LHV Bank Limited

# Annual Report

# 2025

# Contents

# Strategic report

# Chairman's statement

I am pleased to report that 2025 marked a clear inflection point for LHV Bank Limited (the 'Bank') as we moved decisively from establishment into scale. The foundations laid since the granting of our UK banking licence began to translate into tangible operating momentum, profitable growth and a more resilient franchise.

This progress was achieved despite a challenging year for AS LHV Group (the 'Group') and against a backdrop of intensifying competition, falling interest rates and heightened geopolitical uncertainty. In this context, I find the Bank's performance particularly encouraging. It reflects the strength of a focused strategy, disciplined execution and a technology-led operating model designed to scale efficiently.

## Growth with discipline

The Bank's performance in 2025 was driven by growth where it matters: in customers, balances and core earnings. Total revenue increased materially, outpacing cost growth and delivering early evidence of operating leverage. Net interest income benefited from strong momentum in SME lending, while fee income remained resilient as Banking Services volumes continued to scale. Over the year, the Bank more than doubled total assets and delivered a significant increase in profitability, reaching cumulative profits since inception for the first time.

Importantly, this growth was achieved while maintaining prudent credit standards and strong liquidity and capital buffers, well in excess of regulatory requirements. In my view, this balance between pace and discipline is central to building a sustainable banking business.

Competition for deposits remained intense across the UK market throughout the year. We responded with discipline, using deposit platforms selectively to secure scalable funding while carefully managing volumes to avoid carrying excess liquidity that would dilute our cost of funds. In parallel, we launched our own direct retail proposition, focused on building a sustainable deposit franchise through simple, transparent, and fair-value products delivered via a mobile-first experience. Together, these funding channels supported balance sheet expansion while preserving the economics required for sustainable lending and attractive long-term returns.

## Building an institution for the long term

As the Bank scales, operational and regulatory complexity inevitably increase. During the year, we continued to invest in people, systems and controls to ensure that growth is supported by an institutional-grade risk and compliance framework. These investments are essential enablers of sustainable scale, efficiency and trust.

The early benefits of this approach are already visible. Revenue growth significantly outpaced cost growth in 2025, resulting in a meaningful improvement in efficiency. While further investment will be required as the franchise expands, I believe the Bank has moved beyond build-out and into a phase where scale increasingly translates into improved returns.

## Looking ahead

With a proven platform, profitable core businesses and a strong funding base in place, I see LHV Bank entering the next phase of its development with confidence. Our priorities are clear: to build the LHV brand in the UK, to continue growing the direct retail franchise, to scale SME lending profitably, to deepen Banking Services capabilities, and to drive operating leverage through technology-enabled efficiency.

As we execute on these priorities, the Bank is becoming an increasingly important part of the Group's overall strategy. I see the Bank as a growth engine in its own right, while opening a new chapter for the Group as a whole.

While the external environment remains uncertain, my confidence in the Bank's long-term direction is unchanged. Our progress in 2025 reflects the dedication and professionalism of our people, and I would like to thank our employees, customers, partners and regulators for their continued trust and support.

I look forward to the opportunities ahead as LHV Bank continues to scale with discipline and purpose.

## Leadership transition

Following the year end, the Supervisory Board of AS LHV Group asked Erki Kilu to take on the leadership of AS LHV Pank[1]. Erki will therefore step down as Chief Executive Officer of LHV Bank, effective 1 April 2026, but will continue to sit on the Bank's Board. On behalf of everyone at AS LHV Group, I would like to thank Erki for his leadership in establishing LHV Bank as a fully authorised UK bank and guiding it to cumulative profitability.

The Board has initiated a process to appoint a permanent successor. In the interim, Kris Brewster, the Bank's Director of Retail Banking, will assume the role of Interim Chief Executive Officer, ensuring continuity of execution and strategic focus. The Bank's strategy and priorities remain unchanged.

**Mihkel Torim**
Chair of the Board

[1] The official announcement can be found at **investor.lhv.ee**

# CEO review

2025 marked a decisive step change for LHV Bank as we moved from establishment to scale. Having completed our first full year of operations as a UK-licensed bank in 2024, we entered the year focused on scaling what we had built and demonstrating that strong growth and sustainable profitability can coexist. Over the year, all core businesses operated profitably, supported by a resilient balance sheet and a robust funding base.

Total assets nearly doubled to £1.25 billion and profit after tax reached £4.8 million, taking LHV Bank into cumulative profits since inception for the first time. This performance was delivered in a competitive funding environment and alongside continued investment in people, technology and regulatory infrastructure. It reflects both the strength of our business model and the discipline with which it is being executed.

Importantly, 2025 was not simply a year of growth. It was the year in which the foundations laid since launch began to translate into operating momentum, providing a platform for future efficiency gains and improved returns.

## A self-reinforcing banking model

LHV Bank operates a focused, technology-led banking model across Retail Banking, SME Lending, and Banking Services. Each business is built to scale with strong risk management and a control environment appropriate to its activities, while leveraging a common technology foundation and operating discipline across the Bank. As each part of the model scales, it strengthens the others.

This structure underpinned our performance in 2025 and will continue to shape our strategic priorities.

## Retail Banking: from launch to scale

Retail banking moved decisively from launch to scale during the year. Following the introduction of our mobile app in late 2024, we formally launched to the UK market in May 2025, providing customers with current accounts, debit cards and access to competitive savings products.

Our retail proposition is deliberately savings-led and built around simplicity, transparency and fair value.

During the year we expanded the proposition with an interest paying current account designed to track movements in the Bank of England base rate with no usage requirements or hidden conditions, alongside Easy Access and fixed-term savings products. These offerings challenge prevailing market norms and reinforce our customer-first positioning.

Importantly, the direct retail franchise is gaining traction, with over 5,000 retail customers now onboarded directly. Including deposit platforms, total retail deposits exceeded £1 billion, demonstrating both customer appetite and the scalability of the proposition.

## SME Lending: the growth story

SME Lending delivered strong balance sheet growth and net interest income momentum. Demand from brokers and borrowers remained strong throughout the year, with the loan book growing by more than 30% in the first quarter alone and continuing to expand thereafter.

For the full year, the SME portfolio more than doubled compared with 2024, driven by higher completion volumes and consistent margins. Credit performance remained resilient, reflecting disciplined underwriting and a prudent approach to risk management. Investment in people, processes and broker relationships strengthened our position as a reliable and responsive lender for UK SMEs and professional property investors.

The pace of lending growth required additional capital to be raised in order to maintain a strong prudential position. This was a deliberate choice, reflecting confidence in the quality of demand and the long-term returns available from the portfolio.

## Banking Services: infrastructure with strategic optionality

Banking Services delivered meaningful strategic progress in 2025, strengthening our payments infrastructure and long-term strategic optionality. A key milestone was achieved in July, when LHV Bank became the first UK bank to join the RT1 platform as a direct participant, enabling real-time SEPA Instant Credit Transfers without reliance on correspondent banks or intermediaries. This capability materially strengthens our payments infrastructure and enhances our long-term competitiveness in cross-border euro payments.

Euro-denominated deposits averaged £1.3 billion by year end, well ahead of plan, reinforcing our role as a trusted banking partner for regulated financial institutions and fintechs operating across Europe. While GBP Banking Services income remained subdued during the year, the franchise continues to be a significant contributor to fee income and profitability and provides strategic optionality as it scales.

## Financial performance and capital

Profit after tax of £4.8 million represented more than 50% growth year on year and exceeded plan. Return on equity of 5% was temporarily moderated by the pace of balance sheet expansion and the associated capital investment required to support it. As growth normalises, the Bank expects operating leverage to increasingly translate into improved returns.

Liquidity and funding remained robust throughout the year, providing a solid foundation for continued expansion. A further capital issuance planned for early 2026 reflects our forward-looking approach to balance sheet management and growth.

## Technology, culture and people

Technology continues to be a core enabler of our strategy. Our digital-first architecture allows us to scale efficiently, launch products quickly and manage risk effectively across all business lines.

Equally important are our people and culture. In 2025, LHV Bank was recognised by The Sunday Times as one of the Best Places to Work for the second consecutive year. This recognition, driven directly by employee feedback, reflects the ownership, empowerment and accountability that underpin our execution capability.

## Looking ahead

With a proven platform, profitable growth and a strong funding base in place, LHV Bank enters the next phase of its development focused on disciplined expansion, efficiency and returns. The hard work of establishment is behind us; the opportunity now lies in scaling what we have built.

I would like to thank our people, partners, regulators and, most importantly, our customers for their continued commitment as we build LHV Bank for the long term.

## Leadership transition

Following the year end, and at the request of the Supervisory Board of AS LHV Group, I will be taking on the leadership of AS LHV Pank and will therefore step down as Chief Executive Officer of LHV Bank, effective 1 April 2026, but will remain on its Board[2]. It has been a privilege to lead the Bank through its transition from establishment to scale.

The Board has commenced a process to appoint a permanent successor. In the interim, Kris Brewster, the Bank's Director of Retail Banking, will assume the role of Interim Chief Executive Officer. Given his close involvement in shaping and executing the Bank's strategy, I am confident that delivery will continue with discipline and focus.

I would like to thank our colleagues, customers, partners and regulators for their trust and support during my tenure. LHV Bank has a strong foundation and a clear path forward, and I remain confident in its continued success.

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

**Erki Kilu**
Chief Executive Officer

[2] The official announcement can be found at **investor.lhv.ee**

# Business model and strategy

## Who we are

LHV Bank is a subsidiary of AS LHV Group, an international financial group headquartered in Estonia and publicly listed on Nasdaq Baltic. The Group operates across banking, asset management and insurance markets in the EU and the UK.

LHV entered the UK market in 2018 through a branch of AS LHV Pank. In 2021, LHV Bank was established as an independent UK business within the Group, and in 2023 it received full UK banking authorisation. By 2025, the Bank had completed its transition from market entry to scaled operations, with profitable core businesses, a resilient balance sheet and a growing direct retail franchise.

## Our business model

LHV Bank operates a focused, technology-led banking model built around three complementary customer segments:

- **Retail Banking,** providing simple, transparent savings and current account products through an app-first experience;
- **SME Lending,** offering secured commercial lending to UK businesses and property investors; and
- **Banking Services,** delivering payment infrastructure and deposit services to regulated financial institutions and fintechs.

The model is designed to be self-reinforcing. Retail and platform-sourced deposits provide scalable funding. SME lending converts that funding into attractive risk-adjusted earnings. Banking Services generates fee income and infrastructure capabilities that strengthen the Bank's long-term strategic options. As each element scales, it supports investment in the platform, product proposition, risk management and brand, further strengthening the LHV Bank franchise.

## What we achieved in 2025

### Retail Banking

Retail Banking is savings-led and mobile app-based, designed around simplicity, transparency and fair value. Customers access their accounts through a modern mobile app, enabling them to manage current accounts, make payments and hold savings products.

During 2025, the retail proposition moved from launch to scale following the formal UK rollout of the LHV Bank app. The Bank expanded its product suite with an interest-paying current account designed to track the Bank of England base rate, alongside Easy Access and fixed-term savings products. These offerings are positioned around transparency and simplicity rather than conditional pricing.

The direct retail franchise demonstrated meaningful early traction, with over 5,000 direct retail account customers. In addition, through deposit platforms the Bank has grown total retail deposits to over £1 billion, providing scale and flexibility as balance sheet demand evolves.

### SME Lending

LHV Bank provides secured lending solutions to UK SMEs and professional property investors, including commercial mortgages, commercial investment loans and specialist buy-to-let products.

Lending is primarily originated via an established broker network and supported by experienced local teams. In 2025, the SME loan book more than doubled year on year, driven by strong demand, increased completion volumes and consistent margins. Growth was underpinned by disciplined underwriting and prudent portfolio management.

## Banking Services

Banking Services provides payments infrastructure and deposit services to regulated financial institutions and fintechs operating across the UK and Europe. Through a cloud-native, API-enabled platform supported by a robust financial crime and risk framework, the Bank connects clients to UK and European payment schemes. In 2025, the Bank materially strengthened its payments capabilities through direct participation in the RT1 platform, enabling real-time euro transactions and reinforcing LHV Bank's position as a long-term infrastructure partner for regulated financial institutions and fintechs.

## Where we are going

LHV Bank's strategy is to build a sustainable, profitable UK bank by combining disciplined growth with technology-enabled efficiency and strong risk management.

Strategic priorities are to:

- build brand awareness, salience and trust for the Retail proposition and to grow the direct retail franchise through simple, fair-value digital products;
- scale SME lending profitably, funded by an increasingly direct deposit base;
- strengthen Banking Services infrastructure and product capabilities, building the platform for long-term optionality;
- maintain robust capital, liquidity and risk management to support growth; and
- continue investing in talent, culture and technology to improve execution capability and operating leverage.

With the platform established and profitability achieved, the Bank is entering a phase focused on operating leverage, efficiency and long-term value creation for shareholders.

# Financial review

## Overview

The Financial Review provides a summary of the Bank's financial performance and position for the year ended 31 December 2025. The Bank's results are prepared in accordance with UK adopted International Financial Reporting Standards (UK adopted IFRS), as detailed in the financial statements beginning on page 63.

2025 represents the second full year of operations as a fully authorised UK bank and marks an important transition in the Bank's financial trajectory. Following the achievement of first-time profitability in 2024, the focus in 2025 was on scaling the balance sheet, converting growth into earnings, and beginning to realise operating leverage while maintaining strong capital, funding and liquidity positions.

At the end of the year, the Bank employed approximately 230 staff across London, Manchester, Leeds and Estonia (2024: 213), reflecting continued but disciplined investment in core growth areas.

## Financial performance

### Income

Total revenue increased materially in 2025, reflecting strong balance sheet growth, continued momentum in SME lending and the increasing contribution from retail-funded interest income.

Net interest income rose to £23.5 million (2024: £12.4 million), driven primarily by significant growth in the SME loan portfolio.

The near doubling of net interest income year on year reflects both volume growth and the increasing maturity of the Bank's balance sheet.

Net fee and commission income was £24.1 million (2024: £24.9 million). While broadly stable year on year, the composition of fee income continued to evolve, with strong transactional volumes in Banking Services partially offset by competitive pressures in other areas such as pricing. Over time, the Bank expects fee income to benefit from scale effects and the continued development of its payments and infrastructure capabilities.

## Financial results

| GBP millions | **2025** | **2024** |
|---|---|---|
| Net interest income | 23.5 | 12.4 |
| Net fee and commission income | 24.1 | 24.9 |
| Total revenue[1] | 84.7 | 56.5 |
| Expected credit loss charges | 1.4 | 0.4 |
| Total operating expenses | 39.4 | 33.2 |
| Profit before tax | 6.8 | 4.0 |
| Profit after tax | 4.8 | 3.1 |
| | | |
| Cost income ratio | 82.9% | 88.9% |
| Return on equity | 5% | 5% |

[1] Measured as Interest Income and Fee & Commission Income.

## Capital and liquidity

| | 2025 | 2024 |
|---|---|---|
| Common equity tier 1 (CET 1) | 18.5% | 24.1% |
| Total capital ratio (TCR) | 20.3% | 24.1% |
| Liquidity coverage ratio | 237% | 151% |
| Net stable funding ratio | 188% | 183% |

## Product performance

| GBP millions | **2025** | **2024** |
|---|---|---|
| Gross loans | 684.6 | 289.4 |
| Gross new lending | 453.6 | 227.2 |
| | | |
| Total deposits | 1,114.5 | 559.9 |
| of which retail direct deposits | 130.6 | 0.01 |
| of which banking services deposits | 81.0 | 123.7 |

| | | |
|---|---|---|
| Loan to deposit ratio | 66% | 65% |

| | | |
|---|---|---|
| Number of SME loans | 308 | 168 |
| Number of direct retail banking customers | 5019 | 52 |
| Number of banking services customers | 107 | 118 |

Total revenue increased to £84.7 million (2024: £56.5 million), representing a year-on-year increase of approximately 50%, significantly outpacing cost growth and marking an important inflection point in operating leverage.

## Expected credit losses and asset quality

Expected credit losses (ECL) charge increased to £1.4 million (2024: £0.4 million), reflecting growth in the SME loan portfolio. Despite the increase in absolute ECL charges, asset quality remained resilient. Credit performance continued to reflect conservative underwriting standards, disciplined portfolio construction and active risk management. ECLs as a proportion of the loan book remain low and within management expectations for a portfolio at this stage of growth.

## Operating expenses and efficiency

Total operating expenses increased to £39.4 million (2024: £33.2 million), reflecting continued investment in people, technology, regulatory infrastructure and the expansion of the retail proposition.

Importantly, cost growth was significantly lower than revenue growth. This resulted in a meaningful improvement in the cost income ratio to 82.9% (2024: 88.9%), demonstrating early evidence of operating leverage as the Bank scales.

While the cost base will continue to grow as the business expands, particularly in customer-facing and control functions, management expects the rate of cost growth to moderate relative to income as scale efficiencies are realised.

## Profitability

Profit before tax increased to £6.8 million (2024: £4.0 million), representing growth of approximately 67% year on year. Profit after tax rose to £4.8 million (2024: £3.1 million).

This performance reflects the Bank's transition from early-stage build-out to a phase where balance sheet growth increasingly translates into earnings. The improvement in profitability was achieved while continuing to invest in long-term capabilities and maintaining conservative risk and capital positions.

Return on equity for the year was 5% (2024: 5%). While returns continue to be influenced by the pace of growth and associated capital requirements, the underlying trajectory reflects improving earnings capacity and the early benefits of scale.

## Balance sheet growth

The Bank continued to grow its balance sheet at pace during 2025, supported by strong demand for SME lending and a diversified funding base.

Loans to customers increased to £684.6 million (2024: £289.4 million), driven by SME lending activity. Growth was supported by a strong pipeline of approved but undrawn facilities at 2024 year end, providing visibility into continued momentum into 2025.

Customer deposits increased to £1,114.5 million (2024: £559.9 million). Growth was driven by:

- increased volumes from deposit platforms;
- increased direct retail deposits following the launch and expansion of the retail banking proposition; and
- continued deposits from Banking Services customers.

The loan to deposit ratio at year end was 66% (2024: 65%), reflecting a prudent approach to pre-funding lending growth and maintaining liquidity buffers.

## Capital, liquidity and funding

The Bank maintained strong capital and liquidity positions throughout the year, supporting balance sheet expansion while remaining well within regulatory requirements.

- the Total Capital Ratio at year end was 20.3% (2024: 24.1%).
- the Liquidity Coverage Ratio was 237% (2024: 151%).
- the Net Stable Funding Ratio was 188% (2024: 183%).

During the year the Bank strengthened its capital base through further strategic investments from LHV Group to support continued balance sheet growth. This included £30 million of additional CET1 equity capital, and the issuance of £10 million of Tier 2 subordinated loan capital. These capital actions were undertaken proactively to fund strong lending demand, maintain prudent capital buffers and position the Bank for the next phase of scalable growth.

### Summary

2025 marked a clear financial inflection point for AS LHV Bank. Revenue growth materially outpaced cost growth, profitability increased significantly and early operating leverage began to emerge. The Bank exited the year with a strong balance sheet and funding base, as well as a scalable platform capable of supporting continued growth.

Taken together with the progress outlined in the CEO Review and Strategy sections, the financial results for 2025 demonstrate that LHV Bank has moved beyond establishment and into a phase focused on efficiency, returns and long-term value creation.

# Section 172 statement

The Directors of LHV Bank acknowledge their duty under Section 172(1) of the Companies Act 2006 to act in a way they consider, in good faith, would be most likely to promote the success of the Bank for the benefit of its members as a whole, having regard to the interests of stakeholders and the long-term consequences of decisions.

In 2025, the Board's focus was on scaling the Bank responsibly: strengthening profitability, expanding the balance sheet, and investing in infrastructure and people, while maintaining strong capital, liquidity and governance standards.

Throughout the year, the Board considered not only financial performance but also customer outcomes, employee engagement, regulatory expectations, operational resilience and the Bank's wider societal impact.

The Board believes that its approach during the year has promoted the long-term success of the Bank for the benefit of its members as a whole, while maintaining high standards of governance and stakeholder engagement consistent with its statutory duties under Section 172.

The matters set out below summarise how the Directors have had regard to the factors in Section 172(1)(a)–(f) in their principal decisions during 2025.

## Engagement with stakeholders

### Customers

The Board recognises that sustainable returns are built on delivering clear value and fair outcomes to customers. During 2025, LHV Bank materially expanded its SME lending and retail propositions, while strengthening oversight of customer outcomes under the FCA's Consumer Duty framework.

The Board received regular reporting on credit quality, arrears trends and impairment levels, ensuring that growth remained aligned to risk appetite.

In Retail Banking, the Bank enhanced its current account offering. This proposition was reviewed by the Board in the context of Consumer Duty, fair value assessments and long-term funding strategy. The Board considered the sustainability of pricing, deposit mix, and liquidity impacts before approving these initiatives.

Throughout the year, the Board received:

- Regular Consumer Duty MI and customer outcome dashboards.
- Analysis of complaints, vulnerability indicators and product performance.
- Updates on Retail mobile app functionality and customer journey enhancements.

In April 2025, the Board approved the advancement of a Retail overdraft proposition, following rigorous scrutiny of its pricing framework, defined customer eligibility parameters and the robustness of responsible lending controls.

### Employees

The Directors recognise that the Bank's ability to scale profitably depends on attracting, retaining and motivating high-quality colleagues. Headcount increased during the year to support business growth and regulatory requirements

The Board monitored people costs, succession planning and culture metrics as part of its oversight of sustainable expansion.

In June 2025, LHV Bank was recognised as one of The Sunday Times Best Places to Work for the second consecutive year. Employee survey results demonstrated high levels of empowerment, pride and job satisfaction, reflecting a culture aligned to entrepreneurial delivery and accountability.

The Board engaged with workforce matters through:

- Review of employee engagement survey outcomes and associated action plans.
- Oversight of remuneration structures aligned to risk and long-term value creation.

- Updates from the Chief People Officer on talent, diversity and inclusion, and regulatory training.
- Board and Committee engagement sessions with employees in the UK and Estonia.

In 2025, the Board approved enhancements to employee benefits, including expanded leave provisions and learning allowances, following a thorough review of engagement survey insights, detailed cost modelling and phased implementation plans. In doing so, the Board carefully balanced strengthening the employee value proposition with maintaining long-term financial discipline and sustainability.

## Regulators

Operating in a highly regulated environment, the Board maintained open and constructive engagement with the PRA and FCA. Capital, liquidity and operational resilience remained central to Board deliberations, particularly in light of the balance sheet growth.

The Board carefully weighed the pace of asset expansion against capital headroom and approved plans for further capital issuance to maintain buffers within risk appetite.

The Board reviewed funding composition, deposit concentration and stress testing outcomes, particularly in the context of retail deposit growth and the Group's ECB counterbalancing capacity requirements.

Strategically, the Bank became the first UK bank to join the RT1 platform as a direct participant for SEPA Instant Credit Transfers. The Board considered the operational, compliance and financial crime implications of this step, recognising its importance in strengthening the Bank's European payments capability and competitive positioning.

During 2025, the Board maintained close and constructive engagement with both prudential and conduct regulators. This included responding to revised Individual Capital and Liquidity Guidance issued by the PRA; reviewing and approving the 2025 ICAAP, ILAAP and Solvent Exit Analysis; overseeing preparations for a forthcoming PRA Credit Quality Review; and participating in FCA supervisory programmes, including the Trade Sanctions Modular Assessment (T-SMAPP) and the Consumer Duty Outcomes Monitoring Review.

## Business partners and suppliers

As the Bank expanded its Retail and SME footprint, reliance on technology, payment infrastructure and third-party service providers increased. The Board reviewed supplier risk management frameworks, outsourcing registers and operational resilience mapping to ensure critical services remained robust.

During 2025, the Board considered:

- Enhancements to IT and outsourced service arrangements in support of retail mobile app growth.
- Payment scheme participation and infrastructure upgrades.

These actions were designed to support long-term resilience while maintaining fair and transparent commercial relationships.

Throughout 2025, the Board reviewed cloud concentration risk associated with the Bank's reliance on a cloud hosting provider and assessed the effectiveness of its disaster recovery architecture, including secondary region resilience. This oversight ensured that operational resilience arrangements remained robust and proportionate as the Bank continued to scale.

## Society and community

The Directors recognise the Bank's broader role in supporting economic activity and financial inclusion. Retail deposits raised during the year were deployed to fund lending to UK SMEs, directly supporting business investment and job creation.

The Board also oversaw the integration of the Group's ESG framework into UK operations, including:

- Consideration of environmental risks within credit risk assessment.

- Monitoring of operational carbon footprint metrics.
- Participation in industry initiatives to widen representation in financial services.

The Bank's retail proposition, focused on transparent pricing and fair returns for savers, was considered by the Board as part of its commitment to improving outcomes in markets where many customers earn little or no interest on current account balances.

During 2025, the Board approved the Bank's Modern Slavery and Human Trafficking Statement and endorsed enhancements to the fraud prevention framework in response to the introduction of the corporate offence of Failure to Prevent Fraud under the Economic Crime and Corporate Transparency Act 2023.

### Shareholders

As a wholly owned subsidiary within the LHV Group, the Bank's strategy and capital trajectory were considered in the context of Group objectives while ensuring the interests of the Bank were safeguarded. During 2025, additional capital support was provided to enable continued growth, and the Board carefully considered the timing and quantum of capital actions in light of forward-looking capital metrics.

# Environmental, Social and Governance review

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

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

## Environmental commitments

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

Key climate-related initiatives undertaken by the Bank include:

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

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

## Social responsibility and gender diversity

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

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

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

## Business diversity and inclusion initiatives

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

## Governance and ethical leadership

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

Key governance practices include:

- Adherence to PRA and FCA sustainability guidelines, ensuring responsible banking practices.
- Strong internal audit mechanisms that oversee ESG compliance and risk assessment.
- Alignment with the UN Principles for Responsible Banking, reinforcing ethical investment and lending standards.
- Using the UN Sustainable Development Goals (SDGs) as a framework for our work and in moving towards a more sustainable future.

We focus primarily on the following four SDGs, the achievement of which we can influence the most:

### SDG 7: Affordable and clean energy

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

### SDG 8: Decent work and economic growth

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

### SDG 12: Responsible consumption and production

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

### SDG 13: Climate action

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

## Conclusion

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

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

# Corporate governance

# Corporate governance statement

Good corporate governance is essential to achieving our strategic ambition to be a leading provider of Banking Services, SME Lending and Retail Banking. Aspiring to a higher standard of governance than that required of private limited companies, LHV Bank has regard to the Financial Reporting Council's (FRC's) 2024 UK Corporate Governance Code (the Code)[3], in the context of our ownership structure, size and maturity.

The Bank's governance arrangements reflect the principles of the Code. The sections below describe the areas where the Bank has adopted alternatives approaches to aspects of the Code:

### Workforce engagement (Code Provision 5)

The Board has not chosen one of the methods for engagement with the workforce set out in the Code (a director appointed from the workforce, a formal workforce advisory panel or a designated non-executive director). An explanation of the alternative arrangements in place and why the Board considers that they are effective is set out at pages 14 and 31.

### Independent chair (Code Provision 9)

The Chair was not independent on appointment. This is addressed at page 36.

### Annual directors' re-election (Code Provision 18)

Independent non-executive directors and the newly appointed non-independent non-executive director are generally appointed for fixed terms of three years, which the Board considers appropriate to ensure continuity of leadership and effective oversight at this stage of the Bank's development.

The Chair of the Board, who is the Chair of the Management Board and the CEO of the parent company, LHV Group, and the executive directors are not appointed for fixed terms. The Board considers this appropriate given the nature of their roles and the ongoing assessment of their performance and suitability through established Board governance and evaluation processes.

### Disclosure of diversity and inclusion policy (Code Provision 23)

The Bank adheres to the Group's Diversity and Inclusion Policy. The Board recognises the importance of diversity and inclusion in supporting effective governance, decision-making and the long-term success of the Bank, and has therefore committed to establishing a Board Diversity and Inclusion Policy over 2026, along with measurable objectives for achieving diversity on the Board. In the interim, diversity, including diversity of skills, experience and background, is considered as part of Board composition and succession planning.

### Shareholding requirements for executive directors (Code Provision 36)

Remuneration schemes promote long-term shareholdings by executive directors that support alignment with long-term shareholder interests. Share awards granted for this purpose are subject to a total vesting and holding period of four years, rather than five or more years as set out in the Code. The Remuneration Committee has not developed a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares.

### Annual report on remuneration and description of the work of the Remuneration Committee in the annual report (Code Provisions 38 and 41)

Given the Bank's ownership structure and scale, the annual remuneration disclosures and the description of the Remuneration Committee's activities are presented in a form proportionate to the Bank's current circumstances.

The table below illustrates how LHV Bank has had regard to the Code in establishing its own governance arrangements.

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

| UK Corporate Governance Code Principles | Section |
|---|---|
| **Section 1: Board leadership and company purpose** | |
| **A.**<br>A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society. The board should ensure that the necessary resources, policies and practices are in place for the company to meet its objectives and measure performance against them. | Page: 24<br>Board of Directors and Senior Management |
| **B.**<br>The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are all aligned. All directors must act with integrity, lead by example and promote the desired culture. | Page: 9<br>Business Model and Strategy |
| **C.**<br>Governance reporting should focus on board decisions and their outcomes in the context of the company's strategy and objectives. Where the board reports on departures from the Code's provisions, it should provide a clear explanation | Page: 20<br>Corporate Governance Statement |
| **D.**<br>In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties. | Page: 14<br>Section 172 Statement and Statement of Engagement with Employees and Other Stakeholders, Workforce Engagement |
| **E.**<br>The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern. | Page: 14<br>Section 172 Statement and Statement of Engagement with Employees and Other Stakeholders, Workforce Engagement, Whistleblowing |
| **Section 2: Division of responsibilities** | |
| **F.**<br>The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information. | Page: 28<br>Governance Framework |

| | |
|---|---|
| **G.**<br>The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business. | Page: 28<br>Governance Framework |
| **H.**<br>Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account. | Page: 28<br>Governance Framework |
| **I.**<br>The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently. | Page: 28 and 35<br>Governance Framework; Nominations Committee Report |
| **Section 3: Composition, succession and evaluation** | |
| **J.**<br>Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan for the board and senior management should be maintained. Both appointments and succession plans should be based on merit and objective criteria. They should promote diversity, inclusion and equal opportunity. | Page: 35<br>Nominations Committee Report |
| **K.**<br>The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed. | Page: 35<br>Nominations Committee Report |
| **L.**<br>Annual evaluation of the board should consider its performance, composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively. | Page: 28 and 35<br>Governance Framework; Nominations Committee Report |

| Section 4: Audit, risk and internal control | |
|---|---|
| **M.**<br>The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements | Page: 38<br>Audit Committee Report |
| **N.**<br>The board should present a fair, balanced and understandable assessment of the company's position and prospects. | Page: 11<br>Financial Review |
| **O.**<br>The board should establish and maintain an effective risk management and internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives. | Page: 43<br>Risk Management Report |
| **Section 5: Remuneration** | |
| **P.**<br>Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long-term strategy. | Page: 41<br>Remuneration Committee Report |
| **Q.**<br>A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome. | Page: 41<br>Remuneration Committee Report |
| **R.**<br>Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances. | Page: 41<br>Remuneration Committee Report |

## The Board of Directors and Senior Management

### Board of Directors

Members of the Board of Directors are set out below.

On 22 July 2025, Madis Toomsalu stepped down as Chair of the LHV Bank Board, having stepped down as Chair of the Management Board and CEO of the parent company, LHV Group. The Board appointed his successor, Mihkel Torim, as Chair of the Board, with the appointment taking effect upon receiving regulatory approval on 14 August 2025. During the interim period, Sally Veitch temporarily served as Chair.

Christian Schröder was appointed as a non-executive director with effect from 25 March 2026.

On 1 April 2026, when Erki Kilu steps down as Chief Executive Officer, Kris Brewster will assume the role of Interim Chief Executive Officer and will be appointed to the Board with effect from the same date.

#### Mihkel Torim
**Chair of the Board**

Date of appointment: 14 August 2025

Mihkel is the Chair of the Management Board and the CEO of the parent company, LHV Group. He is also a member of the Supervisory Boards of other LHV Group subsidiaries and a member of the Management Board of Fortima OÜ. Mihkel is a seasoned leader in capital markets and investment banking, with over 20 years of experience across financial institutions in the Baltics and Northern Europe.

Mihkel holds a degree in Financial Management from Audentes University and has completed various further training programmes.

Committee membership: Remuneration Committee; Nominations Committee

#### Erki Kilu
**Chief Executive Officer ('CEO')**

Date of appointment: 4 February 2021

Erki is an experienced CEO with 30 years of expertise across the banking, asset management, and insurance sectors. He began his tenure at LHV in 2008, serving as CEO of LHV Pank in Estonia from 2008 to 2020, being also the Chairman of the Estonian Banking Association, and a Member of the Board of the European Banking Federation. He has been the CEO of LHV Bank since 2021. Erki holds a BBA, an MBA and an MSc in Engineering. He is also a member of the Supervisory Board of AS LHV Kindlustus, a Lifetime Fellow of the Chartered Banker Institute, and a member of the Tate Modern Central and Eastern Europe Plus Acquisition Committee.

#### Rachelle Frewer
**Chief Financial Officer ('CFO')**

Date of appointment: 2 January 2024

Rachelle, an accomplished finance professional with over two decades of industry experience, joined LHV Bank from Moneycorp Bank, an internationally acclaimed currency exchange company, where she served as the CFO and as a board member. Before joining Moneycorp, Rachelle worked as a CFO at Wyelands Bank. Rachelle is a director of a property holding company, Paxtons Management Company Limited.

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

#### Sally Veitch
**Senior Independent Director**

Date of appointment: 1 July 2022

Sally is an established non-executive director, with extensive experience as a former Finance Director. She is non-executive director and Chair of the Audit and Remuneration Committees of Perenna Bank PLC, and a non-executive director of Afin Bank Limited. Sally holds a BA in Natural Sciences from Cambridge University and is a member of the Institute of Chartered Accountants.

Committee membership: Audit Committee (Chair); Remuneration Committee (Chair); Nominations Committee (Chair); Risk Committee. Sally is also the Board Consumer Duty Champion.

### Paul Horner
**Independent Non-Executive Director**

Date of appointment: 4 January 2022

Paul brings substantial experience from his roles in executive risk and general management at institutions such as Barclays, NatWest and Ulster Bank. He was a non-executive director of Coutts & Co Limited and previously served both as that company's Chief Executive and Chief Risk Officer.

Paul also serves as Chairman of Arion Bank in Iceland. Additionally, Paul is a non-executive director, Chair of the Board Risk Committee and a member of the Audit Committee at both AIB Group (UK) PLC and at National Bank of Kuwait (International) PLC. Paul holds an MA from the University of Oxford and is an Associate of the UK Chartered Institute of Bankers.

Committee membership: Risk Committee (Chair); Audit Committee; Remuneration Committee; Nominations Committee

### Keith Butcher
**Independent Non-Executive Director**

Date of appointment: 1 May 2022

Keith is a seasoned CFO with extensive experience in e-commerce, fintech, and online payments businesses. He has served as CFO for several leading technology and payments companies, including Boku Inc, PaySafe Group PLC and DataCash Group PLC. He currently serves as interim CFO at AIM-listed Vulcan Two Group PLC, which has a mandate to acquire companies in the UK ePharmacy market. Keith is also a director of a property holding company, Silverlake Property Ltd.

Keith holds a BSc in Management Sciences from the University of Warwick and is a member of the Institute of Chartered Accountants.

Committee membership: Audit Committee; Risk Committee

### Gill Lungley
**Independent Non-Executive Director**

Date of appointment: 1 April 2024

Gill is a seasoned financial services executive and has broad experience in the financial field as an independent non-executive director. She is currently serving as an independent non-executive director at Fnality Services Limited, where she is Chair of the Board, Chair of the Nominations and Remuneration Committee and a member of the Risk and Audit Committee. Outside of her plural career in financial services, Gill also acts as Trustee and Treasurer for T&M Greg Trust.

Committee membership: Risk Committee; Remuneration Committee

### Christian Schröder
**Non-Executive Director**

Date of appointment: 25 March 2026

Christian is a member of the Supervisory Board of the parent company, LHV Group, and a member of its Risk and Capital Committee and its Audit Committee.

Christian has over 25 years of international experience in the financial sector, with a strong background in banking management and the strategic transformation of large organisations. He spent a significant part of his career at Pictet Group, where he held several senior leadership positions, including as Chief Executive Officer of Bank Pictet & Cie (Europe) AG in Germany. In this role, he was responsible for managing an organisation with assets under management of up to EUR 250 billion and more than 650 employees across 13 international locations.

Christian served as Chairman of the Board of FundPartner Solutions (Europe) SA and FundPartner Solutions (Suisse) SA, and since 2025 has been a member of the Board and the Risk Committee of Bank Pictet & Cie (Europe) AG. He has extensive experience in the implementation of European banking regulations and in cooperation with supervisory authorities, including BaFin, FINMA and CSSF. Christian holds a Master's degree in Communication Systems from École Polytechnique Fédérale de Lausanne (EPFL) and has completed several executive leadership and finance programmes at INSEAD, IMD Lausanne and the Swiss Banking School.

## Executive Committee

All members of the Bank's Executive Committee are set out below, together with their tenure.

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

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

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

**Kris Brewster -** Director of Retail Banking
Date of appointment: 5 June 2023

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

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

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

**James Wainwright –** Chief Information Officer (CIO)
Date of appointment: 1 May 2025

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

Tim Waller (date of appointment: 17 July 2023) stepped down as General Counsel and as a member of the Executive Committee on 28 February 2026.

On 1 April 2026, when Erki Kilu steps down as Chief Executive Officer, Kris Brewster will assume the role of Interim Chief Executive Officer and Alex Beavis will assume the role of Interim Director of Retail Banking, pending regulatory approval.

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

The Head of Internal Audit, Relika Mell, attends meetings of the Executive Committee as an observer.

## Board Activities in the Year

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

- Approving the appointment of Mihkel Torim as Chair of the Board, following Madis Toomsalu's resignation.
- Recommending for approval by LHV Group as the Company's shareholder the appointment of Christian Schröder as an additional director. This recommendation was subsequently approved by the shareholder.
- Approving the re-appointment of Keith Butcher as an independent non-executive director for a further two years and the re-appointments of Paul Horner and Sally Veitch for a further three years.
- Approving the 2025 ICAAP and ILAAP, confirming sufficient capital and liquidity to meet regulatory and business needs over the five-year horizon, as well as the Bank's Pillar 3 Disclosures and its Recovery Plan, Resolution Pack, and Solvent Exit Analysis.
- Approving £60 million in new capital issuances (Common Equity Tier 1 (CET1) and Tier 2 instruments) to support growth and maintain capital adequacy.
- Approving the 2024 Annual Report and Financial Statements, Going Concern Assessment, and 2024 Letter of Representation to the Auditor.
- Recommending for approval by LHV Group as the company's shareholder the appointment of PricewaterhouseCoopers LLP (PwC) as external auditors for the 2025 financial year. This recommendation was subsequently approved by the shareholder.
- Approving the 2026 and Five-Year Financial Plans, setting strategic and financial priorities for the Bank.
- Overseeing the public launch of the Retail Banking App and the development of retail products, including debit cards, savings products and overdrafts.

- Approving the 2025 Consumer Duty Board Report and reaffirming Sally Veitch as the Board Consumer Duty Champion.
- Reviewing and approving the Bank's cyber security strategy and its Operational Resilience Self-Assessment.
- Reviewing the effectiveness of risk management and internal control systems.
- Reviewing and approving key corporate governance documentation, including updates to Board and Committee Terms of Reference and corporate policies, and the Internal Audit Plan.

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

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

- Business development, marketing activity, product management and risk management across Banking Services, SME Lending and Retail Banking
- People and organisational structure changes
- AI initiatives and projects
- Regulatory developments and meetings
- Intragroup cooperation
- Industry news

## Board and Committee attendance

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

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

| Director | Board | Audit Committee | Risk Committee | Remuneration Committee | Nominations Committee |
|---|---|---|---|---|---|
| Madis Toomsalu | 7 (8) | - | - | 1 (1) | 2 (2) |
| Mihkel Torim | 4 (4) | - | - | 2 (2) | 1 (1) |
| Erki Kilu | 12 (12) | - | - | - | - |
| Rachelle Frewer | 12 (12) | - | - | - | - |
| Keith Butcher | 12 (12) | 7 (7) | 10 (10) | - | - |
| Paul Horner | 12 (12) | 7 (7) | 10 (10) | 3 (3) | 3 (3) |
| Gill Lungley | 12 (12) | - | 10 (10) | 3 (3) | - |
| Sally Veitch | 12 (12) | 7 (7) | 10 (10) | 3 (3) | 3 (3) |

Madis Toomsalu stepped down from the Board on 22 July 2025 and Mikhel Torim was appointed to the Board on 14 August 2025.

## Number of External Directorships Held by Members of the Management Body

In accordance with Article 435(2)(a) of the UK Capital Requirements Regulation (CRR), the number of external directorships held by members of the Management Body as at 31 December 2025 is disclosed below. For these purposes, directorships held within the same group are counted as one, and directorships in non-commercial entities (such as charitable or non-profit entities) are excluded from the count.

| Director | Executive Directorships | Non-Executive Directorship | Total |
|---|---|---|---|
| Mihkel Torim | 0 | 1 | 1 |
| Erki Kilu | 0 | 0 | 0 |
| Rachelle Frewer | 0 | 1 | 1 |
| Keith Butcher | 0 | 1 | 1 |
| Paul Horner | 0 | 3 | 3 |
| Gill Lungley | 0 | 1 | 1 |
| Sally Veitch | 0 | 2 | 2 |

## Governance Framework

## Board and executive governance structure

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

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

### Audit Committee (AC)

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

### Board Risk Committee (BRC)

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

### Remuneration Committee (RemCo)

The Remuneration Committee determines remuneration policy for executive directors and other Material Risk Takers and any other senior colleagues as reasonably determined by the Committee, reviews wider employee remuneration policies and practices, and sets targets and reviews outcomes against those targets.

### Nominations Committee (NomCo)

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

### Executive Committee (ExCo)

The Board delegates the execution of the Bank's strategy and the day-to-day management of the business to the Executive Committee, which is led by the Chief Executive Officer supported by the following Committees:

i. Executive Risk Committee (ERC);

ii. Assets and Liabilities Committee (ALCo);

iii. Client Committee; and

iv. Credit Committee

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

- Setting of strategic objectives and the monitoring of implementation thereof by ExCo;
- Development, implementation and monitoring of effective policies, governance and procedures at the Bank to execute the strategy.
- Development of the Bank's culture.
- Oversight and approval of the allocation and maintenance of the Bank's capital, funding and liquidity, including related stress testing; and
- Guidance and oversight of key functions delegated to ExCo, ensuring that the Bank operates within the Risk Management Framework (RMF) and remains compliant with all relevant regulations.

## Operation of the governance framework

## Matters reserved for the Board

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

## Independent non-executive directors

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

Independent non-executive directors are generally appointed for a period of three years, ensuring the necessary continuity of leadership during the Bank's initial growth phase.

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

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

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

### Chair

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

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

### Chief Executive Officer

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

- Assume responsibility for the day-to-day management of the Bank, ensuring financial and operational performance
- Develop and recommend the Bank's strategy, financial plans and long-term objectives to the Board for approval
- Lead the execution of the Bank's strategy and financial plans, as approved by the Board
- Promote a culture of ethical behaviour, customer focus, and regulatory compliance across the business
- Lead other members of the Executive Committee and foster collaboration to drive the Bank's overall success
- Ensure robust risk management and internal control frameworks are in place
- Act as spokesperson for the business and maintain strong relationships with the Board, regulators, parent company, and other key stakeholders

### Senior Independent Director

The main responsibilities of the Senior Independent Director are to:

- Act as a sounding board for the Chair and support them in the delivery of their objectives
- Support the Chair in carrying out the annual Board Performance Review

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

## Workforce engagement

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

Throughout 2025, Board engagement and consultation with employees included:

- The Board, via the Board Risk Committee, monitoring culture and Consumer Duty metrics, including staff attrition and other wellbeing indicators on a quarterly basis.
- Holding meet and greet sessions with colleagues based at the London and Manchester offices over lunch, where Board members met with members of various teams based at those locations.
- Joint Board-Executive Committee events to promote cultural alignment.
- The Board receiving regular updates from the Chief People Officer on workforce engagement and office strategy, and in September 2025, approving a proposal to provide improved workspace for the Leeds-based team. In reviewing employee engagement survey outcomes, the Board agreed follow-up actions to enhance communication and leadership visibility across the business, benefits and colleague development.
- Board members attending key corporate events throughout the year.

## Board performance review

A review of the performance of the Board and its Committees is typically carried out annually. Internally-facilitated reviews were undertaken in 2023 and 2024. During 2025, the Nominations Committee continued to oversee progress against areas identified for improvement in the 2024 review, as summarised in the table below.

| Area identified for improvement | Action |
|---|---|
| Strengthening Board succession planning | The Nominations Committee reviewed Board succession planning in January and June 2025, confirming the ongoing independence of the independent non-executive direc-tors and documenting an emergency succession plan. The long-term succession plan will be finalised under the leadership of Mihkel Torim. |
| Improving Board reporting to ensure concise and timely materials | The Nominations Committee continues to monitor progress in this area. |
| Board training | The Board training programme was finalised by the Nominations Committee in October 2025. |
| Enhancing engagement between the Board and wider workforce | Meet the Board sessions for colleagues based in Manchester and London were held on 16 October 2025 and 24 November 2025 and joint Board-Executive Committee events were held to promote cultural alignment. |
| Interaction with LHV Group Supervisory Board members | In addition to Mihkel Torim's dual role as Chair of the Board and Chair of the LHV Group Management Board and Christian Schröder's dual role as a non-independent non-executive director and member of the LHV Group Supervisory Board, the Chairs of the Bank's Board Committees now present regularly to the corresponding LHV Group Supervisory Board Committees. |
| Strategy discussions | A 'Strategy Checkpoint' session now takes place six months after the annual one-day Board Strategy Day. |

In March 2025, the Board, acting on the recommendation of the Nominations Committee, approved the appointment of an external facilitator to support the next Board and Committee performance review. Following the appointment of Mihkel Torim as Chair, the Board agreed to defer the timing of this review to early 2026 to allow assessment of the Board's effectiveness under new leadership.

The evaluation was carried out in February 2026. Individual directors' feedback on the performance of the Board and its Committees was gathered via questionnaire. The process also included a review of individual Board members' performance by the Chair of the Board, who held individual director evaluation meetings with each Board member. The evaluation of the Chair of the Board's performance was led by the Senior Independent Director, who held one-to-one meetings to inform the evaluation. The Company Secretarial team also obtained written feedback on Board performance from members of the management team.

Outcomes from the review were considered by the Nominations Committee and the Board in February 2026, with discussions supported by the external facilitator.

The most positive feedback related to:

(i) the Board's thorough and balanced discussions leading to well-considered decisions; and

(ii) the value added and support provided by the Board's Committees.

Areas identified for continued development and further strengthening included:

(i) deepening oversight of strategy development and implementation;

(ii) further enhancing financial oversight, with a continued focus on ensuring robust financial management and reporting;

(iii) continuing to evolve the Board's oversight of risk management, including continuing to support management in understanding the key risks and uncertainties affecting the strategy, determining appropriate responses and remaining alert to changing and emerging risks;

(iii) keeping Board composition under regular review to maintain the right mix of expertise, perspectives and personalities, both for now and in the future; and,

(iv) making sure the Board continues to receive timely, high quality information to support effective decision-making.

The Nominations Committee will oversee progress against an action plan to address findings from the review.

## Board Training and Development

| Topic | Date |
|---|---|
| **Technical Regulatory Updates** | 24 November 2025 |
| i) Embedding of Consumer Duty<br>• Regulatory obligations<br>• Board attestation requirements<br>• Outcomes testing<br>• Data evolution<br>• Alignment of Consumer Duty with culture and remuneration | |
| ii) Cyber Security and Operational Resilience<br>• Regulatory focus areas<br>• Recent regulatory reviews: lessons learned<br>• Roles, responsibilities and expectations of the Board | |
| **Security Operations Demonstration** | |
| **Retail Banking – Customer Operations and Support Walkthrough** | |
| **Retail Banking – Financial Crime Risk Walkthrough** | |
| **Stress Testing Model** | |
| **Financial Resilience – Recovery Planning and Solvent Exit Analysis** | 16 December 2025 |

## Whistleblowing

LHV Bank's Whistleblowing Policy aims to encourage individuals to report concerns, provides guidance on how to do this and gives assurance on how the Bank protects whistleblowers. The Bank's whistleblowing arrangements follow the requirements set out in the PRA Rulebook chapter General Organisational Requirements – Whistleblowing and the FCA Handbook (SYSC18 Whistleblowing).

A whistleblowing hotline is available to employees who have concerns over any aspects of the Bank's business practices. Employees can use this channel to raise any concerns with the bank's Whistleblowing Champion Sally Veitch (Chair of the Audit Committee), who presents an annual report to the Board on whistleblowing activity and the operation of the Bank's whistleblowing framework.

# Nominations Committee report

## Statement by the Chair of the Nominations Committee

### Introduction

As Chair of the Nominations Committee, I am pleased to present this report on the Committee's activities over the course of 2025. Our Committee plays a crucial role in ensuring that the Board maintains an appropriate balance of skills, experience, and independence to support the Bank's strategic direction, while upholding the highest standards of corporate governance. In 2025, we remained focused on Board composition, succession planning, and governance effectiveness, ensuring alignment with regulatory expectations set by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

## Key areas of focus in 2025

### Board composition and succession planning

The Committee's principal focus this year was overseeing succession at Board level. Following the announced departure of Madis Toomsalu, in June 2025, the Committee recommended the appointment of Mihkel Torim as Chair of the Board and as a member of the Remuneration and Nominations Committees. These recommendations were subsequently approved by the Board. The Committee also recommended the appointment of Christian Schröder as an additional non-independent non-executive director with effect from 25 March 2026. This recommendation was subsequently approved by the Board and the shareholder.

The Committee reviewed the structure, size and composition of the Board, confirming that the balance of diversity, including diversity of skills, experience and background remained appropriate. It also reviewed and reaffirmed the continuing independence of all independent non-executive directors. The Committee made recommendations to the Board in respect of the re-appointments of three independent non-executive directors – Keith Butcher, Paul Horner and Sally Veitch – whose initial three-year terms expired in 2025. The Committee carefully considered appropriate staggering of second-term expiry dates for these directors, to align with the Bank's strategic needs and the Board subsequently approved the re-appointment of Keith Butcher for a further two years and the re-appointments of Paul Horner and Sally Veitch for a further three years.

In addition, the Committee endorsed an updated emergency succession plan and agreed an approach to developing a long-term Board succession plan, supported by self-assessment against a Board skills matrix. This long-term plan will be finalised under the leadership of Mihkel Torim.

### Management succession planning

The Committee reviewed the management succession plan, noting the challenges given the current size of the business and emphasising the importance of ensuring a diverse and highly skilled pipeline of future leaders.

### Chief Executive Officer succession

Following the year end, the Supervisory Board of AS LHV Group requested that Erki Kilu assume the leadership of AS LHV Pank. As a result, Erki will step down as Chief Executive Officer of LHV Bank, effective 1 April 2026, but will continue to sit on the Bank's Board.

The Committee had previously reviewed executive succession planning as part of its regular governance cycle and was therefore able to respond in a structured and orderly manner. Upon being informed of the proposed transition, the Committee convened to oversee the succession process, ensuring continuity of leadership and alignment with regulatory expectations.

An Interim Chief Executive Officer, Kris Brewster (Director of Retail Banking), was appointed from within the existing Executive Committee. In making this recommendation to the Board, the Committee assessed experience, regulatory standing, familiarity with the Bank's strategy and risk framework, and capacity to lead the business through the next phase of development. The

Committee concluded that this appointment would ensure stability and continuity of execution.

The Committee has initiated a formal process to appoint a permanent Chief Executive Officer. This process is being conducted in accordance with the Bank's governance framework and regulatory requirements, including:

- agreement of a role specification aligned to the Bank's strategic priorities and scale ambitions;
- evaluation of internal and external candidates against objective criteria, including leadership capability, banking experience, prudential judgement and cultural alignment;
- engagement with the PRA and FCA in respect of the Senior Managers & Certification Regime (SMCR) approval process; and
- oversight of transition planning to ensure uninterrupted operational and risk management continuity.

The Committee will make a recommendation to the Board once the process is complete. Throughout this period, the Committee remains focused on maintaining effective oversight, leadership stability and alignment with the long-term interests of the Bank and its shareholder.

## Board effectiveness and performance review

During the year, the Committee continued to monitor progress against areas identified for improvement in the 2024 internally-facilitated review, including strengthening Board succession planning, improving Board reporting, documenting a Board training programme, enhancing engagement between the Board and the wider workforce, ensuring greater interaction between the Board and LHV Group Supervisory Board members, and strengthening strategy discussions.

In March 2025, the Board, acting on the recommendation of the Nominations Committee, approved the appointment of an external facilitator to support the next Board and Committee performance review. The Committee ran a tender process to select the evaluation provider, ensuring a transparent and robust approach. Following the appointment of Mihkel Torim as Chair, the Board agreed to defer the timing of this review to early 2026 to allow assessment of the Board's effectiveness under new leadership. The Committee oversaw the review, which was conducted in February 2026 via a structured questionnaire. The review, which included feedback from Board members, Executive Committee members, and key senior leaders, highlighted the Board's thorough and balanced discussions leading to well-considered decisions, as well as the value added and support provided by the Board's Committees. Areas identified for continued development and further strengthening included (i) deepening oversight of strategy development and implementation; (ii) further enhancing financial oversight, with a continued focus on ensuring robust financial management and reporting; (iii) continuing to evolve the Board's oversight of risk management; (iv) keeping Board composition under regular review to maintain the right mix of expertise, perspectives and personalities, both now and in the future; and (v) making sure the Board continues to receive timely, high-quality information to support effective decision-making. We will oversee progress against an action plan to address findings from the review.

## Board training

The Committee continued to oversee development of the Board training programme. Training priorities were set around emerging regulatory themes, including Consumer Duty, cyber security and operational resilience, and financial resilience.

A dedicated Board Training Day was held in November 2025, alongside work to establish a long-term training framework to support ongoing learning and effectiveness.

## Regulatory compliance and governance

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

## Priorities for 2026 and beyond

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

- **Board performance review:** Overseeing progress against outcomes from the 2026 review and considering the timing and the methodology for the next review.
- **Board and management succession planning:** Finalising the long-term Board succession plan and overseeing development of the management succession plan.
- **Board training and development:** Embedding the long-term Board Training Programme and ensuring that training remains aligned with emerging regulatory and market developments.
- **Enhancing Board engagement:** Supporting continued initiatives to strengthen Board interaction with employees, including 'Meet the Board' sessions and joint Executive Committee-Board engagement opportunities.

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

**Sally Veitch**
**Chair of the Nominations Committee**

31 March 2026

## Key responsibilities

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

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

## Membership

Sally Veitch (Chair); Paul Horner; Mihkel Torim

## Other Regular Attendees by Invitation

Chief Executive Officer

Chief People Officer

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

## Meetings

Number of scheduled meetings: three
For details of attendance, see page 27.

# Audit Committee report

## Statement by the Chair of the Audit Committee

I am pleased to present the Audit Committee's report for the year ended 31 December 2025. The Committee has continued to provide oversight of LHV Bank Limited's financial reporting, internal controls, risk management, and audit functions. In a year of ongoing regulatory scrutiny, operational evolution, and the public launch of the Retail Banking App, the Committee has worked closely with management and internal and external auditors to uphold high standards of governance and financial integrity.

## 2025 Key Areas of Focus

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

- **Financial reporting and control environment:** The Committee oversaw the preparation of the 2024 Annual Report and Financial Statements, reviewing the external auditor's findings and management's responses. The main accounting matter considered was the reclassification of income from the Intragroup Partnership Agreement with LHV Pank from interest to fee income, together with related transfer-pricing documentation and tax implications. The Committee also reviewed the expected credit loss (ECL) methodology and disclosures, ensuring alignment with IFRS 9 and prudential standards. The Committee also oversaw continuing progress on automation and efficiency improvements within the finance function.
- **Internal Audit & Control Environment:** Internal Audit continued to assess the Bank's systems and controls. The Committee reviewed findings from audits covering the SME Lending process, Digital Operational Resilience (DORA) Incident and Third-Party Risk Management, Business Continuity Planning and the ICAAP. The Committee continued to challenge overdue internal audit actions and to reinforce the need for timely remediation of control weaknesses. While by mid-year, the number of overdue internal audit actions had reduced materially, the Committee continues to closely monitor progress in this area. The Committee also oversaw the annual review of the outsourcing arrangement with Grant Thornton, which concluded that their performance remained satisfactory.
- **Regulatory Reporting:** The Committee reviewed and recommended to the Board for approval the 2024 Pillar 3 Disclosures, updated to reflect revised PRA requirements, including the removal of remuneration disclosures for non-listed small CRR firms. It also oversaw compliance with other regulatory reporting obligations.
- **External Audit Oversight:** The Committee monitored the performance and independence of MacIntyre Hudson LLP (MHA) during the 2024 audit cycle and, in July 2025, recommended the appointment of PricewaterhouseCoopers LLP (PwC) as the Bank's new external auditor to align with LHV Group's audit arrangements. This recommendation was subsequently approved by the Board and the shareholder. The transition process and professional clearance steps were reviewed in detail to ensure an orderly handover for the 2025 financial year.
- **Whistleblowing:** The Committee reviewed an annual report to the Board on whistleblowing activity and the operation of the Bank's whistleblowing framework.

## External Audit

MHA completed the 2024 audit, issuing an unqualified opinion. The Committee oversaw the relationship with MHA, covering engagement terms, fees and independence. The Committee reviewed the Management Letter, noting no material control deficiencies, and confirmed the auditor's independence and objectivity. In July

2025, the Committee recommended to the Board the approval of formal invitation and clearance letters to PwC, marking the start of the transition to the new auditor for LHV Bank Limited for the 2025 financial year. The Committee subsequently recommended PwC's appointment as the Bank's new external auditor and approved associated fees.

## Internal Audit

The Committee reviewed, challenged and approved the annual internal audit plan and updates during the year. It also endorsed a recommendation for the internal audit charter, which sets out the mandate and remit of the function, to remain unchanged following annual review.

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

The Internal Audit function was assessed overall as effective, with a need for improvements noted around reporting clarity and action tracking.

Internal Audit presented its overall assessment of the governance, risk and control environment to the Committee in March, which showed continued strengthening of the environment.

## Looking Ahead to 2026

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

- Ensuring the smooth transition to PwC as external auditor.
- Maintaining robust financial reporting and control standards as the Bank grows.
- Overseeing delivery of the internal audit plan and completion of internal audit actions.

The Committee remains committed to ensuring strong financial governance and risk oversight as the Bank continues its strategic growth.

I would like to thank my fellow Committee members, management, and our auditors for their diligence and contributions throughout the year.

**Sally Veitch**
**Chair of the Audit Committee**

31 March 2026

## Key Responsibilities

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

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

### Membership

Sally Veitch (Chair); Paul Horner; Keith Butcher

Committee members have relevant sector experience, achieved through their own careers as well as other non-executive roles. Director biographies are included on pages 29 - 30. Sally Veitch's sector experience includes Chair of an Audit Committee of another bank; Paul Horner holds non-executive director positions at three other banks and Keith Butcher has extensive experience of the payments industry.

### Other Regular Attendees by Invitation

Chief Financial Officer

Head of Internal Audit

External Auditor

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

### Meetings

Number of scheduled meetings: seven

For details of attendance, see page 27.

# Remuneration Committee report

## Statement by the Chair of the Remuneration Committee

As Chair of the Remuneration Committee, I am pleased to report on our activities during 2025 and to outline our focus for 2026 and beyond. The Committee has continued to ensure that the Bank's remuneration policies and practices align with regulatory requirements, support the strategic goals of the business, and drive sustainable long-term performance. The Committee sets remuneration for the Chair of the Board, Material Risk Takers (MRTs) and any other senior colleagues as reasonably determined by the Committee. The Board is responsible for setting remuneration for the non-executive directors.

The Remuneration Committee is committed to reflecting the principles of the UK Corporate Governance Code. Given the Bank's ownership structure and scale, the annual remuneration disclosures and the description of the Remuneration Committee's activities are presented in a form proportionate to the Bank's current circumstances.

## Key Activities in 2025

### Annual Pay review

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

### Variable Remuneration

The Committee reviewed and approved variable remuneration awards to key individuals for 2024 performance, comprising cash, as well as options over LHV Group shares to align with long-term value creation. Variable remuneration is linked to business and individual performance. Performance is assessed against financial and non-financial criteria taking into consideration the Bank's results, compliance and risk management approach, the individual's performance related to their core responsibilities and personal development.

### Variable Remuneration Development

The Committee worked closely with external consultants to assess the ongoing appropriateness of the Bank's variable remuneration arrangements. A key priority is ensuring that any scheme remains competitive within the UK financial services sector. The Committee recommended amendments to LHV Group's existing share option programme, focused on tax efficiency, and ensuring continued alignment of the programme with prudent risk management.

### Regulatory and Risk Considerations

In line with our responsibilities, the Committee reviewed risk assessments relating to remuneration practices and ensured that the views of the Board Risk Committee were taken into account in determining variable remuneration awards.

### Employee Benefits

In response to feedback from colleague engagement surveys, the Committee reviewed the Bank's benefits offering. Members supported proposals to enhance benefits.

### Priorities for 2026 and Beyond

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

- Benefits: Overseeing the phased implementation of benefits enhancements.
- Variable Remuneration Arrangements: Continuing to monitor the ongoing appropriateness of the Bank's variable

remuneration arrangements, ensuring these remain sustainable and performance-driven and align with prudent risk management.

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

In closing, I would like to thank my fellow Committee members for their diligence and insight over the past year. As we move into 2026, we remain committed to upholding a remuneration framework that supports our people, our business, and our shareholder.

**Sally Veitch**
**Chair of the Remuneration Committee**

31 March 2026

## Key Responsibilities

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

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

## Membership

Sally Veitch (Chair); Paul Horner; Gill Lungley, Mihkel Torim

## Other Regular Attendees by Invitation

Chief Executive Officer

Chief People Officer

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

## Meetings

Number of scheduled meetings: three

For details of attendance, see page 27.

# Risk Management report

## Statement by the Chair of the Board Risk Committee

As Chair of the Board Risk Committee (BRC), I am pleased to present this report outlining the Committee's key areas of focus, oversight, and strategic priorities during 2025, along with an indication of the areas that will continue to shape our agenda into 2026 and beyond.

## Governance and Responsibilities

The BRC plays a vital role in advising the Board on risk management, ensuring robust oversight of the Bank's risk framework, internal controls, and regulatory compliance. In 2025, we maintained a firm focus on the Bank's risk appetite, strategic risks, and emerging threats, in alignment with regulatory expectations set by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

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

## Key Areas of Focus in 2025

### Financial and Credit Risk Management

Throughout the year, the BRC closely monitored the Bank's financial resilience, particularly in light of market volatility and regulatory expectations. We undertook detailed reviews of credit risk exposure, stress testing, and capital and liquidity adequacy, ensuring that the Bank's capital and liquidity positions remained robust. Following engagement with the PRA, the Bank's capital requirement was reduced to 18.65%, and the Committee endorsed a revised capital plan. The Committee also approved updates to the Recovery Plan and a Solvent Exit Analysis, ensuring compliance with new regulatory requirements in this area.

Despite an increasingly competitive lending environment, we maintained a prudent approach to credit risk, with a focus on portfolio diversification and enhanced monitoring of loan book performance. The BRC also monitored significant growth in the SME Lending portfolio, reviewing concentration and sector exposures and challenging management on underwriting discipline, data quality, and in-life portfolio management.

Our oversight also extended to approving the Bank's funding and interest rate risk hedging strategy, ensuring an appropriate balance between risk mitigation and business growth. Given the evolving market conditions, the Committee continued to assess the impact of interest rate fluctuations and macroeconomic factors on the Bank's profitability and capital strength.

### Operational Resilience and Cyber Security

Oversight of Operational Resilience, ICT, and cyber security remained a priority. The Committee recommended the cyber security strategy for Board approval and reviewed quarterly updates on its implementation, as well as recommending the Bank's Operational Resilience Self-Assessment for Board approval.

### Financial Crime and Compliance Oversight

A key focus was the remediation of a long-standing backlog of transaction monitoring alerts and associated suspicious activity reports (SARs). The backlogs were fully cleared by July 2025. The Committee monitored the development and implementation of a sustainable target operating model for managing alerts and SARs, receiving regular progress updates . Broader compliance work included overseeing preparations for new regulatory obligations under the Economic Crime and Corporate Transparency Act and for the Bank's designation as a 'large firm'.

### Retail Banking and Consumer Duty

The Committee oversaw risk governance supporting the expansion of Retail Banking, including monitoring product development, customer outcomes and financial crime controls.

We maintained close scrutiny over the Bank's Consumer Duty obligations, ensuring that fair customer outcomes remained at the heart of the business's operations. The Board's Consumer Duty Champion Sally Veitch played an integral role in supporting these discussions and ensuring effective oversight. The Committee reviewed and recommended for Board approval the Annual Consumer Duty Report, which confirmed the embedding of Consumer Duty principles across the Bank's three business lines.

### Climate and Environmental, Social and Governance (ESG) Risk

The Committee reviewed updates to the Group ESG Policy and noted the continuation of a Group-level Climate Change Materiality Assessment, which confirmed no new material findings. Work to develop a UK-specific ESG policy and risk appetite is planned for 2026.

### Review of Risk Management and Internal Control Systems

The Committee monitored progress against delivery of the Combined Assurance Plan, the mechanism through which Risk, Compliance and Internal Audit provide coordinated assurance across the risk universe. Looking ahead to the Bank's compliance against Code Provision 29 (effective 1 January 2026), the Committee reviewed the effectiveness of risk management and internal control systems and recommended findings to the Board for consideration. The review concluded that risk management and internal control systems remain appropriate for the size and complexity of the Bank and the Committee noted plans to address identified control deficiencies.

### Looking Ahead to 2026

As we move into 2026, the Committee will continue to focus on maintaining a robust and forward-looking risk management framework. Key priorities will include:

(i) Continued monitoring of macroeconomic risks, with a particular focus on mitigating potential impacts on capital adequacy, profitability, and liquidity.

(ii) Overseeing strengthening of the Bank's approach to ESG risks, ensuring alignment with regulatory requirements and best practice.

(iii) Overseeing the Bank's response to regulatory developments.

(iv) Overseeing continued alignment between the UK and Group Risk Appetite Frameworks.

(v) Overseeing advancement of the Bank's cyber and operational resilience maturity.

(vi) Strengthening governance over employee-related risks and culture metrics.

(vii) Overseeing an annual effectiveness review of risk management and internal controls, in view of Code Provision 29 requirements taking effect for financial years beginning 1 January 2026.

### Acknowledgements

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

**Paul Horner**
**Chair of the Risk Committee**

31 March 2026

## Key Responsibilities

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

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

## Membership

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

## Other regular attendees by invitation:

Chair of the Board

Chief Executive Officer

Chief Financial Officer

Chief Risk Officer

Chief Compliance Officer

Head of Internal Audit

Group Chief Risk Officer

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

## Meetings

Number of scheduled meetings: ten

For details of attendance, see page 27.

# Risk governance

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

## Board Risk Committee

The Board Risk Committee (BRC) continued to support the Board throughout 2025 in fulfilling its responsibilities for risk oversight and ensuring the effectiveness of the Bank's risk management and internal control framework. The Committee consisted of four independent non executive directors during the year, with membership reviewed and approved by the Board on the recommendation of the Nominations Committee. The terms of reference, last refreshed in 2025, remain aligned with the UK Corporate Governance Code and industry good practice, and will be reviewed again in 2026 to ensure continued compliance with evolving regulatory expectations.

During 2025, the BRC focused on the following core areas:

- **Risk appetite, framework, and internal Controls:** The Committee oversees the ongoing development and effectiveness of the Bank's risk management framework and monitors adherence to the Board-approved Risk Appetite Statement. It reviews performance against key risk indicators and assesses the effectiveness of management's actions to ensure risk levels remain within appetite. The Committee also evaluates the adequacy of internal controls across financial, operational, and compliance domains and reviews the Bank's alignment with regulatory requirements, including ICAAP, ILAAP, Recovery Planning, and supervisory feedback from the PRA.
- **Oversight of risk and compliance functions:** The BRC receives regular reporting from the Chief Risk Officer and Chief Compliance Officer, enabling the Committee to assess the performance, resourcing, and independence of both functions. In carrying out this oversight, the Committee provides challenge on the adequacy of second-line capabilities, the effectiveness of risk and compliance methodologies, and the robustness of monitoring and assurance activities.

The Committee also reviews and approves key annual plans — including the Compliance Monitoring Plan, the Risk Plan, and the Combined Assurance Plan — ensuring that these are aligned to the Bank's risk appetite, regulatory expectations, and the Bank's strategic priorities. Through this process, the BRC ensures that second-line activities are risk-based, appropriately targeted, and sufficiently coordinated across the Three Lines of Defence.

- **Regulatory compliance:** The Committee monitors regulatory developments from the PRA, FCA, and other supervisory bodies, reviewing their implications for the Bank's risk profile and governance. In doing so, the BRC provides structured oversight of the Bank's regulatory compliance framework by ensuring that emerging requirements are evaluated promptly, that management assesses gaps against existing policies and controls, and that appropriate remediation or enhancement plans are implemented. The Committee also challenges the effectiveness of compliance monitoring, receives updates on interactions with regulators, and oversees management's responses to regulatory feedback and thematic reviews.
- **Remuneration:** In collaboration with the Remuneration Committee, the BRC ensures that performance incentives reinforce sound risk management and do not encourage inappropriate risk-taking. Risk considerations and the effectiveness of internal controls are embedded into remuneration assessments, ensuring alignment between risk outcomes and individual performance evaluation.
- **Policies:** Finally, the Committee reviews and approves relevant policies, overseeing adherence to those policies and ensuring that any breaches are promptly identified, addressed, and remediated.

## Risk management framework

Risk is defined as the potential negative deviation from expected financial and non-financial outcomes. The Bank faces a range of risks through its activities, and the purpose of risk management is to identify, measure, manage, and report these risks effectively. The broader objective is to protect and enhance the Bank's value by minimising losses and reducing volatility in financial and non financial outcomes.

## Three Lines of Defence Model

Effective risk management is key to the achievement of the Bank's strategic objectives. The risk management framework at the Bank is based on a strong risk culture and is designed around a Three Lines of Defence model, supervised at Board level.

- First Line: Business units, responsible for taking and managing risks within approved limits.
- Second Line: Independent Risk and Compliance functions, responsible for maintaining the risk management framework, ensuring policies, methodologies, and controls are effective, and monitoring risk exposures holistically.
- Third Line: Internal Audit, providing independent assurance over the adequacy and effectiveness of the Bank's risk management framework and internal controls

## Risk appetite framework

The Bank maintains a comprehensive Risk Appetite Statement covering all material risk categories. Risk appetite is expressed through qualitative guidance and quantitative metrics and limits.

- Qualitative guidance uses clear terminology aligned with the business strategy.
- Quantitative limits define acceptable, tolerable, and intolerable risk ranges, ensuring that risk levels remain within thresholds appropriate to the Bank's strategic objectives.

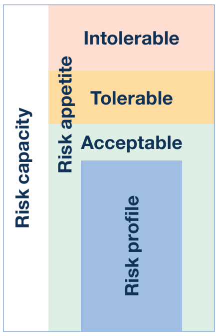
The framework operates as follows:

- Acceptable: Within normal business tolerance; no action required.
- Tolerable: Early warning; management action required and reported to the Executive Risk Committee.
- Intolerable: Hard limit breach; immediate remediation required and escalation to the Board.

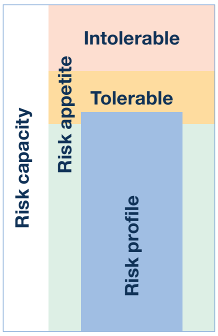
In 2025, the Bank continued to refine quantitative limits across credit, market, liquidity, operational, financial crime, and strategic risks. Early Warning Indicators were updated to support the Financial Recovery Plan.

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

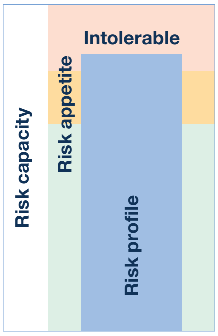
**Risk appetite framework**



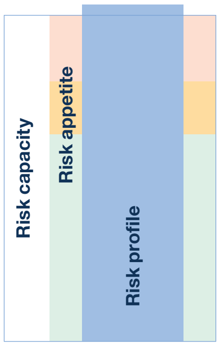

The actual risk profile is inside the acceptable range. Risk profile is under control and no specific action needed.




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**
a combination of the real risks of LHV resulting from the nature, scale and complexity of LHV activities and operation environment.

In accordance with the risk management policy, quantitative risk appetite levels must be specified at least for strategy and business risk, credit risk, market risk, operational risk, funding and liquidity risk, and financial crime risk. The risk appetite limits are defined in each of the respective risk policies, which are approved by the Board. The policies are accompanied by detailed instructions and guidelines. The Bank has a system of Committees and decision-making competencies. The functions of the main Committees are described in the Corporate Governance section on page 33.

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

## Principal risks and mitigations

The Board retains ultimate responsibility for identifying and managing the Bank's principal risks.

To ensure that it maintains an appropriate level of oversight, the Board has delegated certain roles and responsibilities to Committees, as outlined in the Governance report on page 33. Oversight is delivered via the BRC, supported by the Executive Committee and the Executive Risk Committee, which provide detailed monitoring of internal controls and the risk profile. Key principal risks include:

## Business and strategic risk

The risk that profitability may fall short of expectations due to adverse market conditions or weaknesses in strategy execution. The Bank mitigates this risk through systematic monitoring of strategic performance relative to the risk appetite, regular Board-level strategic reviews, and scenario-based assessments. These mechanisms support timely strategic recalibration and the introduction of additional mitigants where necessary.

## Funding and liquidity risk

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

## Credit risk

Credit risk refers to the potential for financial loss arising from a borrower's failure to meet their debt obligations. The Bank's accounting policy for measurement of expected credit loss can be found on page 101. The Bank monitors credit performance through internal reports covering performance against risk appetite limits and key credit risk metrics including arrears performance and portfolio concentrations. Monthly credit reports are provided to the ERC and BRC.

## Market risk

Market risk is the risk of loss due to changes in the market price of financial instruments, foreign currency or in interest rates that affect banking book positions. Market risk is managed through a well established suite of internally calibrated and regulatory models, IRRBB stress testing, and structured oversight by ALCo and the BRC.

## Capital adequacy risk

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

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

## Operational risk

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

Model risk, arising from errors or limitations in model design, data, assumptions, implementation, or use, is managed as an integral component of the Bank's risk framework. The Bank continues to enhance its model governance through thematic reviews, validation, independent challenge, structured performance monitoring, and timely remediation to ensure all material models remain accurate, reliable, and aligned with regulatory expectations.

## Fraud and financial crime risk

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

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

## Compliance risk

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

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

### Conduct risk

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

### Cyber risk

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

### Emerging risks

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

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

# Directors' report

# Directors' report

## Corporate governance

The directors of LHV Bank Limited ('the Bank' or 'the company') present their Annual Report together with the audited financial statements for the year ended 31 December 2025 (together the 'Annual Report and Accounts').

In accordance with section 414 of the Companies Act 2006, the Directors are required to prepare a Strategic Report as part of the Annual Report and Accounts. The Strategic Report is set out on pages 3 to 19. As shown in the table below, and in line with section 414C(11) of the Companies Act 2006, the Bank has elected to include within the Strategic Report certain disclosures that would otherwise be required to be presented in the Directors' Report.

## Disclosures by reference



## Dividends

The directors are not recommending any dividend in respect of the year ended 31 December 2025 (2024: £nil).

## Charitable donations

The Bank made no charitable donations during the year (2024: nil).

## Political donations

The Bank made no political donations during the year (2024: nil).

## Research and development

The Bank continues to invest in research and development, notably in its innovative banking platform. This investment deepens the customer proposition, accelerates new product development, and unlocks further efficiency across the business.

## Share capital

LHV Bank Limited is a private limited company limited by shares, incorporated in England & Wales and domiciled in the United Kingdom under the Companies Act 2006 (registered number 13180211).

Information on the Bank's issued share capital, including changes during the year, is set out in note 28 to the financial statements. As at 31 December 2025, the Bank's share capital comprised a single class of ordinary shares with a nominal value of £1 per share. At that date, 105,000,000 ordinary shares were in issue (2024: 75,000,000).

## Substantial shareholdings

100% of the Bank's issued share capital is owned by AS LHV Group (the 'Shareholder').

## Restrictions on the transfer of shares

There are no formal restrictions on the transferability of shares in LHV Bank Limited. However, as a matter of governance, any proposed transfer would be subject to the consent of AS LHV Group and, ultimately, its shareholders.

## Rights attaching to shares

At general meetings, resolutions are decided on a poll, with shareholders entitled to one vote for each share held. The shares do not confer any entitlement to fixed income. There are no enhanced or preferential control rights attached to the shares, and all issued shares are fully paid.

## Authority to issue share capital

In line with section 550 of the Companies Act 2006, and subject at all times to applicable legal and regulatory requirements, including the Capital Requirements Regulation and the PRA Rulebook, the directors of LHV Bank Limited are authorised to allot equity securities on a general basis.

## Acquisition of own shares

The Bank is permitted, subject to compliance with the Companies Act 2006 (including any required shareholder approvals), the CRR and the PRA Rulebook, to purchase its own shares. Any such purchase for cash consideration in a financial year is limited to the lower of £15,000 or an amount equal to 5% of the nominal value of the company's issued share capital.

## Directors: appointments and resignations

The procedures governing the appointment and resignation of directors are set out in the company's Articles of Association and the Companies Act 2006. The Articles of Association may be amended by special resolution of the shareholders, either passed at a general meeting or approved in writing.

The following director appointments and resignations have taken place in 2025 and until the date of publication of this Annual Report and Accounts:

| | Appointed | Resigned |
|---|---|---|
| Madis Toomsalu | | 22.07.2025 |
| Mihkel Torim | 14.08.2025 | |
| Christian Schröder | 25.03.2026 | |

## Directors' remuneration

The Bank complies with the Remuneration Code issued by the Financial Conduct Authority. Non-Executive Directors are not eligible to receive variable remuneration. Detailed disclosures relating to directors' remuneration are provided in note 6 to the financial statements.

## Directors' indemnities

In accordance with the company's Articles of Association, the directors are covered by a qualifying third-party indemnity provision as defined in section 234 of the Companies Act 2006. This indemnity applied throughout the financial year and remains in effect at the date of this report. In addition, the company maintained directors' and officers' liability insurance during the year in respect of the company and its directors and also at the date of approval of the financial statements.

## Events after the reporting period and going concern

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

## Streamlined energy and carbon reporting

Under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, certain large private companies and LLPs are required to report their UK energy consumption and associated greenhouse gas emissions in accordance with the Streamlined Energy and Carbon Reporting (SECR) framework. The year ended 31 December 2025 is the first financial period in which LHV Bank falls within scope of these requirements.

SECR disclosures must, at a minimum, cover gas, electricity and transport fuel consumption, an appropriate emissions intensity ratio, and details of energy efficiency measures implemented during the year. The Bank appointed a specialist advisory firm to ensure full and accurate compliance with these obligations.

## Methodology

The following methodology was applied in calculating the Bank's greenhouse gas (GHG) emissions:

- **Scope 1** – direct emissions arising from sources owned or controlled by the Bank. This includes on-site fuel combustion (such as gas boilers), and refrigerant leakage from air-conditioning systems.
- **Scope 2** – indirect emissions from purchased electricity consumed by the Bank. These emissions are generated during the production of the electricity ultimately used in the Bank's operations.
- **Scope 3** – indirect emissions associated with employee-owned vehicles used for business travel.

Activity data for each of the above scopes was converted into tonnes of carbon dioxide equivalent ($tCO_2e$) using the latest UK Government conversion factors published by the Department for Energy Security and Net Zero and the Department for Environment, Food and Rural Affairs.

## Energy efficiency actions

The principal energy efficiency initiatives undertaken by the Bank during the year included:

- Conducting an ESG audit and identifying areas of potential improvements

## Greenhouse Gas Emissions

| GHG emissions | 2025 |
|---|---|
| Scope 1 | 7.9 $tCO_2e$ |
| Scope 2 | 23.6 $tCO_2e$ |
| Scope 3 | 12.6 $tCO_2e$ |
| **Total (location based)** | **44.1 $tCO_2e$** |
| **Total emissions per full-time employee (intensity ratio)** | **0.28 tones of $CO_2e$** |

## Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they're satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Directors' confirmations

In the case of each director in office
at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

## Independent auditors

PricewaterhouseCoopers LLP were appointed as the company's external auditors with effect from 30 September 2025, following the resignation of the previous auditor, MHA. PricewaterhouseCoopers LLP have confirmed their willingness to continue in office.

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

**Erki Kilu**
**Chief Executive Officer**

31 March 2026

# Auditor's report

# Independent auditors' report to the members of LHV Bank Limited

## Report on the audit of the financial statements

### Opinion

In our opinion, LHV Bank Limited's financial statements:

- give a true and fair view of the state of the bank's affairs as at 31 December 2025 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise:

- the Statement of financial position as at 31 December 2025;
- the Statement of cash flows for the year then ended;
- the Statement of change in equity for the year then ended;
- the Statement of comprehensive income for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Our opinion is consistent with our reporting to the audit committee.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We remained independent of the bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 7 - Independent auditors' fees, we have provided no non-audit services to the bank in the period under audit.

### Our audit approach

#### *Context*

This was our first year as statutory auditor of the bank. Following our appointment, we met with management to obtain an understanding of the business, its operations and financial reporting processes, and to gather information required to plan our audit effectively. We also met with the predecessor auditor and reviewed relevant audit documentation to obtain appropriate evidence in respect of the opening balance sheet and comparative financial information. Our understanding obtained through these planning procedures was used to identify audit risks and to design our audit approach, including the determination of audit materiality and scope.

#### *Overview*

Audit scope

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment and other qualitative factors.

Key audit matters

- Loans and advances to customers

Materiality

- Overall materiality: £3,900,000 based on approximately 0.3% of Total Assets.
- Performance materiality: £1,950,000.

### *The scope of our audit*

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

### *Key audit matters*

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

This is not a complete list of all risks identified by our audit.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Loans and advances to customers including expected credit loss allowance<br><br>Refer to note 14 (loans and advances to customers), note 34.1 (financial risk management, credit risk).<br><br>Loans and advances primarily comprise commercial investment loans and commercial mortgage loans provided to small and medium sized enterprise customers. Loans and advances to customers represent the most significant asset on the Bank's statement of financial position.<br><br>Credit loss allowances represent management's best estimate of expected credit losses (ECL) at the balance sheet date. The determination of these allowances is complex, inherently judgemental and relies on a combination of assumptions and judgements to comply with IFRS 9.<br><br>The focus for the bank has been the growth in the lending book and given the recent growth, this has been an area where we have spent a significant amount of time. Accordingly, we considered the loans and advances to customers including the expected credit loss as a key audit matter. | Audit procedures performed:<br><br>• Tested a sample of key loan attributes per the loan book and ECL model back to loan agreements or alternative source documents.<br>• Reconciled the complete loan book from origination systems to accounting records.<br>• Externally confirmed a sample of loans. For the sample where no external responses have been received, we performed alternative procedures such as inspection of subsequent repayments.<br>• Traced original loan disbursements made on new loans to bank statements.<br>• Recalculated the 31 December 2025 loan balance for a sample of loans.<br>• Engaged internal credit specialist to assess the appropriateness of ECL methodology used to derive the ECL estimate.<br>• We have performed independent benchmarking of staging rules, overall ECL provision and performed sensitivities over the ECL estimate. |

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the bank,, the accounting processes and controls, and the industry in which it operates.

LHV Bank Limited operates solely within the United Kingdom. The principal activities of the Bank are the provision of loans to small and medium-sized enterprise customers and the acceptance of customer deposits.

Our risk assessment, performed as part of the planning of the audit, considered relevant internal and external factors, including economic conditions, regulatory developments, climate-related risks, and the bank's growth strategy. Based on overall materiality, we designed and performed audit procedures over all material account balances and disclosures. The audit procedures performed provided us with sufficient appropriate audit evidence to form our audit opinion on the financial statements of LHV Bank Limited as a whole.

### The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the bank's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the bank's financial statements.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| **Overall bank materiality** | £3,900,000. |
| **How we determined it** | approximately 0.3% of Total Assets |
| **Rationale for benchmark applied** | In our judgement, total assets represent the most appropriate benchmark for determining materiality, as the bank remains in a growth phase and is considered a start-up bank. Given the bank's stage of development and growth-focused business model, we consider this benchmark to be the most appropriate and consistent with that applied to similar banking entities in comparable growth phases. |

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 50% of overall materiality, amounting to £1,950,000 for the bank financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the audit committee that we would report to them misstatements identified during our audit above £195,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Conclusions relating to going concern

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

- Obtaining an understanding of management's going concern assessment and reviewing the assessment methodology for appropriateness.
- Testing the mathematical accuracy of management's model.
- Reviewing ICAAP and ILAAP documentation, regulatory correspondence, and management information presented to the Board.
- Assessing and challenging the key assumptions used in management's forecasts.
- Discussions with the Prudential Regulation Authority ('PRA') to understand key areas of regulatory focus for the bank.
- Assessing the adequacy of the related disclosures in the financial statements.

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

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the bank's ability to continue as a going concern.

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

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

### *Strategic report and Directors' report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2025 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the bank and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

## Responsibilities for the financial statements and the audit

### *Responsibilities of the directors for the financial statements*

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

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

### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the bank and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the rules of the Financial Conduct Authority (FCA) or Prudential Regulatory Authority (PRA), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and UK Tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting manual journal entries to manipulate reported financial performance and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Performing enquiries of senior management (including risk and compliance), and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud.
- Reviewing key correspondence with regulatory authorities in relation to compliance and regulatory matters.
- Incorporating unpredictability into the nature, timing and extent of our testing.
- Identifying and testing selected journal entries, including those posted by unexpected users, those posted to unusual account combinations, and those that include certain keywords.
- Assessing the reasonableness and appropriateness of key judgements and assumptions used in accounting estimates, including an assessment for the presence of management bias.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

### *Use of this report*

This report, including the opinions, has been prepared for and only for the bank's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Other required reporting

### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

### Appointment

We were first appointed by the bank for the financial year ended 31 December 2025. Our uninterrupted engagement covers 1 financial year.

Amena Shaista

**Amena Shaista**
(Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London
2 April 2026

# Financial statements

## Statement of comprehensive income

For the year ended 31 December

| | Notes | 2025 £000 | 2024 £000 |
|---|---|---|---|
| Interest income | | **58,374** | 29,616 |
| Interest expense | | **(34,859)** | (17,219) |
| **Net interest income** | Note 2 | **23,515** | 12,397 |
| Fee and commission income | | **26,285** | 26,840 |
| Fee and commission expense | | **(2,227)** | (1,902) |
| **Net fee and commission income** | Note 3 | **24,058** | **24,938** |
| Other operating income | | **248** | 420 |
| Changes in fair value of financial instruments measured at FVTPL | Note 13 | **(183)** | - |
| Foreign exchange translation differences | | **(63)** | (102) |
| **Total operating income** | | **2** | **318** |
| Operating expenses | Note 4 | **(39,443)** | (33,197) |
| **Net operating income** | | **8,133** | **4,456** |
| Change in expected credit loss allowance | Note 8 | **(1,367)** | (412) |
| **Profit before tax** | | **6,766** | 4,044 |
| Taxation | Note 9 | **(2,004)** | (961) |
| **Profit after tax** | | **4,761** | **3,084** |
| **Total comprehensive income** | | **4,761** | **3,084** |
| Attributable to: | | | |
| Equity holders | | **4,761** | **3,084** |

The statement of comprehensive income has been re-represented using a new format.

The profits of the Company are derived from continuing operations in the current and prior periods.

The accompanying accounting policies and notes on pages 69 to 113 are an integral part of the financial statements.

## Statement of financial position

As at 31 December

| | Notes | 2025 £000 | 2024 £000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | Note 11 | **558,485** | 362,299 |
| Derivative financial instruments | Note 13 | **481** | - |
| Loans and advances to customers | Note 14 | **682,579** | 288,799 |
| Prepayments and accrued income | Note 15 | **2,022** | 1,622 |
| Other assets | Note 16 | **2,558** | 1,467 |
| Amounts due from other group undertakings | Note 17 | **1,778** | 2,811 |
| Right-of-use assets | Note 18 | **1,285** | 2,028 |
| Property, plant and equipment | Note 19 | **870** | 1,408 |
| Intangible assets | Note 20 | **1,193** | 1,041 |
| Deferred tax assets | Note 21 | **418** | 806 |
| **Total assets** | | **1,251,669** | 662,280 |
| **Liabilities** | | | |
| Derivative financial instruments | Note 13 | **446** | - |
| Amounts due to banks | Note 22 | **9,090** | 24,633 |
| Deposits by customers | Note 23 | **1,114,522** | 559,887 |
| Amounts due to other group undertakings | Note 17 | **12** | 108 |
| Subordinated liabilities | Note 24 | **10,033** | - |
| Provisions | Note 25 | **358** | 267 |
| Other liabilities | Note 27 | **8,876** | 3,679 |
| Lease liabilities | Note 18 | **1,454** | 2,367 |
| **Total liabilities** | | **1,144,791** | 590,941 |
| **Equity** | | | |
| Called-up share capital | Note 28 | **105,000** | 75,000 |
| Other reserves | Note 29 | **(346)** | (631) |
| Accumulated profits / (losses) | | **2,224** | (3,030) |
| **Total equity** | | **106,878** | **71,339** |
| **Total equity and liabilities** | | **1,251,669** | **662,280** |

The statement of comprehensive income has been re-represented using a new format.

The accompanying accounting policies and notes on pages 69 to 113 are an integral part of the financial statements.

Approved by the Board and authorised for issue on 31 March 2026 and signed on its behalf by:

**Erki Kilu**
**CEO**

**Rachelle Frewer**
**CFO**

Company Registration No. 13180211

## Statement of change in equity

For the year ended 31 December

| | Notes | Called-up share capital £000 | Other reserves[1] £000 | Accumulated profits / (losses) £000 | Total equity £000 |
|---|---|---|---|---|---|
| **Balance as at 1 January 2025** | | 75,000 | (631) | (3,030) | 71,339 |
| Total comprehensive income | | - | - | 4,761 | 4,761 |
| Issue and allotment of share capital | Note 28 | 30,000 | - | - | 30,000 |
| Net share option movements | Note 29 | - | 285 | 492 | 777 |
| **Balance as at 31 December 2025** | | **105,000** | **(346)** | **2,224** | **106,878** |
| | | | | | |
| **Balance as at 1 January 2024** | | 20,900 | (1,289) | (6,133) | 13,478 |
| Total comprehensive income | | - | - | 3,103 | 3,103 |
| Issue and allotment of share capital | Note 28 | 54,100 | - | - | 54,100 |
| Net share option movements | Note 29 | - | 658 | - | 658 |
| **Balance as at 31 December 2024** | | **75,000** | (631) | (3,030) | 71,339 |

[1] Other reserves consist of a share-based payments reserve and a merger reserve.

The accompanying accounting policies and notes on pages 69 to 113 are an integral part of the financial statements.

## Statement of cash flows

For the year ended 31 December

| | Notes | 2025 £000 | 2024 £000 |
|---|---|---|---|
| **Reconciliation of profit before tax to net cash flows from operating activities:** | | | |
| **Profit before tax** | | **6,766** | 4,044 |
| Adjustments for: | | | |
| – Non-cash items | Note 12 | **4,064** | 2,399 |
| – Changes in operating assets and liabilities | Note 12 | **147,815** | 95,214 |
| – Tax paid | | **(1,125)** | (278) |
| **Net cash generated from/(used in) operating activities** | | **157,520** | **101,379** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | Note 19 | **-** | (19) |
| Purchase and development of intangible assets | Note 20 | **(325)** | (1,041) |
| **Net cash used in investing activities** | | **(325)** | (1,059) |
| **Cash flows from financing activities** | | | |
| Shares issued | Note 28 | **30,000** | 20,900 |
| Proceeds from issuance of subordinated liabilities | Note 24 | **10,000** | - |
| Cash payments on lease liabilities | Note 18 | **(1,010)** | (1,045) |
| **Net cash generated from financing activities** | | **38,990** | 19,855 |
| **Net increase/(decrease) in cash and cash equivalents** | | **196,185** | 120,175 |
| Cash and cash equivalents at start of year | Note 11 | **362,299** | 242,125 |
| **Cash and cash equivalents at end of year** | Note 11 | **558,485** | 362,299 |
| **Profit before tax includes:** | | | |
| Interest received | Note 2 | **58,374** | 29,616 |
| Interest paid | Note 2 | **34,859** | 17,219 |

The accompanying accounting policies and notes on pages 78 to 122 are an integral part of the financial statements.

# Notes to the financial statements

# Notes to financial statements

## 1 Basis of preparation and material accounting policies

This section sets out LHV Bank Limited's material accounting policies that are relevant to the financial statements as a whole. Where an accounting policy is specific to a particular line item, transaction, or disclosure, it is presented together with the corresponding note to the financial statements to provide more relevant and transparent information.

### 1.1 General information

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

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

### 1.2 Statement of compliance

LHV Bank has prepared these financial statements in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

### 1.3 Basis of preparation

The financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities that are measured at fair value through profit or loss. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

All accounting policies have been applied consistently to all periods presented, unless otherwise stated.

### 1.4 Going concern

The Directors have assessed going concern, taking in to account the Bank's capital and liquidity positions for the foreseeable future, being a period of no less than the next 12 months, including consideration of reasonably plausible stress scenarios.

LHV Bank's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report and Directors' Report on pages 3 to 65. The financial position of the Bank, its cash flow and capital position are as described on pages 64 to 67. In addition, LHV Bank's business objectives, capital structure policies and financial risk management objectives are as stated in the Strategic and Directors' Reports. Details of its financial instruments and its exposures to credit and liquidity risks are provided in note 34 of the Financial Statements.

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

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

After making enquiries, in addition to an assessment of the impact of principal risks as set out on page 55 of the Strategic Report, the Directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continued to adopt the 'going concern' basis in preparing the annual report and accounts.

### 1.5 Functional and presentational currency

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

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

### 1.6 Segmental reporting

In accordance with IFRS 8 Operating Segments, operating segments are identified based on the internal management reports that are regularly reviewed by the Chief Operating Decision Maker (CODM) to allocate resources and assess performance. The Board of Directors has been identified as the CODM for the Bank.

The Board reviews the results of the Bank as a single business unit and makes decisions on that basis. Consequently, the Bank is considered to have one reportable operating segment.

No geographical or customer concentration disclosures are required, as the Bank's operations are conducted entirely within the United Kingdom and it is not dependent on any single customer.

### 1.7 Statement of cash flows

The statement of cash flows presents the changes in cash and cash equivalents during the year, classified into operating, investing, and financing activities.

Cash flows from operating activities are reported using the indirect method, whereby profit or loss before tax is adjusted for non-cash items, as well as for changes in operating assets and liabilities, to derive the net cash flows from operating activities.

Cash flows from investing and financing activities are reported using the direct method, which presents the gross cash inflows and outflows arising from those activities.

### 1.8 New accounting standards, interpretations and changes to accounting policies

No additional disclosures have been made in respect of the new or amended accounting standards and interpretations that became effective during 2025, as they did not have a significant effect on the Bank's financial position or performance.

The International Accounting Standards Board (IASB) has also issued several other amendments and improvements to existing standards that are not yet effective and have not been early adopted by the Bank. Based on current assessments, these forthcoming changes are not expected to materially affect the Bank's financial statements.

### 1.9 Critical judgements and accounting estimates

The preparation of financial statements in accordance with IFRS requires management to exercise judgement and make estimates and assumptions that affect the recognition and measurement of assets, liabilities, income, and expenses reported for the period. These judgements and estimates are based on historical experience, current conditions, and other factors considered reasonable and supportable in the circumstances. Actual results may differ from these estimates.

Management reviews and updates its key judgements and estimates on an ongoing basis, reflecting any changes in facts and circumstances, market conditions, or regulatory expectations.

The areas set out in the table below involve a higher degree of complexity or subjectivity, or where estimates are subject to a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year. No other material judgements or estimation uncertainties have been identified in applying the accounting policies.

Management considers that the assumptions used in forming these estimates as at 31 December 2025 are appropriate and that the financial statements present fairly the Bank's financial position, performance, and cash flows for the year then ended.

| Policy | Description | Estimate | Further information |
|---|---|---|---|
| Expected credit loss allowance | Key assumptions for the Probability of Possession Given Default (PPD) and Forced Sale Discount (FSD) in the Loss Given Default (LGD) part of the ECL model. | The ECL incorporates estimation uncertainty in determining the likelihood of collateral possession following default (PPD) and the level of discount applied to collateral values under stressed disposal conditions (FSD). These estimates are derived market data given a lack of actual loss experience in the Bank's portfolio. Variations in possession rates or realised sale discounts would result in changes to the LGD and therefore the loss allowance. | Note 34 – Credit Risk |

## 2 Net interest income

### Accounting policy

Interest income and expense on financial assets and financial liabilities measured at amortised cost are recognised in the statement of comprehensive income within interest income and interest expense, respectively, using the effective interest rate (EIR) method in accordance with IFRS 9.

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. The calculation includes all fees and transaction costs that are integral to the effective yield of the instrument.

Interest income on financial assets that are not credit-impaired is calculated by applying the EIR to the gross carrying amount of the asset. When a financial asset becomes credit-impaired (classified as Stage 3), interest income is recognised by applying the EIR to the amortised cost of the asset (i.e., after deducting the loss allowance). If the asset subsequently recovers and is no longer credit-impaired, interest income recognition reverts to the gross basis.

| | **2025 £000** | 2024 £000 |
|---|---|---|
| **Interest income** | | |
| Cash and balances with: | | |
| – Central banks | **18,020** | 16,594 |
| – Other banks | **333** | 219 |
| Loans and advances to customers | **40,021** | 12,804 |
| **Total interest income** | **58,374** | **29,616** |
| **Interest expense** | | |
| Deposits by customers | **(33,480)** | (16,270) |
| Amounts due to other group undertakings | **(1,281)** | (903) |
| Lease liabilities | **(97)** | (46) |
| **Total interest expense** | **(34,859)** | (17,219) |
| **Net interest income** | **23,515** | 12,397 |

## 3 Net fee and commission income

### Accounting policy

### Fees and commissions income

The Bank recognises fee and commission income in accordance with IFRS 15 Revenue from Contracts with Customers. Revenue is recognised when control of the service is transferred to the customer, that is, when the Bank has satisfied its performance obligations under the contract. Income is measured at the amount of consideration to which the Bank expects to be entitled in exchange for those services, and only to the extent that it is highly probable that a significant reversal of the recognised income will not occur when the uncertainty is subsequently resolved. The Bank applies the IFRS 15 five-step model to all contracts with customers:

Fee and commission income is recognised based on the nature of the underlying service:

- Fees for the execution of a significant act (for example, executing customer transactions or arranging credit facilities) are recognised in fee income at the point in time the service is performed.
- Fees for the provision of continuous or recurring services (such as account maintenance, safeguarding, or payment services) are recognised over time as the services are delivered.
- Fees relating to card services and similar activities are recognised at a point in time, once the relevant service has been fully provided to the customer.
- Fees and commissions that are integral to the effective interest rate of a financial instrument (for example, loan arrangement fees, or broker fees) are included in the calculation of the effective interest rate and recognised within interest income or interest expense, in accordance with IFRS 9 Financial Instruments.

### Intra-group income

Intra-group income primarily arises from non-GBP denominated Banking Services activities that are contractually undertaken by AS LHV Pank but are predominantly managed and serviced by the Bank. With effect from 1 January 2024, these arrangements are set out in a partnership agreement.

### Fees and commissions expense

Fee and commission expenses are recognised as the related services are received. Where fees and commissions represent incremental costs directly attributable to the origination of a financial asset or liability, they are included in the calculation of the effective interest rate and recognised as part of interest income or interest expense. Non-incremental fees and commissions are expensed as incurred within fee and commission expense. Other fee expense includes trail commission payable to brokers.

| | **2025**<br>**£000** | 2024<br>£000 |
|---|---|---|
| **Fee and commission income** | | |
| Intra-group partnership agreement fee income | **23,532** | 24,321 |
| Banking services fee income | **2,754** | 2,519 |
| **Total fee and commission income** | **26,285** | **26,840** |
| **Fee and commission expense** | | |
| Intra-group fee expense | **-** | (11) |
| Other fee expense | **(2,227)** | (1,891) |
| **Total fee and commission expense** | **(2,227)** | (1,902) |
| **Net fee and commission income** | **24,058** | 24,938 |

## 4 Operating expenses

| | Notes | 2025 £000 | 2024 £000 |
|---|---|---|---|
| Wages and salaries | 5 | **22,896** | 18,715 |
| Outsourced services | | **3,444** | 2,669 |
| Legal and professional | | **1,082** | 1,169 |
| Depreciation of PPE, right-of-use assets and intangible assets | | **1,281** | 1,091 |
| Information technology | | **3,431** | 3,980 |
| Other | | **7,310** | 5,573 |
| **Total operating expenses** | | **39,443** | **33,197** |

## 5 Wages and salaries

Wages and salaries include monetary and non-monetary benefits, as well as accumulating sick leave, that are expected to be settled in full within twelve months of the end of the reporting period in which the related services are rendered.

Bonus arrangements are recognised when the Bank has a present obligation as a result of past service and the amount can be measured reliably. Bonus costs are accrued over the service period to which the incentive relates.

The Bank operates a defined contribution pension scheme. Contributions are made to publicly or privately administered pension plans on a mandatory, contractual, or voluntary basis. Once the contributions are paid, the Bank has no further payment obligations. Contributions are recognised as an expense in the period in which the related employee services are provided.

Policies relating to share-based payment arrangements are disclosed in Note 30.

| | 2025 £000 | 2024 £000 |
|---|---|---|
| Wages and salaries | **19,474** | 15,815 |
| Employee benefits | **63** | 54 |
| Social security costs and defined contribution pension expenses | **2,582** | 2,188 |
| Equity-settled share-based payments | **777** | 658 |
| **Total wages and salaries** | **22,896** | **18,715** |

The monthly average number of employees (including directors) of the Bank during the year was made up as follows:

| | 2025 Number | 2024 Number |
|---|---|---|
| Loan operations and servicing | **20** | 15 |
| Banking services | **57** | 51 |
| Support functions | **145** | 130 |
| **Total staff** | **222** | **196** |

## 6 Directors' remuneration

This table sets out emoluments and pension contributions in respect of the Bank's directors.

| | 2025 £000 | 2024 £000 |
|---|---|---|
| Directors' emoluments | **957** | 1,299 |
| Shares-based compensation | **95** | 292 |
| Pension contributions | **14** | 14 |
| **Total directors' remuneration** | **1,066** | **1,605** |

The above amounts include the following in respect of the highest paid director.

| | 2025 £000 | 2024 £000 |
|---|---|---|
| Emoluments | **294** | 328 |
| Shares-based compensation | **91** | 136 |
| Pension contributions | **-** | - |
| **Total highest paid director remuneration** | **385** | **464** |

Directors' emoluments are the aggregate amount of remuneration (including salary, fees, bonuses and benefits in kind) paid/payable within the year. During the year, the highest paid director exercised 149,170 share options with an exercise price of EUR 2.18). One director's salary and share-based awards are provided by the parent company, AS LHV Group, in respect of services rendered to the Group as a whole. These costs are neither recharged to, nor allocated between, individual group entities and have therefore been excluded from the directors' remuneration disclosures above.

## 7 Independent auditors' fees

| | 2025 £000 | 2024 £000 |
|---|---|---|
| Fees payable for the statutory audit of the Bank's financial statements | **450** | 268 |
| Fees payable for subscription services | **2** | - |
| **Total fees payable to auditors** | **452** | **268** |

Audit and non-audit fees disclosed by the Bank are shown exclusive of VAT.

All non-audit services undertaken by the external auditor fell within the FRC's permitted non-audit services framework.

## 8 Change in expected credit losses allowance

Details of the Bank's accounting policy on expected credit loss allowance are set out in Note 34 – credit risk.

| | 2025 £000 | 2024 £000 |
|---|---|---|
| ECL movements on loans and advances to customers | **1,276** | 412 |
| Increase in ECL on off-balance sheet exposures | **91** | - |
| **Change in expected credit losses** | **1,367** | **412** |

## 9 Taxation

### Accounting policy

The total income tax charge or credit for the year comprises current tax and deferred tax. Current tax represents the amount payable on taxable profit for the period, calculated using tax rates and legislation that have been enacted or substantively enacted by the reporting date in the jurisdictions in which the Bank operates. Deferred tax reflects the future tax consequences of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases, as well as the tax effects of unused tax losses.

Management reviews tax positions taken in the Bank's returns and recognises provisions where uncertainties exist, based on the amounts expected to be paid to or recovered from the tax authorities.

Deferred tax is recognised in full on temporary differences using the liability method. Deferred tax is not recognised on the initial recognition of assets or liabilities arising from transactions that are not business combinations and that affect neither accounting profit nor taxable profit at the time of the transaction. Deferred tax balances are measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date and that are expected to apply when the related asset is realised or liability settled.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences or unused tax losses can be utilised.

Where the Bank benefits from special tax incentives or allowances, for example, the UK Research and Development Tax Incentive or other qualifying investment allowances, these are accounted for as tax credits, reducing current tax payable and the current tax expense.

For the year ended 31 December 2025, current tax has been calculated using the UK corporation tax rate of 25%.

The Bank recognised a deferred tax asset in respect of carried-forward tax losses for the first time in 2024. Further information is provided in Note 21.

## 9.1 Tax charge/(credit)

| | **2025** | 2024 |
|---|---|---|
| | **£000** | £000 |
| **Current tax expense** | | |
| – Current tax on profits for the year | **1,841** | 56 |
| – Adjustments in respect to prior years | **(225)** | - |
| **Deferred tax charge/(credit)** | | |
| – Current year | **19** | 905 |
| – Adjustments in respect to prior years | **369** | - |
| **Total tax charge/(credit)** | **2,004** | **961** |

## 9.2 Reconciliation of effective tax rate

The expected tax charge for the year ended 31 December 2025 is 25% (2024: 25%). A reconciliation from the charge/(credit) implied by the standard rate to the actual tax credit is as follows:

| | **2025** | 2024 |
|---|---|---|
| | **£000** | £000 |
| **Profit before tax** | **6,766** | 4,044 |
| Tax charge based on the applicable UK Corporation Tax rate of 25% (2024: 25%) | **1,691** | 1,011 |
| **Tax effect of:** | | |
| Non-deductible expenses for tax purposes | **130** | 22 |
| Group relief claimed/surrendered | **-** | (576) |
| Adjustments in respect to prior years | **144** | 255 |
| Deferred tax recognised | **-** | 404 |
| Fixed asset differences | **5** | 3 |
| R&D expenditure credits | **36** | (105) |
| Other differences | **(2)** | (53) |
| **Total tax charge/(credit)** | **2,004** | **961** |

## 10 Financial instruments

## Accounting policy

## Financial instruments

### Recognition and initial measurement

The Bank recognises a financial asset or financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument.

On initial recognition, financial assets and liabilities are measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or liability are added to or deducted from the initial carrying amount, except for instruments classified at fair value through profit or loss (FVTPL), where such costs are recognised immediately in the income statement.

Regular-way purchases and sales of financial assets are recorded on the trade date.

### Derecognition of financial instruments

Derecognition of financial assets:

A financial asset is derecognised when either:

- the contractual rights to receive the cash flows expire; or
- the Bank transfers the asset and substantially all the risks and rewards of ownership.

On derecognition, the difference between the asset's carrying amount (or the portion derecognised) and the consideration received, including any new asset obtained or liability assumed, is recognised in the income statement.

### Derecognition of financial liabilities:

A financial liability is derecognised when the obligation is extinguished, i.e., discharged, cancelled, or expires. Any resulting gain or loss is recorded in the income statement.

### Classification of financial assets

Financial assets are classified into one of three categories:

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

Classification is determined by applying:

1. Business model assessment – evaluating how groups of financial assets are managed (e.g., to collect contractual cash flows only, or both collect and sell). This assessment is performed at a portfolio level and based on expectations at origination. Subsequent deviations in actual cash flow patterns do not, in themselves, change the classification.
2. SPPI test – assessing whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. "Principal" refers to the fair value on initial recognition; "interest" represents compensation for the time value of money, credit risk, and other basic lending costs plus a profit margin. Only debt instruments may satisfy the SPPI condition.

Almost all of the Bank's financial assets satisfy both criteria and are therefore measured at amortised cost.

Reclassification of financial assets is required only when the Bank changes its business model, and such changes are expected to be infrequent. Reclassification is applied prospectively.

### Measurement of financial assets

#### Amortised cost

Assets classified at amortised cost are initially recognised at fair value plus transaction costs and subsequently measured using the effective interest rate (EIR) method. The carrying amount represents the amount advanced, adjusted for repayments, accrued interest, amortisation, and expected credit loss (ECL) allowances.

Such assets include loans and advances to customers and cash and balances with other banks.

#### Purchased or originated credit-impaired (POCI) assets

For POCI assets, a credit-adjusted EIR is applied, reflecting expected credit losses in the estimated cash flows at inception. Subsequent revisions to expected cash flows adjust the carrying amount using the original credit-adjusted EIR, with changes recognised in profit or loss.

#### Fair value through profit or loss (FVTPL)

Financial assets measured at FVTPL are recognised initially and subsequently at fair value, with gains and losses taken directly to the income statement.

#### Fair value through other comprehensive income (FVOCI)

Debt instruments classified at FVOCI are recognised at fair value on initial recognition (including transaction costs) and subsequently measured at fair value. Changes in fair value are recognised in other comprehensive income, except for:

- impairment losses,
- foreign exchange gains and losses, and
- interest income calculated using the EIR method.

Gains or losses accumulated in OCI are reclassified to profit or loss upon derecognition.

At the balance sheet date, the Bank does not hold any assets classified as FVOCI.

The accounting policy for expected credit losses is presented in Note 34 – credit risk.

### Financial liabilities at amortised cost

Financial liabilities represent contractual obligations to deliver cash or another financial asset. They are initially recognised at fair value net of directly attributable transaction costs (other than derivatives) and subsequently measured at amortised cost using the EIR method.

The Bank's principal financial liabilities include customer deposits and subordinated liabilities.

### Offsetting

Financial assets and liabilities are presented on a net basis only when the Bank:

- has a legally enforceable right to offset the recognised amounts; and
- intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

As at 31 December 2025 and 31 December 2024, no financial instruments have been offset in the statement of financial position.

### Financial assets pledged as collateral

Refer to note 34.3.1 for the assets pledged as collateral or encumbered as at 31 December 2025 and 2024. As at 31 December 2025, the Bank had not used any funding schemes from the Bank of England.

The following table summarises the classification and carrying amounts of the Bank's financial assets and liabilities:

| 2025 | Amortised cost £000 | FVTPL £000 | Total £000 |
|---|---|---|---|
| **Cash and cash equivalents:** | | | |
| – Central bank | 544,809 | - | 544,809 |
| – Other banks | 13,676 | - | 13,676 |
| Amounts due from other Group undertakings | 1,778 | - | 1,778 |
| Derivative financial instruments | - | 481 | 481 |
| Loans and advances to customers | 682,579 | - | 682,579 |
| Other assets | 1,674 | - | 1,674 |
| **Total financial assets** | **1,244,516** | **481** | **1,244,997** |
| | | | |
| Derivative financial instruments | - | 446 | 446 |
| Deposits by customers | 1,114,403 | - | 1,114,403 |
| Amounts due to other banks | 9,090 | - | 9,090 |
| Amounts due to other Group undertakings | 12 | - | 12 |
| Subordinated liabilities | 10,033 | - | 10,033 |
| Other liabilities | 1,485 | - | 1,485 |
| **Total financial liabilities** | **1,135,023** | **446** | **1,135,469** |

| 2024 | Amortised cost £000 | FVTPL £000 | Total £000 |
|---|---|---|---|
| **Cash and cash equivalents:** | | | |
| – Central bank | **344,141** | - | **344,141** |
| – Other banks | **18,158** | - | **18,158** |
| Amounts due from other Group undertakings | **2,811** | - | **2,811** |
| Derivative financial instruments | - | - | - |
| Loans and advances to customers | **288,799** | - | **288,799** |
| Other assets | **1,732** | - | **1,732** |
| **Total financial assets** | **655,642** | - | **655,642** |
| | | | |
| Derivative financial instruments | - | - | - |
| Deposits by customers | **559,887** | - | **559,887** |
| Amounts due to other banks | **24,633** | - | **24,633** |
| Amounts due to other Group undertakings | **108** | - | **108** |
| Subordinated liabilities | - | - | - |
| Other liabilities | **281** | - | **281** |
| **Total financial liabilities** | **584,909** | - | **584,909** |

No financial assets or liabilities were reclassified during the year ended 31 December 2025 or 31 December 2024.

## 11 Cash and balances with central banks and other banks

### Accounting policy

Cash and balances with central banks and other banks comprise cash held with the central banks (Bank of England and the European Central Bank), as well as cash balances and short-term advances to other banks including with AS LHV Pank (a sister group company).

| | 2025 £000 | 2024 £000 |
|---|---|---|
| Cash and balances with central banks | **544,809** | 344,141 |
| Cash and balances with other banks | **13,676** | 18,158 |
| **Total cash and cash equivalents** | **558,485** | **362,299** |

All cash and cash equivalents were classified as Stage 1 under IFRS 9 as at 31 December 2025 and 31 December 2024. No expected credit loss allowance was recognised in respect of cash and cash equivalents at either reporting date (2025: £nil; 2024: £nil).

## 12 Cash flow information

### 12.1 Cash generated/(used in) from operating activities

| | Notes | **2025 £000** | 2024 £000 |
|---|---|---|---|
| Adjustments for non-cash items: | | | |
| – Change in expected credit losses and other credit impairment charges | Note 8 | **1,367** | 412 |
| – Change in provisions | Note 25 | **91** | - |
| – Depreciation, amortisation and impairment | Note 19 & 20 | **1,453** | 1,091 |
| – Share-based payment charge | Note 29 | **777** | 658 |
| – Interest on leases | Note 18 | **97** | 136 |
| – Interest on subordinated liabilities and other borrowings | Note 24 | **33** | - |
| – Foreign exchange translation differences | | **63** | 102 |
| – Changes in fair value of financial instruments measured through profit and loss | | **183** | - |
| **Total adjustments for non-cash items** | | **4,064** | **2,399** |

| | Notes | **2025 £000** | 2024 £000 |
|---|---|---|---|
| Changes in operating assets and liabilities: | | | |
| – Loans and advances to customers | Note 14 | **(395,147)** | (219,757) |
| – Deposits by customers | Note 23 | **554,635** | 376,839 |
| – Financial instruments at fair value through profit or loss | Note 13 | **(217)** | - |
| – Amounts due to other banks | Note 22 | **(15,543)** | (57,473) |
| – Intercompany trading balances | Note 17 | **936** | (2,419) |
| – Prepayments and accrued income | Note 15 | **(400)** | (1,093) |
| – Accruals | Note 27 | **675** | (486) |
| – Other assets | Note 16 | **(704)** | (697) |
| – Other liabilities | Note 27 | **3,579** | 301 |
| **Total changes in operating assets and liabilities** | | **147,814** | **95,215** |

The table below presents the Bank’s net debt at the balance sheet dates and illustrates the movements in indebtedness during the period, reflecting both cash flows and non-cash changes.

## 12.2 Net debt reconciliation

| | Liabilities from financing activities | | | Other assets | |
|---|---|---|---|---|---|
| | Borrowings £000 | Leases £000 | Sub-total £000 | Cash £000 | Total £000 |
| **Net debt as at 1 January 2024** | - | (4,004) | (4,004) | 242,125 | 238,121 |
| **Cash flow items** | | | | | |
| Financing cash flows | - | 1,045 | 1,045 | 107,778 | 108,823 |
| Interest payments/(receipts) | - | - | - | 12,397 | 12,397 |
| **Non-cash flow items** | | | | | |
| Interest (expense)/income | - | - | - | - | - |
| Accretion of interest | - | (136) | (136) | - | (136) |
| New/ (disposal) of lease | - | 728 | 728 | - | 728 |
| **Net as at 31 December 2024** | **-** | **(2,367)** | **(2,367)** | **362,299** | **359,933** |
| **Cash flow items** | | | | | |
| Financing cash flows | (10,000) | 1,010 | (8,990) | 172,670 | 163,680 |
| Interest payments/(receipts) | - | - | - | 23,515 | 23,515 |
| **Non-cash flow items** | | | | | |
| Interest (expense)/income | (33) | 0 | (33) | - | (33) |
| Accretion of interest | - | (97) | (97) | - | (97) |
| New/ (disposal) of lease | - | - | - | - | - |
| **Net as at 31 December 2025** | **(10,033)** | **(1,454)** | **(11,487)** | **558,485** | **546,998** |

## 13 Derivative and hedging activities

### Accounting policy

### Derivative instruments

Derivative instruments are financial contracts whose value fluctuates in response to movements in specified underlying variables, such as interest rates, foreign exchange rates, or financial indices. During the year, the Bank entered into derivative transactions to manage its exposure to interest rate risk from its banking activities.

Derivatives are recognised on the statement of financial position at fair value from the date the contract is entered into and are remeasured to fair value at each reporting date. Derivative assets are recognised where the fair value is positive, and derivative liabilities where the fair value is negative.

### Hedge accounting

The Bank designates certain derivative instruments as hedging instruments in fair value hedges of interest rate risk. These hedges relate to portfolios of financial assets and liabilities identified through the Bank's risk management framework. The Bank has elected to apply the IFRS 9 micro fair value hedge accounting.

For derivatives in hedge relationship for fair value hedge accounting, changes in the fair value of the hedging instruments are recognised in the statement of comprehensive income together with the corresponding changes in the fair value of the hedged items that are attributable to the hedged risk. These gains and losses are presented within 'Changes in fair value of financial instruments measured at FVTPL'.

Where hedge accounting ceases to apply, any cumulative fair value adjustment recognised in the carrying amount of the hedged item is amortised to profit or loss on a straight-line basis over the remaining term of the hedged exposure.

### Hedge documentation and risk management

At the inception of each hedging relationship, the Bank formally documents the hedge designation, including the hedged item, hedging instrument, hedged risk, and the methodology used to assess hedge effectiveness on an ongoing basis.

Derivative instruments held by the Bank consist of interest rate swaps contracts, which are used exclusively for risk management purposes. Interest rate swaps are designated as hedging instruments where they meet the criteria for fair value hedge accounting. The Bank does not engage in speculative derivative activity, and its hedge accounting strategy is limited to hedges of interest rate risk.

The derivative instruments outstanding at the reporting date are summarised in the table below. Accrued interest is included in the carrying value of the asset/(liability).

| | **2025** | | | 2024 | | |
|---|---|---|---|---|---|---|
| | **Notional amount** | **Asset carrying value** | **Liability carrying value** | Notional amount | Asset carrying value | Liability carrying value |
| | **£000** | **£000** | **£000** | £000 | £000 | £000 |
| **Derivatives in accounting hedge relationships** | | | | | | |
| Interest rate swaps | **293,860** | **481** | **(446)** | - | - | - |
| **Derivatives in economic and not accounting hedge** | | | | - | - | - |
| Interest rate swaps | **-** | **-** | **-** | - | - | - |
| **Total derivatives** | **293,860** | **481** | **(446)** | **-** | **-** | **-** |

Information on derivative instruments that are formally designated as hedging instruments within qualifying hedge relationships is set out below.

The table below presents the aggregate fair value movements recognised in profit or loss for financial instruments measured at fair value through profit or loss (FVTPL).

| | **2025** | 2024 |
|---|---|---|
| | **£000** | £000 |
| Net gain/(loss) on derivatives designated as fair value hedges | **30** | - |
| Fair value adjustments from hedge accounting | **(213)** | - |
| **Ineffectiveness of fair value hedges** | **(183)** | **-** |
| Movements on the other financial instruments measured at FVTPL | **-** | - |
| **Changes in fair value of financial assets measured at FVTPL** | **(183)** | **-** |

### Interest rate risk on fixed-rate assets and liabilities

The Bank is exposed to changes in the fair value of certain individually identified fixed-rate financial assets and liabilities arising from movements in market interest rates. This exposure is managed through the use of interest rate swap derivatives, which convert fixed interest rate cash flows into floating rate cash flows.

Under its micro fair value hedge framework, the Bank designates specific fixed-rate instruments as hedged items and aligns them with corresponding interest rate swaps that are entered into for risk management purposes.

Only the interest rate risk component of the hedged item is designated in the hedge relationship. Other risks inherent in the underlying instruments, such as credit risk, liquidity risk, or prepayment risk, are actively monitored and managed but are not designated as hedged risks for accounting purposes.

The hedged risk is defined as the exposure to changes in fair value attributable to movements in a specified benchmark interest rate. The impact of changes in market interest rates is typically the predominant driver of fair value volatility for the instruments designated in these hedge relationships.

The hedge relationship is designated as a fair value hedge in accordance with IFRS 9. Hedge effectiveness is assessed by comparing the changes in the fair value of the hedged item attributable to the benchmark interest rate with the corresponding changes in the fair value of the designated interest rate swap. Hedge relationships are assessed on both a prospective and ongoing basis to ensure that an economic relationship continues to exist between the hedged item and the hedging instrument and that hedge ineffectiveness remains within acceptable limits.

Changes in the fair value of the hedging instrument and the corresponding changes in the fair value of the hedged item attributable to the hedged risk are recognised in the statement of comprehensive income and presented within 'Changes in fair value of financial instruments measured at FVTPL'.

Where a fair value hedge relationship is discontinued, any cumulative fair value adjustment recognised in the carrying amount of the hedged item is amortised to profit or loss over the remaining term of the instrument using a straight-line basis.

### Sources of hedge ineffectiveness

Potential sources of hedge ineffectiveness within micro fair value hedges include, but are not limited to:

- differences between the benchmark interest rate used to measure the hedged item and the discounting or reference rate applied to the hedging instrument; and
- timing mismatches between the maturity or repricing profile of the hedged item and the interest rate swap.

The following table contains details of the hedging instruments used in the Bank's hedging strategy:

| 2025 | Notional | Carrying amount asset/(liability) | Statement of financial position line item | Changes in fair value used for calculating hedge ineffectiveness (charge) |
|---|---|---|---|---|
| | £000 | £000 | | £000 |
| Interest rate swaps | **176,930** | **481** | Derivative financial assets | 154 |
| Interest rate swaps | **116,930** | **(446)** | Derivative financial liabilities | (124) |
| | **293,860** | **35** | | **30** |

| 2024 | Notional | Carrying amount asset/(liability) | Statement of financial position line item | Changes in fair value used for calculating hedge ineffectiveness (charge) |
|---|---|---|---|---|
| | £000 | £000 | | £000 |
| Interest rate swaps | - | - | Derivative financial assets | - |
| Interest rate swaps | - | - | Derivative financial liabilities | - |
| | - | - | | - |

The following table contains details of the hedged exposures covered by the Bank's hedging strategy:

| 2025 | Notional | Accumulated amount of the fair value adjustments on the hedged item | Statement of financial position line item | Changes in fair value used for calculating hedge ineffectiveness (charge) |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Fixed rate loans and advances to customers | **146,235** | **(94)** | Loans and advances to customers | (94) |
| Fixed rate term deposits | **149,287** | **(119)** | Deposits by customers | (119) |
| | | **(213)** | | **(213)** |

| 2024 | Notional | Accumulated amount of the fair value adjustments on the hedged item | Statement of financial position line item | Changes in fair value used for calculating hedge ineffectiveness (charge) |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Fixed rate loans and advances to customers | - | - | Loans and advances to customers | - |
| Fixed rate term deposits | - | - | Deposits by customers | - |

For the purposes of calculating ineffectiveness recognised in the statement of comprehensive income, the total accumulated amount of fair value hedge adjustment is used.

The contractual maturities of derivatives designated in a hedge relationship are included in Note 34.

## 14 Loans and advances to customers

### Accounting policy

The Bank's lending activities are organised into two principal categories of secured credit portfolios:

- Commercial investment loans – loans secured by a legal charge over commercial real estate advanced to business customers primarily for investment purposes, such as the acquisition, development, or refinancing of income-generating assets or investments. Repayment is typically dependent on the cash flows generated by the underlying investment. Loans are collateralised by the underlying commercial assets.
- Commercial mortgage loans – loans secured by a legal charge over commercial real estate, including offices, retail premises, or mixed-use developments. Repayment is supported by rental income or other business cash flows associated with the property. Loans are collateralised by the underlying commercial assets.

| | **2025 £000** | 2024 £000 |
|---|---|---|
| Gross secured lending | **684,566** | 289,416 |
| Less: allowance for expected credit losses | **(1,893)** | (617) |
| **Total secured lending** | **682,673** | 288,799 |
| Fair value adjustment for hedged risk | **(94)** | - |
| **Total loans and advances to customers** | **682,579** | **288,799** |

## 15 Prepayments and accrued income

| | **2025 £000** | 2024 £000 |
|---|---|---|
| Prepayments | **995** | 717 |
| Accrued income | **1,027** | 905 |
| **Total prepayments and accrued income** | **2,022** | 1,622 |
| Current portion | **2,022** | 1,622 |
| Non-current portion | **-** | - |

## 16 Other assets

| | **2025 £000** | 2024 £000 |
|---|---|---|
| Customer receivables | **1** | 21 |
| Other receivables | **2,557** | 1,446 |
| **Total other assets** | **2,558** | 1,467 |
| Current portion | **2,210** | 1,135 |
| Non-current portion | **349** | 332 |

## 17 Amounts due to and from other Group undertakings

The amounts set out below represent transactions and balances with other group undertakings. Intra-group receivables comprise amounts invoiced for services provided under the partnership agreement that remained outstanding at the reporting date. These balances are settled in cash on a monthly basis. The Bank also places and holds interest-bearing deposits with/from AS Pank. Interest received/paid on these is included in income/expenditure columns below.

| **2025** | **Income** | **Expenditure** | **Amounts due from Group undertakings** | **Amounts due to Group undertakings** |
|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** |
| AS LHV Pank | **23,532** | **6,846** | **1,778** | **12** |
| AS LHV Paytech | **-** | **1,560** | **-** | **-** |
| AS LHV Varahaldus | **-** | **-** | **-** | **-** |
| AS LHV Kindlustus | **-** | **-** | **-** | **-** |
| AS LHV Group | **-** | **194** | **-** | **-** |
| **Total** | **23,532** | **8,600** | **1,778** | **12** |

| **2024** | Income | Expenditure | Amounts due from Group undertakings | Amounts due to Group undertakings |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| AS LHV Pank | 24,320 | 1,040 | 2,811 | 108 |
| AS LHV Paytech | - | 1,115 | - | - |
| AS LHV Varahaldus | - | - | - | - |
| AS LHV Kindlustus | - | - | - | - |
| AS LHV Group | - | 43 | - | - |
| **Total** | **24,320** | **2,198** | **2,811** | **108** |

## 18 Right-of-use assets and lease liabilities

### Accounting policy

The Bank enters into lease arrangements primarily in respect of office accommodation and data centre facilities.

Lease agreements are negotiated individually and incorporate a variety of commercial terms. Other than the lessor's security interest in the leased assets, the arrangements do not contain restrictive covenants. Assets subject to lease arrangements are not pledged as collateral for the Bank's financing activities.

At the commencement date of a lease, being the date on which the leased asset is made available for use, the Bank recognises a right-of-use asset and a corresponding lease liability. Both are initially measured based on the present value of future lease payments.

Lease liabilities include fixed payments and in-substance fixed payments, together with payments arising from extension options where the Bank is reasonably certain to exercise those options.

Future lease payments are discounted using the interest rate implicit in the lease, where this can be readily determined. As this is generally not observable for the Bank's lease arrangements, the incremental borrowing rate (IBR) is applied. The IBR represents the rate the Bank would be required to pay to borrow funds over a similar term, with similar security, to acquire an asset of comparable value in a similar economic environment.

Lease payments are apportioned between a reduction of the lease liability and a finance charge, with the finance cost recognised in the income statement over the lease term to reflect a constant periodic rate of interest on the outstanding liability.

Right-of-use assets are initially recognised at cost, comprising:

- the initial measurement of the lease liability;
- any directly attributable initial costs; and
- estimated costs associated with restoration or dismantling obligations.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset, unless the Bank is reasonably certain to exercise a purchase option, in which case depreciation is charged over the asset's expected useful life.

## 18.1 Right-of-use assets

| | **2025 £000** | 2024 £000 |
|---|---|---|
| Balance as at 1 January | **2,028** | 3,418 |
| Additions | **-** | - |
| Depreciation during the year | **(743)** | (878) |
| Adjustment | **-** | (1,042) |
| Disposals | **-** | 529 |
| **Balance as at 31 December** | **1,285** | **2,028** |

## 18.2 Lease liabilities

| | **2025 £000** | 2024 £000 |
|---|---|---|
| Balance as at 1 January | **2,367** | 4,004 |
| Additions | **-** | - |
| Interest charged during the year | **97** | 136 |
| Payments during the year | **(1,010)** | (1,045) |
| Disposals | **-** | (728) |
| **Balance as at 31 December** | **1,454** | **2,367** |
| – of which is current | 846 | 948 |
| – of which is non-current | 608 | 1,419 |

The maturity profile of undiscounted contractual cash flows is as follows:

| | **2025 £000** | 2024 £000 |
|---|---|---|
| Less than one year | **870** | 948 |
| One to two years | **584** | 1,419 |
| **Total undiscounted lease liabilities** | **1,454** | **2,367** |

## 18.3 Amounts recognised in the income statement

| | 2025 £000 | 2024 £000 |
|---|---|---|
| **Interest expense** | | |
| Interest on lease liabilities | **97** | 136 |
| Operating expenses | | |
| Depreciation of right-of-use assets | **743** | 878 |
| Loss on disposal of lease | **-** | - |
| **Total amounts recognised in the income statement** | **840** | **1,014** |

## 19 Property, plant and equipment

### Accounting policy

Property, plant and equipment are recorded at cost, net of accumulated depreciation and any accumulated impairment losses. Cost comprises the purchase price of the asset together with directly attributable expenditure incurred in bringing the asset to the location and condition necessary for its intended use. Only costs that are essential to the acquisition and commissioning of the asset are capitalised.

Depreciation is recognised on a straight-line basis over the estimated useful lives of the assets, down to their residual values. The principal depreciation periods applied by the Bank are as follows:

- Office equipment: 5 years
- Fixtures and fittings: 5 years

Depreciation commences in the month following the date on which the asset becomes available for use.

The useful lives and residual values of property, plant and equipment are reviewed at least annually and adjusted where current expectations differ from previous estimates.

Where there is an indication that an asset may be impaired, its recoverable amount is determined as the higher of its value in use, calculated using estimated future cash flows, and its fair value less costs of disposal. If the carrying amount exceeds the recoverable amount, an impairment loss is recognised in the income statement.

Impairment losses are reversed only when there has been a change in the estimates used to determine the recoverable amount, and only to the extent that the asset's carrying amount does not exceed the amount that would have been recognised had no impairment loss previously been recorded, after allowing for depreciation.

| **2025** | **Leasehold improvements £000** | **Fixtures and fittings £000** | **Computer equipment £000** | **Total £000** |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance as at 1 January | **2,248** | **396** | **123** | **2,766** |
| Asset acquisition | - | - | - | - |
| Additions | - | - | - | - |
| **Balance as at 31 December** | **2,248** | **396** | **123** | **2,766** |
| **Accumulated depreciation** | | | | |
| Balance as at 1 January | 976 | 274 | 109 | 1,359 |
| Depreciation charge for the year | 450 | 74 | 14 | 538 |
| **Balance as at 31 December** | **1,425** | **348** | **123** | **1,896** |
| **Net book value** | **822** | **47** | **-** | **870** |

| **2024** | **Leasehold improvements £000** | **Fixtures and fittings £000** | **Computer equipment £000** | **Total £000** |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance as at 1 January | 2,283 | 382 | 123 | 2,788 |
| Adjustment | (40) | - | - | (40) |
| Additions | 5 | 14 | - | 19 |
| **Balance as at 31 December** | **2,248** | **396** | **123** | **2,766** |
| **Accumulated depreciation** | | | | |
| Balance as at 1 January | 558 | 144 | 68 | 770 |
| Depreciation charge for the year | 451 | 130 | 41 | 621 |
| Adjustment | (32) | - | - | (32) |
| **Balance as at 31 December** | **976** | **274** | **109** | **1,359** |
| **Net book value** | **1,272** | **122** | **14** | **1,408** |

## 20 Intangible assets

### Accounting policy

Internally generated intangible assets comprise capitalised external development costs, incurred in developing software and other intangible assets in-house. This includes software under development by the Bank. Expenditure incurred during the research phase of internal projects is recognised as an expense as incurred. Development expenditure is capitalised only when the Bank can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use;
- its intention and ability to complete and use the asset;
- the availability of adequate technical, financial, and other resources to complete the development;
- that the asset is expected to generate probable future economic benefits; and
- that the costs attributable to the asset can be measured reliably.

Internally generated intangible assets are initially recognised at cost. Assets under development are not amortised until they are available for use.

Once brought into use, internally generated intangible assets are amortised on a straight-line basis over their estimated useful lives, which are assessed to be five years, and the amortisation charge is recognised within operating expenses in the income statement. The residual value of internally generated intangible assets is assumed to be nil.

Internally generated intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

Where there is an indication that an internally generated intangible asset may be impaired, the Bank estimates its recoverable amount, being the higher of value in use and fair value less costs of disposal. An impairment loss is recognised in the income statement where the carrying amount exceeds the recoverable amount. Impairment losses are reversed only where there has been a change in the estimates used to determine the recoverable amount, and only to the extent that the carrying amount does not exceed the amount that would have been determined had no impairment loss previously been recognised, after allowing for amortisation.

| 2025 | Internally generated<br>£000 | Total<br>£000 |
|---|---|---|
| **Cost** | | |
| Balance as at 1 January | 1,041 | 1,041 |
| Asset acquisition | - | - |
| Additions | 325 | 325 |
| Disposal/write-offs | - | - |
| **Balance as at 31 December** | **1,366** | **1,366** |
| | | |
| **Accumulated amortisation** | | |
| Balance as at 1 January | - | - |
| Amortisation charge for the year | (172) | (172) |
| Disposals/write-offs | - | - |
| **Balance as at 31 December** | **(172)** | **(172)** |
| | | |
| **Net book value** | **1,193** | **1,193** |

| 2024 | Internally generated | Total |
|---|---|---|
| | £000 | £000 |
| **Cost** | **-** | **-** |
| Balance as at 1 January | - | - |
| Asset acquisition | - | - |
| Additions | 1,041 | 1,041 |
| Disposal/write-offs | - | - |
| **Balance as at 31 December** | **1,041** | **1,041** |
| | | |
| **Accumulated amortisation** | - | - |
| Balance as at 1 January | - | - |
| Amortisation charge for the year | - | - |
| Disposals/write-offs | - | - |
| **Balance as at 31 December** | **-** | **-** |
| | | |
| **Net book value** | **1,041** | **1,041** |

## 21 Deferred tax

### Accounting policy

In 2024, the Bank has recognised a deferred tax asset on the basis that there is convincing evidence that sufficient taxable profits were expected to arise in future periods to enable the utilisation of accumulated tax losses.

In accordance with IFRS, deferred tax assets in respect of deductible temporary differences and carried-forward tax losses are recognised only where it is probable that future taxable profits will be available against which those amounts can be utilised.

In assessing the recoverability of deferred tax assets, the Bank has undertaken a detailed evaluation that considers, among other factors:

- the existence and timing of taxable temporary differences that may reverse in the relevant periods; and
- the likelihood of generating adequate taxable profits in the periods in which deductible temporary differences reverse or tax losses may be utilised.

The recognition of the deferred tax asset is dependent on the level of forecast taxable profits, which are derived from the Bank's five-year financial plan. In forming its judgement, the Board has reviewed this plan in conjunction with the assessments performed for going concern and viability purposes.

The financial plan reflects management's current expectations of the Bank's operating performance and competitive position and is based on Board-approved strategic assumptions. The forecasts are inherently sensitive to key assumptions, including macroeconomic conditions such as interest rates, tax legislation, geopolitical developments, and potential climate-related risks, as well as the Bank's ability to execute its strategic objectives. As a result, the timing and extent of utilisation of the deferred tax asset may vary from period to period.

Under prevailing tax legislation, carried-forward tax losses may be utilised without time limitation. Based on the forecast profitability of the Bank, management considers it highly probable that these losses will be recovered in future periods.

The table below shows the movement in net deferred tax assets:

| | 2025 £000 | 2024 £000 |
|---|---|---|
| At 1 January | **806** | 1,710 |
| Acquired | **-** | - |
| (Charged)/credited | | |
| – to profit or loss | **(388)** | (905) |
| **At 31 December** | **418** | 806 |

The table below shows the breakdown of the deferred tax assets:

| | 2025 £000 | 2024 £000 |
|---|---|---|
| Fixed-asset timing differences | **(38)** | (178) |
| Short term termporary difference | **456** | 111 |
| Tax losses carried forward | **-** | 873 |
| **Total deferred tax assets** | **418** | 806 |

## 22 Amounts to banks

| | 2025 £000 | 2024 £000 |
|---|---|---|
| AS LHV Pank | **9,090** | 24,633 |
| **Total amounts due to banks** | **9,090** | 24,633 |

## 23 Deposits by customers

| | 2025 £000 | 2024 £000 |
|---|---|---|
| Banking service deposits | **80,960** | 149,969 |
| Current accounts | **18,935** | - |
| Demand deposits | **230,950** | 164,496 |
| Term deposits | **783,558** | 245,422 |
| **Total deposits by customers before fair value adjustment for hedged risk** | **1,114,403** | 559,887 |
| Fair value adjustment for hedged risk | 119 | - |
| **Total deposits by customers** | **1,114,522** | **559,887** |

## 24 Subordinated liabilities

| | 2025 £000 | 2024 £000 |
|---|---|---|
| Fixed-rate reset subordinated Tier 2 Notes due 2035 | **10,000** | - |
| Accrued interest | **33** | - |
| **Total subordinated liabilities** | **10,033** | - |

The Bank has £10 million of fixed-rate reset subordinated Tier 2 Notes outstanding, which were issued to AS LHV Group on 17 April 2025. The Notes bear interest on the principal amount at a fixed rate of 8% per annum, with interest payable quarterly in arrears until 17 April 2035.

The Bank holds an option to redeem the Notes in full or in part during the period from 17 April 2030 to 17 April 2035. Any exercise of the redemption option is conditional upon obtaining the relevant regulatory approvals.

## 25 Provisions

### Accounting policy

The Bank recognises a provision where a present legal or constructive obligation exists as a consequence of a past event, the amount of the obligation can be measured with sufficient reliability, and it is probable that settlement will require an outflow of economic resources.

Dilapidations provisions represent the estimated costs that the Bank expects to incur in restoring leased premises to the condition required under the relevant lease agreements at the end of the lease term.

Off-balance sheet expected credit loss (ECL) provisions relate to credit risk exposures arising from committed loan facilities. Movements in these provisions are recognised within changes in expected credit losses and other credit impairment charges in the income statement.

| **2025** | **Dilapidations £000** | **Off-balance sheet ECL £000** | **Total £000** |
|---|---|---|---|
| Balance as at 1 January | **267** | **-** | **267** |
| Acquired liabilities | - | **-** | - |
| Additions | - | 91 | 91 |
| Utilised in the year | - | **-** | - |
| Released in the year | - | **-** | - |
| **Balance as at 31 December** | **267** | **91** | **358** |

| 2024 | Dilapidations | Off-balance sheet ECL | Total |
|---|---|---|---|
| | £000 | £000 | £000 |
| Balance as at 1 January | 267 | - | 267 |
| Acquired liabilities | - | - | - |
| Additions | - | - | - |
| Utilised in the year | - | - | - |
| Released in the year | - | - | - |
| **Balance as at 31 December** | **267** | **-** | **267** |

## 26 Contingent liabilities and commitments

### Accounting policy

SME lending commitments arise in the ordinary course of the Bank's business through the provision of approved loan facilities. These commitments relate to facilities that have been offered by the Bank and accepted by the borrower but remain undrawn at the reporting date.

Although SME lending commitments are not recognised as financial assets on the statement of financial position, they represent irrevocable contractual obligations once accepted by the borrower and therefore expose the Bank to credit risk. In accordance with IFRS 9, an expected credit loss provision is recognised in respect of these off-balance sheet exposures as disclosed in note 30 – credit risk.

When SME lending commitments are drawn down and meet the recognition criteria for financial assets, the resulting exposures are recognised within loans and advances to customers, with any associated off-balance sheet ECL provision reclassified to an on-balance sheet expected credit loss allowance.

Note 18 provides information on financial commitments where the Bank is a lessee as per IFRS 16 'Leases'.

| | 2025 | 2024 |
|---|---|---|
| | £000 | £000 |
| **Loans and advances to customers commitments** | | |
| – Secured SME lending | **108,364** | 69,061 |
| **Total contingent liabilities and commitments** | **108,364** | 69,061 |

## 27 Other liabilities

| | 2025 | 2024 |
|---|---|---|
| | £000 | £000 |
| Other taxation and social security | **2,682** | 869 |
| Trade creditors | **1,486** | 236 |
| Other creditors | **4,709** | 2,574 |
| **Total other liabilities** | **8,876** | 3,679 |
| Current portion | 8,876 | 3,679 |

## 28 Called-up share capital

| | 2025 £000 | 2024 £000 | 2025 Number of shares | 2024 Number of shares |
|---|---|---|---|---|
| **Called-up ordinary share capital, issued and fully paid** | **75,000** | 54,100 | **75,000,000** | 54,100,000 |
| Ordinary shares of £1 each | **30,000** | 20,900 | **30,000,000** | 20,900,000 |
| **Total called-up share capital** | **105,000** | **75,000** | **105,000,000** | 75,000,000 |

During the year 30,000,000 (2024: 20,900,000) £1 shares were issued and paid for by AS LHV Group, the Bank's parent.

## 29 Other reserves

The accounting policy on the share scheme is included in note 30. The merger reserve arose from the transfer of the UK branch of AS Pank to the Bank in August 2023.

| | Merger reserve £000 | Share schemes £000 | Total £000 |
|---|---|---|---|
| **Balance as at 1 January 2025** | **(1,725)** | **1,094** | **(631)** |
| Transfer of exercised and lapsed share options to retained earnings | **-** | **(492)** | **(492)** |
| Share-based payment charge for the year | **-** | **777** | **777** |
| **Balance as at 31 December 2025** | **(1,725)** | **1,379** | **(346)** |
| | | | |
| **Balance as at 1 January 2024** | (1,725) | 436 | (1,289) |
| Transfer of exercised and lapsed share options to retained earnings | - | - | - |
| Share-based payment charge for the year | - | 658 | 658 |
| **Balance as at 31 December 2024** | (1,725) | 1,094 | (631) |

## 30 Share schemes

### Accounting policy

The Bank operates equity-settled share-based payment arrangements under which share options are granted to employees. The fair value of options at the grant date is recognised as an employee benefit expense, with a corresponding credit to equity.

Grant-date fair value is determined using the Black-Scholes pricing model, taking into account the terms and conditions of the award. The total expense recognised reflects the grant-date fair value of the options expected to vest.

The expense is recognised on a straight-line basis over the vesting period, being the period during which the specified service and non-market performance conditions are required to be satisfied. At each reporting date, management reassesses the number of options expected to vest based on non-market vesting and service conditions and revises its estimate accordingly. Any adjustment arising from changes in expectations is recognised in profit or loss, with a corresponding adjustment to equity.

Where an award is modified, the Bank compares the fair value of the original award and the modified award at the modification date. If the modification increases the fair value of the award, the incremental fair value is recognised as an additional expense over the remaining vesting period. For awards that are already vested at the modification date, any incremental fair value is recognised immediately in profit or loss.

### LHV Bank share option programme

AS LHV Group's operates a share options programme that extends to employees of LHV Bank. Key features of the programme are:

- Options are granted by AS LHV Group and are equity-settled
- Options are denominated in Euros, and converted to pound sterling at the date of grant
- Options cannot be exchanged (including in lieu of cash), sold, pledged or encumbered. Options can be inherited.
- No market or performance conditions are attached to the awards
- Awards are made in respect of past performance and are subject to service-based vesting conditions only
- Options may be exercised only during a single annual exercise window, between 1st and 30th April each year
- There are multiple windows per year during which shares may be sold as published on the Group's website.

**Further details can be found on the Group's investor relations website →**

| 2025 | Number of options | Weighted average exercise price EUR |
|---|---|---|
| **Balance at 1 January** | **1,054,138** | **1.85** |
| Granted | 786,702 | 1.63 |
| Exercised | (258,745) | 2.18 |
| Lapsed | (9,175) | 2.18 |
| **Balance at 31 December** | **1,572,920** | **1.68** |
| | | |
| Range of exercise prices (£) | EUR 1.63 - EUR 2.18 | – |
| Weighted average remaining contractual life (years) | 1.6 | – |
| Exercisable awards at 31 December[1] | – | – |

[1] The number of options that will become exercisable in April 2026 is 180,853.

| 2024 | Number of options | Weighted average exercise price EUR |
|---|---|---|
| **Balance at 1 January** | **448,773** | **3.97** |
| Granted | 605,365 | 1.74 |
| Exercised | – | – |
| Lapsed | – | – |
| **Balance at 31 December** | **1,054,138** | **1.85** |
| | | |
| Range of exercise prices (£) | 1.74 – 2.18 | – |
| Weighted average remaining contractual life (years) | 1.6 | – |
| Exercisable awards at 31 December[2] | – | – |

[2] The number of options that will become exercisable in April 2025 is 267,920.

For options granted during the year, the weighted average fair value of the options at the measurement date was EUR 1.50 (2024: EUR 1.61).

For share options exercised during the year, the weighted average share price at the date of exercise was EUR 3.52 (2024: nil).

The inputs into the Black-Scholes option pricing model for grants or modifications during the year are as follows:

| | **2025 £000** | 2024 £000 |
|---|---|---|
| Expected volatility | **16%** | 9% |
| Expected life (years) | **3** | 3 |
| Weighted average share price | **3.25** | 3.48 |
| Exercise price | **1.63** | 1.74 |
| Expected dividends | **2.67%** | 2.86% |
| Risk-free rate | **2.70%** | 3.22% |

Expected volatility has been derived from the last quarter's observed market volatility of the Nasdaq Baltics (where the Group is listed) prior to the grant date, where the Group is listed.

The share-based payment charge in the year was £777k (2024: £658k).

## 31 Related parties

### 31.1 Key management personnel

In accordance with IAS 24 Related Party Disclosures, the Bank is required to provide specific disclosures in respect of key management personnel remuneration. Key management personnel are those individuals who have the authority and responsibility for the strategic direction, management, and oversight of the Bank's operations. For the purposes of these financial statements, the Board of Directors is considered to constitute the Bank's key management personnel.

Details of directors' remuneration are presented in note 6. The share-based payment charge recognised during the year in respect of directors amounted to £95k (2024: £292k). Total remuneration attributable to key management personnel for the year ended 31 December 2025 was £957k (2024: £1,299k).

### 31.2 Other transactions with related parties

Transactions with related parties are disclosed in note 17. All transactions disclosed are at arm's length. There are no other related party transactions in relation to key management personnel.

In addition to the above, the Bank has subordinated liabilities issued to AS LHV Group as disclosed in note 24.

## 32 Ultimate controlling party

The Bank's immediate and ultimate parent is AS LHV Group incorporated in Estonia which prepares group annual report and accounts including all companies within the AS LHV Group. The registered address of AS LHV Group is Tartu mnt 2, 10145 Tallinn, Estonia.

**Copies of the annual reports and accounts may be obtained from the group website →**

## 33 Fair value of financial instruments

Fair value represents the amount that would be obtained from the sale of an asset, or paid to transfer a liability, in a transaction conducted on an orderly basis between market participants at the measurement date. Fair value measurements assume the transaction takes place in the principal market, or, where no principal market exists, in the most advantageous market accessible to the Bank at that date. The valuation of a financial liability incorporates the effect of the Bank's own non-performance risk.

The Bank determines the fair values of financial instruments using a fair value hierarchy that categorises measurements based on the nature and observability of the inputs used in the valuation techniques. The hierarchy consists of the following three levels:

- Level 1 – Measurements based on unadjusted quoted prices in active markets for identical assets or liabilities that are accessible to the Bank at the reporting date.
- Level 2 – Valuations that use inputs other than quoted prices included within Level 1, where those inputs are directly or indirectly observable for the asset or liability over substantially the entire term of the instrument. These inputs may include quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, or other market-based inputs such as observable interest rates, yield curves, credit spreads, and implied volatilities. Instruments classified as Level 2 are valued using models that rely on observable market data.
- Level 3 – Valuations that incorporate significant unobservable inputs, where such inputs have a material impact on the fair value measurement.

| 2025 | Carrying value £000 | Level 1 (quoted market price) £000 | Level 2 (using observable inputs) £000 | Level 3 (significant unobservable inputs) £000 | Total fair value £000 |
|---|---|---|---|---|---|
| Cash and balances with: | | | | | |
| – Central banks | 544,809 | 544,809 | – | – | 544,809 |
| – Other banks | 13,676 | 13,676 | – | – | 13,676 |
| Amounts due from other Group undertakings | 1,778 | – | – | 1,778 | 1,778 |
| Derivative financial instruments | 481 | – | 481 | – | 481 |
| Loans and advances to customers | 682,579 | – | (94) | 789,093 | 788,999 |
| Other assets | 1,674 | – | – | 1,674 | 1,674 |
| **Total financial assets** | **1,244,997** | **558,485** | **386** | **792,545** | **1,351,416** |
| | | | | | |
| Derivative financial instruments | 446 | – | 446 | – | 446 |
| Deposits by customers | 1,114,522 | – | 1,114,522 | – | 1,114,522 |
| Subordinated liabilities | 10,033 | – | 11,966 | – | 11,966 |
| Amounts due to other banks | 9,090 | 9,090 | – | – | 9,090 |
| Amounts due to other Group undertakings | 12 | – | – | 12 | 12 |
| Other liabilities | 1,485 | – | – | 1,485 | 1,485 |
| Total financial liabilities | 1,135,588 | 9,090 | 1,126,934 | 1,496 | 1,137,520 |

| 2024 | Carrying value £000 | Level 1 (quoted market price) £000 | Level 2 (using observable inputs) £000 | Level 3 (significant unobservable inputs) £000 | Total fair value £000 |
|---|---|---|---|---|---|
| Cash and balances with: | | | | | |
| – Central banks | 344,141 | 344,141 | – | – | 344,141 |
| – Other banks | 18,158 | 18,158 | – | – | 18,158 |
| Amounts due from other Group undertakings | 2,811 | – | – | 2,811 | 2,811 |
| Derivative financial instruments | – | – | – | – | – |
| Loans and advances to customers | 288,799 | – | – | 344,959 | 344,959 |
| Other assets | 1,732 | – | – | 1,732 | 1,732 |
| **Total financial assets** | **655,642** | **362,299** | **–** | **349,503** | **711,802** |
| | | | | | |
| Derivative financial instruments | – | – | – | – | – |
| Deposits by customers | 559,887 | – | 401,387 | – | 401,387 |
| Subordinated liabilities | – | – | – | – | – |
| Amounts due to other banks | 24,633 | 24,633 | – | – | 24,633 |
| Amounts due to other Group undertakings | 108 | – | – | 108 | 108 |
| Other liabilities | 281 | – | – | 281 | 281 |
| Total financial liabilities | 584,909 | 24,633 | 401,387 | 389 | 426,409 |

In determining the fair values disclosed for the financial assets and liabilities above, the following valuation approaches and assumptions have been applied:

- Cash and balances with central banks – These balances have original maturities of less than three months. Given their short-term nature, the carrying amounts are considered to provide a reasonable approximation of fair value.
- Cash and balances with other banks – These balances comprise either short-term placements with original maturities of under three months or longer-dated deposits with variable interest rates. As such instruments reprice in line with market rates and no material counterparty credit adjustments are required, their carrying values are not considered to differ materially from fair value.
- Loans and advances to customers – For fixed-rate portfolios, expected future cash flows are estimated over the remaining life of the loans and discounted using current market-based reference rates. The amounts presented as Level 2 fair values relate specifically to the fair value adjustments attributable to hedged interest rate risk (refer to Note 13) and are derived using observable market inputs.
- Customer deposits – The fair value of fixed-rate deposit products is calculated by discounting forecast cash flows over the contractual term using interest rates offered to similar customers at the reporting date. For variable-rate and easy access products, interest rates reprice in line with market conditions, and therefore the carrying amounts are considered to be a reasonable proxy for fair value.

- Subordinated liabilities – In the absence of observable market prices, the fair value of subordinated instruments is estimated using discounted cash flow techniques, applying market-based yield curves appropriate to the remaining term to maturity.
- Other assets and liabilities – These balances consist primarily of short-term receivables and payables. Due to their limited duration, their carrying amounts are not materially different from fair value.
- Derivatives used for interest rate risk management – Interest rate swaps are measured at fair value using discounted cash flow valuation models that incorporate observable market inputs.

## 34 Financial risk management

### 34.1 Credit risk

Credit risk represents the risk of financial loss arising from a borrower or counterparty failing to meet its contractual obligations. The Bank's credit risk primarily arises from loans and advances to customers and loan commitments.

The Bank applies the IFRS 9 expected credit loss (ECL) requirements to all financial assets within scope. Impairment provisions are recognised using a forward-looking methodology that reflects historical performance, current conditions, and reasonable and supportable forecasts of future economic conditions.

The Bank's definition of default is aligned across accounting and regulatory frameworks and is consistent with Article 178 of the UK CRR. An exposure is considered credit-impaired when it meets either the 90 days past due criterion or unlikeliness-to-pay indicators. All defaulted exposures are classified as Stage 3.

Credit risk is managed through clearly defined risk appetite parameters, underwriting standards, monitoring processes, and governance structures that ensure timely identification of deterioration and appropriate provisioning.

#### 34.1.1 Credit risk governance

The Bank operates a robust governance framework over IFRS 9 impairment, ensuring that the recognition and measurement of ECL is subject to appropriate oversight, challenge, and approval.

Ultimate accountability for the accuracy, completeness and timeliness of impairment provisions rests with the Chief Financial Officer (CFO). The CFO chairs the Credit Risk Provisioning Forum (CRPF), which serves in an advisory capacity. The CRPF provides detailed operational oversight and challenge of impairment results before matters are escalated to the relevant Board committees for review.

Oversight responsibilities are structured as follows:

- **Board of Directors** – holds ultimate responsibility for the integrity of financial reporting, including impairment allowances.
- **Board Audit Committee (BAC)** – reviews and challenges significant judgements, assumptions, and disclosures relating to ECL.
- **Board Risk Committee (BRC)** – oversees alignment of impairment modelling with the Bank's risk management framework and risk appetite.
- **Assets and Liabilities Committee (ALCO)** – reviews macroeconomic scenarios and assesses the impact of impairment on capital and liquidity.
- **Chief Risk Officer (CRO) and Risk function** – Provide independent second-line challenge of models, assumptions, scenario design, and post-model adjustments.

All significant judgements, including macroeconomic assumptions, scenario weightings, staging criteria, and management overlays, are subject to documented review and approval through this governance structure.

#### 34.1.2 IFRS 9 staging framework

The Bank applies the IFRS 9 general approach to lending and treasury portfolios and the simplified approach to certain short-term receivables, where applicable.

Under the general approach, exposures are allocated to one of three stages:

**Stage 1 – Performing**
Exposures where credit risk has not increased significantly since initial recognition. A 12-month ECL is recognised, and interest income is calculated on the gross carrying amount.

**Stage 2 – Underperforming**
Exposures that have experienced a significant increase in credit risk (SICR) but are not credit-impaired. Lifetime ECL is recognised, with interest income calculated on the gross carrying amount.

**Stage 3 – Credit-impaired**
Exposures that meet the Bank's definition of default. Lifetime ECL is recognised and interest income is calculated on the net carrying amount.

Transfers between stages occur at each reporting date based on quantitative, qualitative, and backstop criteria. Stage movements are subject to formal monitoring and governance review.

### 34.1.3 Significant increase in credit risk (SICR)

A significant increase in credit risk is assessed by comparing the lifetime probability of default at the reporting date with that estimated at initial recognition.

SICR indicators include:

- Two-notch downgrade in internal credit rating relative to origination;
- Assignment to specified higher-risk rating grades;
- Watchlist classification reflecting early signs of deterioration;
- Forbearance measures granted due to financial difficulty; and
- The IFRS 9 rebuttable presumption of 30 days past due.

The Bank also applies a group-level assessment for connected clients. Where contagion risk is identified within a group of related borrowers, exposures may be transferred collectively to Stage 2.

Forborne exposures are generally classified in Stage 2 and remain subject to a minimum two-year probation period before returning to Stage 1, provided sustained performance is demonstrated.

The Bank does not originate credit-impaired loans.

### 34.1.4 Definition of default and credit-impaired assets

An exposure is classified as defaulted when either:

- It is more than 90 consecutive days past due on any material credit obligation; or
- The borrower is assessed as unlikely to pay in full without realisation of collateral.

The Bank does not apply a materiality threshold to past-due amounts; any amount past due is treated as material for the purposes of applying the 90-day criterion.

Unlikeliness-to-pay indicators include distressed restructurings, insolvency proceedings, non-accrual status, sale of the exposure at material credit loss, or other qualitative indicators of significant financial distress.

The Bank applies a pulling effect in cases where 20% or more of a borrower's total exposure is defaulted, or where qualitative factors indicate group-wide financial distress.

Cure from default requires the absence of default indicators and a minimum 24-month period of sustained performance before reclassification to Stage 2.

### 34.1.5 Forbearance and restructuring

Forbearance measures are granted to borrowers experiencing financial difficulty and may include payment holidays, term extensions, capitalisation of arrears, or other contractual modifications. Performing forborne exposures are classified in Stage 2 and remain subject to a two-year probation period before potential return to Stage 1. Distressed restructurings that result in a diminished financial obligation constitute unlikeliness-to-pay indicators and are classified as Stage 3.

### 34.1.6 Write-offs

A financial asset is written off when there is no reasonable expectation of recovering contractual cash flows, either in whole or in part. Write-offs may occur following exhaustion of recovery actions, insolvency proceedings, or where further recovery is deemed uneconomic.

Write-offs reduce the gross carrying amount of the asset and the associated ECL allowance. Recovery actions may continue after write-off, and any subsequent recoveries are recognised in profit or loss when received.

### 34.1.7 Measurement of expected credit losses

ECL is calculated as the probability-weighted present value of expected cash shortfalls over the relevant time horizon.

The core components of ECL are:

- **Probability of Default (PD)** – point-in-time 12-month or lifetime probability of default;
- **Loss Given Default (LGD)** – expected loss severity, considering collateral, recoveries, and costs;
- **Exposure at Default (EAD)** – expected exposure at the time of default, including behavioural assumptions for undrawn facilities.

ECL is calculated as: PD x LGD x EAD and discounted using the effective interest rate determined at initial recognition. Stage allocation determines whether 12-month or lifetime PD is applied.

### 34.1.8 Post model adjustments and management overlays

Where limitations in model design, data, or emerging risks could result in inappropriate ECL outcomes, management may apply post-model adjustments (PMAs). All PMAs:

- are supported by documented rationale;
- are independently reviewed and challenged by Risk;
- are discussed in the CRPF and approved by the CFO; and
- are reported to the Board Audit Committee.

The Bank monitors the proportion of total ECL represented by overlays to ensure they remain proportionate and temporary in nature.

### 34.1.9 Forward looking information

The Bank incorporates forward-looking macroeconomic information into its ECL models using multiple economic scenarios (baseline, upside, downside, and severe downside), each assigned probability weightings. Macroeconomic variables include GDP growth, unemployment, base interest rates and commercial property index.

Scenario assumptions and weightings are reviewed and approved through the Bank's governance framework.

### Multiple economic scenarios and scenario weightings

The scenario narratives and key assumptions supporting each scenario used in the Bank's ECL measurement as at 31st December 2025 are as follows:

| Scenario | Economic narrative |
|---|---|
| Base case | Economic uncertainty has eased and inflation returns to target in the second half of 2026, allowing interest rates to fall gradually. Growth remains modest as firms and households stay cautious, with unemployment peaking just above 5%. House price growth is subdued due to ongoing affordability constraints. |
| Upside | Inflation falls quickly and remains contained, supported by lower energy prices and productivity gains. Interest rates are cut more sharply, confidence improves, and stronger investment and consumption drive above-trend growth. Unemployment falls back towards 4% and house prices recover modestly. |
| Downside | A demand-driven recession emerges as households cut spending and businesses reduce investment and employment. Monetary policy eases only gradually, and GDP contracts over 2026-27. Unemployment rises to over 6% and house prices fall materially as forced sales increase. |
| Severe downside | A global financial shock triggered by a US-led market collapse leads to sharp tightening in financial conditions. Sterling weakens significantly, inflation resurges, and interest rates are raised aggressively. The UK enters a deep recession, with unemployment rising to around 8% and house prices falling by around 20%. |

| 2025 year-end forecasts | | Upside 1 | Baseline | Downside 1 | Downside 2 |
|---|---|---|---|---|---|
| GDP annual growth | 2026 | 2.5% | 1.2% | 0.1% | 1.2% |
| | 2027 | 1.9% | 1.6% | (0.5)% | (3.8)% |
| Unemployment | 2026 | 4.1% | 5.0% | 5.0% | 5.0% |
| | 2027 | 4.1% | 5.1% | 6.0% | 6.9% |
| Base interest rates | 2026 | 3.25% | 4.00% | 4.00% | 3.75% |
| | 2027 | 2.75% | 3.25% | 2.00% | 5.75% |
| Commercial property index annual growth | 2026 | 6.62% | 2.24% | 0.1% | 0.1% |
| | 2027 | 7.84% | 1.78% | (16.9)% | (32.3)% |

| Peak and trough of macro indicators (2025 – 2026 period) | | Upside 1 | Base case | Downside 1 | Downside 2 |
|---|---|---|---|---|---|
| GDP quarterly growth | Peak | 0.7% | 0.7% | 0.7% | 0.7%% |
| | Trough | 0.4% | 0.1% | (0.8)% | (1.3)% |
| Unemployment | Peak | 4.8% | 5.2% | 6.0% | 6.9% |
| | Trough | 4.1% | 4.5% | 4.5% | 4.5% |
| Base interest rates | Peak | 3.75% | 4.75% | 4.75% | 5.75% |
| | Trough | 2.75% | 3.25% | 2.00% | 3.75% |
| Commercial property index quarterly growth | Peak | 1.96% | 1.04% | 1.0% | 1.0% |
| | Trough | 1.27% | (0.07)% | (6.6)% | (11.5)% |

| Scenario weights | Upside 1 | Base case | Downside 1 | Downside 2 |
|---|---|---|---|---|
| **2025** | **5%** | **55%** | **25%** | **15%** |
| 2024 | 10% | 55% | 25% | 10% |

## Sensitivity analysis

The table below presents the impact on ECL and the proportion of exposures classified in Stage 2 under each macroeconomic scenario.

| | Weighted £000 | Upside1 £000 | Base case £000 | Downside1 £000 | Downside 2 £000 |
|---|---|---|---|---|---|
| **2025** | | | | | |
| Exposure | | | 684,566 | | |
| ECL | 1,893 | 1,078 | 1,302 | 2,349 | 3,571 |
| Proportion of assets in Stage 2 | 2.8% | 2.8% | 2.8% | 2.8% | 2.8% |
| **2024** | | | | | |
| Exposure | | | 289,416 | | |
| ECL | 617 | 458 | 511 | 691 | 1,184 |
| Proportion of assets in Stage 2 | 2.2% | 2.2% | 2.2% | 2.2% | 2.2% |

### 34.1.10 Maximum and net exposure to credit risk

The tables below present the key differences between the Bank's maximum and net exposure to credit risk on financial assets, including the mitigating effect of collateral.

For on-balance sheet exposures, maximum exposure to credit risk is presented at the carrying amount, net of the expected credit loss (ECL) allowance. For loans and advances to customers, the gross exposure excludes any hedge accounting fair value adjustments (see note 14).

For off-balance sheet exposures, maximum exposure to credit risk represents the total contractual amount of the financial commitment, net of the associated ECL allowance.

| | On-balance sheet assets | | | Off-balance sheet assets | | | | |
|---|---|---|---|---|---|---|---|---|
| **2025** | **Gross balances £000** | **Loss allowance £000** | **Net balance £000** | **Gross balances £000** | **Loss allowance £000** | **Net balance £000** | **Non-cash collateral £000** | **Net exposure £000** |
| Cash and balances with: | | | | | | | | |
| – Central banks | **544,809** | **-** | **544,809** | **-** | **-** | **-** | **-** | **544,809** |
| – Other banks | **13,676** | **-** | **13,676** | **-** | **-** | **-** | **-** | **13,676** |
| Amounts due from other Group undertakings | **1,778** | **-** | **1,778** | **-** | **-** | **-** | **-** | **1,778** |
| Loans and advances to customers | **684,566** | **(1,893)** | **682,673** | **108,364** | **(91)** | **108,274** | **1,242,543** | **-** |
| Derivative financial instruments | **481** | **-** | **481** | **-** | **-** | **-** | **-** | **481** |
| Other assets | **1,674** | **-** | **1,674** | **-** | **-** | **-** | **-** | **1,674** |
| **Total** | **1,246,984** | **(1,893)** | **1,245,091** | **108,364** | **(91)** | **108,274** | **1,242,543** | **562,418** |

| | On-balance sheet assets | | | Off-balance sheet assets | | | | |
|---|---|---|---|---|---|---|---|---|
| **2024** | **Gross balances £000** | **Loss allowance £000** | **Net balance £000** | **Gross balances £000** | **Loss allowance £000** | **Net balance £000** | **Non-cash collateral £000** | **Net exposure £000** |
| Cash and balances with: | | | | | | | | |
| – Central banks | 344,141 | – | 344,141 | – | – | – | – | 344,141 |
| – Other banks | 18,158 | – | 18,158 | – | – | – | – | 18,158 |
| Amounts due from other Group undertakings | 2,811 | – | 2,811 | – | – | – | – | 2,811 |
| Loans and advances to customers | 289,416 | (617) | 288,799 | 69,061 | – | 69,061 | 622,605 | – |
| Derivative financial instruments | – | – | – | – | – | – | – | – |
| Other assets | 1,732 | – | 1,732 | – | – | – | – | 1,732 |
| **Total** | **656,259** | **(617)** | **655,642** | **69,061** | **–** | **69,061** | **622,605** | **366,843** |

### 34.1.11 Rating distribution

The tables below present the internal credit ratings of financial assets subject to impairment assessment under IFRS 9. The Bank assigns risk ratings on a scale of 1 to 13. For disclosure purposes, these ratings are aggregated into four categories: low risk, medium risk, higher risk, and defaulted. Equivalent external ratings from two recognised credit rating agencies are shown for comparative purposes. The Bank does not originate credit-impaired assets (risk tiers 'higher risk' and 'defaulted').

| | | Equivalent ratings from rating agencies | |
|---|---|---|---|
| **Risk tier** | **LHV risk rating** | **S&P** | **Moody's** |
| Tier 1 – Lower risk | 1 | AAA | Aaa |
| | 2 | AA+ | Aa1 |
| | 3 | AA, AA- | Aa2, Aa3 |
| | 4 | A+. A, A- | A1, A2, A3 |
| | 5 | BBB+ | Baa1 |
| | 6 | BBB | Baa2 |
| Teir 2 – Medium risk | 7 | BBB- | Baa3 |
| | 8 | BB+, BB | Ba1, Ba2 |
| | 9 | BB- | Ba3 |
| Tier 3 – Higher risk | 10 | B+ | B1 |
| | 11 | B, B- | B2, B3 |
| | 12 | CCC/C | Caa |
| Tier 4 – Defaulted | 13 | D | C |

| | LHV Bank risk ratings | | | | |
|---|---|---|---|---|---|
| | Tier 1 | Tier 2 | Tier 3 | Tier 4 | Total |
| **2025** | **£000** | **£000** | **£000** | **£000** | **£000** |
| **On-balance sheet exposure** | | | | | |
| Cash and balances with: | | | | | |
| – Central bank | 544,809 | – | – | – | 544,809 |
| – Other banks | 13,676 | – | – | – | 13,676 |
| **Loans and advances to customers:** | | | | | |
| Stage 1 | 330,637 | 303,945 | – | – | 634,582 |
| Stage 2 | – | 40,653 | 2,271 | – | 42,925 |
| Stage 3 | – | – | – | 6,965 | 6,965 |
| **Off-balance sheet exposure** | | | | | |
| Stage 1 | 108,364 | – | – | – | 108,364 |
| Stage 2 | – | – | – | – | – |
| Stage 3 | – | – | – | – | – |
| **Total exposure** | **997,486** | **344,598** | **2,271** | **6,965** | **1,351,321** |

| | LHV Bank risk ratings | | | | |
|---|---|---|---|---|---|
| | Tier 1 | Tier 2 | Tier 3 | Tier 4 | Total |
| **2025** | **£000** | **£000** | **£000** | **£000** | **£000** |
| **On-balance sheet ECL** | | | | | |
| Cash and balances with: | | | | | |
| – Central bank | – | – | – | – | – |
| – Other banks | – | – | – | – | – |
| **Loans and advances to customers:** | | | | | |
| Stage 1 | (283) | (402) | – | – | (685) |
| Stage 2 | – | (288) | (18) | – | (306) |
| Stage 3 | – | – | – | (902) | (902) |
| **Off-balance sheet ECL** | | | | | |
| Stage 1 | (91) | – | – | – | (91) |
| Stage 2 | – | – | – | – | – |
| Stage 3 | – | – | – | – | – |
| **Total ECL** | **(373)** | **(690)** | **(18)** | **(902)** | **(1,984)** |

| | LHV Bank risk ratings | | | | |
|---|---|---|---|---|---|
| | Tier 1 | Tier 2 | Tier 3 | Tier 4 | Total |
| **2024** | **£000** | **£000** | **£000** | **£000** | **£000** |
| **On-balance sheet exposure** | | | | | |
| Cash and balances with: | | | | | |
| – Central bank | 344,141 | – | – | – | 344,141 |
| – Other banks | 18,158 | – | – | – | 18,158 |
| **Loans and advances to customers:** | | | | | |
| Stage 1 | 160,542 | 125,507 | – | – | 286,049 |
| Stage 2 | – | – | 1,244 | – | 1,244 |
| Stage 3 | – | – | – | 2,121 | 2,121 |
| **Off-balance sheet exposure** | | | | | |
| Stage 1 | 69,061 | – | – | – | 69,061 |
| Stage 2 | – | – | – | – | – |
| Stage 3 | – | – | – | – | – |
| **Total exposure** | **591,903** | **125,507** | **1,244** | **2,121** | **720,774** |

| 2024 | Tier 1 £000 | Tier 2 £000 | Tier 3 £000 | Tier 4 £000 | Total £000 |
|---|---|---|---|---|---|
| | LHV Bank risk ratings | | | | |
| **On-balance sheet ECL** | | | | | |
| Cash and balances with: | | | | | |
| – Central bank | – | – | – | – | – |
| – Other banks | – | – | – | – | – |
| **Loans and advances to ECL:** | | | | | |
| Stage 1 | **(211)** | **(246)** | – | – | **(456)** |
| Stage 2 | – | – | **(52)** | – | **(52)** |
| Stage 3 | – | – | – | **(109)** | **(109)** |
| **Off-balance sheet ECL** | | | | | |
| Stage 1 | – | – | – | – | – |
| Stage 2 | – | – | – | – | – |
| Stage 3 | – | – | – | – | – |
| **Total ECL** | **(211)** | **(246)** | **(52)** | **(109)** | **(617)** |

## 34.1.12 Credit performance

The tables below present the credit performance of loans and advances to customers, with gross exposures analysed by IFRS 9 stage.

| 2025 | Stage 1 £000 | Stage 2 £000 | Stage 3 £000 | Total £000 | Gross write-offs £000 | Loss allowance £000 |
|---|---|---|---|---|---|---|
| Loans and advances to customers | 634,582 | 42,925 | 6,965 | 684,472 | – | 684,472 |

| 2024 | Stage 1 £000 | Stage 2 £000 | Stage 3 £000 | Total £000 | Gross write-offs £000 | Loss allowance £000 |
|---|---|---|---|---|---|---|
| Loans and advances to customers | 286,049 | 1,246 | 2,121 | 289,416 | – | 289,416 |

## 34.1.13 Credit quality

The tables below present the credit quality of both on-balance sheet and off-balance sheet exposures, together with the related ECL allowances.

| 2025 | Stage 1 £000 | Stage 2 £000 | Stage 3 £000 | Total £000 |
|---|---|---|---|---|
| On-balance sheet exposure: | 634,582 | 42,925 | 6,965 | 684,472 |
| Off-balance sheet exposure: | 108,364 | – | – | 108,364 |
| On-balance sheet ECL: | (685) | (306) | (902) | (1,893) |
| Off-balance sheet ECL: | (91) | – | – | (91) |

| 2024 | Stage 1 £000 | Stage 2 £000 | Stage 3 £000 | Total £000 |
|---|---|---|---|---|
| On-balance sheet exposure: | 286,049 | 1,244 | 2,121 | 289,413 |
| Off-balance sheet exposure: | 69,061 | – | – | 69,061 |
| On-balance sheet ECL: | (456) | (52) | (109) | (617) |
| Off-balance sheet ECL: | – | – | – | – |

### 34.1.14 Movement in total exposures and the corresponding ECL

The table below presents movements in total on-balance sheet and off-balance sheet exposures that are subject to the IFRS 9 expected credit loss assessment, together with the related ECL allowance.

| | Stage 1 | | Stage 2 | | Stage 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| **2025** | **Exposure £000** | **ECL £000** | **Exposure £000** | **ECL £000** | **Exposure £000** | **ECL £000** | **Exposure £000** | **ECL £000** |
| **As at 1 January 2025** | **286,049** | **456** | **1,244** | **52** | **2,121** | **109** | **289,413** | **617** |
| **Transfers from Stage 1 to Stage 2** | **(18,796)** | **(26)** | **18,796** | **26** | **–** | **–** | **–** | **–** |
| **Transfers from Stage 2 to Stage 1** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **Transfers to Stage 3** | **(3,484)** | **(5)** | **(1,244)** | **(52)** | **4,728** | **57** | **–** | **–** |
| **Net ECL remeasurement** | **317** | **(162)** | **(114)** | **41** | **116** | **499** | **319** | **378** |
| **Change in economic scenarios** | **–** | **(13)** | **–** | **(2)** | **–** | **(9)** | **–** | **(24)** |
| **Change in ECL methodology** | **–** | **120** | **–** | **42** | **–** | **246** | **–** | **409** |
| **New lending** | **415,282** | **479** | **24,243** | **198** | **–** | **–** | **439,525** | **678** |
| **Redemptions and repayments** | **(44,785)** | **(164)** | **–** | **–** | **–** | **–** | **(44,785)** | **(164)** |
| **Written off assets** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **As at 31 December 2025** | **634,585** | **685** | **42,925** | **306** | **6,965** | **902** | **684,472** | **1,893** |
| Net movement in the period | 348,534 | 229 | 41,681 | 254 | 4,845 | 793 | 395,059 | 1,276 |
| **ECL charge to the income statement** | **–** | **229** | **–** | **254** | **–** | **793** | **–** | **1,276** |
| **Write-off charge** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **Total ECL charge to the income statement** | **–** | **229** | **–** | **254** | **–** | **793** | **–** | **1,276** |

| | Stage 1 | | Stage 2 | | Stage 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| **2024 (Represented)** | **Exposure £000** | **ECL £000** | **Exposure £000** | **ECL £000** | **Exposure £000** | **ECL £000** | **Exposure £000** | **ECL £000** |
| As at 1 January 2023 | 68,186 | 200 | 1,027 | 5 | – | – | 69,214 | 205 |
| Transfers from Stage 1 to Stage 2 | (150) | – | 150 | – | – | – | – | – |
| Transfers from Stage 2 to Stage 1 | – | – | – | – | – | – | – | – |
| Transfers to Stage 3 | (2,100) | (7) | – | – | 2,100 | 7 | – | – |
| Net ECL remeasurement | 17 | (2) | 66 | 47 | 21 | (102) | 104 | 146 |
| Change in economic scenarios | – | – | – | – | – | – | – | – |
| Change in ECL methodology | – | – | – | – | – | – | – | – |
| New lending | 222,662 | 340 | – | – | – | – | 222,662 | 340 |
| Redemptions and repayments | (2,567) | (74) | – | – | – | – | (2,567) | (74) |
| Written off assets | – | – | – | – | – | – | – | – |
| As at 31 December 2024 | 286,049 | 456 | 1,244 | 52 | 2,121 | 109 | 289,413 | 617 |
| Net movement in the period | 217,862 | 256 | 216 | 47 | 2,121 | 109 | 220,200 | 412 |
| ECL charge to the income statement | – | 256 | – | 47 | – | 109 | – | 412 |
| Write-off charge | – | – | – | – | – | – | – | – |
| Total ECL charge to the income statement | **–** | **256** | **–** | **47** | **–** | **109** | **–** | **412** |

### 34.1.15 Collateral analysis

The Company takes security over commercial property lending in the form of the underlying real estate assets. The tables below present the related exposure and ECL allowance by loan-to-value (LTV) band. LTV ratios are calculated using collateral valuations as at the reporting date.

| 2025 | Stage 1 Exposure £000 | Stage 1 ECL £000 | Stage 2 Exposure £000 | Stage 2 ECL £000 | Stage 3 Exposure £000 | Stage 3 ECL £000 | Total Exposure £000 | Total ECL £000 |
|---|---|---|---|---|---|---|---|---|
| **Less than 50%** | **106,608** | **(63)** | **13,798** | **(77)** | **165** | **(8)** | **120,572** | **(149)** |
| **50% to 70%** | **423,216** | **(469)** | **10,107** | **(60)** | **3,185** | **(327)** | **436,508** | **(856)** |
| **70% to 80%** | **104,759** | **(153)** | **19,019** | **(169)** | **3,615** | **(567)** | **127,392** | **(888)** |
| **80% to 90%** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **90% to 100%** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **Greater than 100%** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **Total** | **634,582** | **(685)** | **42,925** | **(306)** | **6,965** | **(902)** | **684,472** | **(1,893)** |

| 2024 | Stage 1 Exposure £000 | Stage 1 ECL £000 | Stage 2 Exposure £000 | Stage 2 ECL £000 | Stage 3 Exposure £000 | Stage 3 ECL £000 | Total Exposure £000 | Total ECL £000 |
|---|---|---|---|---|---|---|---|---|
| Less than 50% | 109,248 | (159) | 161 | (6) | – | – | 109,409 | (164) |
| 50% to 70% | 144,981 | (233) | – | – | 2,121 | (109) | 147,101 | (342) |
| 70% to 80% | 26,522 | (44) | 1,083 | (46) | – | – | 27,606 | (90) |
| 80% to 90% | 4,004 | (10) | – | – | – | – | 4,004 | (10) |
| 90% to 100% | 1,293 | (11) | – | – | – | – | 1,293 | (11) |
| Greater than 100% | – | – | – | – | – | – | – | – |
| Total | **286,048** | **(457)** | **1,244** | **(52)** | **2,121** | **(109)** | **289,413** | **(617)** |

### 34.1.16 Credit risk for other financial assets

Credit risk arises within the treasury portfolio where the Bank places cash on deposit with other financial institutions or trades in interest rate swaps as part of the Bank's hedging strategy. The credit risk associated with these assets is assessed as low. Treasury assets are not acquired for speculative purposes and are not actively traded. As at 31 December 2025 and 31 December 2024, all treasury financial assets were classified in Stage 1. The table below summarises the credit quality of these assets.

| | AA- 2025 £000 | AA- 2024 £000 | A+ to BB+ 2025 £000 | A+ to BB+ 2024 £000 | Total 2025 £000 | Total 2024 £000 |
|---|---|---|---|---|---|---|
| Cash and balances with: | | | | | | |
| – Central bank | **544,809** | 344,141 | **–** | – | **544,809** | 344,141 |
| – Other banks | **–** | – | **13,676** | 18,158 | **13,676** | 18,158 |
| **Total** | **544,809** | 344,141 | **13,676** | 18,158 | **558,485** | 362,299 |

## 34.2 Market risk

Market risk is the risk that movements in market prices or rates adversely affect the Bank's earnings or economic value. For the Bank, this primarily relates to changes in interest rates and, to a lesser extent, foreign exchange rates. The key market risk exposures comprise interest rate risk, currency risk, basis risk and implied option risk arising from product features.

Interest rate risk is the Bank's principal market risk. It represents the potential for loss arising from adverse movements in the general level of interest rates and is driven predominantly by mismatches in the repricing profile of assets and liabilities, including off-balance sheet items.

The Bank does not operate a trading book or take speculative positions. Accordingly, all interest rate exposure is managed within the banking book as interest rate risk in the banking book (IRRBB).

### 34.2.1 Repricing analysis

The table below presents the Bank's interest rate repricing gaps over the five-year period from the reporting date. A positive gap arises where the volume of assets repricing within a given time band exceeds that of liabilities; conversely, a negative gap arises where liabilities reprice in greater amounts than assets within the same period.

| 2025 | Non-interest bearing £000 | Up to 3 months £000 | 3-6 months £000 | 6-12 months £000 | 1-5 years £000 | Over 5 years £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents: | | | | | | | |
| – Central bank | – | 544,809 | – | – | – | – | 544,809 |
| – Other banks | – | 13,676 | – | – | – | – | 13,676 |
| Amounts due from other Group undertakings | 1,778 | – | – | – | – | – | 1,778 |
| Derivative financial instruments | | | | | | | |
| – Derivatives in accounting hedge relationships | – | 46 | 73 | 76 | 286 | – | 481 |
| Loans and advances to customers | – | 403,135 | – | – | 279,444 | – | 682,579 |
| Other assets | 1,674 | – | – | – | – | – | 1,674 |
| **Total assets** | **3,452** | **961,667** | **73** | **76** | **279,730** | **–** | **1,244,997** |
| Derivative financial instruments | | | | | | | |
| – Derivatives in accounting hedge relationships | – | 44 | 47 | 73 | 282 | – | 446 |
| Deposits by customers | – | 692,874 | 168,770 | 238,124 | 14,635 | – | 1,114,403 |
| Subordinated liabilities | – | – | – | – | 10,033 | – | 10,033 |
| Amounts due to banks | – | 9,090 | – | – | – | – | 9,090 |
| Amounts due to other Group undertakings | 12 | – | – | – | – | – | 12 |
| Other liabilities | 1,485 | – | – | – | – | – | 1,485 |
| **Total liabilities** | **1,496** | **702,008** | **168,817** | **238,197** | **24,950** | **–** | **1,135,469** |
| Interest rate sensitivity gap | 1,956 | 259,658 | (168,744) | (238,121) | 254,780 | – | 109,528 |
| **Cumulative gap** | **1,956** | **261,614** | **92,870** | **(145,251)** | **109,528** | **–** | **109,528** |

| 2024 | Non-interest bearing £000 | Up to 3 months £000 | 3-6 months £000 | 6-12 months £000 | 1-5 years £000 | Over 5 years £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents: | | | | | | | |
| – Central bank | – | 344,141 | – | – | – | – | 344,141 |
| – Other banks | – | 18,158 | – | – | – | – | 18,158 |
| Amounts due from other Group undertakings | 2,811 | – | – | – | – | – | 2,811 |
| Derivative financial instruments | | | | | | | |
| – Derivatives in accounting hedge relationships | – | – | – | – | – | – | – |
| Loans and advances to customers | – | 221,807 | – | – | 66,989 | – | 288,799 |
| Other assets | 1,732 | – | – | – | – | – | 1,732 |
| **Total assets** | **4,544** | **584,107** | **–** | **–** | **66,989** | **–** | **655,642** |
| Derivative financial instruments | | | | | | | |
| – Derivatives in accounting hedge relationships | – | – | – | – | – | – | – |
| Deposits by customers | – | 280,748 | 169,208 | 109,931 | – | – | 559,887 |
| Subordinated liabilities | – | – | – | – | – | – | – |
| Amounts due to banks | – | 24,633 | – | – | – | – | 24,633 |
| Amounts due to other Group undertakings | 108 | – | – | – | – | – | 108 |
| Other liabilities | 281 | – | – | – | – | – | 281 |
| **Total liabilities** | **389** | **305,381** | **169,208** | **109,931** | **–** | **–** | **584,909** |
| Interest rate sensitivity gap | 4,155 | 278,344 | (168,968) | (109,416) | 66,618 | – | 70,733 |
| **Cumulative gap** | **4,155** | **282,499** | **113,530** | **4,114** | **70,733** | **–** | **70,733** |

### 34.2.2 Sensitivity to interest yield curve

The sensitivity analysis below illustrates the effect of a 100 basis point parallel shift in the interest rate yield curve on projected net interest income over a one-year horizon, based on financial instruments outstanding at the reporting date.

| | **2025** | 2024 |
|---|---|---|
| | **£000** | £000 |
| 1% shift up of the yield curve | **3,013** | 1,172 |
| 1% shift down of the yield curve | **(3,013)** | (1,172) |

### 34.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations as they fall due. The disclosures below set out the Bank's liquidity position and exposures as at the reporting date.

### 34.3.1 Analysis of encumbered and unencumbered assets

The table below presents the Bank's encumbered and unencumbered assets as at the reporting date. This disclosure is intended to provide transparency on the extent to which assets are available to support future funding activities; it is not intended to indicate the assets that would be available in a resolution or insolvency scenario.

A portion of the Bank's assets may be pledged as collateral in support of central bank facilities (e.g., the Faster Payments scheme). Assets that have been pledged or otherwise committed for these purposes are classified as encumbered and are not available for alternative use. All remaining assets are classified as unencumbered. These include assets that could potentially be used as collateral in the future ("available as collateral") and assets that, by their nature, are not suitable for use as collateral ("other").

| | **Encumbered assets** | | **Unencumbered assets** | | |
|---|---|---|---|---|---|
| | **Pledged as collateral** | **Other** | **Available as collateral** | **Other** | **Total** |
| **2025** | **£0** | **£0** | **£0** | **£0** | **£0** |
| Cash and balances with: | | | | | |
| – Central bank | 33,480 | – | 511,329 | – | 544,809 |
| – Other banks | – | – | 13,676 | – | 13,676 |
| Derivative financial assets | – | – | – | 481 | 481 |
| Loans and advances to customers | – | – | 684,566 | – | 684,566 |
| Other assets | 150 | – | – | 3,302 | 3,452 |
| **Total assets** | **33,630** | **–** | **1,209,571** | **3,783** | **1,246,984** |

| | **Encumbered assets** | | **Unencumbered assets** | | |
|---|---|---|---|---|---|
| | **Pledged as collateral** | **Other** | **Available as collateral** | **Other** | **Total** |
| **2024** | **£0** | **£0** | **£0** | **£0** | **£0** |
| Cash and balances with: | | | | | |
| – Central bank | 33,480 | – | 310,661 | – | 344,141 |
| – Other banks | – | – | 18,158 | – | 18,158 |
| Derivative financial assets | – | – | – | – | – |
| Loans and advances to customers | – | – | 289,416 | – | 289,416 |
| Other assets | 150 | – | – | 1,582 | 1,732 |
| Total assets | 33,630 | – | 618,235 | 1,582 | 653,447 |

### 34.3.2 Contractual maturity

The table below presents an analysis of assets and liabilities based on their contractual maturities or the dates on which they are expected to be recovered or settled.

This analysis is provided for disclosure purposes only and is not used in the day-to-day management of liquidity risk, as actual cash flows may occur earlier or later than the contractual tenor, for example, where facilities are prepaid or deposits are withdrawn ahead of contractual maturity.

| 2025 | Carrying value £000 | Repayable on demand £000 | Up to 3 months £000 | 3-6 months £000 | 6-12 months £000 | 1-5 years £000 | Over 5 years £000 | No contractual maturity £000 |
|---|---|---|---|---|---|---|---|---|
| Cash and balances with: | | | | | | | | |
| – Central bank | 544,809 | 544,809 | – | – | – | – | – | – |
| – Other banks | 13,676 | 13,676 | – | – | – | – | – | – |
| Amounts due from other Group undertakings | 1,778 | 1,778 | – | – | – | – | – | – |
| Derivative financial instruments | | | | | | | | |
| – Derivatives in accounting hedge relationships | 481 | – | 46 | 73 | 76 | 286 | – | – |
| Loans and advances to customers | 682,579 | – | 1,961 | 12,397 | 3,645 | 664,577 | – | – |
| Other assets | 1,674 | – | 1,674 | – | – | – | – | – |
| **Total assets** | **1,244,997** | **560,263** | **3,681** | **12,470** | **3,721** | **664,863** | **–** | **–** |
| | | | | | | | | |
| Derivative financial instruments | | | | | | | | |
| – Derivatives in accounting hedge relationships | 446 | – | 44 | 47 | 73 | 282 | – | – |
| Deposits by customers | 1,114,403 | 347,141 | 345,732 | 168,770 | 238,124 | 14,635 | – | – |
| Subordinated liabilities | 10,033 | – | 33 | – | – | 10,000 | – | – |
| Amounts due to banks | 9,090 | 9,090 | – | – | – | – | – | – |
| Amounts due to other Group undertakings | 12 | 12 | – | – | – | – | – | – |
| Other liabilities | 1,485 | – | 1,485 | – | – | – | – | – |
| **Total liabilities** | **1,135,469** | **356,243** | **347,295** | **168,817** | **238,197** | **24,917** | **–** | **–** |
| **Liquidity gap** | **109,528** | **204,020** | **(343,614)** | **(156,347)** | **(234,476)** | **639,945** | **–** | **–** |
| **Cumulative liquidity gap** | **109,528** | **313,548** | **(30,066)** | **(186,413)** | **(420,890)** | **219,056** | **–** | **–** |

| 2024 | Carrying value £000 | Repayable on demand £000 | Up to 3 months £000 | 3-6 months £000 | 6-12 months £000 | 1-5 years £000 | Over 5 years £000 | No contractual maturity £000 |
|---|---|---|---|---|---|---|---|---|
| Cash and balances with: | | | | | | | | |
| – Central bank | 344,141 | 344,141 | – | – | – | – | – | – |
| – Other banks | 18,158 | 18,158 | – | – | – | – | – | – |
| Amounts due from other Group undertakings | 2,811 | 2,811 | – | – | – | – | – | – |
| Derivative financial instruments | | | | | | | | |
| – Derivatives in accounting hedge relationships | – | – | – | – | – | – | – | – |
| Loans and advances to customers | 288,799 | – | – | – | 15,250 | 273,550 | – | – |
| Other assets | 1,732 | – | 1,732 | – | – | – | – | – |
| **Total assets** | **655,642** | **365,111** | **1,732** | **–** | **15,250** | **273,550** | **–** | **–** |
| | | | | | | | | |
| Derivative financial instruments | | | | | | | | |
| – Derivatives in accounting hedge relationships | – | – | – | – | – | – | – | – |
| Deposits by customers | 559,887 | 318,491 | 69,607 | 56,884 | 114,905 | – | – | – |
| Subordinated liabilities | – | – | – | – | – | – | – | – |
| Amounts due to banks | 24,633 | 24,633 | – | – | – | – | – | – |
| Amounts due to other Group undertakings | 108 | 108 | – | – | – | – | – | – |
| Other liabilities | 281 | – | 281 | – | – | – | – | – |
| **Total liabilities** | **584,909** | **343,233** | **69,888** | **56,884** | **114,905** | **–** | **–** | **–** |
| Liquidity gap | 70,733 | 21,878 | (68,155) | (56,884) | (99,655) | 273,550 | – | – |
| **Cumulative liquidity gap** | **70,733** | **92,611** | **24,455** | **(32,428)** | **(132,084)** | **141,466** | **–** | **–** |

### 34.4 Capital risk and management

The Bank is subject to regulatory capital requirements and is required to maintain sufficient capital resources to meet its Total Capital Requirement (TCR). The TCR comprises a Pillar 1 requirement, calculated as 8% of risk-weighted assets, together with a Pillar 2A requirement designed to address risks that are not fully captured under Pillar 1.

The Pillar 2A requirement is determined by the Prudential Regulation Authority (PRA), informed by the Bank's Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP is conducted annually and evaluates the Bank's material risks, the effectiveness of mitigating actions, and the level of capital required to absorb potential losses under adverse conditions. In addition to Pillar 1 and Pillar 2A requirements, the Bank is also required to maintain applicable regulatory capital buffers. The Bank remained compliant with all capital requirements throughout the year.

Capital risk represents the risk that the Bank may not maintain adequate capital to satisfy regulatory obligations or to support its strategic growth objectives. Capital adequacy is monitored on an ongoing basis through regular financial performance reviews conducted by management committees, with particular emphasis on regulatory capital consumption as the business continues to scale. This oversight is supported by the annual budgeting and forecasting process, which forms the basis for forward-looking capital and liquidity planning, including cash flow and capital projections.

Capital resources as at the reporting date were as follows:

| | | **2025 £000** | 2024 £000 |
|---|---|---|---|
| Common Equity Tier 1 (CET1) | | | |
| Called-up share capital | Note 28 | **105,000** | 75,000 |
| Other reserves | Note 29 | **(346)** | (631) |
| Accumulated losses | | **2,224** | (3,030) |
| **CET1 Capital before regulatory adjustments** | | **106,878** | 71,339 |
| Regulatory deductions: | | | |
| – Intangible assets | Note 19 | **(1,193)** | (1,041) |
| – Deferred tax assets | Note 21 | **(418)** | (806) |
| – Other deductions | Note 29 | **(1,379)** | (1,094) |
| **Total CET1 capital** | | **103,888** | 68,399 |
| Subordinated debt (Tier 2 Notes) | Note 24 | **10,033** | – |
| **Total capital resources** | | **113,921** | 68,399 |

## 35 Post balance sheet events

Subsequent to the reporting date, the Bank received a £20 million Common Equity Tier 1 (CET1) capital contribution and issued £26 million of senior notes to its parent undertaking, AS LHV Group. These transactions strengthen the Bank's regulatory capital and funding position and support its continued growth. As they occurred after the reporting date, they have not been recognised in these financial statements.

## Cautionary statement

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

# Company information

## Company registered office and head office

LHV Bank Ltd

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## Company registered number

13180211

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## Independent auditors

PricewaterhouseCoopers

Chartered Accountants and Statutory Auditors
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