# AS LHV Group

# Pillar 3 Report

# Q2 2025

# Scope of Disclosure

AS LHV Group (also the Group, LHV Group or LHV) is the largest domestically owned finance group and capital provider in Estonia. The main subsidiaries of AS LHV Group are AS LHV Pank (LHV Pank), LHV Bank Ltd (LHV Bank), AS LHV Varahaldus (LHV Varahaldus), AS LHV Kindlustus (LHV Kindlustus) and AS LHV Paytech (LHV Paytech). LHV was founded in 1999 by individuals with extensive backgrounds in investing and entrepreneurship. The company's roots in Estonia remain strong, with customer service offices located in Tallinn, Tartu, and Pärnu. In 2018, LHV expanded into the United Kingdom, where it now operates offices in London, Leeds, and Manchester, supporting its international growth and service offering.

The Risk Management and Capital Adequacy Disclosure ('Pillar 3') report is prepared according to the EU Regulation No 575/2013 (the CRR) Titles II and III of Part Eight, European Commission Implementing Regulation (EU) 2024/637 as well as the Implementing Technical Standards on public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 and the EBA/ITS/2025/01, where applicable. The ESG risk narrative is structured thematically across the sections Environmental and Climate Risk, Social Risk, and Governance Risk, and is supported by additional information on ESG integration, objectives, governance and remuneration throughout the report.

LHV Group in accordance with Article 432 of the CRR is disclosing information which is not regarded as immaterial, proprietary, or confidential, protected under the law, related to operational events that could threaten the security of LHV's operational processes, undermining the market position of LHV or result in an increase of reputational risk. LHV also applies an integrated sustainability reporting framework whereby ESG-related risk and performance data, including environmental and taxonomy-related indicators, are aligned across the Pillar 3 report, the Corporate Sustainability Reporting Directive (CSRD), and the EU Taxonomy disclosures, where feasible.

The Chief Risk Officer and the Chief Financial Officer of LHV Group hereby attest that the Capital Adequacy and Risk Management Disclosure (Pillar 3) report is appropriate and is produced in accordance with Part Eight of the Capital Requirements Regulation; conforms with the Group's internal policies, procedures, systems and controls and provides with an overview of their key elements. The Pillar 3 report is approved by the Management Board of LHV Group.

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| Kadri Haldre | Meelis Paakspuu |
| Chief Risk Officer | Chief Financial Officer |
| /Digitally signed/ | /Digitally signed/ |

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# Business Strategy and Processes

## ESG Integration to Business Strategy

LHV acknowledges the principle of double materiality in ESG management: ESG factors can create both risks and opportunities for the bank and its counterparties, while at the same time LHV's own activities and those of its clients may have adverse impacts on the environment and society. Managing these dynamics requires a balanced approach that focuses on the most material ESG factors and applies robust governance and risk management tools to address them effectively. This section outlines the overarching ESG risk framework, while specific risks and mitigation approaches are detailed in the subsequent environmental, social and governance risk chapters.

LHV Group's long-term strategy integrates ESG objectives across its business model by setting and tracking yearly key performance indicators across relevant business lines in relation to our focus areas. The Group aims to be the leading financial service provider by offering inclusive, high-quality services to customers and financial intermediaries, maintaining high employee satisfaction and engagement, promoting strong governance and transparency for investors, and delivering positive social impacts through responsible lending and community engagement. LHV recognises that the accelerating pace of climate change and environmental degradation poses risks to the wider business environment. In response, the bank has established clear climate goals in relation to climate change mitigation to help safeguard long-term sustainability.

LHV has integrated ESG risks and related factors into its business strategy and financial planning, as well as risk appetite and strategy setting processes, using as an input the results of ESG materiality assessment. Within this assessment ESG risks are being assessed across short-term (<3 years), medium-term (3-10 years), and long-term (>10 years) time horizons. The assessment takes into account a wide range of transmission channels and impacts, adopting a forward-looking approach that aligns with the evolving nature of environmental and social challenges and regulatory expectations. Currently the revision and update of materiality assessment is ongoing and planned to be finalized in Q3 2025.

The ESG Policy forms the foundation of LHV's sustainability strategy, setting out the Group's goals, ambitions, and overall approach to sustainability across all subsidiaries. It provides the high-level structure and defines responsibilities for Group-wide ESG governance. The ESG Risk Management Policy complements this by outlining the risk management framework, including the main principles, governance arrangements and processes related to ESG risks. ESG risks are embedded in the risk management framework as cross-taxonomy risk drivers, influencing most of LHV's principal risk categories. That said, risk-type and area specific policies and processes further strengthen and operationalise the management of ESG risks, for example Human Resources Policy, Diversity Policy, Remuneration Policy, Conflict of Interest Policy, Credit Risk Policy, Operational Risk Policy, Policy on Prevention of Financial Crime, Third-Party Risk Management Standard etc.

## Objectives and Targets of Environmental, Social and Governance

LHV's climate-related focus areas include addressing the environmental impact of both its own operations and those of its customers. LHV's long-term sustainable strategy is to contribute to the fulfilment of the aims of the Paris Agreement and support of the aim of the Estonian state to make the economy climate-neutral by 2050 by aligning its activities with national climate strategies and regulatory requirements.

Priority is placed on mitigating climate change through sustainable financing products and services, that enable transition to renewable energy production, support the construction of energy efficient buildings, renovation of buildings that currently have a low energy class, promoting the adoption of zero and low-emission vehicles, and encouraging sustainable investment practices.

In alignment with its sustainability ambition, LHV has defined several strategic targets to be achieved by 2030. These goals are embedded in the Group's strategic roadmap and serve as key benchmarks for environmental performance. These environmental objectives are:

- 90% of the energy portfolio dedicated to renewable energy by 2030.
- At least 50% of new mortgages annually issued for A or B energy class properties.

In addition, at the operational level, LHV has set targets of maintaining zero direct greenhouse gas emissions (Scope 1 emissions, as per the GHG Protocol methodology) and ensuring that by 2030, 100% of electricity used across all office locations is sourced from renewable energy.

Regarding social risk, LHV is dedicated to creating a socially responsible, inclusive, and ethical environment where diversity is embraced, human rights are respected, and both employee and customer well-being are central to our mission. LHV understands that its long-term success is fundamentally tied to its people and the communities it serves. Through daily operations and long-term strategy, LHV actively promotes equality, fosters innovation, and contributes to economic sense of security. Deriving from that commitment we have set a target to eliminate the gender pay gap by achieving a pay ratio of 95:105 across comparable job families by 2029 and increase the coverage rate of investment services contracts among young clients to reach 60% by 2030.

Strategic objectives are supported with risk appetite statements, limiting exposures against credit clients vulnerable to ESG risks and credit collaterals with low energy classes. Risk appetite statements and limits are supported by relevant KRI-s.

With Credit Policy LHV has prohibited the provision of credit to customers whose activities cause significant environmental harm. That said, credit to clients with exposure above EUR 1 million and whose operations fall within sectors outlined in the exclusion list, are prohibited.

| Activities and transactions non-compliant with LHV Credit Policy |
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| • Trading of products or engagement in activities that are illegal under the laws and regulations of the Republic of Estonia, the United Kingdom, or international conventions and agreements. |
| • Engagement in illegal logging or operations with a repeated history of environmental violations. |
| • Keeping animals for the purpose of fur production. |
| • Energy production based on thermal coal or oil shale, including mining and electricity generation, except where the company has an LHV-approved transition plan towards cleaner energy production. |
| • Energy production involving the extraction, processing, or use of peat as a fuel source. |
| • Distribution of tobacco products or e-cigarettes where these products constitute more than 30% of the company's revenue. |
| • Transportation of oil or other hazardous substances using vessels that do not comply with International Maritime Organization (IMO) standards. |
| • Financing of new diesel-powered passenger vehicles from 2030 onwards. |

Within Policy on Prevention of Financial Crime LHV restricts clients involved in financial crime or other illegal activities, including adult service providers connected to human trafficking. As part of onboarding and ongoing monitoring, LHV applies know your customer and due diligence procedures to identify financial crime and ethical risks. Clients who breach governance or ethical criteria are rejected or offboarded. These exclusions are embedded in LHV's Credit Policy and customer acceptance framework, reflecting the institution's ESG risk appetite.

## Taxonomy Alignment and Investment Targets

As part of its ESG integration efforts, LHV began reporting on its alignment with the EU Taxonomy in 2023. Although none of the covered assets were found to be taxonomy-aligned at that time, approximately 32.9% of assets were classified as taxonomy-eligible under the Climate Change Mitigation (CCM) objective. These largely consist of household loans, such as mortgages and motor vehicle loans. The non-alignment is primarily due to the lack of verifiable documentation demonstrating compliance with the Do No Significant Harm (DNSH) criteria.

At present, LHV has not established specific targets for increasing the proportion of taxonomy-aligned investments. However, developments in taxonomy regulation and data quality are being closely monitored, and adjustments to investment strategy will be considered as necessary. In 2024, in response to the challenges and limitations associated with taxonomy reporting, a formalized taxonomy reporting process was established to enhance consistency, accuracy, and methodological clarity. In parallel, efforts are underway to strengthen data collection and analytical capabilities, with a focus on identifying information gaps and refining reporting methodologies. As regulatory frameworks continue to evolve and counterparties begin to provide more detailed sustainability-related data, and as the use of sectoral or market averages becomes more viable, it is expected that these developments will support more comprehensive and accurate taxonomy assessments and disclosures in the years ahead. Future alignment is expected as documentation and regulatory clarity improve.

Strategic goals, such as expanding green lending and increasing the share of renewable energy projects, reflect the Group's broader commitment to environmental sustainability even in the absence of immediate taxonomy alignment.

## Counterparty Engagement on their ESG strategies

Ongoing engagement with key stakeholders, including customers, employees, shareholders, regulators, and the broader society, is an integral part of shaping LHV's business, as well as sustainability strategy. Stakeholder interests are incorporated through structured interactions such as surveys, dialogue sessions, formal meetings, and direct communication, enabling the alignment of ESG initiatives with evolving expectations.

To mitigate and reduce ESG risks, there are processes in place to engage with clients and third-party service providers ensuring their sustainability practices meet LHV's requirements and if relevant, they have needed transition plans in place.

As part of client onboarding and ongoing monitoring, the know your customer principle is applied. This involves collecting information on clients' business activities, beneficial owners, and governance structures and practices. The purpose is to ensure that LHV does not engage with clients involved in illegal or socially harmful activities or in activities that contradict LHV's values or fall outside its risk appetite.

Furthermore, within credit granting process, a dedicated environmental (E) risk questionnaire is employed for new and existing corporate clients, and an E-risk rating assigned based on both qualitative and quantitative data, including sector-specific risks and management practices. Clients with high rating are asked to provide transition plans or other mitigation strategies demonstrating their capacity to manage and reduce environmental impacts and risks. Clients whose business activities conflict with LHV's environmental values, such as those engaging in activities with significant environmental harm, are excluded from financing, as per our exclusion list.

Furthermore, the governance structures and practices of credit clients and the composition of their management bodies are assessed as part of the overall creditworthiness evaluation. In the rating assignment, the evaluation of management bodies and owners is an essential element in the business risk assessment, where factors such as management's experience, ability to deal with crises, quality of strategic and financial planning, and the reliability and transparency of information provided to the bank are taken into account. In addition, the assessment covers the trustworthiness and business reputation of owners and management board members, as well as information on past and ongoing legal proceedings relevant to the client.

In its procurement processes, LHV requires that third-party service providers are not involved in financial crime or any other unlawful activities, operate with sustainable business practices that avoid significant negative impacts on the environment and society, and uphold ethical standards and values consistent with those of LHV. For critical service providers, enhanced due diligence is carried out, including targeted questions designed to demonstrate their compliance with these requirements.

# ESG Governance

## Management Bodies and Organizational Structure

LHV applies a unified governance and risk management framework across environmental, social, and governance (ESG) risks, recognizing that while each pillar has distinct characteristics, the oversight, control processes, and decision-making structures are fundamentally the same.

The business and risk strategies are overseen by LHV's governance bodies. Supervisory Board, supported by its dedicated committees like Risk and Capital Committee, Remuneration Committee, and Audit Committee, holds ultimate accountability for ESG oversight, approving the ESG Policy, risk management policies, including ESG Risk Management Policy, and Risk Appetite Framework. The Management Board ensures the implementation of said requirements into daily business and operational activities. The Management Board is supported by several dedicated committees. The Risk Committee and the Anti-Financial Crime Committee assist in overseeing matters related to the overall risk management framework. Meanwhile, the Credit Committee, the Risk Customer Acceptance Committee, and the Financial Intermediary Customer Acceptance Committee hold decision-making authority in client onboarding and credit-granting processes, where ESG risk considerations are also taken into account.

The Risk Management Framework follows the three lines of defence model: business units manage ESG risks in their daily activities; risk management and compliance functions oversee adherence to policies and risk appetite; and internal audit provides independent assurance. While ESG risk management responsibilities are largely integrated into employees' broader roles, dedicated specialists are also in place within all three lines of defence. In the first line, the Head of ESG acts as the owner of the ESG Policy, maintaining an overarching view of strategic ESG initiatives and ensuring accurate and timely sustainability disclosures. In the second line, ESG risk management is supported by a dedicated ESG Risk Manager, ESG Risk Analyst, and ESG Compliance Specialist. In the third line, Internal Audit has appointed a dedicated auditor to provide independent assurance over sustainability and ESG risk management practices.

## Reporting Practices

ESG risk reporting is carried out on a regular basis, with the content and frequency tailored to the needs of the recipient. This ensures a continuous feedback loop between risk management and decision-making bodies.

Data quality in ESG reporting is ensured through the same robust internal control environment applied to financial reporting. A comprehensive data management framework establishes clear roles and responsibilities, with designated data owners and data stewards accountable for the accuracy, completeness, and reliability of sustainability-related data. They are required to implement rigorous quality controls and validation checks throughout the reporting process. By embedding ESG reporting within the institution's broader internal control framework, consistency and comparability are maintained, ensuring that sustainability disclosures meet the same standards of reliability and integrity as financial reporting.

The Risk and Capital Committee has been explicitly mandated to oversee ESG-related risks: their operational procedures reflect their enhanced role in monitoring LHV's risk appetite, capital structure, and strategic risk decisions, particularly those involving environmental and climate related factors. The Risk and Capital Committee convenes regularly, with meetings held six times per year, and advises the Supervisory Board on risk-related matters, including ESG risk developments.

At the Management Board level, ESG risks are reviewed through the monthly risk report, which includes information on RAF metrics and KRIs. This is complemented by thematic reviews within the Risk Committee, covering areas such as stress-testing outcomes, legislative developments, and materiality reassessments, as well as ad hoc reports where relevant.

Risk metrics are regularly monitored both by the relevant risk owners and by the risk management function. Any breaches are immediately escalated: RAF metric breaches to the Supervisory Board and KRI breaches to the Management Board. Where necessary, escalation takes place outside the regular reporting cycle to ensure timely oversight and corrective action.

The status of strategic objectives and KPIs is further monitored by the business lines and the Management Board through regular financial and performance management reporting.

## Remuneration Alignment with ESG Objectives

LHV's Remuneration Policy is aligned with its commitment to responsible risk-taking and sustainability. The policy includes qualitative ESG performance metrics, such as compliance with risk policies, achievement of sustainability objectives, and ethical conduct, within the criteria for determining variable compensation.

LHV's remuneration system is structured, fair, and transparent, based on job families and levels using the Fontes/Figure analytical job evaluation methodology to ensure internal pay equity. The adjusted gender pay gap is 4.49% in Estonia and 1.46% in the UK, while the unadjusted gap stands at 28.27% and 17.42% respectively. LHV aims to achieve a pay ratio of 95:105 across comparable job families by 2029, supported by a new job mapping and compensation framework.

In addition, LHV Pank's long-term incentive structure, particularly its share option programme, is designed to reward sustainable performance over time. The programme includes a minimum three-year vesting period and ensures that management and key employees are incentivised to act in the long-term interest of the institution and its stakeholders, including through effective ESG risk management.

# Risk Management

## Environmental and Climate Risk

LHV's risk management framework is designed to capture the short-, medium-, and long-term effects of environmental and climate risks. These risks are categorised primarily into two types:

- Physical risks, involving both climate and environmental risks, such as floods or extreme weather events, biodiversity loss, which may lead to asset impairment or reduced productivity; and
- Transition risks, stemming from shifts in regulation, technology, and market preferences during the transition to a low-carbon economy.

ESG risk functions as a cross-taxonomy risk driver. Main tool to identify and assess material environmental and climate risks and their impact to LHV risk profile is ESG materiality assessment. In the materiality assessment, environmental and climate risks are evaluated across short-, medium-, and long-term horizons in relation to all of LHV's primary risk categories.

Within last materiality assessment following transmission channels were covered:

- Credit risk, strategic risk: Transition and physical risk negative impact towards clients' creditworthiness.
- Credit risk: Decrease of collateral values due to physical and/or transition risk factors.
- Reputational risk, liquidity risk, strategic risk, operational risk, incl. litigation risk: Loss of reputation, liquidity outflow followed by LHV providing products and/or doing business with clients or third parties whose practices cause environmental harm.
- Operational risk: Physical risk impact towards LHV premises and data centres.

The assessment identified that, among physical risks, relative sea-level rise and coastal flooding pose a moderate impact across all time horizons, while resource scarcity and heavy precipitation are expected to have a moderate impact starting from the medium term. From a transition-risk perspective, carbon pricing and other environmental regulations affect the business environment consistently across all time horizons. The most significant impacts are observed on credit risk and client creditworthiness, including effects on the value of real estate collateral, followed by operational, reputational, and strategic risk impacts over the medium and long term.

In 2024, two stress tests were conducted covering from physical risks the sensitivity of credit collateral to flood scenarios and from transition risk potential impacts from carbon pricing and environmental regulation towards credit clients' credit worthiness. These assessments were integrated into LHV's ICAAP and ILAAP, ensuring a comprehensive view of environmental risk impacts on capital and liquidity planning. Stress tests did not indicate a need to allocate additional capital to cover potential losses arising from ESG factors.

Following the materiality assessment LHV has set and monitors a range of environmental and climate risk risk appetite metrics and key risk indicators. In terms of credit risk, attention is paid to the environmental profile of customers, the energy efficiency of mortgage collateral, the exposure to fossil fuel–related projects, as well as financed emissions. Additional considerations include the composition of the leasing portfolio and its exposure to vehicles with higher greenhouse gas emissions (GHG).

From an operational and reputational risk perspective, customer feedback and complaint trends are tracked, along with the completion rate of mandatory ESG-related trainings among employees. These help ensure that internal awareness and external expectations are aligned.

On a strategic risk level, broader national and sectoral trends are also taken into account. These include the prevalence of internal combustion engine vehicles in Estonia's vehicle fleet, the incidence of environmental violations, and the overall Environmental Awareness Index. Furthermore, developments in Estonia's greenhouse gas emissions are monitored to capture systemic environmental risks that may indirectly influence the bank's operations and reputation.

Metrics are regularly monitored by relevant risk owners and risk management function, possible breaches escalated to Supervisory Board, in case of RAF metrics, or management Board, in case of KRI-s.

For daily risk management, as well as to collect data for RAF metrics and KRI-s, LHV uses several internal and external risk management tools. At the portfolio level, GHG emissions are measured using the Partnership for Carbon Accounting Financials (PCAF) standard. For counterparty-level assessments, a qualitative E-rating model is used, drawing on external benchmarks and expert judgement. Additionally, a sectoral heatmap of environmental and social risks has been developed to flag higher-risk economic sectors. This tool enables more granular risk classification and prioritisation of mitigation efforts. The heatmap supports internal risk identification and guides the intensity of due diligence in credit processes. Within procurement process third-party ESG related due diligence assessment relies on internal expert opinion.

LHV is continuously working to enhance its risk management tools and the availability of relevant data. Ongoing efforts include the improvement of the internal E-rating model and its integration into the broader credit risk and pricing frameworks.

LHV acknowledges that effective environmental risk management depends heavily on the availability of reliable data. Efforts are ongoing to improve data granularity, consistency, and verification, particularly for taxonomy alignment and emissions reporting. Client questionnaires and external data providers supplement internal data collection efforts. To further strengthen the quality of materiality assessments, Estonian credit institutions, through the Estonian Banking Association, have initiated dialogue with governmental authorities to establish a centralized opinion on environmental and climate risks in Estonia. Such an opinion would combine scientific research and climate forecasts with granular data points, enabling more robust assessments of collateral and credit clients.

To mitigate environmental and climate risks, both in relation to LHV's principal risk categories and to the wider business environment, LHV applies a range of tools and measures in addition to limiting exposures. The bank has developed a variety of sustainable financing products and services that encourage customers to make environmentally responsible choices in their everyday consumption and investment decisions. These offerings are designed to support broader economic growth while contributing to climate change mitigation. Furthermore, LHV engages with its clients and the wider society to foster awareness and readiness in support of achieving the goals of the Paris Agreement.

In 2024, LHV signed a cooperation agreement with the European Investment Fund (EIF), enabling LHV Pank to provide loans to small and medium-sized enterprises, finance renovation projects for apartment associations, and offer leasing solutions that allow private clients and companies to purchase electric and hybrid vehicles under the EIF's Sustainable Loan sub-programme. As part of this programme, free of charge trainings and coaching are provided to small and medium-sized companies. Experienced trainers provide practical knowledge and skills for developing both the company and the entrepreneur themselves. In addition, participating in trainings provides a good opportunity to meet and exchange ideas with other entrepreneurs.

## Social Risk

Social risk management is embedded into LHV's internal governance and risk management through LHV's principal risks. Social risks are currently not material drivers of credit or market risk within LHV's portfolio, based on the last materiality assessment results. However, reputational and operational risks have been identified as more significant.

Within operational risk, social risks related to LHV's own operations and third-party service providers are covered. Namely, there are dedicated sub-risks, like Working Environment and Occupational Health, IT and Information Security, Reporting & Tax and Third-Party risk in place, accompanied with dedicated resources within all three lines of defence and relevant risk policies, standards and processes.

Commitments to mitigate employee related social risks include ongoing investments in employee development, mental health initiatives, inclusive hiring practices. Social contributions, such as support for education, sports, and community well-being, also form part of LHV's strategy to generate positive societal impact.

Escalation mechanisms are in place when breaches of employee related standards occur. For example, discriminatory practices or violations of internal policies are grounds for disciplinary action. Anonymous reporting channels are maintained to ensure that all employees can report concerns without fear of retaliation. To date, no breaches requiring remediation have been reported. Cyber security risk in finance sector is constantly high, impacted heavily also from geopolitical threats. In 2025 Digital Operational Resilience Act (Regulation (EU) 2022/2554) came in force, requiring financial institutions to strengthen their controls both related to IT/InfoSec, as well as third-party and business continuity risk management. A dedicated project was in place to ensure LHV's compliance with said regulation in due time.

Compliance risk management involves the prevention and management of employee conduct, including internal fraud or corruption risks. There are dedicated Conflict of Interest Policy and Code of Ethics in place covering those areas.

Financial crime risk management is focused on preventing money laundering, terrorism financing and violations of sanctions. Additionally, external fraud against LHV clients, misusing LHV services and products, is being covered under financial crime risk management.

Under credit risk management social risk factors are being assessed within general credit worthiness assessment, the scope and nature depending on clients' business area and business volumes.

Within strategic and reputational risk management, including when planning and developing product and service portfolio, LHV's broader approach towards society is being managed. Customer-facing strategies also reflect social risk considerations. LHV is focused on equitable access to services, tailored support for vulnerable groups, and financial literacy initiatives that help reduce inequalities. LHV's strategic priorities include expanding services to underserved customer segments and improving inclusivity in product design and delivery.

Customer experience is continuously improved through enhancements in digital services, product development, and accessibility. Tools like Kogumiskonto savings account, an upgraded Financial Portal, and educational resources support financial literacy and economic sense of security.

Ethical marketing practices, inclusive design, and awareness campaigns, especially around digital security, are key parts of customer engagement. Systematic feedback collection and structured complaint handling ensure transparency and responsiveness; no sustainability-related complaints were recorded in 2024.

Financial literacy is promoted through free seminars, investment competitions like Börsihai (with over 6,000 participants in 2024), and targeted outreach to younger clients, whose investment service contract coverage reached 47.7%, aiming for 60% by 2030.

LHV supports communities through long-term sponsorships in education, culture, and sports, and provides student loans and dedicated banking packages for educators. Internally, innovation and learning are encouraged via hackathons, performance-driven projects, and platforms like Learnster and StrengthsFinder. Leadership development is supported through workshops on communication, cohesion, and culture.

Following risk appetite metrics and KRIs are established to both set limits on and monitor LHV's exposures that are vulnerable to social risk factors.

Cyber security is monitored through indicators linked to IT and information security, such as the occurrence of critical incidents, number of data breaches, results from vulnerability scans, patching, and other monitoring practices. Security alerts in offices and premises, together with the accuracy of tax filings and payments, are also part of regular operational risk oversight.

Employee-related aspects form another important dimension of operational risk. Employee satisfaction, voluntary and non-voluntary turnover, workplace safety and employer contractual breaches are monitored to ensure a stable working environment. Client protection is monitored via client complaints, and compensations paid to customers.

Financial crime risk indicators focus on safeguarding the integrity of customer transactions and protecting against fraud, as well as preventing money laundering, terrorism financing and sanction violations. These include the share of payments involving high-risk customers, the level of fraud relative to total transaction volumes, the number of fraud cases affecting LHV customers, and related internal or external fraud-related losses. Phishing attempts targeting the LHV brand are also monitored, as they represent a direct threat to customers and the bank's financial crime resilience.

Customer trust and public perception are assessed through indicators such as Net Promoter Score (NPS) and spontaneous recognition surveys. Client complaints and compensations paid also carry a reputational element, as they directly reflect customer experiences.

Metrics are regularly monitored by relevant risk owners and risk management function, possible breaches escalated to Supervisory Board, in case of RAF metrics, or management Board, in case of KRI-s.

## Governance Risk

LHV's corporate governance framework reflects a comprehensive and structured approach to managing governance-related risks, both internally and through its relationships with counterparties. Governance considerations are embedded in LHV's own decision-making processes as well as in the evaluation of third parties and counterparties, with a focus on ethical conduct, accountability, transparency, and responsible leadership.

LHV has processes in place to engage with clients and third-party service providers ensuring their governance arrangements and practices are suitable to meet LHV's requirements on ESG management.

As part of client onboarding and ongoing monitoring, the know your customer principle is applied. This involves collecting information on clients' business activities, beneficial owners, and governance structures and practices. The purpose is to ensure that LHV does not engage with clients involved in illegal or socially harmful activities or in activities that contradict LHV's values or fall outside its risk appetite.

Furthermore, within credit granting process, a dedicated environmental (E) risk questionnaire is employed for new and existing corporate clients, and an E-risk rating assigned based on both qualitative and quantitative data, including sector-specific risks and management practices. Clients with high rating are asked to provide transition plans or other mitigation strategies demonstrating their suitable governance and capacity to manage and reduce environmental impacts and risks. Furthermore, the governance structures and practices of credit clients and the composition of their management bodies are assessed as part of the overall creditworthiness evaluation. The assigned credit rating may be influenced by deficiencies in governance practices, including weaknesses in ESG management.

In its procurement processes, LHV requires that third-party service providers are not involved in financial crime or any other unlawful activities, operate with sustainable business practices that avoid significant negative impacts on the environment and society, and uphold ethical standards and values consistent with those of LHV. For critical service providers, enhanced due diligence is carried out, including targeted questions designed to demonstrate their compliance with these requirements. To mitigate LHV operational resilience risks, critical third-party service providers are also obliged to demonstrate their financial and operational stability, including risk management and information security governance and practices.