LHV Bank Limited
Annual report 2023
(formerly LHV UK Limited)

Contents

Company Information

Chairman	M Toomsalu
Directors	K Butcher
	R Frewer (appointed 2 January 2024)
	P Horner
	E Kilu
	A Kitter
	G Lungley (appointed 1 April 2024)
	G Sher (resigned 8 September 2023)
	M Toomsalu
	S Veitch
Company secretary	K Bodell
Registered number	13180211
Registered office	1 Angel Court London EC2R 7HJ
Independent auditor	MHA Statutory Auditor 6th Floor 2 London Wall Place London EC2Y 5AU

Letter from the Chairman

We are very pleased with the achievements of LHV Group[1] in 2023, not least LHV Bank Limited ('LHV Bank' or 'the Bank') obtaining its banking permissions in the UK and transferring what was previously the branch business of the Estonian bank into the UK subsidiary. This was a significant achievement requiring great collaboration across teams and the Board and I are grateful for the efforts of all involved.

Looking back, 2023 can be characterised by trends that were emerging at the beginning of the year. In several globally important economies rising interest rates accelerated in response to inflation. Geopolitical tensions and energy price volatility highlighted structural economic problems in the regions, which made planning more difficult.

The fact is, however, that LHV has fared better than planned due to rising business volumes and rising interest rates. From the outside, only a tailwind seems to be blowing in the banking sector, but achieving a good result has required a strong commitment and important strategic decisions. Interest rates are cyclical, and the very rapid rise has historically been followed by a rapid decline. That said, our growth in the UK will be delivered through increasing our customer base, as well as growing with our existing customers. We are positioning the business to remain efficient and sustainable in the years to come.

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

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

In the field of sustainability, in addition to assessing and managing the footprint of our activities, we have also made progress in managing the impact of doing business. The main keywords here are raising awareness, limiting business projects that are harmful to the environment, and creating a positive impact through the product portfolio.

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

LHV is doing well. Now and in the future.

Madis Toomsalu
Chairman

[1] AS LHV Group ('LHV Group', 'Group') is the parent company of LHV Bank Limited and is the largest domestically owned finance group in Estonia.

Chief Executive's Statement

Our mission is to provide better access to financial services and capital. Our vision is encouraging people and business to think big and act big. In 2023 we continued to deliver against our vision by establishing a bank in the UK, transferring the Estonian branch business into the new bank and expanding our service offering to retail customers.

Our journey in the UK started as a branch of AS LHV Pank (Estonia). In February 2021 we established a legal entity in the UK, with the aim of becoming a separate and independent bank within the LHV Group.

In early 2023 the UK entity started issuing SME loans. In May 2023, it was authorised as a credit institution by the Prudential Regulation Authority. In August 2023 we finalised the business transfer from our Estonian affiliate, AS LHV Pank's UK branch, to the newly licenced entity. As a result, our GBP payment services customers, primarily financial intermediaries, moved from the previous branch to the new bank. This transition also included the transfer of associated GBP payment scheme memberships and related contracts.

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

The banking licence allows LHV Bank to accept customer deposits. In September 2023, we launched our deposits offering via the Raisin platform and in December 2023 joined the Flagstone platform.

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

In banking services, the bank offers a single platform to international financial institutions enabling instant payment services in GBP and EUR. We position ourselves as a new generation bank that links traditional banking and new generation financial services through Open Banking. Modern services and technological solutions allow the bank to provide services to international customers and financial technology companies. These services are used by more than 200 international clients with more than 10 million end-customers.

The banking services business has been in the UK since early 2018 and has an established customer base. In 2023 we continued to grow this business through acquiring new customers, as well as seeing increased payment volumes as our customers businesses grew. In 2023 we supported our customers processing almost 48 million payments. The balance of deposits from banking services customers was £114 million as at year end.

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

Our lending business is in its infancy although already showing great potential. By the end of 2023 we had a loan portfolio of almost £70 million.

In retail banking, the bank offers deposits to savers in the UK in partnership with deposit aggregators. This was at early stages at the end of 2023 and the retail customer deposit portfolio was £93 million.

We have achieved many things in 2023, although it is only the beginning for LHV in the UK. We are very excited about further progress to be made in 2024 and plan to continue to serve our customers and grow our balance sheet. All of this would not be achieved without the dedication of our team, to which I extend my sincere and genuine thanks for the fantastic results achieved in 2023.

Erki Kilu

Chief Executive Officer

Business model and strategy

Our business model

The AS LHV Group had been operating in the UK since March 2018 as a branch of AS LHV Pank and an inwardly passporting EEA credit institution for the acceptance of deposits and the provision of payment services under the Banking Consolidation Directive. Since 1 January 2021, AS LHV Pank UK Branch had been operating under the PRA/FCA's EEA Temporary Permissions Regime (the "TPR"). This regime expired at the end of 2023.

The decision was taken to create a new fintech focused bank in the UK and the bank received its licence in May 2023. This was followed by the successful completion a Part VII FSMA 2000 transfer of its GBP Banking Services business in August 2023. The bank will serve the following customer segments:

Banking Services**:** Licensed corporate customers, such as E-Money Issuers (EMI), Authorised Payment Institutions (API), Non-Bank Financial Institutions (NBFI) and Virtual Asset Service Providers (VASP), with various types of business models such as money transfer operators/remittance service providers, payment card issuers, payment service providers, digital wallet providers, virtual asset exchanges, virtual asset brokers and virtual asset wallet providers, but also crowdfunding, crowdlending and crowd investing.

SME Lending: Secured lending to SMEs registered in the UK. Loans primarily consisting of Commercial Real Estate and Trading (owner occupied business) loans, with a small proportion of Buy to Let loans.

Retail Banking: The Bank currently offers deposit products to retail customers through platforms such as Raisin and Flagstone. The deposit products help savers grow their wealth and build financial resilience. They are also a key source of funding for the SME lending portfolio.

Our strategy

The bank's vision is encouraging people and businesses think big and act big and its mission is to provide better access to financial services and capital. The bank's strategy is to build strong relationships with stakeholders by being:

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

Future priorities

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

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

Financial review

The financial review provides a summary of our results and performance. The Bank's results are prepared in accordance with UK adopted International Financial Reporting Standards (UK adopted IFRS) as detailed in the financial statements starting on page 28.

Review of the year

The bank delivered a profit after tax of £6.4 million in its first year of operation and a return on equity of 18%. Prior to that it was loss making, reflecting the investment required to build a bank. The cost income ratio of 85% was relatively high, reflecting that the bank remains in an early phase of its growth.

Net interest income was £25.1 million, driven primarily by the interest earned on the surplus liquidity from the Banking Services business. Deposit taking from retail customers commenced in the fourth quarter and therefore interest expense was incurred for part of the year.

Non-interest income is largely driven by fees charged on our Banking Services business.

Operating expenses increased as we built out teams and continued to invest in the bank. By the end of December the bank had total employees of 163, based in London, Manchester, Leeds and Estonia.

Capital

The bank takes a prudent approach to capital management. As at 31 December 2023, the bank had regulatory capital resources of £44.5 million, significantly in excess of Board risk appetite and regulatory minimums. The CET1 ratio was 31.7% (including audited profits for 2023).

Funding and liquidity

The bank is highly liquid, with all surplus liquidity placed at the Bank of England. This results in an LCR of 140%.

The bank's funding during 2023 was provided by an overdraft facility with the parent company, as well as retail deposits. The deposits from the Banking Services business are not used for funding due to their 'on demand' nature. The loan to deposit ratio is therefore a reflection of the level of retail deposits funding the SME lending portfolio and was 75% as at 31 December 2023, when the Lending portfolio was £69 million.

As at 31 December the balance on the overdraft facility was £57.5 million and retail deposits were £93 million.

Key performance indicators (KPIs)

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

	2023[2]
Common equity tier 1 (CET 1) ratio	31.7%
Loan to deposit ratio[3]	75%
Liquidity coverage ratio	140%
Net stable funding ratio	285%
Number of customers	
- Banking Services	203
- SME Lending	47
Deposits	£207 million
Lending portfolio	£69 million
Cost income ratio	85%
Return on equity	18%
Employee engagement	4.4

[2] Comparator data for 2022 is not provided given the entity was not operating as a bank and therefore these metrics are not relevant for that period

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

Risk management

Risk is defined as a potential negative deviation from the expected financial results. The Bank encounters several risks in its day-to-day operations. The objective of risk management is to recognise these risks, to measure them appropriately, to manage and to report them. More broadly, the aim of risk management is to increase the value of the Bank by minimising losses and reducing the volatility of results. Risk management at the Bank is based on a strong risk culture and follows the principle of three lines of defence. The first line of defence, the business units, is responsible for taking risk and for day-to-day risk management. The second line of defence is responsible for the ownership, continuous review, and implementation of a robust risk management framework, including ownership of the relevant methodologies defined in the policies, and for holistically ensuring that risk identification, assessment, measurement, management, mitigation, monitoring, and reporting is well executed.

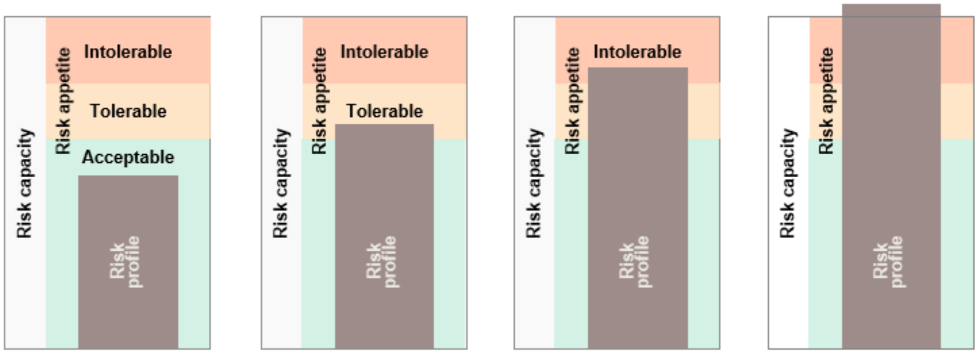
The third line of defence, internal audit, exercises independent supervision. Risk management principles, requirements and areas of responsibility are described in the risk management policy.

Risk framework

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

- Qualitative guidance is worded simply and adopts the terminology commonly used in the organisation and in the business plan.
- Quantitative limits are set at a level that is sufficiently detailed to capture all key risk categories and sub-categories, but at the same time sufficiently aggregated to maintain each metric of relevance to the risk profile of the Bank. Where quantification is possible, the acceptable, tolerable and intolerable amounts of risk are defined as follows:
    - acceptable – the amount of risk allowed to be taken under normal business conditions.
    - tolerable – the amount of risk that gives a warning signal: the increase in risk must be assessed, and an action plan defined to return to the acceptable area; the assessment results and the action plan must be reported to the Executive Risk Committee.
    - intolerable – a hard limit violation, the level of risk the Bank does not wish to exceed under any circumstances: immediate action must be taken to return at least to the tolerable area; the violation, assessment results and an action plan must be reported to the Board.

Risk appetite framework



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.

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

In accordance with the risk management policy, quantitative risk appetite levels must be specified at least for strategy and business risk, credit risk, market risk, operational risk, funding and liquidity risk, and financial crime risk. The risk appetite limits are defined in each of the respective risk policies, which are approved by the Board. The policies are accompanied by detailed instructions and guidelines. The Bank has a system of committees and decision-making competencies. The functions of the main committees are described in the Governance section on page 14.

Principal risks and uncertainties

The Board has ultimate responsibility for identifying and managing the bank's principal risks in order to achieve its strategic objectives. To ensure that it maintains an appropriate level of oversight, the Board has delegated certain roles and responsibilities to Committees, as outlined in the Governance report on page 14. At Board level, principal risks are overseen by the Board Risk Committee ('BRC'). At the management level, the Executive Committee and the Executive Risk Committee ('ERC') provide oversight and monitor the effectiveness of internal controls and risk management processes, and report on these matters to the BRC. This section summarises the principal risks and uncertainties to which the bank is exposed and how these risks are mitigated. Further detail on financial risks can be found in note 24 to the financial statements.

Business and strategic risk

The risk of realising lower than anticipated profits due to changing market conditions, pursuing an ineffective strategy or ineffective implementation of strategy. This risk is mitigated through strategic risk assessment of the Board approved business strategy and plan against the Bank's Risk Appetite Statement. This enables the Bank to adjust its strategy or to introduce additional mitigants in a timely manner.

Funding and Liquidity Risk

Funding risk is the risk of loss caused by the inability to raise funds at an acceptable price or to access markets in a timely manner. Liquidity risk is defined as the risk that liabilities cannot be met when they fall due or can only be met at an uneconomic price. This risk is mitigated through short, medium and long term cash flow forecast and actuals are monitored, to inform the level of liquidity resources that must be held. Liquidity and funding is monitored on a daily basis as well as reporting each month to ALCO, the BRC and Board.

Credit Risk

The risk of a reduction in earnings and/or value due to the failure of a counterparty or associated party, with whom the group has contracted or is exposed as part of its operations, to meet its obligations in a timely manner. The Bank's accounting policy for measurement of expected credit loss can be found on page 37. The Bank monitors credit performance through internal reports covering performance against risk appetite limits and key credit risk metrics including arrears performance and portfolio concentrations. Monthly credit reports are provided to the ERC and BRC.

Market Risk

Market risk is the risk of loss due to changes in the market price of financial instruments, foreign currency or in interest rates that affect banking book positions. Market risk is quantified using prescribed regulatory methodologies, including through the application of stress scenarios for interest rate risk in the banking book (IRRBB). Market risk is managed by ALCO, with reporting on performance against risk appetite metrics to the BRC on a monthly basis.

Capital Adequacy Risk

The risk that the Bank has insufficient regulatory capital to operate effectively, including meeting minimum regulatory requirements, and to operate within board approved risk appetite and support its strategic goals.

Capital risk is managed based on policies, limits, triggers, continuous monitoring and stress testing. Current and forecast levels are monitored against capital risk appetite approved by the Board and are managed by the ALCO and reported to the BRC and Board. The Bank's capital adequacy assessment process is captured and reported in its ICAAP, which is overseen by, and approved by, the Board.

Operational Risk

The risk of loss or adverse impact resulting from inadequate or failed internal processes, people and systems or from external events. This includes the risk of loss resulting from fraud/ financial crime, cyber attacks and information security breaches.

This risk is managed through a Risk and Control Self Assessment (RCSA) process whereby each business area must identify the operational risks present in its activities. Controls over these risks must also be identified within business processes. The risks are quantified and categorised according to severity and likelihood of adverse outcomes. Reporting on operational risk is performed to the BRC.

Fraud and Financial Crime Risk

This is the risk of customer harm or operational loss arising from external dishonest behaviour and also the failure to identify and appropriately mitigate money laundering, terrorist financing, sanctions and anti-bribery and corruption from the Bank's operations.

The Bank has no appetite for knowingly facilitating financial crime. The Bank has implemented prevention and detection systems and controls throughout the lifecycle of a customer relationship. Regular reporting is provided to the BRC.

Conduct Risk

Conduct risk is the risk of creating harm to a customer, counterparty or market arising from inappropriate behaviour in the execution of the Bank's business. The Bank has appropriate policies that sets out expectations of employees. All products are subject to a risk based product development and review process, which carefully considers conduct risk.

Legal and Regulatory Risk

The risk of non-compliance with laws and regulations which could give rise to fines, litigation, sanctions and the potential for material adverse impact upon the Bank. The Bank manages legal and regulatory compliance through a series of policies and procedures, alongside a mandatory staff training programme. The Compliance function have a monitoring plan, which is reviewed and approved by BRC. Compliance also performs horizon scanning which enables the Bank to plan for upcoming changes.

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 regular testing and an assurance regime to test our cyber control environment in line with the latest threats. An important part of our strategy is ensuring our people are aware of cybersecurity issues and know how to report incidents. We run awareness campaigns and have a training programme in place for staff.

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.

Section 172 statement

Our mission is to enhance access to financial services and capital, empowering people and businesses to pursue ambitious goals and invest in their future. Our values are simplicity, support and effectiveness. We recognise that our mission can only be achieved by addressing the interests of all stakeholders, including customers, colleagues, regulators, shareholders, suppliers and the wider community in which we operate.

Section 172 (1) of the Companies Act requires us to confirm that our Directors have acted in a way that is most likely to promote the success of the bank for the benefit of its members as a whole and that in doing so they have regard (amongst other factors) to various considerations and stakeholder interests:

- the likely consequences of any decisions in the long term;
- the interests of the bank's employees;
- the need to foster the bank's relationships with suppliers, customers and others;

- the impact of the bank's operations on the community and environment;
- the desirability of the bank maintaining a reputation of high standards of business conduct; and
- the need to act fairly between members of the bank.

The Board is responsible for establishing and overseeing the bank's values, strategy and purpose, all of which centre around the interests of key stakeholders and other factors set out in section 172 (1).

Consequences of decision making in the long term

The robust financial position of the bank, coupled with its ownership structure, allows the Board to set, and maintain, a long-term perspective when making decisions. The Board is responsible for leading the bank in the way which it believes is most likely to promote its long-term sustainable success and have a material positive impact on our society and the environment. For more information on our Governance, please see page14 of this report.

The interest of our employees

With approximately 160 employees in the UK and Estonia, we have a diverse and motivated team which delivers the highest level of service to our customers and partners. We are committed to the development of our colleagues, ensuring they are supported and engaged.

Key priorities of our colleagues

- A fair, supportive and inclusive culture where employee feedback is valued.
- Being appropriately rewarded for their contributions.
- Opportunities for training and development.

Our engagement during the year

- We have conducted an employee opinion survey and from this have developed action plans to continue to respond to feedback

Relationships with customers and partners

Our success depends on the strength of our relationship with customers and partners, our specialist expertise and the delivery of high standards of service. We listen to our customers and offer solutions that take into account their needs. To us partnership is important. Even in difficulties we focus on finding solutions.

Key priorities of our customers and partners

- Building and maintaining relationships based on trust, understanding and specialist expertise.
- Receiving consistent and supportive service delivered with simplicity and clarity.
- Delivering customer-led propositions that meet their individual needs.

Our engagement during the year

- We hold regular reviews with our customers to ensure that our services continue to meet expectations

Suppliers

Our suppliers support us in providing high standards of service to our customers and we are focused on ensuring we have transparent and sustainable working relationships with our suppliers.

Key priorities of our suppliers

- Fair and equitable conduct of business.
- Appropriate and clear payment processes.
- Robust risk management framework.

Our engagement during the year

- Improvements have been made in our payment processes, reducing time to pay invoices

Regulators and Government

We are committed to maintaining high standards of conduct, in line with regulatory, governmental and legal expectations.

We foster open and transparent relationships with all our regulators and government authorities. We work to ensure that we are aware of and adapting to the evolving regulatory framework.

Key priorities of regulators and government

- Customer outcome.
- Operational and financial resilience.
- Financial crime prevention.
- Environmental, social and governance.
- Digitisation and analytics

Our engagement during the year

- Significant engagement with our regulators during the process for obtaining banking permissions.
- We have actively monitored the FCA's guidance regarding the implementation of Consumer Duty to align our approach with regulatory expectations.

Communities and environment

The bank is managed in a way that takes into account economic, social and environmental matters.

Key priorities of our communities and the environment

- A strategy for approaching sustainability issues.
- A long-term focus on addressing the impacts of climate change.
- Support for community initiatives

Our engagement during the year

- Conscious consideration of the activities of our customers and their impact on the environment
- Leveraging our strong Group ESG strategy in order to extend this to the UK.

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

DocuSigned by:

Erki Kilu

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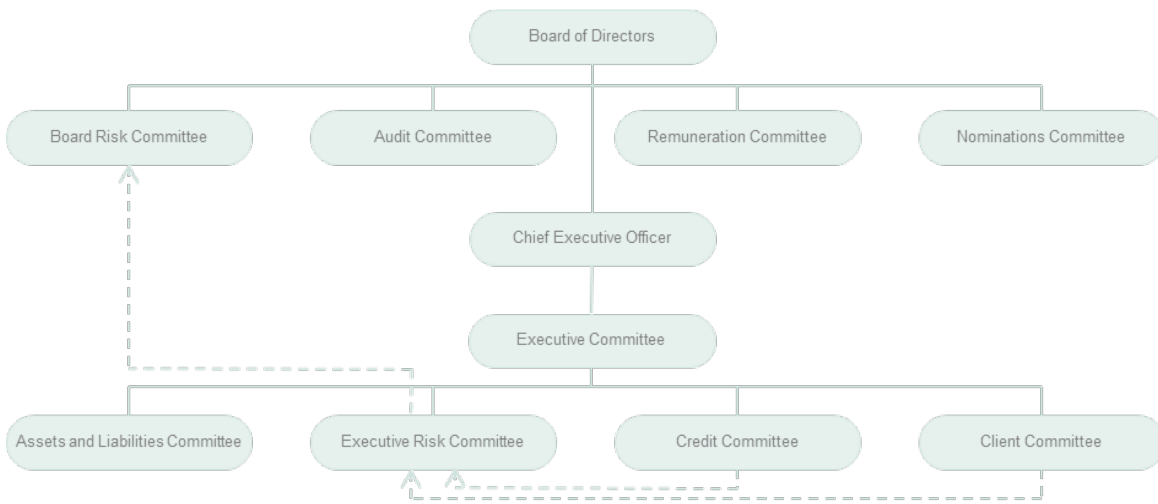
Erki Kilu
Chief Executive Officer
19 April 2024

The governance structure of the bank has been designed with a view to help execute the company's strategy in the most effective manner in line with the vision and values of the company while maintaining effective risk management and ensuring its activities are in line with the principles of consumer protection, market integrity and effective competition. Well-designed and well-implemented internal governance arrangements are vital for sound risk management, including providing effective oversight to governing bodies and promoting an effective risk management culture throughout the organisation. The Board of Directors itself devotes sufficient time to risk assessment and is committed to allocating adequate resources to risk management.

The bank has robust governance arrangements that include a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report risks and effective systems and controls to ensure the business is operating effectively and in accordance with standards of conduct that have been designed and approved by senior management. The Bank's governance structure is summarised in the chart 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);
- Risk Committee (BRC);
- Remuneration Committee (RemCo)
- Nominations Committee (NomCo); and
- Executive Committee (Exco).

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

i. Setting of strategic objectives and the monitoring of implementation thereof by Exco;

ii. Development, implementation and monitoring of effective policy, governance and procedures at the bank to execute the strategy;

iii. Development of the bank's culture;

iv. Oversight and approval of the allocation and maintenance of the bank's capital, funding and liquidity and the stress thereof; and

v. Guidance and oversight of key functions delegated to Exco, ensuring that the bank operates within the Risk Management Framework (RMF) and remains compliant with all relevant regulation.

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.

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

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

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

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 Executive Committees.

We have assembled an experienced, driven and diverse Board and management team to lead and grow the business.

Board members

Madis Toomsalu – Chairman
Madis serves as the Chairman of the Board of LHV Bank and Chairman of the Management Board of its parent company LHV Group. He also belongs to the management board of the non-profit organisation Finance Estonia a member of the SA Rohetiiger advisory board. He holds a Bachelor's degree in Business Management from Tallinn University of Technology and a Master's in Public Sector Finance.

Paul Horner – Independent Non-Executive Director
Paul brings substantial experience from his roles in executive risk and general management at institutions such as Barclays, RBS, and Ulster Bank Ireland. Before becoming the CEO of Coutts & Co International, he was the company's Managing Director and Chief Risk Officer. At LHV Bank, Paul is the Chair of the Board Risk Committee and a Member of the Audit, Remuneration and Nominations Committees.

Outside LHV Bank, he is a Non-Executive Director and Chair of the Board of Arion Bank. Additionally, Paul is a Non-Executive Director and Chair of the Board Risk Committee of AIB Group (UK) PLC and serves as a Non-Executive Director and Chair of the Board Risk Committee at National Bank of Kuwait (International) PLC. Paul graduated with Honours from Oxford University and is an Associate of the UK Chartered Institute of Bankers.

Sally Veitch – Independent Non-Executive Director
Sally holds a BA in Natural Sciences from Cambridge University and is a member of the Institute of Chartered Accountants. Sally is the Senior Independent Director and Chairs the Audit Committee, Remuneration Committee and Nominations Committee and also serves on the Board Risk Committee and is the Board Consumer Duty Champion.

Sally is also a Non-Executive Director and Chair of the Audit Committee and Remuneration Committee of Perenna Bank PLC and a Non-Executive Director of AIM-listed H&T Group PLC.

Keith Butcher – Independent Non-Executive Director
Keith is a seasoned CFO with extensive experience in e-commerce, fintech, and online payments businesses. He currently serves as the CFO of Boku Inc., a leading mobile payments company, and previously held the same position at PaySafe Group Plc. Keith serves as a Member of the Board Risk Committee and Audit Committee of LHV Bank. Keith

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

Gill Lungley - Independent Non-Executive Director

Gill is a seasoned financial services executive and Board Director. She joined the LHV Bank Board as Independent Non-Executive Director (iNED) in April 2024 and is a member of the Risk Committee and Remuneration Committee. Gill has broad experience in the financial field as an iNED.
Gill is currently serving as an iNED at Citibank Europe PLC where she is Chair of the Remuneration Committee and a member of the Risk and Audit Committees, Fnality Services Limited, where she is Chair of the Board (subject to regulatory approval), Chair of the Nominations and Remuneration Committee and 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.

Erki Kilu – Executive Director and Chief Executive Officer
Erki began his tenure at LHV (Estonia) in 2008 and has held various management positions within the company. He holds a Bachelor's degree in International Business Administration from the Estonian Business School and an MBA and an MSc in Engineering from the University of Tartu. In addition to LHV's board, Erki is a Fellow of the Chartered Banker Institute (FCBI), former chairman of the Estonian Banking Association, and a European Banking Federation board member.

Andres Kitter – Executive Director and Chief Technology Officer
Andres joined LHV (Estonia) from tech giant Skype, where he was the Payments and Billing Manager. He served as Head of Retail Banking before taking the role of Head of the LHV UK Branch and, subsequently, Deputy CEO of LHV Bank. Andres is also Head of the Financial Institutions of LHV Pank. He obtained a Master's degree from the Faculty of Economics and Business Administration of the University of Tartu in 2003.

Rachelle Frewer – Executive Director and Chief Financial Officer
Rachelle has over 25 years experience working 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. Rachelle qualified as a Chartered Accountant at KPMG.

Executive Committee

Kris Brewster – Director of Savings
Kris brings more than 20 years of expertise to LHV Bank from the banking and financial sector. Before joining LHV, he was the acting Chief Commercial and Strategy Officer at Skipton Building Society. There, he oversaw Strategy, Corporate Communications, ESG, and led the Mortgage and Savings product teams. Before Skipton, Kris held senior savings roles at notable institutions like HSBC and Bradford & Bingley. Beyond his direct roles, he served on the Mortgage Product and Service Board of UK Finance. Kris holds a BSc in Retail Management from Loughborough University and an MBA from the University of Bradford School of Management.

Assad Kazi – Chief Risk Officer
Assad has nearly 20 years of experience in the finance industry. Prior to joining LHV Bank, he worked at Deloitte as a Director. During his tenure at Deloitte, Assad successfully managed numerous end-to-end banking licence application projects for various companies, ranging from established entities to start-ups. He is well-versed in regulatory requirements and has a strong focus on risk management, giving him a comprehensive understanding of the banking industry and its associated challenges. Assad has a BaFAM

(First Class Honours) from Nottingham University Business School.

Conor McDermott – Head of SME Lending
Conor has over 20 years of experience in UK banking across credit underwriting, corporate and institutional banking. More recently he has successfully established specialist relationship teams, scaling up assets and liabilities. He brings a deep understanding of the client and intermediary community, underpinned by a strong credit background. Having started his banking career in the UK with RBS, Conor has also worked at Metro Bank and Arbuthnot Latham.

Rebecca Wright – Chief People Officer
Rebecca Wright is a senior HR professional with expertise supporting board-level executives across a range of HR disciplines and industries, including fintech, legal, banking, insurance, and consultancy. Rebecca started her career in financial services and has held Group HR Director roles for publicly listed companies as well as Private Equity and Venture Capital-backed start-ups.

Tim Waller – General Counsel
Tim is a seasoned payments lawyer with over 20 years in the field. Before joining LHV Bank he served as General Counsel for Token.io and has held senior roles at Barclays and Paysafe. Tim was also a Partner and Head of Fintech at TLT Solicitors. With a particular emphasis on Open Banking payments, Tim's experience has been instrumental across law firms and financial institutions in the UK and the European Union. Tim holds a BA from Durham University, and completed his Post Graduate Diploma in Law at the University of East Anglia. Tim is a Solicitor, qualified in England and Wales.

Directors' Report

The Directors of the company present their report for the year ended 31 December 2023.

The Strategic Report set out on pages 3 to 13 of this Annual Report, together with the Governance Report set out on pages 14 to 19 include information that would otherwise be included in this Directors Report. Readers are also referred to the cautionary statement on page 67 of this Annual Report.

Disclosures by reference

	Page
Directors who served during the year	2
Future priorities	6
Risk management	8

Principal activity

The principal activity of the bank in the year under review was that of banking services, which included the transfer of the GBP Banking Services business from AS LHV Pank's UK branch in August 2023.

Dividends

No dividend will be paid for the year ended 31 December 2023 (2022: £nil).

Events after the reporting period and going concern

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

Statement of Directors' responsibilities

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

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

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

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

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

Political donations

The Bank made no political donations during the year (2022: nil).

Research and development

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

Directors Indemnities

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

The Bank also arranges Directors and Officers liability insurance.

Disclosure of information to the auditor

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

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

This report was approved by the Board and signed on its behalf by:

Erki Kilu

Erki Kilu
Chief Executive Officer
19 April 2024

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LHV BANK LIMITED FOR THE PERIOD ENDED 31 DECEMBER 2023

For the purpose of this report, the terms "we" and "our" denote MHA in relation to UK legal, professional and regulatory responsibilities and reporting obligations to the members of LHV Bank Limited. For the purposes of the table on pages 22 to 23 that sets out the key audit matters and how our audit addressed the key audit matters, the terms "we" and "our" refer to MHA. The "Bank" is defined as LHV Bank Limited. The relevant legislation governing the Company is the United Kingdom Companies Act 2006 ("Companies Act 2006").

Opinion

We have audited the financial statements of LHV Bank Limited for the year ended 31 December 2023. The financial statements that we have audited comprise:

- the Statement of Comprehensive Income
- the Statement of Financial Position
- the Statement of Changes in Equity
- the Statement of Cash Flows, and
- Note 1 to 30 of the financial statements, including significant accounting policies.

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

In our opinion the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 December 2023 and of the Bank's profit for the year then ended;
- have been properly prepared in accordance with UK adopted international financial reporting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

Basis for opinion

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

Conclusions relating to going concern

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

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

- The consideration of inherent risks to the Bank's operations and specifically its business model.
- The evaluation of how those risks might impact on the Bank's available financial resources.
- Where additional resources may be required, the reasonableness and practicality of the assumptions made by the Directors when assessing the probability and likelihood of those resources becoming available.
- Capital and liquidity considerations including examination of the Bank's cash flow and liquidity projections.
- The management's assumptions of Bank's ability to continue as a going concern and the assumptions used in the preparation of budgets and forecasts and assessed sensitivities through the change in assumptions.
- The charges attached in the Bank's name and the covenants attached on financing by the Bank.

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

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

Overview of our audit approach

Scope	Our audit was scoped by obtaining an understanding of the Bank and its environment, including the Bank's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the directors that may have represented a risk of material misstatement.		
Materiality	**2023**	**2022**	
Overall materiality	£422k	£384k	0.87% (2022: 1%) of net assets
Key audit matters			

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

Key Audit Matters

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

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

Key audit matter description	At 31 December 2023 the Bank reported total gross loans of £69.2 million (2022: £19.58 million) and £205k of expected credit losses (ECL) (2022: £58k). The calculation of ECL require management to make significant judgments and estimates which are subjective due to significant uncertainty associated with the assumptions used. The following areas have greater levels of management judgements and estimations involved and are therefore classified as significant risk areas in the estimation of ECL; • Staging - Allocation of assets to stage 1, 2, or 3 on a timely basis in accordance with IFRS 9; • Model estimations – Accounting interpretations, modelling assumptions and data used to build and run the Probability of Default ('PD'), Loss Given Default ('LGD') models that calculate the ECL; • Economic scenarios - Inputs, assumptions and weightings used to estimate the impact of multiple economic scenarios including any changes to scenarios required; • Adjustments – Adjustments to the model-driven ECL results are raised by management to address known impairment model limitations or emerging trends as well as risks not captured by models. In-model and post-model adjustments (IMAs and PMAs) which are recognised to address identify model data limitations are inherently uncertain and significant management judgement is involved in estimating certain. • Significant increase in credit risk ("SICR") - the criteria selected to identify a SICR is a key judgement in the Bank's ECL calculation as this criteria determine whether a 12 month or a lifetime allowance is recorded.
How the scope of our audit responded to the key audit matter	Controls testing - We evaluated the design and implementation of key controls across the processes relevant to ECL, including the judgments and estimates noted. These processes, among others, included those over: • the generation of the multiple economic scenarios including governance processes and the application of weightings to the different scenarios • the allocation of assets into stages including management's monitoring of stage effectiveness; • model governance including monitoring and model validation; • the recording of collateral into lending system for retail loans; • the determination of credit risk ratings; • data accuracy and completeness; • credit monitoring including governing the watchlist process and the identification of credit impaired loans; • multiple economic scenarios; and • the governance and review of in-model adjustments (IMA) and post-model adjustments (PMA); We engaged the support of our external credit modelling experts to assess the performance of the ECL models and the appropriateness of management's key judgements and assumptions in the context of the current economic environment and our wider industry experience.

	Staging - We evaluated the criteria used to allocate a financial asset to stage 1, 2 or 3 in accordance with IFRS 9. We have evaluated management’s credit monitoring which derives the probability of default estimates applied in the staging calculation. We have tested a sample of loans to assess the credit quality and to assess if the staging is appropriate. We evaluated management’s credit monitoring which drives the probability of default estimates applied in the staging calculation. We recalculated, on a sample basis, the risk ratings for performing loans. We also assessed the timing and robustness of management’s annual credit review on loan exposures to evaluate whether it appropriately considered credit risk factors including publicly available information. Model estimations – We evaluated and challenged the Bank’s impairment methodologies for compliance with IFRS 9. We performed a risk assessment on all models involved in the ECL calculation to select models to test. We involved our external modelling experts to assist us to test the ECL models by testing the assumptions, inputs and formulae used. Our external credit modelling experts have independently replicated the PD, EAD and LGD models. To evaluate data quality, we agreed a sample of ECL calculation data points to source systems, including balance sheet date data used to run the models and historic loss data to monitor models. We also tested the ECL data points from the calculation engine through to the general ledger and disclosures. Economic scenarios – Our external expert has evaluated and challenged the economic scenarios and probability weightages. We have compared the management’s scenarios with variety of external sources. Our expert has assessed if the forecasted macroeconomic variables are complete and reasonable. Adjustments - We assessed and tested the expert judgements applied by management to address the credit risk in the portfolio that was not reflected in modelled outputs, evaluating and challenging the methodology, completeness and application. Overall assessment - We performed an overall assessment of the ECL allowance levels by stage to determine if they were reasonable by considering the overall credit quality of the Bank’s portfolios. Disclosure - We tested the data flows used to populate the disclosures and assessed the adequacy of disclosures for compliance with the accounting standards and regulatory considerations.
Key observations communicated to the Bank’s Audit Committee	We found the approach taken in respect of ECL to be consistent with the requirements of IFRS 9 and we have concluded that the assumptions and judgements made by the management in the application of ECL were reasonable and supportable.

Our application of materiality

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

Overall Materiality	£422k (2022: £384k)
• Basis of determining overall materiality	We determined materiality based on 0.87% (2022: 1%) of the net assets value. We have considered the primary users of the financial statements to be shareholders, customers of the Bank, the ultimate parent company, and the UK regulators (FCA and PRA). We have considered that Net Assets is the most appropriate benchmark on which to base our assessment of materiality as it is the most relevant financial indicator used by the stakeholders to assess the performance of the Bank and its compliance with appropriate regulatory requirements.
Performance materiality	£253k (2022: £269k)
• Basis of determining overall performance materiality	We set performance materiality based on 60% (2022: 70%) of overall materiality. Performance materiality is the application of materiality at the individual account or balance level, set at an amount to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. The determination of performance materiality reflects our assessment of the risk of undetected errors existing, the nature of the systems and controls and the level of misstatements arising in previous audits.
Error reporting threshold	We agreed to report any corrected or uncorrected adjustments exceeding £21k (2022: £19k) to the Audit Committee as well as differences below this threshold that in our view warranted reporting on qualitative grounds.

The control environment

We evaluated the design and implementation of those internal controls of the Bank which are relevant to our audit, such as those relating to the financial reporting cycle.

We deployed our internal IT audit specialists to obtain an understanding of the general IT environment and tested the general IT controls which were not effective. We have adopted a fully substantive audit approach.

Climate-related risks

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

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

Reporting on other information

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

We have nothing to report in this regard.

Strategic report and directors report

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

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

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors

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

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

Auditor responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

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

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

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

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

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

Identifying and assessing potential risks arising from irregularities, including fraud

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

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

- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur by evaluating management's incentives and opportunities for manipulation of the financial statements. This included utilising the spectrum of inherent risk and an evaluation of the risk of management override of controls. We determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce costs, creating fictitious transactions to hide losses or to improve financial performance, and management bias in accounting estimates particularly in determining expected credit loss.

Audit response to risks identified

In respect of the above procedures:

- we corroborated the results of our enquiries through our review of the minutes of the Bank's board meetings, audit committee meetings, Asset and Liability committee meetings and Board Risk committee meetings , inspection of the complaints register, inspection of legal and regulatory correspondence and correspondences from the regulators PRA and the FCA;
- audit procedures performed by the engagement team in connection with the risks identified included:
    - reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations expected to have a direct impact on the financial statements.
    - testing journal entries, including those processed late for financial statements preparation, those posted by infrequent or unexpected users, those posted to unusual account combinations;
    - evaluating the business rationale of significant transactions outside the normal course of business, and reviewing accounting estimates for bias;
    - enquiry of management around actual and potential litigation and claims.

  - challenging the assumptions and judgements made by management in its significant accounting estimates, in particular those relating to the determination of the expected credit losses as reported in the key audit matter section of our report; and
  - obtaining confirmations from third parties to confirm existence of a sample of transactions and balances.
- the Bank operates in a highly regulated banking industry. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities; and
- we communicated relevant laws and regulations and potential fraud risks to all engagement team members, including experts, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Other requirements

We were appointed by the Directors on 6 September 2023 for the audit of the statutory financial statements of the Bank for the year ended 31 December 2023 and subsequent financial periods. This is our first year as independent auditors of the Bank.

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

Use of our report

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

DocuSigned by:

Rakesh Shaunak

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Rakesh Shaunak FCA
(Senior Statutory Auditor)
for and on behalf of MHA, Statutory Auditor
London, United Kingdom
19 April 2024

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

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	*31 December 2023* £	*31 December 2022* £
Interest income on financial assets at amortised cost	4	29,628,394	194,873
Interest expense	4	(4,576,314)	(126,060)
Net interest income		**25,052,080**	**68,813**
Fee and commission income	5	6,961,668	-
Fee expense	6	(201,584)	-
Foreign exchange transalation differences		(61,616)	5,697
Other operating income		227,232	9,031
Operating income		**31,977,780**	**83,541**
Personnel expenses	7	12,886,355	3,791,095
Depreciation and amortisation	13	1,596,396	1,446,947
Other operating expenses	8	12,565,591	4,827,620
Credit impairment charge	12	149,876	-
Operating expenses		**27,198,218**	**10,065,663**
Operating profit before taxation		**4,779,563**	**(9,982,121)**
Income tax (expense) credit	10	1,657,045	-
Profit after taxation		**6,436,608**	**(9,982,121)**
Total comprehensive income for the year		**6,436,608**	**(9,982,121)**

The Notes on pages 32 – 66 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023

	Note	*31 December 2023*	*31 December 2022*
		£	*£*
Assets			
Cash and cash equivalents	11	242,124,881	11,651,424
Loans and advances to customers	12	69,008,543	19,526,448
Property, plant and equipment	13	5,436,526	5,207,482
Other assets	14	2,731,425	468,270
Deferred tax asset	10	1,710,054	-
Total assets		**321,011,430**	**36,853,625**
Liabilities			
Deposits from customers	15	206,998,301	-
Overdraft from fellow subsidiary		57,472,999	-
Other liabilities	16	5,650,604	779,833
Lease liability	17	4,004,213	4,367,642
Provision	18	188,253	54,950
Total liabilities		**274,314,370**	**5,202,425**
Called up share capital	19	54,100,000	44,100,000
Accumulated losses	20	(6,132,985)	(12,569,592)
Other reserves	20	454,902	120,792
Merger reserve	20	(1,724,857)	-
Equity shareholders' funds		**46,697,060**	**31,651,200**
Total equity and liabilities		**321,011,430**	**36,853,625**

Approved by the Board and authorised for issue on 19 April 2024 and signed on its behalf by:

DocuSigned by:
Erki Kilu
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Erki Kilu
CEO

DocuSigned by:
Madis Toomsalu
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Madis Toomsalu
Chairman

Company Registration
No. 13180211

The Notes on pages 32 –66 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	Share capital	Accumulated losses	Other reserves	Merger reserve	Total
		£	£	£	£	£
Opening balances as at 1 January 2022		**10,000,000**	**(2,587,471)**	**-**	**-**	**7,412,529**
(Loss) for the year		-	(9,982,121)	-	-	(9,982,121)
Other comprehensive loss		-	-	-	-	-
Total comprehensive income		-	(9,982,121)	-	-	(9,982,121)
Issue and allotment of share capital		34,100,000	-	-	-	34,100,000
Share based payments		-	-	120,792	-	120,792
Balances as at 31 December 2022		**44,100,000**	**(12,569,592)**	**120,792**	**-**	**31,651,200**
Profit for the year		-	6,436,608	-	-	6,436,608
Other comprehensive loss		-	-	-	-	-
Total comprehensive income		-	6,436,608	-	-	6,436,608
Issue and allotment of share capital	19	10,000,000	-	-	-	10,000,000
Share based payments	20	-	-	334,110	-	334,110
Merger reserve	20	-	-	-	(1,724,857)	(1,724,857)
Balances as at 31 December 2023		**54,100,000**	**(6,132,985)**	**454,902**	**(1,724,857)**	**46,697,060**

£10m capital was injected on 18th August 2023 to support the business transfer from AS LHV Pank to the Bank.

The Notes on pages 32 – 66 form an integral part of these financial statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	31 December 2023 £	31 December 2022 £
Cash flows from operating activities			
Profit for the year before taxation		4,779,563	(9,982,121)
Adjustment to reconcile profit to cash flow from operating activities			
Depreciation of property, plant and equipment	13	1,596,396	1,307,497
Increase / (decrease) in other assets / other liabilities		2,716,589	697,574
Other reserves	20	334,110	-
Credit impairment losses/(gains)		149,876	-
		9,576,534	**(7,977,050)**
Net increase in assets relating to operating activities			
Loans and advances to customers		(49,482,095)	(19,701,598)
		(49,482,095)	**(19,701,598)**
Increase/(decrease) in liabilities relating to operating activities			
Deposits from customers	15	206,998,301	-
Amounts received from group companies		57,472,999	-
		264,471,300	**-**
Net cash used in/(from) investing activities			
Acquisition of property, plant and equipment	13	(1,079,751)	(1,497,263)
Banking Services business transfer	20	(1,724,857)	-
		(2,804,607)	**(1,497,263)**
Cash flows used in financing activities			
Issue and allotment of share capital	19	10,000,000	34,100,000
Payment of lease liabilities	17	(1,287,675)	(531,421)
		8,712,325	**33,568,579**
Net Increase in cash and cash equivalents		**230,473,456**	**4,392,668**
Cash and cash equivalents as at 1 January		11,651,425	7,258,757
Cash and cash equivalents as at 31 December		**242,124,881**	**11,651,425**

The Notes on pages 32 – 66 form an integral part of these financial statements.

Significant accounting policies

1 General information

LHV Bank Limited ('LHV Bank' or 'the Bank') is a company limited by shares and registered in England and Wales under the Companies Act 1985 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 to develop the recently acquired SME lending portfolio and to further establish the UK presence on behalf of its parent company. The parent company operates in the retail and commercial banking sectors.

The financial statements are presented in Sterling (£), which is the same as the Banks 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 profit or loss where the gain or loss on the underlying item is recognised.

Statement of compliance

LHV Bank has prepared these financial statements in accordance with United Kingdom adopted International Financial Reporting Standards (UK adopted IFRS) and those parts of the Companies Act 2006 that are relevant to companies which apply UK adopted IFRS. The principal accounting policies applied in the preparation of the financial statements are set out below, and in the relevant notes to the financial statements.

Basis of preparation

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

Going concern

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

LHV Bank's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report and Directors' Report on pages 3 to 19. The financial position of the Bank, its cash flow and capital position are as described on pages 28 to 66. 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 24 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 provisions; and this has been considered in the assessment of 'going concern'. When assessing 'going concern', no regulatory capital ratios were breached in the base to mid case stress scenarios. In the most severe scenario, the Bank would be able to restore its capital by taking appropriate management action to reduce balance sheet growth by reducing lending, which in turn reduces its capital requirement.

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

After making enquiries, in addition to an assessment of the impact of principal risks as set out on page 9 of the Strategic Report, the Directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continued to adopt the 'going concern' basis in preparing the annual report and accounts.

The principal accounting policies adopted are described below.

2 Material Accounting Policies

A number of new standards, interpretations and amendments are effective for annual periods beginning on or after 1 January 2023 but did not have a material impact on the financial statements.

New currently effective requirements

Amendments to IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2023; to be applied retrospectively; early application is permitted). These amendments are not yet endorsed by the EU.

The amendments clarify that the classification of liabilities as current or non-current is based solely on the entity's right to defer settlement at the end of the reporting period. The entity's right to defer settlement for at least 12 months from the reporting date need not be unconditional but must have substance. The classification is not affected by management's intentions or expectations about whether and when the entity will exercise its right. The amendments also clarify the situations that are considered settlement of a liability.

The bank does not expect the amendments to have a material impact on its financial statements when initially applied.

Accounting Policies, Changes in Accounting Estimates and Errors – Amendments to IAS 8 (effective for annual periods beginning on or after 1 January 2023; early application is permitted)

The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The amendments did not have a material impact on the banks financial statements.

Income Taxes - Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2023; early application is permitted)

The amendments clarify the accounting for deferred tax on transactions that involve recognising both an asset and a liability with a single tax treatment related to both.

The amendments did not have a material impact on the banks financial statements.

a. Changes in accounting policy

LHV Bank has not adopted early any standard, interpretation or amendment that have been issued but is not yet effective.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

The amendments, as issued in 2020, aim to clarify the requirements on determining whether a liability is current or non-current, and apply for annual reporting periods beginning on or after 1 January 2023. The

IASB has subsequently proposed further amendments to IAS1 and the deferral of the effective date of the 2020 amendments to no earlier than 1 January 2024. The amendment is endorsed by the UK Endorsement Board (UKEB).

Non-Current Liabilities with Covenants (Amendments to IAS 1)

The amendments to IAS 1 specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date.

The amendments require a company to disclose more information regarding loan covenants in the notes to the financial statements and requires identification of which loans are affected by covenants.

The amendment is effective for financial years beginning on or after 1 January 2024 and is endorsed by the UK Endorsement Board (UKEB).

Lack of Exchangeability (Amendments to IAS 21)

In August 2023, the IASB issued amendments to IAS 21 to help entities: assess exchangeability between two currencies; and determine the spot exchange rate, when exchangeability is lacking The new requirements will be effective for annual reporting periods beginning on or after 1 January 2025, with earlier application permitted and has not yet been endorsed by the UK Endorsement Board (UKEB).

b. **Income recognition**

Interest income and expense

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

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

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

Interest income on financial assets mandatorily required to be measured at fair value through profit or loss (FVTPL) is recognised using the contractual interest rate in net gains/(losses) on financial assets held at fair value through profit or loss, respectively.

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

Fees and commissions income and expenses

The Bank follows IFRS 15 in determining fee and commission revenue recognition using the following five steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognise revenue when (or as) the Bank satisfies a performance obligation.

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

- fees earned on the execution of a significant act are recognised in ‘fee income’ when the act is completed (e.g. executing transactions for our banking services client);

- fees earned in respect of services are recognised in 'fee income' as the services are provided (banking services fees); and
- fees which form an integral part of the "effective interest rate'' of a financial instrument are recognised as an adjustment to the effective interest rate and recorded in 'interest income' (executing loan transactions).

Intra-group income are fees related to non-GBP related Banking Services activity is contractually undertaken by AS LHV Pank, however, is predominantly managed and serviced by the Bank. The Bank and AS LHV Pank entered a cooperation and services agreement (CSA) commencing in March 2023 which outlines the activity undertaken by each entity and the distribution of revenue between AS LHV Pank and the Bank.

Foreign currency transactions and balances

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 profit or loss.

Other operating income and expense

Any other income not elsewhere attributable directly to a product line, such as research and development tax credits.

c. Financial instruments - initial recognition

Date of recognition

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

Recognition

The Bank recognises financial assets and liabilities when it becomes a party to the terms of the contract. Trade date or settlement date accounting is applied depending on the classification of the financial asset. Financial assets and liabilities, except for loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date on which LHV Bank becomes a party to the contractual provisions of the instrument. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. LHV Bank recognises balances due to customers when funds are transferred to the Bank.

Classification and measurement

Financial assets are classified on the basis of two criteria:

(i) the business model within which financial assets are managed; and
(ii) their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest' (SPPI)).

Initial measurement of financial instruments

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

Day 1 profit or loss

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

Measurement categories of financial assets and liabilities

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

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

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

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

Business model assessment

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

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

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

SPPI test

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, LHV BANK applies judgement and considers relevant the period for which the interest rate is set.

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

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

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

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

Derecognition due to substantial modification of terms and conditions

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

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

Derecognition other than for substantial modification

Financial assets

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

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

Financial liabilities

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

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

Impairment of financial assets

Overview of the ECL principles

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

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

The significant increase in credit risk (SICR) test

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

- Primary indicator – This applies a 12-month probability of default (PD) variation approach which uses a notch movement within rating grades (change in credit rating).
- Secondary indicator – Entry onto Watchlist list.
- Backstop indicator – Days Past Due for all exposures.

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

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

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

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

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

Low credit risk expedient and use of 30 days DPD backstop

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

Calculation of ECLs

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

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

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

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

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

Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is a function of the EAD and the recoverable amount.

Exposure at Default is an estimate of the exposure at a future default date, considering expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

Forward looking information

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

Definition of default

A facility is considered in "default" when:

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

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

Exit criterion

This is conditional upon meeting any of the following:

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

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

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

Loans and advances to customers/debt instruments measured at fair value through OCI

The ECL for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. An adverse change in the credit risk component would go through the impairment item line in the profit and loss with the remainder going through OCI. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

Collateral valuation

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

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

Collateral repossessed

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

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

Write-offs

Financial assets are written off either partially or in their entirety only when the probability of recovery is very low. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit impairment losses.

Property, plant and equipment

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

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

Right of use assets

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

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

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

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

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

Intangible assets

The bank does not have any intangible asset as it uses third party cloud based software as a service (SaaS) applications which are expensed through the income statement.

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

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

Impairment of non-financial assets

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

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

Leases

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

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

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

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

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

Leases in which the Bank is a lessee

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

Leases in which the Bank is a lessor

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

Lease liabilities

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

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

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

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

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

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

Right of use assets

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

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

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

Extension and termination options

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

Extension and termination options - Determining the lease term

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

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

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

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

Provisions

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

Income tax

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

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

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

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

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

Cash and cash equivalents

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

Offsetting

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

Financial liabilities and equity

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

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

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

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

Share capital

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

Merger reserve

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

LHV Bank uses the book value of assets and liabilities at the date of transfer to determine the value of assets and liabilities transferred. There is no new initial recognition point for the assets and liabilities at the date of transferred and they are accounted for as if they have always been in the entity. We present the results of the transferred business from the date of transfer on a prospective basis. Comparative information reflecting the activities of the business prior to that is not presented.

Deposits from customers

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

Overdraft from fellow subsidiary

The bank arranged an overdraft facility with a fellow subsidiary (AS LHV Pank) to support the migration of the branch customer to the bank which is measured at amortised cost.

Other liabilities

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

Employee benefits

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

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

During the year, employees (including two directors) were issued by AS LHV Group, with options to buy shares in the parent company, AS LHV Group, a company listed in Estonia. Awards granted do not have any performance-based vesting conditions and vest after 3 years. Employees are awarded options with an exercise price equal to half the market price on the date the share scheme was created.

In 2023 the recipients and amounts of share options to be granted for the results for 2022 were determined based on this programme. The aim of issuing share options is to create conditions where the long-term objectives and interests of the management and equivalent staff as well as key employees of LHV and the group companies would be harmonised with the long-term interests of the shareholders of LHV. Another objective is to offer a system of compensation on the labour market that is equal to competitors.

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

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

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

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

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

At 31 December 2023 the stock option expenses were £336,963 (2022: £115,018) which has been recognised in administrative expenses.

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

3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities.

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

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

IFRS 9

The critical accounting judgements of the group relate to expected credit loss provisions calculated under IFRS 9 and are as follows:

• Establishing the criteria for a significant increase in credit risk; and

• Determining the appropriate definition of default.

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

Leases

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

Deferred tax asset

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

4 Net interest income

	31 December 2023 £	31 December 2022 £
Interest and similar income:		
Interest income from central banks	5,002,479	-
Loans and advances to customer measured at amortised cost	3,331,638	194,477
Debt instruments measured at amortised cost	344,714	-
Other interest income	20,949,564	395
	29,628,394	194,873

Other interest income is interest related to non-GBP related Banking Services activity is contractually undertaken by AS LHV Pank, however, is predominantly managed and serviced by the Bank. The Bank and AS LHV Pank entered a cooperation and services agreement commencing in March 2023 which outlines the activity undertaken by each entity and the distribution of revenue between AS LHV Pank and the Bank.

	31 December 2023 £	31 December 2022 £
Interest expense and similar charges:		
Deposits from customers measured at amortised cost	1,161,585	-
Deposits from customers measured at amortised cost - Group	2,761,377	-
Interest on rental assets	181,462	126,060
Other interest Expense	471,891	-
	4,576,314	126,060

5 Fee and commission income

	Note	31 December 2023 £	31 December 2022 £
Intra-Group income	23	6,026,056	-
Banking Services income		935,612	-
		6,961,668	-

Intra-group income are fees related to non-GBP related Banking Services activity is contractually undertaken by AS LHV Pank, however, is predominantly managed and serviced by the Bank. The Bank and AS LHV Pank entered a cooperation and services agreement (CSA) commencing in March 2023 which outlines the activity undertaken by each entity and the distribution of revenue between AS LHV Pank and the Bank.

6 Fee and commission expense

		31 December 2023 £	31 December 2022 £
Intragroup fee expense	23	177,240	-
Other fee expense		24,344	-
		201,584	-

7 Personnel expenses

		31 December 2023 £	31 December 2022 £
Wages and salaries		10,245,983	3,174,815
Social security costs		1,479,500	361,919
Bonus and share based payments		726,740	115,018
Other pension costs	22	328,920	131,279
Other staff benefits		105,213	8,064
		12,886,355	3,791,095

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

The average monthly number of employees was:

	31 December 2023	31 December 2022
Directors (including those not in receipt of remunderation)	6	7
Staff	103	25
	109	32

Includes 61 staff transferred from LHV Pank to LHV Bank in August 2023. The total staff number of staff employed as at 31 December 2023 was 163 across UK and Estonia.

8 *Other operating expenses*

Other operating expenses include the following:

	31 December 2023 £	31 December 2022 £
IT costs	5,581,791	2,075,664
Outsourced services	2,356,048	1,366,611
Legal and Consultancy fees	985,262	755,891
Business rates	443,760	135,024
Repairs & Maintenance	355,585	233,317
Audit and accounting fees	258,951	53,280
Other Administrative expenses	2,584,194	207,832
	12,565,591	4,827,620

Auditor's remuneration, included in audit and accounting fees, to MHA for the current year in respect statutory audit is £245k (2022: £34,800 paid to Blick Rothenberg), and other assurance services £0 paid to MHA (2022: £9,600 paid to Blick Rothenberg).

9 *Directors' remuneration*

The Directors' remuneration for the year was as follows:

	31 December 2023 £	31 December 2022 £
Emoluments	1,211,002	642,618
Value of share awards awarded for current year performance	567,640	853,609
Contributions to defined contribution pension scheme	10,346	15,000
	1,788,988	1,511,227

The highest paid director received emoluments, excluding pension contributions and long-term share options, totalling £317,471 (2022: £300,986) and pension contributions of £10,346 (2022: £15,000). One director received pension benefits in the year (2022: £15,000). Two Directors salaries and share awards are paid/awarded by other group companies but included in the directors remuneration.

10 *Income tax*

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

	31 December 2023 £	31 December 2022 £
Deferred Tax	1,710,054	-
Current year income tax	(53,009)	-
	1,657,045	-

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

Composition of Deferred Tax Assets

	31 December 2023 £
Trading losses c/f	(11,858,193)
Set against total profits under s45A CTA 2010	5,099,290
Trading loss carried forward	**(6,758,903)**
Fixed asset timing differnces	310,599
Short term timing differences	(391,913)
Losses and other deductions	(6,758,903)
Total	**(6,840,217)**
Closing provision @ 25%	**(1,710,054)**

At the balance sheet date, the Bank has unused tax losses of £6.8 million (2022: £11.8m) available for offset against future profits. A deferred tax asset has been recognised in respect of £1.7 million (2021: £0m) of such losses. A deferred tax asset was recognised based on the profit forecast for the foreseeable future.

Reconciliation of Tax Charge

	31 December 2023	*31 December 2022*
Reconciliation of tax charge	£	£
Profit on ordinary activities before tax	4,779,562	(9,982,121)
Tax on profit on ordinary activities at standard CT rate of 23.52% (PY: 19.00%)	1,124,179	(1,896,603)
Effects of:		
Fixed asset differences	7,775	14,768
Expenses not deductible for tax purposes	40,265	24,757
R&D expenditure credits	(26,677)	-
Movement in deferred tax not recognised	(2,802,587)	1,864,004
Other	-	(6,926)
Tax charge/(credit) for the period above	**(1,657,045)**	**-**

The main rate of corporation tax is 25% for the financial year beginning 1 April 2023 (previously 19% in the financial year beginning 1 April 2022).

11 Cash and cash equivalents

	31 December 2023 £	31 December 2022 £
Cash held at central banks	241,879,107	-
Cash held with other banks	245,774	11,651,424
	242,124,881	11,651,424

Cash held at central banks include £41.2 million of collateral purposes.

12 Loans and advances to customers

	31 December 2023 £	31 December 2022 £
Corporate	68,058,894	17,955,412
Premium on purchase of loan portfolio	1,154,922	1,628,697
	69,213,816	19,584,109
Less:		
Impairment provision	(205,273)	(57,661)
	69,008,543	19,526,448

The premium paid on purchase is being amortised over the life of the portfolio purchased.

Loans and advances to customer and impairment provision by stage

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

Reconcilation of impairment provision to customers

	Stage 1 12-month ECL	*Stage 2 Lifetime ECL*	*Stage 3 Lifetime ECL*	*Total*
	£	£	£	£
Opening Balance 1st Jan 2022	-	-	-	-
Movement in year	(57,661)	-	-	(57,661)
Closing balance 31st December 2022	(57,661)	-	-	(57,661)
Movement in year	(147,612)	-	-	(147,612)
Closing balance 31st December 2023	(205,273)	-	-	(205,273)

Maturity analysis of loans and advances to customers

	31 December 2023	*31 December 2022*
	£	£
Repayable on demand or at short notice	-	-
3 months or less excluding on demand or at short notice	-	-
1 year or less but over 3 months	-	-
5 years or less but over 1 year	69,008,543	19,526,448
Over 5 years	-	-
Non-performing accounts	-	-
	69,008,543	19,526,448

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

Impairment allowance – credit quality and maximum exposure to risk as at 31 December 2023

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

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

The table below shows the credit quality by Investment, Sub-Investment and Default grade at year-end stage classification. The amounts presented are gross of impairment allowances. As at the financial year end there were no defaults recorded.

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

The table below sets out loans and advances to customers by Lower, Medium and High credit risk classification, based on an Internal Credit grading and illustrates the allocation of these per IFRS 9 staging category for comparative purposes. As at year end all medium and high risk graded customers were deemed performing per IFRS 9 stage allocation.

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

13 Property, plant and equipment

Cost	Leasehold improvements	Fixtures and fittings	Computer Equipment	Right of use asset	Total
At 31 December 2021	210,912	-	-	417,900	628,812
Additions	1,148,203	226,036	123,024	4,545,577	6,042,841
At 31 December 2022	**1,359,115**	**226,036**	**123,024**	**4,963,477**	**6,671,653**
Additions	923,816	155,935	-	745,689	1,825,440
At 31 December 2023	**2,282,931**	**381,971**	**123,024**	**5,709,166**	**8,497,093**
Accumulated Depreciation					
At 31 December 2022	**225,558**	**56,857**	**27,317**	**1,154,438**	**1,464,170**
Charge for the Period	193,093	86,553	41,008	1,275,742	1,596,396
At 31 December 2023	**418,651**	**143,410**	**68,325**	**2,430,180**	**3,060,566**
Net book Value 2022	1,133,557	169,179	95,707	3,809,039	5,207,482
Net book Value 31 Dec 2023	**1,864,280**	**238,561**	**54,699**	**3,278,986**	**5,436,526**

14 Other assets

	31 December 2023 £	*31 December 2022* £
Accounts Receivable	1,467,004	55,450
Prepayments	680,611	412,820
Intra-Group Receivables	583,810	-
	2,731,425	468,270

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

15 Deposits from customers

	31 December 2023 £	*31 December 2022* £
Repayable on demand	96,391,685	-
With agreed maturity dates or periods of notice by remaining maturity:		
Three months or less but not repayable on demand	36,528,839	-
One year or less, but over three months	74,077,777	-
	206,998,301	-

16 Other liabilities

	31 December 2023 £	31 December 2022 £
Other payables	3,022,155	251,524
Accruals	1,652,930	426,645
Interest payable	675,640	-
Intra-Group Liabilities	299,878	101,664
	5,650,604	779,833

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

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

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

17 Lease Liability

	31 December 2023 £	31 December 2022 £
Current lease liabilities	1,116,855	962,697
Non-curent lease liabilities	2,887,358	3,404,945
	4,004,213	4,367,642

	31 December 2023 £	31 December 2022 £
Opening Balance	4,367,642	336,026
Additional lease	742,785	4,375,775
Finance charge	181,462	125,985
Rent payments	(1,287,676)	(470,143)
Closing Balance	4,004,213	4,367,642

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

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

18 Provisions

	31 December 2023 £	31 December 2022 £
Lease dilapidations	188,253	54,950

19 Share capital

	£	No. Shares
Opening Balance 31 December 2022	44,100,000	44,100,000
Issue and allotment of share capital	10,000,000	10,000,000
Closing balance 31 December 2023	54,100,000	54,100,000

AS LHV Group of Estonia holds 100% (2022: 100%) of the £1 nominal value of ordinary shares issued. During 2023 10 million £1 fully paid up shares were issued to AS LHV Group. The Shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; They do not confer any rights of redemption.

20 Reserves

Share capital

Share capital increased by £10 million on 18th August 2023 by issuing 10 million £1 shares to support the business transfer from AS Pank to the Bank. The shares we purchased by AS LHV GROUP.

Accumulated losses

The balance in the retained earnings account represents the total profit and loss reserves of the Bank.

Other reserves

The balance is the value of the stock options granted to staff.

Merger reserves

Merger reserves arose from the transfer of the UK branch of AS Pank to the Bank in August 2023. See note 23 for further details.

21 Pension and other schemes

LHV Bank operates a defined contribution pension scheme for staff and contributions were made during the year totalling £328,920 (2022: £131,279). An outstanding balance payable of £33,227 at the reporting date (2022: £21,475).

22 Contingent liabilities and commitments

LHV Bank does not have any contingent liabilities as at 31st December 2023

23 *Related party transactions*

LHV Pank branch migration

On 22 August the business of the LHV Pank UK branch was transferred to the Bank. This involved moving the servicing of pound sterling payments for UK business clients to the Bank from LHV Pank branch. The net asset value at this date was £2.7 million, however this represented surplus funds at the Bank of England designated to the branch which was subsequently returned to LHV Pank. The net asset value transferred was therefore £nil. Consideration of £1.7 million was paid for the business, this is recorded as a merger reserve in equity.
The table below shows the Balance Sheet that was transferred.

	2023
	£
Assets	
Cash and cash equivalents	5,885,310
Cash at central banks	181,615,802
Total assets	**187,501,111**
Liabilities	
Deposits from customers	132,964,607
Other liabilities	51,799,869
Total liabilities	**184,764,476**
Net asset repaid to LHV Pank	**2,736,635**

Other related party transactions

A number of banking transactions were entered into with related parties in the normal course of business. These include a loan from AS Pank and cash deposits and support services under the group agreement. Outstanding balances at the end of the year and related income and expenses for the year are as follows:

	31 December 2023	*31 December 2022*
	£	*£*
Assets		
Cash at bank from parent	-	-
Cash held at fellow subsidiaries	201,733	225,505
Amounts due from fellow subsidiaries	583,810	-
	785,543	225,505
Income		
From fellow subsidiaries	26,504,029	-
	26,504,029	-
Liabilities		
Amounts due to parent	-	-
Amount due to fellow subsidiaries	61,796,027	-
	61,796,027	-

	31 December 2023	*31 December 2022*
	£	*£*
Expenses		
To parent	115,972	-
To fellow subsidiaries	2,761,377	-

These transactions were entered under normal banking terms and are settled on cash basis. There were no ECLs due from a related entity.

Deposit liabilities totalling £0 (2023: £0) were held by the LHV Bank in respect of these senior management members including non-executive directors of LHV Bank.

No loans were advanced to key management personnel of LHV Bank as at during 31 December 2023 (2022: nil), compensation paid to key management personnel are as disclosed in note 9.

Share based payments expensed in the accounts for the year for Directors amount to £117,320 (2022: £84,610)

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

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

24 Financial risk management

Financial instruments

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

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

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

Credit risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its loan repayments or contractual obligations. It arises principally from lending and treasury activities. Internal controls are in place within LHV Bank's Credit function which are designed to ensure that loans are made in accordance with the Bank's credit policy and that once made, such facilities are monitored on a regular basis as appropriate.

Moreover, significant changes in the economy, or state of a particular industry could result in risks that are different from those provided for at the balance sheet date. To manage these risks, appropriate credit facility structures are applied, and management has established limits in relation to individual borrowers or group of borrowers.

Risk appetite and credit risk management

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

Management of Credit Risk

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

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

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

Risk limit control and mitigation policies

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

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

Credit risk measurement

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

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

Obligor Risk Rating

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

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

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

Determination of ECL – Economic assumptions

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

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

The table below shows the Bank's financial assets and the Bank's exposure to credit risk based on the earlier of the next interest rate re-pricing or residual maturity date.

As at 31 December 2023	*<90 days £'000*	*91-180 days £'000*	*181-365 days £'000*	*1yr to 5yrs £'000*	*over 5 years £'000*	*Total £'000*
Assets						
Cash and cash equivalents	242,125	-	-	-	-	242,125
Loans and advances to customers	-	-	-	69,009	-	69,009
Financial investments at amortised cost	-	-	-	-	-	-
Financial assets held at fair value through profit and loss	-	-	-	-	-	-
Other assets	2,302	169	2,050	6,931	150	11,603
Total	244,426	169	2,050	76,375	246	322,737

As at 31 December 2022						
Assets						
Cash and cash equivalents	11,652	-	-	-	-	11,652
Loans and advances to customers	-	-	-	19,527	-	19,527
Financial assets held at fair value through profit and loss	-	-	-	-	-	-
Financial investments at amortised cost	-	-	-	-	-	-
Other assets	468	-	-	5,208	-	5,676
Total	12.120	0	0	24,735	0	36,855

Age analysis of past due but not impaired assets

There are no past due assets.

Modification of financial assets

The Bank can modify the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery. Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. However, no modifications or restructuring was required in 2023.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the subsequent performance of modified assets. The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for three consecutive months. The gross carrying amount of such assets held as at 31 December 2022 was nil (2022: Nil).

Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. LHV Bank's market risk is primarily to foreign currency risk and interest rate risk. The objective of market risk management is to maintain market risk exposures within acceptable parameters, whilst optimising the return on risk.

Interest Rate Risk

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

Interest rate benchmark reform

A reform of major interest rate benchmarks ('IBOR reform') is being undertaken globally, which involves the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates. The bank does not have any exposure to IBOR rates and uses the Central Bank rates for pricing of loans and deposits.

Derivatives

The Bank does not hold any derivatives.

Interest rate sensitivity analysis

LHV Bank holds variable rate assets and liabilities along with some 1 year fixed customer deposits. As a consequence of holding variable rate financial instruments, the Bank is exposed to cash flow interest rate risk.

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

GBP £'000	0-3 mths	3-6 mths	6-12 mths	Total
NPV Sensitivity to + shift (as derived from above data)	*(319)*	*168*	*919*	*768*
NPV Sensitivity to - shift (as derived from above data)	*327*	*(173)*	*(952)*	*(798)*

Foreign exchange risk

Foreign exchange exposure arises from normal banking activities, particularly from the receipt of deposits and the placement of funds denominated in foreign currencies. It is the policy of LHV Bank to match the currencies of its assets and liabilities as far as practicable. It is also the policy of LHV Bank to adhere to the limits laid down by the Board in respect of the “overall net open position”. The tables below give details of the LHV Bank’s net foreign currency exposures as at 31 December 2023 as a basis of disclosing the Bank’s foreign currency sensitivity analysis.

Foreign exchange sensitivity analysis

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

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

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

As at 31 December 2023	*EUR*	*Other currencies*
	£'000	*£'000*
Net foreign currency exposures	503	2
Impact of 5% increase in foreign currency: GBP rate	24	-
Impact of 5% decrease in foreign currency: GBP rate	26	-

Liquidity risk

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

Maturity analysis

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

	<90 days	*91-180 days*	*181-365 days*	*1yr to 5 yrs*	*over 5 yrs*	*Total*
2023	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Liabilities						
Deposits from customers	121,848	22,758	62,392	-	-	206,998
All Other liabilities	5,803	272	692	60,318	42	67,316
	127,615	23,030	63,084	60,318	42	274,314

Note that the overdraft from a fellow subsidiary included in the between 1 and 5 years had an original maturity date of February 2025, however, this was repaid in full in January 2024

25 Capital management

Capital is made up of tier 1 capital elements. LHV Bank's Tier 1 capital is equivalent to its equity which consists of paid share capital, retained earnings and revaluation reserves as stated in the statement of financial position. The Bank's capital management strategy is to provide a sufficient capital base to cover business risks, future business levels and comply with all regulatory requirements. It aims to maintain healthy capital ratios to support its business. The key capital metrics are reported in the table below, with no comparative to 2022 as the banking authorisation was only received in 2023: -

	31 December 2023
	£'000s
Available own funds (amounts)	
Common Equity Tier 1 (CET1) capital	44,532
Tier 1 Capital	44,532
Total capital	44,532
Risk-weighted exposure amounts	
Total risk-weighted exposure amount	61,243
Capital ratios (as a % of risk-weighted exposure amount)	
Common Equity Tier 1 ratio (%)	31.65%
Total capital ratio (%)	31.65%

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

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

26 Fair value of financial instruments

Deposits from customers

These comprise mainly of deposits taken from non-bank customers and the carrying amount of these deposits is deemed to approximate their fair value.

Fair value measurement recognised in the statement of financial position

Financial instruments that are measured and recorded at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

27 Dividends

No dividend was paid by LHV Bank in respect of the year ended 31 December 2023 (2022: Nil). No Dividend is proposed for 2023.

28 Parent and ultimate parent undertaking

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

29 Post balance sheet events

The Directors are not aware of any other material events that have occurred between the date of the Statement of Financial Position and the date of this report, except for the full repayment of the overdraft from a fellow subsidiary and a capital injection of £20.9 million received from AS LHV Group on 27th March 2024.

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.