. AS LHV Kindlustus offers various non-life insurance products. AS LHV Paytech provides payment solutions. At 31 December 2023 the Group had1,094 full-time employees, incl. 45 non-active staff (31 December 2022: 922 employees, incl. 47 non-active staff). The Group's annual report (incl. consolidated financial statements) was approved by the Management Board on 23 February 2024. Rain Lõhmus, who owns 21.46% of the voting rights, and Andres Viisemann, who owns 11.18% of the voting rights (see also Note 21), have significant influence over AS LHV Group.

The Group's annual report which has been approved by the Management Board must also be approved by the Supervisory Board and the shareholders. The shareholders have the right not to approve the annual report and to demand that a new annual report is prepared.

NOTE 2 Significant accounting estimates and assumptions

Consistent with IFRS, management makes estimates and assumptions which affect the amounts reported in the financial statements. Although the estimates are based on management's best knowledge and judgement, actual outcomes may differ from these estimates. Management's estimates have been applied in the valuation of loans, receivables and investments (Notes 10, 11, 12 and 14), the determination of the useful lives of PPE and intangible assets (Note 16), goodwill impairment tests (Note 6) and determination of insurance liabilities (Note 18).

Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances. Changes in management's estimates are recognised prospectively.

The most significant estimates and assumptions are related to IFRS 9, namely the criteria for a significant increase in credit risk (SICR), the calculation of probability of default (PD) and loss given default (LGD), the business model and solely payments of principal and interest (SPPI) assessment for the classification of financial assets. Please see more information in the 'Risk management' section, subsection 2 and below.

When calculating expected credit losses (ECLs) there are a number of key concepts that require a high level of judgement. Estimation of ECLs is, by nature, uncertain and the accuracy of the estimates depend on many factors, e.g., macroeconomic forecasts and involves complex modelling and judgements. The assessment of SICR is a concept under IFRS 9 and requires significant judgement. At the end of each reporting period the Group performs an assessment of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument, using key risk indicators that are used in the Group's existing risk management processes. Another area requiring significant judgement is the incorporation of forward-looking information and macroeconomic scenarios. IFRS 9 requires an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. LHV uses internally developed macroeconomic forecasts as the basis for the forward-looking information in the ECL measurement. LHV uses both models and judgements based on the input of experts to determine ECLs. The objective of making judgements based on the input of experts is to incorporate the estimated impact of factors not captured in the modelled ECL. The degree of judgement that is required to estimate ECLs depends on the outcome of the calculations, materiality, and the availability of detailed information. The models, assessments and assumptions are regularly reviewed by the risk organisation.

NOTE 3 Offsetting assets and liabilities

The Group has offset the following assets and liabilities.

Offset assets and liabilities

EUR thousand

As at 31 Dec 2023	Gross amount before offsetting in the statement of financial position	Offsetting	Net exposure presented in the statement of financial position	Related arrangements not set off in the statement of financial position: Financial instruments	Cash collateral received	Net amounts
Assets						
Derivatives	301	0	301	0	0	0
Liabilities						
Derivatives	1,843	0	1,843	0	0	0
As at 31 Dec 2022						
Assets						
Derivatives	40	0	40	0	0	0
Liabilities						
Derivatives	3,850	0	3,850	0	0	0

NOTE 4 Fair value of financial assets and financial liabilities

Fair value of financial assets and financial liabilities as at 31 Dec 2023

EUR thousand	Note	Level 1	Level 2	Level 3	Total fair value	Carrying value	Difference
Financial assets at fair value through profit or loss							
Shares and fund units*	11	745	5,856	0	6,601	6,601	0
Debt securities at fair value through profit or loss	11	11,551	0	0	11,551	11,551	0
Strategic financial investments at fair value through profit or loss	6	0	0	1,000	1,000	1,000	0
Interest rate swaps and foreign exchange forwards	11	0	301	0	301	301	0
Total financial assets at fair value through profit or loss		**12,296**	**6,157**	**1,000**	**19,453**	**19,453**	**0**
Financial liabilities at fair value through profit or loss							
Interest rate swaps and foreign exchange forwards	11	0	1,843	0	1,843	1,843	0
Total financial liabilities at fair value through profit or loss		**0**	**1,843**	**0**	**1,843**	**1,843**	**0**
Financial assets at amortised cost							
Cash and cash equivalents	10	0	52,145	0	52,145	52,145	0
Due from central banks	10	0	3,052,890	0	3,052,890	3,052,890	0
Due from investment companies	10	0	0	12,509	12,509	12,509	0
Due from credit institutions	10	0	1,850	0	1,850	1,850	0
Debt securities	11	0	319,341	0	319,341	321,888	-2,547
Loans and advances to customers	12	0	0	3,712,931	3,712,931	3,561,791	151,140
Receivables from customers	13	0	49,505	0	49,505	49,505	0
Other financial assets	14	0	0	273	273	273	0
Total financial assets at amortised cost		**0**	**3,475,731**	**3,725,713**	**7,201,444**	**7,052,851**	**148,593**
Financial liabilities at amortised cost							
Deposits from customers	16	0	5,717,361	0	5,717,361	5,731,005	-13,644
Loans received and debt securities in issue	16	551,355	0	0	551,355	563,728	-12,373
Subordinated debt	19	0	124,898	0	124,898	126,653	-1,755
Accounts payable and other financial liabilities	17	0	0	128,456	128,456	128,456	0
Total financial liabilities at amortised cost		**551,355**	**5,842,259**	**128,456**	**6,522,070**	**6,549,842**	**-27,772**

Fair value of financial assets and financial liabilities as at 31 Dec 2022

EUR thousand	Note	Level 1	Level 2	Level 3	Total fair value	Carrying value	Difference
Financial assets at fair value through profit or loss							
Shares and fund units*	11	1,075	7,474	0	8,549	8,549	0
Debt securities at fair value through profit or loss	11	765	0	0	765	765	0
Strategic financial investments at fair value through profit or loss	6	0	0	1,180	1,180	1,180	0
Interest rate swaps and foreign exchange forwards	11	0	40	0	40	40	0
Total financial assets at fair value through profit or loss		**1,840**	**7,514**	**1,180**	**10,534**	**10,534**	**0**
Financial liabilities at fair value through profit or loss							
Interest rate swaps and foreign exchange forwards	11	0	3,850	0	3,850	3,850	0
Total financial liabilities at fair value through profit or loss		**0**	**3,850**	**0**	**3,850**	**3,850**	**0**
Financial assets at amortised cost							
Cash and cash equivalents	10	0	87,933	0	87,933	87,933	0
Due from central banks	10	0	2,390,964	0	2,390,964	2,390,964	0
Due from investment companies	10	0	0	3,391	3,391	3,391	0
Debt securities	11	0	359,080	0	359,080	364,230	-5,150
Loans and advances to customers	12	0	0	3,276,305	3,276,305	3,208,572	67,733
Receivables from customers	13	0	21,019	0	21,019	21,019	0
Other financial assets	14	0	0	124	124	124	0
Total financial assets at amortised cost		**0**	**2,858,996**	**3,279,820**	**6,138,816**	**6,076,233**	**62,583**
Financial liabilities at amortised cost							
Amounts owed to central banks (TLTRO)	16	0	147,788	0	147,788	147,841	-53
Deposits from customers	16	0	4,898,396	0	4,898,396	4,900,515	-2,119
Loans received and debt securities in issue	16	407,290	0	0	407,290	438,642	-31,352
Subordinated debt	19	0	125,790	0	125,790	130,843	-5,053
Accounts payable and other financial liabilities	17	0	0	84,125	84,125	84,125	0
Total financial liabilities at amortised cost		**407,290**	**5,171,974**	**84,125**	**5,663,389**	**5,701,966**	**-38,577**

*Shares and fund units include the investments of the Group's subsidiary AS LHV Varahaldus in pension fund units in the amount of EUR 5,856 thousand (31 December 2022: EUR 7,474 thousand). Pursuant to the Investment Funds Act, the mandatory share of AS LHV Varahaldus as the management company is 0.5% of the number of units in each of the II pillar pension funds managed by it.

The Group's Management Board has assessed the fair values of assets and liabilities carried at amortised cost. Fair value is estimated by discounting the future cash flows based on the market interest yield curve.

Levels of the fair value hierarchy (based on inputs used):

1. Level 1 – quoted prices in active markets
2. Level 2 – valuation techniques based on observable inputs (market data such as rates and interest curves from similar transactions)
3. Level 3 – other valuation techniques: (a) quantitative information about the significant unobservable inputs used in fair value measurement (if developed and available for the entity); b) a narrative description of the sensitivity of fair value measurement to changes in unobservable inputs (if the change might result in a significant change in fair value measurement); c) the effect of reasonable possible changes in unobservable inputs

For the term structure of financial assets and financial liabilities, please refer to the 'Risk management' section, subsection 4.

NOTE 5 Operating segments

The Group divides its business activities into operating segments based on the group's legal structure. LHV Pank divides its business activities into three main operating segments: retail banking, corporate banking, banking services for financial intermediaries. An operating segment is a part of the Group for which separate financial data is available and which is subject to regular monitoring of operating results by the Group's chief decision maker.

The retail banking segment covers services to private individuals and small legal entities with a credit exposure under EUR 500 thousand. This is a regular universal banking segment offering payments, cards, credit, etc.

The corporate banking segment covers services to corporate customers and other legal entities with a credit exposure over EUR 500 thousand. The main products are different kinds of credit and payments.

The asset management segment provides II and III pillar pension fund and other funds management services.

The hire-purchase and consumer finance segment covers the activities of LHV Finance that offers hire purchase and consumer finance services to private individuals in Estonia.

The financial intermediaries segment covers services to fintech companies in LHV Pank. Although the activities of the UK branch of LHV Pank were transferred to LHV Bank in the middle of the year, LHV Pank continues servicing financial intermediaries in euro payments and safeguarding services.

The insurance segment covers the activities of LHV Kindlustus that offers non-life insurance.

LHV Bank operates in three business lines – banking services for financial intermediaries, SME lending and retail banking.

Other activities include treasury activities such as the provision of internal financing services to segments, parent company's activities, which are mostly capital and funding related, and Paytech which offers services to LHV Pank and LHV Bank, but also to external customers.

The Management Board of AS LHV Group has been designated as the chief decision maker responsible for the allocation of funds and the assessment of the profitability of business activities. The result reported by a segment includes revenue and expenditure directly related to the segment. The revenue reported by a segment is based on the revenue recorded in the financial statements and includes gains from transactions between the segments such as loans granted by AS LHV Pank to other group companies. The breakdown of interest income and fee and commission income by customer location is presented in Notes 7 and 8. The Group does not have any customers that account for more than 10% of any revenue type.

Financial information of operating segments 2023

EUR thousand	Retail banking	Corporate banking	Asset manage-ment	Hire-purc-hase and consumer finance	Financial intermediaries	Insurance	LHV Bank Ltd	Other activities	Total
Interest income	85,829	132,615	50	15,580	-22,996	318	33,668	91,555	336,620
Interest expense	40,786	-55,310	0	-6,215	28,929	-152	-4,750	-86,089	-82,801
Net interest income/ expense	**126,615**	**77,305**	**50**	**9,365**	**5,933**	**166**	**28,918**	**5,467**	**253,819**
Fee and commission income	34,318	6,499	8,845	951	5,816	5,006	8,030	1,261	70,727
Fee and commission expense	-16,849	-3,378	0	-740	387	0	-222	4,221	-16,581
Net fee and commission income	**17,469**	**3,122**	**8,845**	**211**	**6,203**	**5,006**	**7,808**	**5,483**	**54,146**
Net gain/loss from financial assets	**14**	**-1**	**241**	**0**	**-3**	**-87**	**-76**	**641**	**729**
Net other income/expense	**19**	**1,513**	**0**	**2**	**0**	**-14**	**106**	**138**	**1,764**
Net income	**144,117**	**81,940**	**9,136**	**9,578**	**12,132**	**5,071**	**36,756**	**11,729**	**310,459**
Administrative and other operating expenses, staff costs	-43,728	-20,521	-6,996	-3,767	-13,553	-4,767	-31,303	-9,686	-134,321
Profit/loss before credit losses	**100,389**	**61,419**	**2,140**	**5,811**	**-1,421**	**304**	**5,453**	**2,043**	**176,139**
Impairment losses	-812	-6,187	0	-3,746	0	0	-176	-618	-11,539
Profit/loss before tax	**99,577**	**55,232**	**2,140**	**2,065**	**-1,421**	**304**	**5,277**	**1,425**	**164,599**
Income tax	-10,176	-7,323	-488	-689	-1,890	0	0	-3,094	-23,660
Net profit/loss for the repor-ting period	**89,401**	**47,909**	**1,652**	**1,376**	**-3,311**	**304**	**5,277**	**-1,669**	**140,939**
Total assets	**2,742,899**	**3,726,731**	**23,262**	**93,549**	**0**	**55,569**	**369,316**	**114,264**	**7,125,590**
Total liabilities	**4,180,348**	**885,028**	**725**	**75,203**	**1,114,526**	**50,322**	**315,813**	**-52,741**	**6,569,224**

Financial information of operating segments 2022

EUR thousand	Retail banking	Corporate banking	Asset manage-ment	Hire-purc-hase and consumer finance	Financial intermediaries	Insurance	LHV Bank Ltd	Other activities	Total
Interest income	53,531	74,998	0	12,945	8,276	26	226	2,411	152,413
Interest expense	0	-16,918	0	-2,521	0	-16	-164	-3,683	-23,302
Net interest income/expense	**53,531**	**58,080**	**0**	**10,424**	**8,276**	**10**	**62**	**-1,272**	**129,111**
Fee and commission income	9,356	2,573	7,951	845	39,326	1,487	0	-43	61,495
Fee and commission expense	-2,361	-59	0	-830	-14,935	0	0	1,590	-16,595
Net fee and commission income	**6,995**	**2,514**	**7,951**	**15**	**24,391**	**1,487**	**0**	**1,547**	**44,900**
Net gain/loss from financial assets	**-357**	**0**	**-147**	**0**	**-24**	**-32**	**7**	**-41**	**-594**
Net other income/expense	**8**	**105**	**0**	**0**	**-27**	**-5**	**0**	**45**	**126**
Net income	**60,177**	**60,699**	**7,804**	**10,439**	**32,616**	**1,460**	**69**	**279**	**173,543**
Administrative and other operating expenses, staff costs	-21,169	-12,574	-7,076	-2,241	-20,834	-3,153	-11,739	-10,852	-89,638
Profit/loss before credit losses	**39,008**	**48,125**	**728**	**8,198**	**11,782**	**-1,693**	**-11,670**	**-10,573**	**83,905**
Impairment losses	-1,467	-472	0	-910	-53	0	0	-5,150	-8,052
Profit/loss before tax	**37,541**	**47,653**	**728**	**7,288**	**11,729**	**-1,693**	**-11,670**	**-15,723**	**75,853**
Income tax	-4,365	-4,871	-830	-1,107	-1,634	0	0	-1,614	-14,421
Net profit/loss for the reporting period	**33,176**	**42,782**	**-102**	**6,181**	**10,095**	**-1,693**	**-11,670**	**-17,337**	**61,432**
Total assets	**2,840,041**	**3 201 314**	**23,681**	**91,711**	**0**	**29,892**	**41,437**	**-93,074**	**6,135,002**
Total liabilities	**3,702,964**	**482 009**	**590**	**72,792**	**1,485,722**	**24,814**	**5,750**	**-60,488**	**5,714,153**

The geographical distribution of the Group's interest income and the breakdown of interest income by product are presented in Note 7.

NOTE 6 Subsidiaries and goodwill

As at 31 December 2023, the Group's subsidiaries, which have been consolidated in these financial statements, included:

- AS LHV Pank (Estonia, ownership interest 100%);
- AS LHV Varahaldus (Estonia, ownership interest 100%);
- AS LHV Finance (Estonia, ownership interest 65% through AS LHV Pank);
- AS LHV Kindlustus (Estonia, ownership interest 65%);
- LHV Bank Ltd (the UK, ownership interest 100%);
- AS LHV Paytech (Estonia, ownership interest 100%).

35% ownership interest in AS LHV Kindlustus and AS LHV Finance belongs to Toveko Invest OÜ.

AS LHV Paytech was bought in April 2022 for EUR 8,000 thousand. For the amount received, LHV Paytech shareholders subscribed for new shares issued by LHV Group AS.

LHV Bank Ltd was established in the United Kingdom in 2021.

AS LHV Pank established LHV Finance in 2013 and owns 65% of it. The 35% non-controlling interest has been recognised in the consolidated statement of financial position within non-controlling interests.

In 2020, AS LHV Group made a monetary contribution of EUR 5,200 thousand for a 65% and a non-controlling interest made a monetary contribution of EUR 2,800 thousand for a 35% of ownership interest in LHV Kindlustus. The non-controlling interest has been recognised in the consolidated statement of financial position within non-controlling interests.

As at 31 December 2023, goodwill recognised in the consolidated financial statements of AS LHV Group in the amount of EUR 9,150 thousand consisted of:

- goodwill from the acquisition of an ownership in AS LHV Varahaldus of EUR 1,044 thousand;
- goodwill from the acquisition of ownership interest in Danske Capital AS by AS LHV Varahaldus of EUR 2,570 thousand;
- goodwill from the acquisition of an ownership in AS LHV Paytech of EUR 5,536 thousand.

Impairment tests were performed as at 31 December 2023 and 31 December 2022. The cash-generating unit to which goodwill has been allocated are AS LHV Varahaldus and AS LHV Paytech. Both value in use calculations were based on a 5-year forecast and terminal value.

AS LHV Varahaldus impairment test had following assumptions:

- The volume of assets under management is expected to increase by 10% in 2024. After that the annual growth rate is in the range of 12-14% (2022: average of 11%).
- Success fee has been partially included in future forecasts starting from year 2026 (2022: included partially starting from the second forecast period).
- Due to the economic environment, indirect costs are expected to grow by 6.7% per year (2022: 6%).
- The discount rate applied was 16% (2022: 16%).

AS LHV Paytech's impairment test had following assumptions:

- Revenues are expected to increase on average 11% in a year (2022: 20%). Growth is faster in 2024-2025, after that stabilises around 6-7% level. Over half of the company's revenue is intragroup revenue.
- Due to the economic environment and company's growth plans, indirect costs are expected to grow by 13% per year (2022: 10%).
- The discount rate applied was 9% during first 5 years and 8% in terminal year (2022:14%).

In both tests, deriving the main assumptions, management relied on previous years' experience, on its best estimate of probable scenarios and on market data. Based on the results of both AS LHV Varahaldus impairment tests, the recoverable amounts of the cash generating units as at 31 December 2022 and 31 December 2023 exceeded its carrying amount and, therefore, no impairment loss was recognised. Based on the result of AS LHV Paytech's impairment test, the recoverable amount of cash generating unit was lower than its carrying amount and therefore impairment loss of EUR 1,600 was recognised in 2023 (2022: no impairment loss).

As at 31 December 2023, the Group had 2 (31 December 2022: 2) subsidiaries with non-controlling interests: AS LHV Kindlustus and AS LHV Finance.

Set out below is the summarised financial information for AS LHV Finance and AS LHV Kindlustus. The information disclosed is presented before intra-group eliminations.

Summarised statement of financial position	AS LHV Finance		AS LHV Kindlustus	
EUR thousand	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Current assets	93,408	91,591	53,856	28,624
Non-current assets	141	120	1,713	1,268
Current liabilities	1,491	2,297	48,191	24,047
Non-current liabilities	73,712	70,495	2,133	767
Total net assets	**18,346**	**18,919**	**5,245**	**5,078**

Summarised statement of profit or loss and other comprehensive income				
EUR thousand	2023	2022	2023	2022
Total net interest and fee income (including revenues from insurance)	10,085	10,439	5,172	1,497
Profit/loss before income tax	3,425	7,288	304	-1,693
Income tax expense	-569	-1,107	0	0
Net profit/loss	**2,856**	**6,181**	**304**	**-1,693**
Total comprehensive income/loss	2,856	6,181	304	-1,693
Total comprehensive income/loss attributable to non-controlling interests	1,230	2,217	106	-593

Summarised statement of cash flows				
EUR thousand	2023	2022	2023	2022
Cash generated from operations	6,626	-12,284	4,057	4,837
Interest paid	-5,383	-2,407	-152	-16
Income tax paid	-569	-1,107	0	0
Net cash generated from/used in operating activities	674	-15,798	3,905	4,821
Net cash generated from/used in investing activities	-86	-134	-6,194	-1,844
Net cash generated from/used in financing activities	-588	15,932	1,375	750
Net increase/decrease in cash and cash equivalents	**0**	**0**	**-914**	**3,727**
Cash and cash equivalents at beginning of year	0	0	13,086	9,359
Cash and cash equivalents at end of year	0	0	12,172	13,086

On October 17th 2022 LHV Bank Ltd purchased lending business from Bank North Limited. The purchase price for the lending business was EUR 22,080 thousand and was calculated as follows:

EUR thousand	
Loan principal	20,078
Impairment provision held at 30 Sep	-65
Total basis for the purchase price	20,013
Margin (10%)	2,001
Accrued interest	66
Total purchase price	**22,080**

In accordance with the sale purchase agreement, 20 employees have been transferred from Bank North to LHV Bank and the contracts of employment had effect from the effective date of the sale purchase agreement.

When a loan is acquired, it is initially measured at fair value in accordance with the requirements of IFRS 9.

The fair value of the loan portfolio purchased as a result of transaction was independently valued by Grant Thornton (GT). GT concluded EUR 22,080 thousand paid for acquisition of loan portfolio is within the fair value range. Therefore, EUR 2,001 thousand margin on purchase of the loan book has been accounted for as part of the fair value of loans (split proportionately based on the nominal value of loans purchased as part of transaction) and amortised using the effective interest rate over the remaining term of loans.

Purchase price was clearly linked to the portfolio acquired and the preliminary assessment by management has been that the fair value of the portfolio equals the payment for the business in amount of EUR 22,080 thousand. This implies a 10% premium to the nominal amounts of loans driven by high quality and above the market interest rates.

NOTE 7 Net interest income

Net interest income

EUR thousand	Note	2023	2022
Interest income using the effective interest method			
Corporate loans		138,725	79,130
incl. loans to related parties	24	163	78
incl. Stage 3 interest*		309	63
Hire purchase		3,450	3,338
Consumer loans		12,126	9,607
Private loans		3,735	2,450
Mortgage loans		62,885	28,144
Leveraged loans and lending of securities		1,383	1,629
Credit card loans		1,028	836
Due from credit institutions and investment companies		4,964	3,668
Due from central banks		86,519	8,594
Other loans		2,068	8,820
Subtotal		**316,883**	**146,216**
Other similar interest income			
Leases		11,365	6,407
incl. leases to related parties	24	41	11
Debt securities		8,372	-210
incl. debt securities at value through profit or loss	11	1,570	-342
Subtotal		**19,737**	**6,197**
Total interest income	**5**	**336,620**	**152,413**
Interest expense			
Deposits from customers and loans received		-59,869	-5,965
incl. deposits from related parties	24	-109	-36
Due to central banks		0	-7,661
Other interest expenses		-1,016	0
Subordinated debt	20	-21,916	-9,676
incl. loans from related parties	24	-356	-331
Total interest expense	**5**	**-82,801**	**-23,302**
Net interest income	**5**	**253,819**	**129,111**

Interest income on loans by customer location
(excl. interest on bank balances and debt securities)

EUR thousand	2023	2022
Estonia	233,419	140,140
United Kingdom	3,346	221
Total	**236,765**	**140,361**

*As most Stage 3 loans are sold to debt collectors, the amounts of Stage 3 interest are marginal in all loan portfolios except corporate loans.

The distribution of the Group's interest income by operating segment is presented in Note 5. The loan portfolio is presented in Note 12.

NOTE 8 Net fee and commission income

Net fee and commission income

EUR thousand	Note	2023	2022
Fee and commission income			
Security brokerage and commission fees		4,400	4,329
incl. related parties	24	82	88
Asset management and related fees		15,311	13,581
incl. funds managed by the Group*	24	8,602	7,766
Currency exchange fees		5,868	8,462
Fees from cards and settlements		32,963	27,580
Fees from consumer loans and hire purchase		936	845
Fees from insurance services	27	3,311	237
Other fee and commission income		7,938	6,461
Total fee and commission income	**5**	**70,727**	**61,495**
Fee and commission expense			
Security brokerage and commission fees paid		-2,440	-2,340
Expenses related to cards		-5,993	-6,216
Expenses related to card payments		-6,936	-7,344
Transaction costs		-816	-1,103
Costs related to ATMs		-88	-148
Other fee expense		-308	556
Total fee and commission expenses	**5**	**-16,581**	**-16,595**
Net fee and commission income	**5**	**54,146**	**44,900**

* Commission fees from pension and investment funds are calculated as a fixed percentage of the total assets of the fund and vary between 0.2-2.0% per year.

Fee and commission income by customer location

EUR thousand	2023	2022
Estonia	55,522	54,143
United Kingdom	15,205	7,352
Total	**70,727**	**61,495**

NOTE 9 Operating expenses

Operating expenses

EUR thousand	Note	2023	2022
Salaries and bonuses		48,734	35,077
Social security and other taxes*		17,737	11,718
Total staff costs		**66,472**	**46,795**
IT expenses		14,412	8,232
Information and banking services		1,526	1,356
Marketing expenses		3,861	3,273
Office expenses		2,605	1,934
Transportation and communication costs		566	568
Training and travel expenses of employees		1,844	1,309
Other outsourced services		12,584	9,059
Other administrative expenses		14,725	8,513
Depreciation and amortisation	16	13,421	7,378
Rental payments		1,294	161
Other operating expenses		1,012	1,060
Total other operating expenses		**67,849**	**42,843**
Total operating expenses		**134,321**	**89,638**

* Social security tax and health insurance and other contributions

The average number of employees working for LHV Group in 2023 was 977 (2022: 779).

From 2018, the acquisition costs of contracts signed with the customers of pension funds have been capitalised as intangible assets based on the expected lifetime of a customer relationship, i.e., 20 years.

If the costs had been recognised as an expense and not capitalised, marketing expenses would have been EUR 881 thousand (2022: EUR 881 thousand) larger.

NOTE 10 Cash and cash equivalents, due from central banks and investment companies

Cash and cash equivalents, due from central banks and investment companies

EUR thousand	31 Dec 2023	31 Dec 2022
Demand and term deposits with a maturity of less than 3 months*	49,466	91,324
Reserve requirement at central banks	55,899	48,689
Demand deposits with central banks*	3,012,179	2,342,275
Total	**3,117,544**	**2,482,288**
* Cash and cash equivalents in the statement of cash flows	3,061,645	2,433,599

As of 31 December 2023, LHV Group also has term deposit with a maturity more than 3 months in the amount of EUR 1,850 thousand (31 December 2022: EUR 0 thousand). The deposit is recognised in the statement of financial position as 'Due from credit institutions'.

The distribution of receivables by country is presented in the 'Risk management' section, subsection 2. The mandatory banking reserve as at 31 December 2023 was 1% (2022: 1%) of all financial resources raised (deposits from customers). The reserve requirement is to be fulfilled as a monthly average in euros or in foreign securities preapproved by the Estonian Central Bank.

NOTE 11 Investments in debt and equity securities

Mandatory measurement as fair value through profit or loss

EUR thousand	31 Dec 2023	31 Dec 2022
Shares and fund units	745	1,075
Debt securities	11,551	765
Investments (fund units) in managed pension funds	5,856	7,474
Foreign exchange forwards	301	40
Total financial assets	**18,453**	**9,354**
Interest rate swaps and foreign exchange forwards	1,843	3,850
Total financial liabilities	**1,843**	**3,850**

Investments in debt and equity securities measured at fair value through profit or loss

EUR thousand	
Financial assets at fair value through profit or loss as at 31 December 2021	**135,855**
Reclassification to investment securities measured at amortised cost	-464,027
Net change in investment securities at fair value through profit or loss	335,524
Negative interest income (Note 7)	-210
Revaluation	2,212
Financial assets at fair value through profit or loss as at 31 December 2022	**9,354**
Net change in investment securities at fair value through profit or loss	7,652
Interest income (Note 7)	1,570
Revaluation	-123
Financial assets at fair value through profit or loss as at 31 December 2023	**18,453**

Investments in debt and equity securities measured at amortised cost

EUR thousand	
Financial assets measured at amortised cost as at 31 December 2021	**0**
Reclassification	464,027
Net change in investment securities measured at amortised cost	-99,706
Impairment (Note 13)	-91
Financial assets measured at amortised cost as at 31 December 2022	**364,230**
Net change in investment securities measured at amortised cost	-42,353
Impairment (Note 13)	11
Financial assets measured at amortised cost as at 31 December 2023	**321,888**

Strategic financial investments at fair value through profit or loss

In 2023 LHV received EUR 190 thousand from the liquidation of Bank North. The carrying value of the investment as of 31.12.2022 was EUR 180 thousand (31.12.2023: 0).

In 2022 LHV made a small investment of EUR 1 million to Tuum, the provider of core platform to LHV Bank. AS LHV Group has 1.4% interest in the company. LHV main interest was to protect its subsidiaries interests, as Tuum is the most important vendor for LHV Bank. Tuum offers modular bank software, with agility and flexibility in mind. Modularity is a key concept in product design; provides option to choose the capabilities needed and, like a multi-tool, Tuum provides the most appropriate choice of technology to supercharge business from within. The platform is API-first and built around a microservices architecture, ensuring quick and simple integration.

The revaluation of interest rate swaps did not give rise to any gain or loss in 2023 and 2022.

NOTE 12 Loans and advances to customers

Loans and advances to customers

EUR thousand	31 Dec 2023	31 Dec 2022
Loans to legal entities	**2,228,169**	**1,980,700**
incl. corporate loans	1,945,457	1,747,860
incl. leases	136,723	121,015
incl. overdrafts	57,219	36,194
incl. trade finance	30,484	36,255
incl. leveraged loans	3,968	3,679
incl. credit cards and hire-purchase	942	747
incl. apartment association loans	23,418	18,273
incl. factoring	29,958	16,677
Loans to individuals	**1,363,347**	**1,248,514**
incl. hire-purchase	13,820	15,824
incl. mortgage loans	1,162,113	1,049,386
incl. consumer loans	83,681	77,119
incl. private loans	48,512	52,801
incl. leases	31,076	31,678
incl. leveraged loans	6,012	6,857
incl. credit card loans	10,855	8,933
incl. overdrafts	17	25
incl. study loans	4,721	2,559
incl. leases of real estate	2,540	3,332
Total	**3,591,516**	**3,229,214**
incl. related parties (Note 24)	28,552	7,570
Allowance for credit losses	-29,725	-20,642
Total	**3,561,791**	**3,208,572**

Changes in allowances for credit losses

EUR thousand	Balance as at 1 January	Recognition/ reversal of allowances for credit losses during the period	Written off during the period	Balance as at 31 December
Corporate lending	-15,498	-14,602	9,032	-21,068
Consumer financing	-2,108	-3,231	1,029	-4,310
Investment financing	-13	-5	7	-11
Leasing	-2,009	-758	660	-2,107
Private lending	-1,014	-1,688	473	-2,229
Total 2023	**-20,642**	**-20,284**	**11,201**	**-29,725**
Corporate lending	-15,288	-5,426	5,216	-15,498
Consumer financing	-1,319	-2,092	1,303	-2,108
Investment financing	-130	-8	125	-13
Leasing	-1,250	-1,204	445	-2,009
Private lending	-1,062	-593	641	-1,014
Total 2022	**-19,049**	**-9,323**	**7,730**	**-20,642**

Impairment losses accumulated during the year differ from the amount of impairment losses recognised in profit or loss by the amount of items which were written off as uncollectable in previous periods but collected during the reporting period. Related receipts were recognised within impairment losses in profit or loss statement.

For credit risk exposures and loan collateral, see the 'Risk management' section, subsection 2.

The distribution of loans granted by currency is disclosed in the 'Risk management' section, subsection 3.

The distribution of loans granted by maturity is disclosed in the 'Risk management' section, subsection 4.

The geographical distribution of loans granted is disclosed in the 'Risk management section', subsection 2.

For interest income on loans granted, see Note 7.

NOTE 13 Impairment losses on financial assets measured at amortised cost

Impairment losses on financial assets measured at amortised cost *EUR thousand*	2023	2022
Impairment losses on loans and advances	11,537	2,905
Impairment losses on financial assets (liquidity portfolio)	11	91
Total	**11,548**	**2,996**

NOTE 14 Receivables from customers

Receivables from customers *EUR thousand*	31 Dec 2023	31 Dec 2022
Asset management fees from customers	1,420	1,281
incl. related parties (Note 24)	749	674
Other fees for providing services to customers	18,566	8,719
Insurance assets	28,953	10,985
Payments in transit and other receivables	566	34
Total	**49,505**	**21,019**

All fees are expected to be settled within 12 months of the end of the reporting period and are thus considered to be current assets.

NOTE 15 Other assets

Other assets *EUR thousand*	31 Dec 2023	31 Dec 2022
Financial assets		
Baltic stock exchange guarantee deposits	-	24
VISA and MasterCard guarantee deposits	273	100
Subtotal	**273**	**124**
Non-financial assets		
Prepayments to Financial Supervision and Crisis Resolution Authority	145	1,323
Prepayments related to insurance activities	4,527	2,742
Other prepayments*	3,512	2,710
Subtotal	**8,184**	**6,775**
Total	**8,457**	**6,899**

* Prepayments for office rental, insurance, communication services, periodicals and training

Prepayments are expected to be refunded or used within 12 months of the end of the reporting period and are therefore classified as current assets. VISA guarantee deposits, which secure credit card transactions (2022 also Baltic stock exchange guarantee deposits), are classified as non-current assets.

NOTE 16 Property, plant and equipment, intangible and right-of-use assets

PPE, intangible and right-of-use assets

EUR thousand	PPE	Right-of-use assets	Total tangible assets	Intan-gible assets	Acquisi-tion costs of cont-racts with customers	Total intangib-le assets	Total
Balance as at 31 Dec 2021							
Cost	9,278	6,523	15,801	11,146	16,714	27,860	43,661
Accumulated depreciation and amortisation	-4,846	-2,481	-7,327	-7,382	-8,653	-16,035	-23,362
Carrying amount as at 31 Dec 2021	**4,432**	**4,042**	**8,474**	**3,764**	**8,061**	**11,825**	**20,299**
Purchases	6,527	5,642	12,169	3,745	0	3,745	15,914
Capitalised acquisition costs	0	0	0	0	881	881	881
PPE and intangible assets added by the acqui-sition of a subsidiary	23	0	23	896	0	896	919
Write-off	-13	0	-13	-366	0	-366	-379
Depreciation/amortisation (Note 9)	-1,431	-2,377	-3,808	-1,990	-1,503	-3,493	-7,301
Balance as at 31 Dec 2022							
Cost	15,815	12,165	27,980	15,421	17,595	33,016	60,996
Accumulated depreciation and amortisation	-6,264	-4,858	-11,122	-9,006	-10,156	-19,162	-30,284
Carrying amount as at 31 Dec 2022	**9,551**	**7,307**	**16,858**	**6,415**	**7,439**	**13,854**	**30,712**
Purchases	3,422	8,766	12,188	3,838	0	3,838	16,026
Capitalised acquisition costs	0	0	0	0	875	875	875
Write-off	-56	116	60	-736	0	-736	-676
Recalculations	86	14	100	537	0	537	637
Depreciation/amortisation (Note 9)	-1,753	-5,344	-7,097	-3,427	-1,297	-4,724	-11,821
Balance as at 31 Dec 2023							
Cost	19,181	21,047	40,228	19,060	18,470	37,530	77,758
Accumulated depreciation and amortisation	-7,931	-10,188	-18,119	-12,234	-11,453	-23,687	-41,806
Carrying amount as at 31 Dec 2023	**11,250**	**10,859**	**22,109**	**6,826**	**7,017**	**13,843**	**35,952**

PPE includes computers, office equipment, furniture, and capitalised office renovation costs. Intangible assets include licences, acquisition costs of contracts with customers and development costs.

In 2023 and 2022, there was no indication of impairment of PPE and intangible assets. The carrying amount of right-of-use assets and changes in in their balance during the year are disclosed in Note 19.

NOTE 17 Deposits from customers and loans received

Deposits from customers 31 Dec 2023 *EUR thousand*	Individuals	Financial entities	Non-financial entities	Public sector	Total
Demand deposits	745,277	1,219,427	1,746,452	74,571	3,785,727
Term deposits	1,026,781	96,704	753,648	43,265	1,920,398
Accrued interest liabilities	13,721	1,522	9,063	574	24,880
Total	**1,785,779**	**1,317,653**	**2,509,163**	**118,410**	**5,731,005**
incl. related parties (Note 24)	3,748	0	5,643	0	9,391

Deposits from customers 31 Dec 2022 *EUR thousand*					
Demand deposits	1,065,135	1,477,182	2,042,117	58,406	4,642,840
Term deposits	63,208	23,046	146,137	24,587	256,978
Accrued interest liabilities	336	192	156	13	697
Total	**1,128,679**	**1,500,420**	**2,188,410**	**83,006**	**4,900,515**
incl. related parties (Note 24)	765	0	6,998	0	7,763

Loans from financial institutions and debt securities in issue	**31 Dec 2023**		**31 Dec 2022**	
EUR thousand	Loan principal	Accrued interest	Loan principal	Accrued interest
Debt securities in issue	311,192	2,818	188,672	545
Covered bonds	249,577	141	249,284	141
Total	**560,769**	**2,959**	**437,956**	**686**

Loans received from central banks	**31 Dec 2023**		**31 Dec 2022**	
EUR thousand	Loan principal	Accrued interest	Loan principal	Accrued interest
Loans received from central banks (TLTRO)	-	-	150,000	-2,159
Total	**-**	**-**	**150,000**	**-2,159**

In June 2020, LHV Pank carried out a successful debut issue of covered bonds of EUR 250 million to international investors. 31 institutional investors participated in the 5-year issue and the interest rate was 0.12%. The issue by LHV Pank was the first debut issue since the beginning of the COVID-19 crisis. The issue received an Aa1 rating from Moody's and was listed on the Euronext Dublin.

In Q3 2021, LHV Pank raised EUR 200 million in negative interest funds through the TLTRO III programme offered by the European Central Bank of which EUR 50 million was returned during 2022 and EUR 150 million was returned during 2023. The nominal interest rates of most deposits from customers and loans received equal their effective interest rates as no other significant fees have been paid.

The distribution of deposits from customers and loans received by currency is presented in the 'Risk management' section, subsection 3.

The distribution of deposits from customers and loans received by maturity is presented in the 'Risk management' section, subsection 4.

The geographical distribution of deposits from customers and loans received and the concentration of risk are presented in the 'Risk management' section, subsection 2.

NOTE 18 Accounts payable and other liabilities

Accounts payable and other liabilities

EUR thousand	Note	31 Dec 2023	31 Dec 2022
Financial liabilities			
Trade payables		2,131	1,943
Other short-term financial liabilities		15,136	9,653
Lease liabilities	19	13,415	6,766
Payments in transit		48,632	40,101
Insurance liabilities		47,375	23,411
Provisions of loan commitments and financial guarantees		1,152	1 023
Prepayments received for financial guarantees		615	1,228
Subtotal		**128,456**	**84,125**
Non-financial liabilities			
Prepayments received for performance guarantees		1,750	1,058
Tax liabilities		10,630	3,086
Payables to employees		4,408	3,457
incl. related parties	24	179	214
Other short-term liabilities		751	736
Subtotal		**17,539**	**8,337**
Total		**145,995**	**92,462**

Payables to employees consist of salaries payable and bonus and vacation pay accruals for the reporting period. The increase in payables to employees is attributable to growth in the number of employees during the year. Payments in transit consist of foreign payments and payables to customers related to the intermediation of securities transactions, for which the customer's current account has been debited. All liabilities, except for financial guarantees, are payable within 12 months and are therefore classified as current liabilities.

NOTE 19 Right-of-use assets and lease liabilities

The Group leases office premises. Leases are recognised as right-of-use assets and lease liabilities from the date when the leased asset becomes available for use by the Group. All leases are cancellable with the consent of both parties.

As at 31 December 2023, the Group's statement of financial position included right-of-use assets of EUR 10,860 thousand (31 December 2022: EUR 7,307 thousand) and lease liabilities of EUR 13,415 thousand (31 December 2022: EUR 6,767 thousand). The increase in 2023 was related to new leases and the extension of existing leases. The right-of-use assets balance is disclosed in Note 17. The balance of lease liabilities is disclosed in Note 18. Interest expense on lease liabilities was EUR 484 thousand (2022: EUR 253 thousand) and depreciation of right-of-use assets was EUR 5,344 thousand (2022: EUR 2,377 thousand) (Note 16). Repayments of lease principal were EUR 5,963 thousand (2022: EUR 1,423 thousand).

NOTE 20 Subordinated debt

Consistent with the nature of the Group's operations, only subordinated debt raised is reported within cash flows from financing activities in the statement of cash flows. Other loans raised are reported within cash flows from operating activities. This note contains changes in subordinated debt, including monetary and non-monetary movements and the effects of movements in foreign exchange rates, if any, during the reporting period and the comparative period.

The Group has raised subordinated debt to increase long-term capital. In the case of default of the Group, the subordinated debt is repayable after all other debts have been settled, but before debts to shareholders are paid. The balances of subordinated debt as at the end of the reporting and the comparative period are disclosed in the table below

Subordinated debts

EUR thousand	Amount	Interest rate	Maturity date
Subordinated debt as at 31 Dec 2022	**130,000**		
Subordinated bond	40,000	6.0%	28 November 2028
Subordinated bond	35,000	6.0%	30 September 2030
Tier 1 subordinated bond	20,000	10.5%	perpetual
Tier 1 subordinated bond	20,000	8.0%	perpetual
Tier 1 subordinated bond	15,000	9.5%	perpetual
Subordinated debt as at 31 Dec 2023	**125,000**		
Subordinated bond	35,000	6.0%	30 September 2030
Subordinated bond	35,000	10.5%	29 September 2033
Tier 1 subordinated bond	20,000	10.5%	perpetual
Tier 1 subordinated bond	20,000	8.0%	perpetual
Tier 1 subordinated bond	15,000	9.5%	perpetual

Interest expense on subordinated bonds for the period and accrued interest liabilities as at the end of the period are disclosed in the table below. Interest liabilities are recognised in the statement of financial position using the effective interest method.

Interest accrued on subordinated debt

EUR thousand	
Accrued interest on subordinated debt as at 1 Jan 2022	**378**
Interest calculated (Note 7)	7,724
Paid out	-7,528
Accrued interest on subordinated debt as at 31 Dec 2022	**574**
Interest calculated (Note 7)	10,450
Paid out	-10,118
Accrued interest on subordinated debt as at 31 Dec 2023	**906**

NOTE 21 Shareholders' equity

Transactions with share capital and share premium	**Time**	**Share price (EUR)**	**Number of shares** *(thousand)*	**Share capital** *(EUR thousand)*	**Share premium** *(EUR thousand)*	**Total** *(EUR thousand)*
Share capital as at 1 Jan 2022*			**298,642**	**29,864**	**97,361**	**127,225**
Paid in share capital**	Apr 2022	4.10	1,951	195	7,805	8,000
Paid in share capital**	Apr 2022	0.39	5,109	511	1,992	2,503
Paid in share capital	Jun 2022	3.60	9,722	972	34,028	35,000
Share capital as at 31 Dec 2022			**315,424**	**31,542**	**141,186**	**172,728**
Paid in share capital**	April 2023	0.57	4,408	441	2,186	2,627
Share capital and share premium as at 31 Dec 2023			**319,832**	**31,983**	**143,372**	**175,355**

*all figures effective after the share split
** issuing shares upon the exercise of employee share options

Share capital has been fully paid in using cash contributions. The nominal value of the shares is 0,1 euro each and as at 31 December 2023 the number of shares was 319,832,743 (31 December 2022: 315,424,530). Each share carries one vote at the General Meeting.

According to AS LHV Group's articles of association, the company's minimum share capital is EUR 15 million and maximum share capital is EUR 60 million (31 December 2022: EUR 15 and EUR 60 million, respectively).

Rain Lõhmus, who owns 21.5% of the voting rights, and Andres Viisemann, who owns 11.2% of the voting rights in AS LHV Group, have significant influence over the company (31 December 2022: 21.8% and 11.3%, respectively).

In the reporting period, the Group paid dividends to shareholders of EUR 0.04 (2022: EUR 0.40) per share and EUR 12,617 thousand (2022: EUR 11,946 thousand) in total.

As at 31 December 2023, the retained earnings of the Group totalled EUR 359,029 thousand (31 December 2022: EUR 229,817 thousand). Using the retained earnings as at the reporting date, the Group could distribute a maximum dividend of EUR 287,223 thousand (2022: EUR 184,368 thousand). Part of the potential dividend (the portion equal to 1/3 of the dividends paid out in 2021-2023) would be taxed at 14% (the amount of tax payable would be calculated as 14/86 of the net distribution) and the remaining part at 20% (the amount of tax payable would be calculated as 20/80 of the net distribution). The related income tax charge would be EUR 71,805 thousand (2022: EUR 45,449 thousand).

Legal reserve in equity

EUR thousand	
Legal reserve as at 1 Jan 2022	**4,713**
Legal reserve as at 31 Dec 2022	**4,713**
Legal reserve as at 31 Dec 2023	**4,713**

Other reserves in the consolidated statement of changes in equity consist of:

Other reserves

EUR thousand	**31 Dec 2023**	**31 Dec 2022**
Reserve of share options granted to staff	10,329	7,124
Total	**10,329**	**7,124**

The Group grants share options to the members of the Management Boards and equivalent staff as well as the department managers and equivalent staff of Group entities.

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 2022	**13,993,380**			
Granted during the period	3,694,370	2.182	2025	167
Exercised during the period	-5,109,430			
Outstanding amount of share options at 31 Dec 2022	**12,578,320**			
Granted during the period	3,316,611	1.70	2026	182
Exercised during the period	-4,527,810			
Outstanding amount of share options at 31 Dec 2023	**11,367,121**			

The Group may grant share options for the results of 2023. The vesting period for all share options in the option programme is 3 years. The right to subscribe for shares arises on the first day of the exercise period. The option strike price was calculated using the Black-Scholes model. The model inputs were the LHV Group share price in Q4 2023, expected volatility, the interest rates of Latvian and Lithuanian government bonds used as proxies for risk-free instruments and the dividend yield. Inputs for 2024 share options are as follows: strike price EUR 1.74, share price EUR 3.48, volatility 0.09, risk-free interest rate 3.22% and dividend yield 2.86%. In 2023, the share options granted in 2020 were fully exercised.

The members of the Management Board and employees cannot receive a specified amount of cash in lieu of the share options. Share options cannot be exchanged, sold, pledged, or encumbered. Share options can be inherited. The contract on share options expires upon early termination of the employment or board member contract on the initiative of the employee or board member, for which exceptions can be made by the Supervisory Board of AS LHV Group or the Remuneration Committee based on the decision of the Supervisory Board, and upon extraordinary termination of the employment or board member contract by the employer due to reasons resulting from the employee or board member. According to the Credit Institutions Act, the Supervisory Board of AS LHV Group can reduce the number of share options granted or cancel the share options if the overall financial results of the company have significantly deteriorated compared to the previous period, the member of the Management Board or employee no longer meets the performance criteria, the company no longer meets the prudential regulations, the company's business risks are not adequately covered by the company's own funds or the performance fee has been determined based on information, which has subsequently proven to be materially misstated or incorrect.

Total expenses arising from share-based payment transactions amounted to EUR 5,584 thousand in 2023 (2022: EUR 4,661 thousand).

NOTE 22 Assets under custody

AS LHV Pank, as an account manager for its customers, has custody of or intermediates the following customer assets

EUR thousand	31 Dec 2023	31 Dec 2022
Cash balances of customers	13,780	13,609
Securities of customers	3,339,140	3,045,558
incl. shareholders of the parent company and entities related to them (Note 24)	562,486	483,452
Total	**3,352,920**	**3,059,167**

Asset management fees for the management of the above assets were in the range of 0.01-0.02% per year in 2023 (2022: 0.01-0.02% per year) (for respective income, see Note 8).

The monetary funds of customers who use the platform for an active securities trader, i.e., the trading system LHV Trader offered by LHV Pank are not recognised in the statement of financial position. Due to the nature of the system, LHV Pank deposits the funds in personalised accounts with its partner and as the funds cannot be used for business purposes by LHV Pank (they cannot be lent to other customers or used as collateral), they are accounted for off the statement of financial position. LHV Pank earns commission and interest income on the intermediation of transactions involving these accounts similarly to transactions involving customer accounts recognised in the financial statements. The Bank has provided contractual guarantees to its partner in respect of LHV Trader accounts, according to which LHV Pank will cover the losses which may arise from the financing of customer transactions intermediated by LHV Pank (leveraging); thereby the primary collateral is the securities used as collateral for the leveraged loans. Customers have provided similar guarantees to LHV Pank and, therefore, LHV Pank has in substance transferred the guarantees received. To avoid potential losses, LHV Pank monitors customer accounts on a daily basis to identify potential decreases in collateral or deficiency of funds. To date, no claims have been filed against the guarantees and LHV Pank has not made any payments under the guarantees.

NOTE 23 Contingent assets and liabilities

Non-cancellable transactions

EUR thousand	Performance guarantees	Financial guarantees	Letters of credit	Unused loan commitments	Total
Liability in contractual amount as at 31 December 2023	56,217	55,061	3,732	495,653	**610,663**
Liability in contractual amount as at 31 December 2022	30,174	52,577	6,605	601,093	**690,449**

Income tax on potential future dividends is disclosed in Note 21.

Financial guarantees and unused loan commitments are subject to the ECL requirements of IFRS 9. See also the 'Risk management' section, subsection 2 for more information.

Tax authorities have the right to review the Group's tax records for up to 5 years after the submission of a tax return and upon finding errors may charge additional taxes, interest and fines. Tax authorities did not perform any tax audits at the Group during 2022-2023. According to the assessment of the Group's management, there are no circumstances which would cause tax authorities to charge a significant amount of additional tax from the Group in 2024.

Performance guarantees are contracts that provide compensation in the event another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e., another party's failure to perform a contractual obligation) occurs. The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations. The Group uses historical data and statistical techniques to predict the levels of such payments. Claims must be made before the contract expires and most claims are settled within a short term. This allows the Group to achieve a high degree of certainty about the estimated payments and, therefore, future cash flows. The Group manages such risks by constantly monitoring the level of payments for such products and has the ability to adjust its fees in the future to reflect any change in claim settlement experience. The Group has a claims handling process and the right to review the claims received and to reject any fraudulent or non-compliant claims. The exposure to and concentration of performance guarantees expressed in the amounts guaranteed is as follows:

Performance guarantees breakdown by industry

EUR thousand	31 Dec 2023	31 Dec 2022
Construction	39,418	19,123
Water and utilities	5,316	4,180
Manufacturing	4,008	3,021
Administrative activities	639	715
Professional, scientific, and technical activities	550	553
Other	6,286	2,582
Total	**56,217**	**30,174**

Performance guarantees breakdown by internal ratings

EUR thousand		
5 low credit risk	4,960	1,361
6 low credit risk	4,375	1,973
7 medium credit risk	5,948	6,161
8 medium credit risk	16,440	5,574
9 heightened credit risk	19,252	9,852
10 high credit risk	6	151
11 high credit risk	0	730
12 non-satisfactory rating	322	1,616
13 insolvent	1,568	0
Nonrated	3,346	2,756
Total	**56,217**	**30,174**

Performance guarantees are over-collateralised as at each reporting date. Therefore, the Group has not incurred any losses from performance guarantee contracts in 2023 or in earlier periods.

NOTE 24 Transactions with related parties

For the purposes of the Group's financial statements, related parties include:

- owners that have significant influence over the Group and companies related to them;
- members of the Management Board and companies controlled by them (collectively referred to as management);
- members of the Supervisory Board;
- close family members of the above persons and companies related to them.

Transactions

EUR thousand	Note	2023	2022
Interest income	**7**	**1,338**	**178**
incl. management		126	79
incl. shareholders with significant influence, companies related to them and their close family members		1,212	99
Fee and commission income	**8**	**82**	**88**
incl. management		26	15
incl. shareholders with significant influence, companies related to them and their close family members		56	73
Interest expense on deposits	**7**	**109**	**36**
incl. management		32	6
incl. shareholders with significant influence, companies related to them and their close family members		77	30
Interest expense on subordinated debt	**7**	**356**	**331**
incl. management		9	9
incl. shareholders with significant influence, companies related to them and their close family members		347	322

Balances

EUR thousand	Note	31 Dec 2023	31 Dec 2022
Loans and receivables		**28,579**	**7,570**
incl. management	15	4,717	3,901
incl. shareholders with significant influence, companies related to them and their close family members	15	23,862	3,669
Deposits		**9,351**	**7,763**
incl. management	18	2,448	765
incl. shareholders with significant influence, companies related to them and their close family members	18	6,903	6,998
Subordinated debt		**4,462**	**4,434**
incl. management	21	172	148
incl. shareholders with significant influence, companies related to them and their close family members	21	4,290	4,286

The table provides an overview of material balances and transactions with related parties. All transactions involving close family members and companies related to the members of the Management Board and the Supervisory Board and the minority shareholders of the parent company, AS LHV Group, were conducted in the course and on the terms of ordinary business. There are no doubtful receivables from related parties and no loans to related parties have been written down. Transactions with related parties include balances and transactions with following companies related to Management Board and Supervisory Board members: Heero Invest OÜ, AS Lõhmus Holdings, Viisemann Holdings OÜ, MP Advisory OÜ, Unitas OÜ, Kingu OÜ, Merona Systems OÜ, Umblu Records OÜ, Arco Vara AS, Kõrberebane OÜ, KM Investeeringud OÜ , Viisemann Investments AG, Ambient Sound Investment OÜ, Kakssada Kakskümmend Volti OÜ and Miura Investeeringud OÜ

Loans granted to related parties have been issued on market terms.

As at 31 December 2023, management had term and demand deposits. As at 31 December 2022, management had only demand deposits. The interest rates of their demand and term deposits corresponded to the Group's official price list.

The interest rate of the subordinated debt raised in June 2019 is 8.0%. The interest rate of the subordinated debt raised in May 2020 is 9.5% and the interest rate of the subordinated debt raised in September 2020 is 6%. The interest rate of the subordinated debt raised in 2022 and in 2023 is 10.5%.

Salaries and other compensation paid to the management of the parent AS LHV Group and its subsidiaries in 2023 totalled EUR 2,979 thousand (2022: EUR 3,289 thousand), including all taxes. As at 31 December 2023, remuneration for December and accrued holiday pay of EUR 179 thousand (31 December 2022: EUR 214 thousand) were reported as payables to management (Note 18). The Group did not have any long-term payables or commitments to the members of the Management Board and the Supervisory Board as at 31 December 2023 and 31 December 2022 (pension liabilities, termination benefits, etc.). The remuneration paid to the members of the Group's Supervisory Board in 2023 totalled EUR 138 thousand (2022: EUR 109 thousand).

The Group has signed contracts with the members of the Management Board, which do not provide for severance benefits upon termination of the contract. Any matters not regulated by the contracts are resolved in accordance with the laws of the Republic of Estonia.

Management is eligible to participate in the share option programme. In 2023, the members of the Management Board were granted share options of EUR 2,231 thousand (2022: EUR 1,718 thousand).

Information on assets belonging to related parties which are held by the Group in the capacity of an account manager is presented in Note 22.

NOTE 25 Basic and diluted earnings per share

Basic earnings per share are calculated by dividing net profit attributable to owners of the parent by the weighted average number of shares outstanding.

Basic and diluted earnings per share	2023	2022
Profit (incl. discontinued operations) attributable to owners of the parent (EUR thousand)	139,602	59,808
Weighted average number of shares (thousand)	318,731	311,229
Basic earnings per share (EUR)	0.44	0.19
Weighted average number of shares used in calculating diluted earnings per share (thousands)	324,415	317,518
Diluted earnings per share (EUR)	0.43	0.19

Weighted average number of shares used as the denominator (thousand)	2023	2022
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	318,731	311,229
Adjustments made for the calculation of diluted earnings per share:		
Share options	5,684	6,289
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	324,415	317,518

NOTE 26 Income tax expense

LHV Pank calculates advance corporate income tax at the rate of 14%. Advance corporate income tax for the year 2023 was EUR 22,230 thousand (2022: EUR 12,304 thousand).

Income tax expense

EUR thousand	2023	2022
Advance corporate income tax	22,230	12,304
Corporate income tax	1,430	2,117
Total income tax expense	**23,660**	**14,421**

LHV Pank has cumulatively paid advance corporate income tax in the amount of EUR 39,006 thousand in total by the end of the reporting period (2022: 17,471 thousand), which has been recorded as an expense in the income statement.

NOTE 27 Insurance

Due to IFRS 17 amendments being effective from 1 January 2023 the Group had an impact of EUR 237 thousand to the comparative reporting period ending on 31 December 2022. This impact was not material for the Group. Therefore, there were no adjustments made to the financial statements of the year 2022. The impact on the financial year 2022 was recognised in the financial statements of 2023 as liability and a decrease in retained earnings.

The Group's statement of profit and loss and other comprehensive income includes the following results from insurance activities.

Statement of profit and loss of LHV Kindlustus

EUR thousand	2023	2022
Insurance revenue	26,038	9,652
Insurance service expenses	-24,794	-10,883
Net expenses from reinsurance contracts held	-1,018	-441
Total insurance service result	**226**	**-1,672**
Other income and expenses	79	-22
Net profit	**305**	**-1,694**

NOTE 28 Separate primary financial statements of parent company

In accordance with the Estonian Accounting Act, the notes to the consolidated financial statements have to include the separate primary financial statements of the parent of the Group.

Parent company statement of profit or loss and other comprehensive income

EUR thousand	2023	2022
Interest income	18,173	9,236
Interest expense	-21,916	-9,676
Net interest expense	**-3,743**	**-440**
Fee and commission income	2,146	2,002
Fee and commission income	**2,146**	**2,002**
Dividend income	5,275	9,000
Foreign exchange losses	-17	0
Net gain from financial assets	**5,258**	**9,000**
Operating expenses	-1,883	-1,737
Profit before impairment losses	**1,778**	**8,825**
Impairment losses/gains on the financial instruments	9	-5,056
Profit before income tax	**1,787**	**3,769**
Income tax expense	-1,064	-263
Profit for the year	**723**	**3,506**
Total comprehensive income for the year	**723**	**3,506**

Parent company statement of financial position

EUR thousand	Note	31 Dec 2023	31 Dec 2022
Assets			
Cash and cash equivalents, due from central banks and investment companies		25,947	29,684
Loans granted		352,383	249,507
Other receivables and assets		636	155
Investments in subsidiaries		236,347	219,407
Other financial investments		1,000	1,180
Total assets		**616,313**	**499,933**
Liabilities			
Accrued expenses and other liabilities		46	108
Debt securities in issue		314,010	189,217
Subordinated debt		125,906	130,574
Total liabilities		**439,962**	**319,899**
Equity			
Share capital	21	31,983	31,542
Share premium	21	143,372	141,186
Legal reserve		4,713	4,713
Other reserves		10,329	7,124
Accumulated losses		-14,046	-4,531
Total equity		**176,351**	**180,034**
Total liabilities and equity		**616,313**	**499,933**

Parent company statement of cash flows

EUR thousand	2023	2022
Cash flows from operating activities		
Interest received	18,173	9,236
Interest paid	-21,916	-9,676
Fees and commissions received	2,146	2,002
Income tax paid	-1,064	-263
Administrative and other operating expenses paid	-1,550	-1,391
Cash flows from operating activities before changes in operating assets and liabilities	**-4,211**	**-92**
Adjustments for		
Investments in subsidiaries resulting from share options	-5,234	-4,302
Increases/decreases in operating assets and liabilities:		
Change in other receivables	-2,463	-831
Change in other liabilities	12,137	5,475
Net cash from/used in operating activities	**229**	**250**
Cash flows from investing activities		
Loans granted	-100,894	-95,487
Repayments of loans granted	0	36,000
Capital repayments from subsidiaries	190	0
Capital contributions to financial investments	0	-1,000
Capital contributions to subsidiaries	-11,697	-77,845
Net cash used in investing activities	**-112,401**	**-138,332**
Cash flows from financing activities		
Subordinated debt raised	153,150	108,268
Subordinated debt settled	-40,000	0
Contribution to share capital (incl. share premium)	2,627	45,503
Dividends received	5,275	9,000
Dividends paid	-12,617	-11,946
Net cash from financing activities	**108,435**	**150,825**
Increase in cash and cash equivalents	**-3,737**	**12,743**
Cash and cash equivalents at the beginning of the year	29,684	16,941
Cash and cash equivalents at the end of the year	**25,947**	**29,684**

Parent company statement of changes in equity

EUR thousand	Share capital	Share premium	Legal reserve	Other reserves	Accumulated loss/retained earnings	Total
Balance as at 1 January 2022	**29,864**	**97,361**	**4,713**	**4,685**	**1,588**	**138,211**
Paid in share capital	1,678	43,825	0	0	0	45,503
Dividends paid	0	0	0	0	-11,946	-11,946
Transfer to legal reserve	0	0	0	0	0	0
Share options	0	0	0	2,439	2,321	4,760
Total comprehensive income for 2022	**0**	**0**	**0**	**0**	**3,506**	**3,506**
Balance as at 31 December 2022	**31,542**	**141,186**	**4,713**	**7,124**	**-4,531**	**180,034**
Carrying amount of interests under control and significant influence	0	0	0	0	-210,954	-210,954
Value of interests under control and significant influence under equity method	0	0	0	0	443,861	443,861
Adjusted unconsolidated equity as at 31 December 2022	**31,542**	**141,186**	**4,713**	**7,124**	**228,376**	**412,941**
Balance as at 1 January 2023	**31,542**	**141,186**	**4,713**	**7,124**	**-4,531**	**180,034**
Paid in share capital	441	2,186	0	0	0	2,627
Dividends paid	0	0	0	0	-12,617	-12,617
Transfer to legal reserve	0	0	0	0	0	0
Share options	0	0	0	3,205	2,379	5,584
Total comprehensive income for 2023	**0**	**0**	**0**	**0**	**723**	**723**
Balance as at 31 December 2023	**31,983**	**143,372**	**4,713**	**10,329**	**-14,046**	**176,351**
Carrying amount of interests under control and significant influence	0	0	0	0	-228,134	-228,134
Value of interests under control and significant influence under equity method	0	0	0	0	600,213	600,213
Adjusted unconsolidated equity as at 31 December 2023	**31,983**	**143,372**	**4,713**	**10,329**	**358,033**	**548,430**

Adjusted unconsolidated equity is the maximum amount that can be distributed to shareholders according to Estonian legislation.

Signatures of the Management Board to the annual report

The Management Board has prepared the management report and the consolidated financial statements of AS LHV Group for the financial year ended 31 December 2023.

The Management Board confirms that the management report on pages 5 to 82 gives a true and fair view of the business operations, financial performance and financial position of the Group consisting of the parent company and other consolidated entities as a whole.

The Management Board confirms that according to their best knowledge the consolidated financial statements on pages 83 to 169 give a true and fair view of the assets, liabilities, financial position and financial performance of the Group consisting of the parent company and other consolidated entities as a whole in accordance with International Financial Reporting Standards as adopted by the European Union and contains a description of the main risks and uncertainties.

23 February 2024

Madis Toomsalu
Chairman of the Management Board
/signed digitally/

Meelis Paakspuu
Member of the Management Board
/signed digitally/

Jüri Heero
Member of the Management Board
/signed digitally/

Martti Singi
Member of the Management Board
/signed digitally/

Independent auditor’s report

This page has been retained in LHV Group annual report 2023 to maintain the structural logic of the report and to refer the reader to the location of the independent auditor’s report. Due to the final generation of the machine-readable reporting files before the signing of the independent auditor’s report, and the logic of submitting digital signatures in chronological order, the independent auditor’s report is available in the DigiDoc container named ‘AS LHV Group consolidated and audited annual report 2023.asice’ as a separate document. The auditor’s report is applicable and applies only to the signed original annual report, which is available as the file ‘AS LHV Group consolidated annual report 2023.asice’ in the same DigiDoc container as the independent auditor’s report and contains the report in the ESEF format ‘529900JG015JC10LED24-2023-12-31-EN.zip’.

Proposal for profit distribution

The Management Board of LHV Group proposes to the General Meeting of shareholders that the profit for 2023 be distributed as follows:

- to pay a dividend of EUR 0.13 per share and EUR 41,578 thousand in total, the related income tax would amount to EUR 10,395 thousand;
- to transfer the profit for the reporting period attributable to the shareholders of the parent of EUR 98,858 thousand to retained earnings.

Allocation of income according to EMTAK

Consolidated:

EMTAK	Activity	2023	2022
66121	Security and commodity contracts brokerage	7,633	7,003
64191	Credit institutions (banks) (granting loans)	379,734	192,547
64911	Leasing	11,365	6,407
66301	Fund management	8,615	7,951
	Total income	**407,347**	**213,908**

Unconsolidated:

EMTAK	Activity	2023	2022
64201	Activities of holding companies	20,319	11,238
	Total income	**20,319**	**11,238**

EMTAK – Estonian classification of economic activities

Independent auditors' report

To the Shareholders of AS LHV Group

(Translation of the Estonian original)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of AS LHV Group and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (Estonia) (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances to customers	
Refer to Risk Management section, Material accounting policy information, Note 2 "Significant accounting estimates and assumptions", Note 12 "Loans and advances to customers" and Note 13 "Impairment losses on financial assets measured at amortised cost".	
The key audit matter	**How the matter was addressed in our audit**
As at 31 December 2023, loans and advances to customers amounted to EUR 3 592 million and related impairment loss allowance amounted to EUR 29.7 million. We have focused on this area because of overall financial significance and the matter that measurement of expected credit losses (ECL) on financial instruments involves significant judgement.	In this area, we conducted, among others, the following audit procedures: We have assessed the Group's accounting policies and methodology applied for the calculation of impairment of loans and advances to customers in relation to the requirements of IFRS 9. We have performed end to end process walkthrough

ECL calculations are forward looking and probability weighted accounting estimates. The key areas where we identified greater level of management judgement and therefore increased level of audit focus in the Group's ECL related accounting estimates: • Judgmental modelling is used to estimate ECL which involves determining the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The PD models are the key drivers of complexity in the ECL and also impact the staging of relevant financial assets, and hence, are considered the most significant judgmental aspect of the Group's ECL modelling approach. • Economic scenarios – IFRS 9 requires the Group to measure ECL on an unbiased forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied in determining the economic scenarios used and the probability weights applied to them when considering the current uncertain economic environment. • For defaulted corporate loans, an individual impairment loss is calculated based on the exposure and realizable value of relevant collateral at the reporting date, that also requires significant accounting estimates.	to identify key systems, applications and controls used in the ECL calculation process. We tested relevant manual, general IT and application controls over key systems used in ECL process. We have tested the design, implementation and operating effectiveness of the credit file periodic review, rating assessment and monitoring of collaterals for corporate loans. We have performed test of details over the following: • completeness and accuracy of data used in ECL calculation • compliance of key inputs used in ECL calculation with the IFRS 9 methodology • accuracy and compliance of 12-month and lifetime ECL calculations with IFRS 9 methodology • adequacy of discounting in the ECL model • accuracy and completeness of data used for staging loans • internal assignment of credit ratings to corporate exposures • adequacy of information about collaterals and their values • completeness of exposures of assets with impaired credit quality and related ECL calculations. We have assessed the reasonableness of key assumptions made by the management, which serve as critical inputs in the ECL model, such as weights of different scenarios, loan portfolio point in time PD estimates, criteria to determine significant increase in credit risk and key forecasts of macroeconomic information. We also assessed adequacy and sufficiency of information disclosed in the Note "Risk Management" and Notes 2, 12 and 13 in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the management report but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, our responsibility is to state whether the information presented in the management report has been prepared in accordance with the applicable legal and regulatory requirements. With respect to the remuneration report, our responsibility also includes considering whether the remuneration report has been prepared in accordance with the requirements of Article 135[3] of the Securities Market Act.

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 and we state that the information presented in the management report is materially consistent with the consolidated financial statements and in accordance with the applicable legal and regulatory requirements. In our opinion, the remuneration report has been prepared in accordance with the requirements of Article 135^3 of the Securities Market Act.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 International Standards on Auditing (Estonia) 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 consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Report on Compliance with the Requirements for iXBRL tagging of Consolidated Financial Statements included within the European Single Electronic Format Regulatory Technical Standard (ESEF RTS)

We have undertaken a reasonable assurance engagement on the iXBRL tagging of the consolidated financial statements included in the digital files 529900JG015JC10LED24-2023-12-31-EN.zip prepared by AS LHV Group.

Responsibilities of Management for the Digital Files Prepared in Compliance with the ESEF RTS

Management is responsible for preparing digital files that comply with the ESEF RTS. This responsibility includes:

- the selection and application of appropriate iXBRL tags using judgement where necessary;
- ensuring consistency between digitised information and the consolidated financial statements presented in human-readable format; and
- the design, implementation and maintenance of internal control relevant to the application of the ESEF RTS.

Auditors' Responsibilities

Our responsibility is to express an opinion on whether the electronic tagging of the consolidated financial statements complies in all material respects with the ESEF RTS based on the evidence we have obtained.

We apply the provisions of the International Standard on Quality Control (Estonia) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (Estonia) (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ISAE 3000) issued by the International Auditing and Assurance Standards Board.

A reasonable assurance engagement in accordance with ISAE 3000 (Revised) involves performing procedures to obtain evidence about compliance with the ESEF RTS. The nature, timing and extent of procedures selected depend on the practitioner's judgment, including the assessment of the risks of material departures from the requirements set out in the ESEF RTS, whether due to fraud or error. A reasonable assurance engagement includes:

- obtaining an understanding of the tagging and the ESEF RTS, including of internal control over the tagging process relevant to the engagement;
- reconciling the tagged data with the audited consolidated financial statements of the Group dated 31 December 2023;
- evaluating the completeness of the tagging of the consolidated financial statements;
- evaluating the appropriateness of the Group's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- evaluating the use of anchoring in relation to the extension elements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the consolidated financial statements included in the annual report of AS LHV Group identified as 529900JG015JC10LED24-2023-12-31-EN.zip for the year ended 31 December 2023 are tagged, in all material respects, in compliance with the ESEF RTS.

Other Requirements of the Auditors' Report in Accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council

We were appointed by those charged with governance on 30 March 2022 to audit the consolidated financial statements of AS LHV Group for the year ended 31 December 2023. Our total uninterrupted period of engagement is four years, covering the periods ending 31 December 2020, 31 December 2021, 31 December 2022, 31 December 2023.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Group;
- we have not provided to the Group the prohibited non-audit services (NASs) referred to in Article 5(1) of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

Tallinn, 23 February 2024

/digitally signed/

Eero Kaup

Certified Public Accountant
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