

**AS LHV Group
Pillar 3 Report
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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Regulatory disclosure requirements

The qualitative information required under Part Eight of the CRR is presented in this document. The corresponding quantitative disclosure templates are published in a separate document.

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Risk Management Approach and Governance

Risk Statement and Declaration Approved by the Management Board

LHV Group's home markets are Estonia and the UK. In Estonia, the Group's operations span retail, SME and corporate banking, asset management, non-life insurance, payment services, and capital markets. The Group also operates in the UK via LHV Bank Ltd, targeting SMEs and financial intermediaries.

Risk-taking at LHV must be transparent, well-reasoned, and aligned with long-term value creation. Risk is managed where it occurs, with clear ownership, accountability, and oversight. LHV takes on risk to achieve its strategic objectives, but this must not exceed its risk capacity in terms of financial or organisational resources, ensuring the bank's ability to sustain operations and deliver on its objectives over time. The Group's risk management approach is clear and practical, enabling well-managed risks to support informed decision-making in pursuit of strategic goals.

Risk appetite reflects the Group's willingness to accept certain risks in order to achieve its goals. When setting the risk appetite, sufficient buffers must be considered, reflecting the Group's capacity to manage and control risks.

LHV's risk profile is dominated by credit risk exposures, making up 87% of total risk weighted assets (RWA) as of 31.12.2025. LHV Group takes on credit risk to generate strong returns but aims to do so by adding value through speed, structuring, and deep client knowledge, not compromising underwriting standards. We ensure risk mitigants are in place, including collateral, transparent structures and close ties between borrowers and project owners. Our lending extends across sectors, reflecting the structure of the economy (including the share of the real estate sector).

Operational risk accounts for 9% of total RWA and reflects the Group's dependence on systems, people, third-party integrations. We accept business-as-usual losses from operational risk, but we do not tolerate failures that significantly impact profitability or stakeholders' trust. Risks related to system failures or third-party service interruptions must be properly managed to prevent significant impacts on our operational resilience. We prioritize automation to minimize human error and drive efficiency. Data capabilities must be efficiently used, ensuring data availability, integrity and confidentiality. Finding and retaining the right people is required to support LHV's strategic goals and prevent operational failures.

In terms of market risk, LHV manages IRRBB exposures on its balance sheet to ensure that the Group's financial stability remains intact even under adverse scenarios. Structural exposures arising from its core business, namely, funding floating-rate loans with demand and short-term deposits in the Estonian market are accepted. Other types of market risk contribute only ~3–4% of total RWA. Foreign exchange risk stemming from strategic holdings is accepted but LHV has minimal appetite for price and foreign exchange risk arising from other sources.

LHV recognizes liquidity risk as an inherent part of banking and prioritizes a stable and sustainable funding structure. Customer deposits are our primary source of funding, supplemented by covered bonds, while other financing is used selectively. We maintain an optimal yet prudent liquidity buffer. Balance sheet size is driven by the availability of funding. Liquidity risk is managed through stress testing, regular contingency testing and adequate pricing.

In terms of capital, LHV takes a prudent approach to solvency risk, maintaining capital adequacy above regulatory requirements even in stress scenarios while ensuring an optimal capital structure and strong returns.

Robust profitability and ability to curb growth provides a natural buffer, allowing us to absorb shocks without relying on excess capital reserves.

In terms of compliance risk, LHV prioritizes ethical conduct and regulatory compliance, with zero tolerance for any deliberate breaches or conscious disregard of obligations. We maintain transparent and proactive engagement with regulators. Deficiencies identified in the course of supervisory reviews, internal audits or independent risk and compliance assessments will be remedied on time. LHV upholds a strict code of conduct. All breaches will be investigated and remedied. LHV ensures fair treatment of customers and prevents mis-selling, market manipulation, and abusive practices. LHV promotes a strong speak-up framework where employees can report concerns without fear of retaliation.

We have zero tolerance for financial crime and are committed to strong safeguards to prevent, detect, and stop illicit activities. Our processes integrate ongoing KYC to clearly differentiate trustworthy customers from potential bad actors, ensuring seamless service for our valued clients.

For model risk, LHV recognizes models as valuable tools for decision-making and risk management, but they do not override human judgment or real-world context.

LHV also operates in non-life insurance business. LHV maintains a controlled approach to insurance risk, ensuring underwriting, pricing, and reserving practices support long-term financial stability and sustainable growth. We avoid excessive concentration in any single product line, maintaining a well-diversified portfolio where the majority of risks are assessed as good or very good. Catastrophic and accumulation risks are mitigated through reinsurance agreements with reputable and experienced counterparties.

ESG factors are integrated into risk assessments of other risk types, such as credit risk. The Group avoids lending to activities significantly harming the climate and business environment, and limits exposures to clients vulnerable to ESG risks. We align our activities with national climate strategies and regulatory requirements. Credit to ESG-high-risk clients is conditional on mitigation strategies.

In terms of strategic risk, LHV's strong profitability is the cornerstone of our long-term resilience. We strive for a customer-first approach, operational efficiency, and the smart use of technology. We monitor and swiftly respond to setbacks in key strategic initiatives, missed targets, and changes in the external environment.

This integrated view of risk appetite and capital usage ensures that LHV's risk-taking is transparent, sustainable, and aligned with the Group's business strategy and stakeholder expectations.

In the report period there were no intragroup transactions or transactions with related parties that had a material impact on the risk profile of LHV Group.

The Management Board of AS LHV Group confirms that the Group's risk management arrangements are adequate and aligned with its strategy and risk profile.

Risk Governance

The roles and responsibilities within Group's risk management framework are structured along the three lines of defence model, complemented by clearly defined responsibilities across the main corporate bodies and between the Group and subsidiaries.

The Group Supervisory Board is responsible for setting the overall risk management principles and providing oversight, including setting the risk appetite, approving risk management policies, and reviewing and approving risk appetite breaches and mitigation strategies. It ensures that risk management practices align with the organisation's strategic objectives.

The Supervisory Board may rely on dedicated committees, such as the Risk and Capital Committee and the Audit Committee, to provide specialised oversight and advice on risk-related matters.

The Management Boards of Group entities ensure the implementation of the risk management framework and alignment of the risk profile with the risk appetite. They approve risk management procedures, define the organisational structure, and ensure sufficient resources and tools are in place to manage risks effectively.

The Group's internal control framework is structured along the three lines of defence model.

The first line of defence comprises business units and support functions (e.g. IT, legal, HR, finance) that take and manage risks directly. They are responsible for ensuring appropriate processes and controls are in place to identify, assess, manage, mitigate, monitor, and report risks in line with internal policies (including risk appetite and other risk limits) and external requirements.

The second line of defence consists of the risk management and compliance functions, including AML compliance.

The Chief Risk Officer leads the Group's risk management function, responsible for developing, implementing, and overseeing the risk management framework, and reporting to the board on risk exposures.

The risk management function owns the risk management framework, including the risk appetite framework and related methodologies, and ensures that risk management processes are executed effectively across the Group. It also challenges the first line of defence and supports training as needed.

The Group risk management function oversees the Group-wide framework, tools, models, ICAAP, model validation, and consolidated risk reporting. Entity-level risk management handles local frameworks, monitoring, reporting, ICAAP (if applicable), and operational tasks.

The compliance function monitors compliance with external legal requirements and internal rules, provides compliance advice, and creates and implements the compliance risk management framework.

The third line of defence is the independent internal audit function, which reviews governance, processes, and controls to ensure they are sound, effective, and consistently applied.

Recruitment Policy and Suitability of Management Body Members

LHV Group applies a formal recruitment and suitability assessment process for the selection and ongoing evaluation of members of the management body. The Nomination Committee is responsible for assessing both individual and collective suitability, based on the requirements set out in applicable ECB, EBA, and Estonian

FSA guidelines. Assessments cover experience, education, competence, integrity, independence, and the ability to commit sufficient time to the role.

Each candidate must demonstrate relevant theoretical and practical knowledge of financial services, risk management, and corporate governance. Their background is verified through structured questionnaires, interviews, reference checks, and documentation reviews. Collective suitability is ensured by evaluating the overall balance of skills, experience, and diversity in the management body, with gaps addressed through training, role adjustments, or new appointments.

Suitability is reassessed annually and whenever significant organisational changes occur. If deficiencies are identified, corrective measures are implemented – including training, reallocation of responsibilities, or replacement where necessary.

The actual knowledge, skills, and professional backgrounds of the members of the Supervisory and Management Boards of LHV Group are presented in the Group's Consolidated Annual Report 2025 (pages 28-31), which is publicly available on the Group's website in the Investors section: https://www.lhv.ee/assets/files/investor/LHV_Group_Annual_Report_2025-ET.pdf.

Diversity Policy

Diversity in management bodies is supported by a range of backgrounds, experience, values, opinions, and views. To support independent opinions and critical challenge, these criteria will include a variety of education and professional backgrounds, and gender. LHV has clear and achievable targets for the representation of underrepresented gender within management bodies of LHV Group and LHV Pank. LHV aims to have 33% of the management and supervisory board members combined of the underrepresented gender by 30 June 2026.

Risk and Capital Committee

LHV Group has established a Risk and Capital Committee (RCC) at the Supervisory Board level. The RCC is responsible for overseeing the Group's overall risk profile, risk management framework, and capital adequacy, including review of ICAAP, ILAAP, and the Risk Appetite Framework. The committee meets at least quarterly. During H1 2025, the Risk and Capital Committee held 7 meetings.

Risk Management Strategies and Processes

LHV Group manages risk in an integrated, structured, and forward-looking manner. While each risk type has its own specific tools and methodologies, several core principles apply consistently across all risk categories.

Risk identification is based on a common taxonomy covering all material financial and non-financial risks. Risks are reviewed annually through the Group's material risk identification process, with ad hoc updates triggered by internal or external changes. The framework also supports forward-looking identification of emerging risks, including sectoral, macroeconomic, and ESG-related developments.

Risk assessment combines both quantitative and qualitative aspects. Stress testing is a central feature of the Group's risk management, supporting both capital and liquidity adequacy planning, as well as resilience to severe but plausible shocks. Reverse stress testing is used to explore scenarios that could render the business model unviable.

LHV applies a materiality-driven approach. Resources and controls are targeted toward those risk types and sub-types most likely to cause significant financial or non-financial impact. Material risks are subject to dedicated risk management policies, regular monitoring and reporting, and explicit risk appetite thresholds.

The Group's Risk Appetite Statement sets out the acceptable level of risk across material categories and acts as a key reference point in decision-making, escalation, and planning.

Mitigation strategies vary by risk type but may include limits, diversification, collateral, reinsurance, change management protocols and operational resilience standards, hedging, and customer selection criteria.

Risk decisions are taken at the appropriate governance level. Escalation protocols are in place in case of breaches of set KRI and risk appetite limits.

Risk management processes are integrated into strategic and capital planning, with risk assessments and stress testing results directly informing decisions on capital buffers, business priorities, and internal controls. This ensures that risk-taking is aligned with LHV's risk-bearing capacity and long-term sustainability objectives.

Risk Reporting and Monitoring

LHV Group has established a comprehensive risk monitoring and reporting framework to ensure that risks across all material risk types are measured, tracked, and communicated in a timely and reliable manner. These systems support decision-making at all levels of the Group and are aligned with the Risk Appetite Framework (RAF), the Group's internal governance arrangements, and regulatory expectations.

Risk monitoring covers both quantitative limits and qualitative indicators, including key risk indicators (KRIs), early warning indicators (EWIs), and stress test results. Monitoring is conducted by first-line risk owners on an ongoing basis, with the Risk Management Function (RMF) providing independent oversight on a monthly or quarterly basis. Monitoring focuses on material risks and is risk-based in frequency. Where feasible, data flows are automated to support timely identification of adverse trends and limit usage.

The Group produces structured monthly risk reports covering all material risk types. These reports are compiled by the RMF and submitted to the Management and Supervisory Boards of the Group (including the Supervisory Board's Risk and Capital Committee). Each report includes:

- Executive summaries of key risk developments
- RAF status, including limit usage
- Commentary on trends, emerging risks, and alignment with risk appetite
- Overview of the Group's capital adequacy, liquidity, and balance sheet structure

The scope and format of reporting are periodically reviewed to ensure continued relevance, and risk owners contribute updates aligned with their areas of responsibility.

In addition, the Group's Compliance Officer prepares a quarterly Compliance Report, which is also presented to the Management and Supervisory Boards. This report complements the risk reporting framework by providing structured insights into compliance-related risks and developments.

Solvency Risk

Internal Capital Adequacy Assessment Process

LHV Group's Internal Capital Adequacy Assessment Process (ICAAP) is a comprehensive and forward-looking framework designed to ensure that the Group maintains capital commensurate with its risk profile, business strategy and operating environment. ICAAP supports the Group's ability to remain adequately capitalized under both normal and stressed conditions and forms an integral part of its overall risk management and governance framework.

ICAAP is proportionate to the nature, scale and complexity of the Group's activities and is embedded in strategic planning, financial forecasting, risk appetite setting, capital planning and recovery planning processes. ICAAP is a continuous process: in addition to the annual comprehensive assessment, key elements are updated quarterly or on ad hoc basis to ensure timely reflection of changes in the Group's risk profile, macroeconomic environment and business plans.

The Management Board is responsible for the implementation and integrity of ICAAP and for ensuring that the Group maintains adequate capital at all times. The Group Risk and Capital Committee and the Supervisory Board provide oversight, review and challenge of key ICAAP elements. The Supervisory Board approves the annual assessment of capital adequacy supported by ICAAP outcomes. The governance framework ensures that ICAAP is fully integrated into the risk management framework, including material risk identification, risk appetite calibration, funding and capital planning, and recovery planning. The independent risk management function coordinates the ICAAP process and performs challenges of methodologies and assumptions.

Under the economic perspective, LHV Group assesses the internal capital required to absorb unexpected losses arising from material risks over a 12-month horizon. Internal capital represents LHV's assessment of the capital available to absorb such losses. The scope of the risks covered is determined through the material risk identification process and includes both Pillar I and Pillar II risks.

Risk quantification is based on internal methodologies calibrated to a high confidence level and, where relevant, complemented by conservative expert judgement. The assessment reflects the Group's specific risk characteristics and exposure profile. The aggregated economic capital requirement is compared against available internal capital resources. This assessment supports management decisions on risk-taking capacity.

The normative perspective assesses the Group's ability to maintain compliance with regulatory capital requirements as well as internal capital targets over a three-year planning horizon. The assessment is based on an approved baseline financial and capital plan and at least one severe but plausible stress scenario. Stress scenarios incorporate systemic and idiosyncratic elements and are informed by the MRI process, historical experience, external risk outlook, and sensitivity analysis and reverse stress testing outcomes. The scenarios assess, inter alia, the impact of:

- macroeconomic deterioration and credit losses,
- changes in interest rates,
- reduced fee and other non-interest income,
- operational risk events,

- climate-related transition and physical risk developments.

The normative ICAAP evaluates whether capital ratios remain above minimum regulatory requirements and internal capital targets throughout the planning horizon. Where capital depletion is observed under stress, the assessment incorporates feasible and credible management actions.

Stress testing is a central element of ICAAP. In addition to forward-looking scenario analysis, the Group performs sensitivity analyses and reverse stress testing to identify circumstances that could lead to breach of capital requirements or threaten business model viability. The outcomes are considered in material risk identification process, capital planning, recovery planning and risk appetite calibration.

While liquidity and funding risks are primarily assessed under the Internal Liquidity Adequacy Assessment Process (ILAAP), their interaction with capital adequacy is considered in ICAAP. This includes the liquidity stress impact on solvency, the interdependence of funding and capital buffers, and alignment of contingency planning between ICAAP and ILAAP.

Through its ICAAP framework, LHV Group ensures that internal capital remains adequate, forward-looking and resilient in relation to its risk profile and external environment, thereby supporting the Group's long-term sustainability and financial stability.

Leverage

LHV's capital plan covers the strategic planning horizon and provides forward-looking projections of both economic and regulatory capital requirements, alongside available capital resources. It incorporates key risk-based and non-risk-based metrics, including the leverage ratio, and reflects the impact of current and anticipated business volumes.

The leverage ratio is considered in the capital and risk management and planning. The leverage ratio is calculated on a monthly basis and is one of the LHV's recovery indicators.

Credit Risk

Risk Management

LHV's credit risk management strategy is built upon a clear and disciplined framework aligned with the Group's business model, risk appetite, and long-term strategic objectives. Credit risk, defined as the potential loss arising from a counterparty's failure to meet contractual obligations, is actively managed through comprehensive policies, governance structures, internal controls, and ongoing monitoring practices.

LHV's business model is focused on providing retail and corporate banking services with a strong digital orientation, operating primarily in Estonia and expanding in the UK through specialized financial services. LHV's credit risk profile is defined by a diversified portfolio across customer segments and products.

A well-defined credit risk management framework governs all activities. The Credit Risk Policy outlines principles for credit origination, assessment, classification, monitoring, and mitigation, while their detailed application and decision-making procedures are governed by supporting internal regulations. These are complemented by the Risk Appetite Framework (RAF), which defines the level and types of risk the Group is willing to accept. The framework ensures consistency in decision-making, pricing, and provisioning practices.

Credit risk is among the most significant risk categories for the Group, requiring deliberate oversight at every level of operation. Credit decisions are made in accordance with structured credit policies and delegated authorities, aligned with the Group's risk appetite and credit strategy. Credit decisions are based on thorough credit assessments that evaluate the borrower's ability to service debt, collateral sufficiency, and potential mitigating measures. ESG factors are embedded into the credit assessment process.

Each credit business unit within LHV holds full accountability for the credit risk it originates. LHV operates under the Three Lines of Defence model, which distributes credit risk ownership, control, and assurance functions across the organization. A central principle for Group is that each credit business unit is fully accountable for the risks it assumes and must ensure that credit decisions align with Group-wide policies and strategic objectives. Business units are also responsible for embedding appropriate internal controls throughout the credit process to ensure sound and consistent risk management practices.

The credit process is proportionate to the size and risk profile of each exposure, ensuring that more complex or higher-risk cases are subject to enhanced analysis and oversight. Larger exposures exceeding EUR 1,000,000 are reviewed by the Credit Committee, while smaller or standardised exposures are handled at lower approval levels, including credit officers or fully automated decisions for consumer financing.

All credit decisions are supported by either rating or scoring models to assess the borrower's credit risk. Creditworthiness assessments focus on the borrower's ability and willingness to meet obligations, with particular attention to the clarity and sustainability of cash flows dedicated to loan repayment. Responsible lending principles are fully integrated, and environmental, social, and ethical considerations are embedded in credit decisions in line with the Group's ESG standards.

Regular reports are compiled and submitted to various management bodies to monitor portfolio composition, track the level and evolution of assumed credit risk, ensure compliance with risk appetite statements and KRIs, and support effective credit portfolio quality management.

Credit Risk Governance and Structure

Credit risk governance is integrated into the Group's overall risk management framework, ensuring appropriate oversight and independence of control functions. The governance model is based on the Three Lines of Defence.

The first line of defence consists of the business units, including retail and corporate banking teams, which are responsible for originating and managing credit exposures in accordance with approved policies and credit decision frameworks. These units are responsible for conducting initial credit assessments, proposing credit decisions, and managing ongoing client relationships.

The second line of defence is led by the independent Risk Management function, reporting directly to the Chief Risk Officer (CRO), who is a Management Board member. This function defines the risk frameworks, sets policy, monitors risk developments, and ensures that exposures remain within the defined risk appetite. It also supports the escalation of emerging risks to management and the supervisory level. The Risk team also provides independent oversight and prepares regular reports for the Management and Supervisory Boards. Credit risk model development is undertaken by the Credit Risk Modelling Unit, while independent validation is conducted by the Credit Risk Validation Unit, reinforcing model governance and control.

The Internal Audit function, as the third line of defence, performs periodic reviews of the credit risk management framework and control processes and reports directly to the Supervisory Board. It conducts independent assessments of the effectiveness and integrity of the credit risk management framework, control systems, and governance practices.

Cross-functional coordination is maintained through shared reporting, committee structures (such as the Risk and Capital Committee), and collaborative working groups. These ensure timely escalation of risks, policy updates, and holistic monitoring.

Risk Appetite Framework

Credit risk appetite is defined through qualitative statements and quantitative metrics with limits set which are cascaded to KRIs, and further to lower-level limits that units must follow in the day-to-day lending practices. Sustainability and responsible lending are integral to risk appetite planning. Environmental risks are considered during credit assessments to account for borrower transition risks, physical climate impacts, and long-term viability. LHV ensures that clients and the bank fully understand the risks involved before entering transactions, aligning with principles of responsible finance and long-term partnerships.

RAF metrics and KRIs are monitored monthly with the aim to maintain the quality of credit portfolio at an acceptable level and identify the emerging risk trends at an early stage. The results are on monthly basis reported to and reviewed by the Management and the Supervisory Boards.

The Group manages, limits, and controls the concentration of credit risk by setting exposure limits to specific sectors and counterparties, reflecting the maximum risk it is willing to accept. LHV's appetite regarding risk concentration is defined in the Risk Appetite Statement.

Risk Monitoring and Reporting

Credit risk monitoring ensures that exposures remain within acceptable risk levels throughout their lifecycle. To support the early identification of a significant increase in credit risk, continuous monitoring is conducted following loan origination. This process is carried out at both the individual exposure and portfolio levels, enabling timely detection of deteriorating credit quality and appropriate risk mitigation. Exposure-level monitoring focuses on the borrower's ability to meet obligations and fulfil contractual obligations. Portfolio-level monitoring identifies broader shifts in credit quality and concentration risk, which supports strategic decision-making, provisioning, and capital planning.

Corporate exposures over EUR 1 million are reviewed quarterly. Internal ratings for corporate, institutional, and sovereign exposures are reassessed at least annually. Customers with signs of increased credit risk are added to a watchlist and are subject to enhanced monitoring. Monthly updates on watchlist clients are submitted to the Credit Committee. ESG risks are monitored throughout the credit lifecycle and incorporated into exposure-level assessments, collateral reviews, and sector-specific analysis. These are treated as potential risk drivers affecting borrower creditworthiness and collateral stability.

Retail customer monitoring is done on a portfolio level and is primarily based on payment behaviour, with regular assessments to identify signs of increased credit risk (EWI – early warning indicators).

The Risk Management function reports monthly to the Supervisory and Management Boards, covering credit portfolio quality and trends, and risk appetite metrics. It also performs the Group's annual ICAAP stress testing exercise, including credit loss projections under adverse scenarios.

Risk Measurement

LHV calculates risk-weighted exposure amounts for credit risk using the Standardised Approach. Nonetheless, internally developed credit risk models remain essential tools in the credit process and play a key role in the effective management of credit risk.

For corporate exposures exceeding EUR 1 million, expert-based internal rating models are applied to assess creditworthiness and determine PD. In the retail segment, statistical scoring models are used for PD estimation, reflecting the standardized nature of those exposures. In addition to PD, LHV uses dedicated models to estimate Loss Given Default (LGD) and Credit Conversion Factor (CCF). Outputs from the models are integrated into a wide range of risk and business processes, including credit pricing, provisioning, portfolio monitoring, stress testing, ICAAP, and regulatory reporting.

In 2025, LHV implemented enhancements to several credit risk models to improve the accuracy of risk estimates. Behavioural life models were introduced across all credit products to estimate expected behavioural maturity, incorporating observed customer prepayment and extension patterns. Expected loss calculations now reflect behavioural life rather than solely contractual maturity. LGD models were updated to strengthen the use of historical recovery data, reduce expert judgement in collateral valuation, explicitly incorporate cure rates and refine the estimation of realised losses for open defaults. The revised methodology was applied to most credit segments, excluding corporate exposures above EUR 1 million. CCF models were recalibrated to improve estimates of off-balance sheet exposures, particularly for facilities with high utilisation levels and improve model segmentation. The real estate indexation model was enhanced through statistically defined regional price segments, replacing a previous expert-based approach for model development.

To ensure model accuracy and reliability, all credit risk models undergo regular validation performed by the independent Credit Risk Validation unit.

Credit quality assessment and impairment

LHV identifies default at the individual customer level when the borrower is more than 90 days past due on any material amount or is assessed as unlikely to repay its credit obligations to LHV, or both. Materiality thresholds are defined by customer type (EUR 100 and 1% for individuals, EUR 500 and 1% for legal entities). LHV treats “defaulted,” “non-performing,” and “credit-impaired” exposures as synonymous for regulatory and accounting purposes and is consistent with how it is defined in Article 178 of CRR.

LHV uses the same definition of past due for accounting and regulatory purposes. If an obligor has not paid an amount of principal, interest or fee at the date it was due, this shall be recognised as a payment obligation past due. The Group applies past due materiality thresholds, which are determined following the Regulatory Technical Standards on the materiality threshold for credit obligations past due under Article 178 of CRR.

Credit risk adjustments are recognised in accordance with IFRS 9 using an expected credit loss (ECL) framework. On each reporting date, LHV assesses whether credit risk on a financial instrument has significantly increased since the initial recognition by analysing the change in the risk of a default occurring over the expected life of a financial instrument. Exposures are allocated to three stages reflecting changes in credit risk since initial recognition:

- Stage 1: 12-month expected credit losses are recognised for performing exposures.
- Stage 2: Lifetime expected credit losses are recognised where there has been a significant increase in credit risk.
- Stage 3: Lifetime expected credit losses are recognised for credit-impaired exposures.

If either or both events, more than 90 days past due on any material overdue amount and identification of unlikeliness to pay criteria, have materialised for a customer, the customer’s entire exposure is treated as defaulted or credit impaired. For corporate exposures (>EUR 1 million) in Stage 3, the special provisions will be assessed by using scenario-based cash flows and then approved by the Credit Committee.

Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. For this loss allowances based on lifetime expected credit losses are also calculated, regardless of the changes in credit risk during the lifetime of a POCI instrument.

Expected credit losses are calculated as the product of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), incorporating forward-looking macroeconomic scenarios.

Credits to legal entities with total exposure to LHV exceeding EUR 1 million (corporate portfolio) are assessed using expert-based rating models. Following origination, financial positions are monitored at least quarterly, and credit ratings are reviewed at least annually. Customers demonstrating a significant increase in credit risk are placed on a watchlist in order to ensure timely identification of negative developments and enable proactive management of exposures through appropriate remedial measures aimed at preventing or reducing potential losses. Watchlist exposures are subject to enhanced monitoring of financial performance, liquidity and collateral coverage and are reviewed at least quarterly. Removal from the watchlist requires that the original

risk triggers no longer apply, the customer's position has improved, and no material concerns remain regarding potential future deterioration. Decisions on removal are taken by the Credit Committee.

LHVs focuses on keeping non-performing loans (NPLs) at a low level by actively managing the NPL portfolio throughout its lifecycle and implementing preventive measures to limit new inflows. The approach prioritises minimising economic losses by seeking restructuring solutions over collateral enforcement where feasible. This typically includes adjusting payment schedules to match the borrower's financial capacity, such as temporarily reducing principal repayments, extending loan terms, or agreeing on revised conditions. For an overview of non-performing loans, please see EU CR1.

LHV may modify the contractual terms of loans in response to borrower financial difficulties, with the aim of maximising recovery and supporting sustainable repayment. LHV applies the same definition of a restructured exposure as outlined in Articles 47(b) and 178 of CRR. Such restructurings may involve extended repayment schedules, temporary payment holidays, or partial debt forgiveness. Restructuring policies and practices are based on indicators or criteria which indicate that payment will most likely continue. These policies are kept under continuous review. LHV closely monitors the performance of restructured exposures to assess whether the credit risk has improved over time. Restructured exposures are subject to enhanced monitoring and may trigger default where regulatory conditions are met.

Risk Mitigation

Credit risk mitigation (CRM) is a fundamental component of LHV's overall credit risk management framework. CRM techniques are employed to reduce credit risk exposure and to optimise capital requirements under the Standardised Approach. These techniques are applied consistently across all lending portfolios in accordance with internal policies that define eligible risk mitigation tools, as well as the conditions for their application. LHV's CRM policies are regularly reviewed and updated to reflect changes in regulatory expectations, market practices, and the Group's risk appetite. This ensures that risk mitigation measures remain effective, compliant, and aligned with the institution's strategic objectives.

Credit risk mitigation is achieved through a combination of tools, including risk-based pricing, collaterals, financial covenants, guarantees, and early warning systems. Among these, collateral is the primary risk mitigant. However, all credit decisions must be based first and foremost on the borrower's ability to repay the loan, with collateral acting as a complementary risk mitigant. The Group maintains internal policies that define the eligibility and acceptability of various types of collateral and credit risk mitigation techniques. For an overview of credit risk mitigation techniques applied, see EU CR3.

The quality and structure of collateral must be appropriate to the overall risk of the transaction, i.e. higher-risk exposures require stronger, more liquid, and better-positioned collateral. LHV prefers collateral in the case of which there is no strong correlation between the customer's default risk and the value of the collateral. In general, the pledged assets need to be insured, the life of the collateral needs to be longer than the due date of the loan and the market value of the collateral needs to exceed the outstanding loan balance.

As part of the loan origination process, the Group conducts a valuation of the collateral securing the exposure. Collateral valuations are based on the principle of conservatism, considering the type and location of the asset and the likelihood of realisation and liquidity. When estimating the quick realization value of collateral, the Group

applies a haircut to account for potential shortfalls. The size of the discount depends on several factors, including the type of collateral and the estimated time to realisation.

Collateral values are monitored and reassessed periodically. Expert assessments are used to evaluate immovables. To ensure that market values are up to date, the individual valuations of commercial real estate are updated at least once a year. Residential and other homogeneous types of real estate is revalued quarterly using statistical indexation models. For high-risk or non-performing exposures collaterals are revalued more frequently.

Long-term financing and lending to legal customers is generally secured. Consumer financing to individual customers is usually unsecured. Unsecured loans may be issued to private customers up to a specified limit. Consumer loans and credit cards are issued without collateral, and risk is mitigated by regular monitoring of customers' payment behaviour. Leasing and mortgage loans are all collateralised. For legal entities, unsecured lending is only allowed when cash flow forecasts show stable and sufficiently strong financial performance and/or the customer's credit risk is assessed as acceptable. In relation to under-collateralised corporate loans, it should be taken into consideration that the Group has assessed the market value of certain collaterals conservatively (personal sureties, commercial pledges).

Main types of guarantees used for credit risk mitigation include guarantees from state agencies such as the Estonian Business and Innovation Agency, the Rural Development Foundation, and the European Investment Fund. In addition, guarantees from parent companies to subsidiaries and intra-group guarantees are also utilised. For a guarantee to be considered effective in credit risk mitigation, the guarantor must have a stronger creditworthiness than the obligor and must not be in a state of default. Personal guarantees, provided mainly for the purpose of binding key individuals, are used selectively and are valued on a very conservative basis (typically at zero value).

Management and valuation of eligible collateral

For collateral types which are eligible as part of LHV permissions to use own estimates of loss given default (LGD) parameter, the effect of those collateral types may be recognised through the use of modelled LGD. For other cases and collateral types where own LGD estimates are not used, the method for recognition used is the prescribed regulatory approach as set out by the CRR.

Collateral is valuable from a risk perspective even if the credit protection is not eligible for capital adequacy purposes. When granting credits, LHV applies adequate credit protection, e.g. pledged collateral and guarantees. The collateral, its value and risk mitigating effect are considered through the credit process.

Group maintains a detailed and conservative framework for managing collateral, aligning with CRR requirements and internal risk appetite. Collateral accepted for credit risk mitigation purposes must meet legal enforceability standards, be properly documented, and must support effective realisation in the event of counterparty default. Key aspects include:

- Eligibility and documentation: Acceptable collateral types include real estate (residential and commercial), financial instruments (securities), term deposits.
- Conservatism in valuation: All valuations rely on independent, professional assessments. Internal or external valuers must apply conservative market assumptions, avoid optimistic bias, and base valuations on observable market inputs where available.

- Update frequency: Collateral is subject to regular review depending on the asset type and borrower's risk profile. For instance:
 - Residential real estate is revalued at least every 3 years,
 - Commercial property annually,
 - High-risk or non-performing exposures more frequently.

Real estate revaluations are based on established methodologies - comparison, income, or cost-based. Large exposures (e.g., over EUR 3 million) require revaluation by an accredited valuer at least once every three years. Automated valuation models (AVMs) may be used for residential properties, with results adjusted for conservatism.

LHV's primary collateral types are:

- Real estate: The most common form of security. Residential real estate is frequently used in retail loans, while commercial real estate supports corporate exposures.
- Commercial pledges: Cover movable assets, inventories, receivables, and in some cases, machinery or other physical assets.
- Financial assets: Pledged listed securities, term deposits, and, less frequently, illiquid instruments.
- Guarantees: Including those from public institutions (e.g. Estonian Business and Innovation Agency, Estonian Rural Development Foundation; European Investment Fund), and financially sound corporates.

While LHV maintains a diversified portfolio of credit risk mitigants, certain concentrations are present and actively monitored:

- Real estate exposure – the residential property market, particularly in Tallinn and Tartu, forms a core part of the secured retail book.
- Guarantees from public sector institutions are significant in SME lending and reduce capital requirements for eligible exposures.
- Financial instruments and liquid collateral are more common in leveraged transactions, with limits and concentration thresholds monitored monthly.

Mitigants are subject to internal limits to avoid over-reliance on any single asset class or obligor. Stress testing and scenario analyses are conducted to assess the potential impact of deteriorating collateral values or guarantor defaults.

Main types of guarantees used in the credit risk mitigation are guarantees provided by parent companies to subsidiaries. Other types of guarantees used are those received from export credit agencies as part of the trade finance activities and sovereign guarantees provided to particular types of loans. For a guarantee to be effective in the credit risk mitigation, the credit worthiness of the guarantor must be superior to the obligor, and the guarantor cannot be in default state. For the purposes of capital adequacy calculation under the CRR Standardised Approach, eligible guarantees recognised as credit risk mitigation (CRM) are guarantees issued by the Estonian Business and Innovation Agency (EISA), the European Investment Fund (EIF) and the Estonian Rural Development Foundation.

Group applies master netting agreements primarily in the context of derivative transactions. For FX derivatives (e.g., currency swaps and forwards), LHV requires that counterparties provide collateral equal in term to the derivative agreement or otherwise post eligible liquid assets. These collateral agreements are formalized via pledge contracts, either through commercial pledges or term deposit pledges in favour of the bank. The netting

and collateral arrangements are governed by documented agreements that are legally enforceable under applicable jurisdiction.

Risk control for FX derivatives, including monitoring of collateral adequacy and revaluation risk, is managed by the Treasury department. Monthly reporting ensures control over asset concentration and adequacy of protection in stressed conditions.

While LHV maintains a diversified portfolio of credit risk mitigants, certain concentrations are present and actively monitored. Stress testing and scenario analyses are conducted to assess the potential impact of deteriorating collateral values or guarantor defaults.

Counterparty Credit Risk

Counterparty credit risk (CCR) refers to the risk that a counterparty to a transaction may default before the final settlement of the transaction's cash flows. This includes exposures from non-lending transactions such as derivatives, guarantees, securities financing, correspondent banking relationships (e.g. nostro accounts), and bond investments. The governance and oversight of CCR are embedded in LHV's Credit Risk Policy and further detailed in internal standards applicable to legal entities and financial institutions.

CCR is primarily managed through the careful selection of high-quality counterparties, the establishment of internal credit and settlement limits, the regular valuation of exposures, and the application of collateral where appropriate. LHV does not currently apply automatic triggers for requiring additional collateral based solely on changes to a counterparty's credit rating. However, credit limits for each counterparty are reviewed at least annually, and interim reviews are conducted based on internal early warning indicators.

On a quarterly basis, LHV monitors the external credit ratings of counterparties. If material changes are observed, or if predefined early warning thresholds are breached, a review of the existing credit limits is initiated. For counterparties that are financial institutions and have available external ratings, credit risk capital requirements are calculated based on those ratings in accordance with regulatory standards.

Credit risk exposures under the standardised approach

The Group applies the standardised approach for calculating credit risk capital requirements in accordance with Part Three, Title II, Chapter 2 of the CRR. The determination of risk weights is based on credit assessments provided by nominated External Credit Assessment Institutions (ECAIs).

The Group has nominated the following ECAIs for use under the standardised approach: Standard & Poor's, Moody's Investors Service, and Fitch Ratings. These institutions are used consistently across relevant exposure classes. There were no changes in nominated ECAIs during the reporting period. Export Credit Agencies (ECAs) are not used.

External ratings are applied in the following CRR-defined exposure classes:

- Central governments and central banks
- Institutions (credit institutions and investment firms)
- Corporates (including exposures to covered bonds and debt securities)

- Securitisation positions (if applicable)

For exposures to private individuals, exposures secured by mortgages, exposures in default, and exposures to small legal entities and associations, external ratings are not used. These are assessed using internal scoring models and regulatory rules.

Where available, ratings from the nominated ECAs are applied directly to exposures. If more than one rating is available, the Group applies the most conservative rating. If a counterparty does not have an external rating, internal models and scoring processes are used to estimate credit risk. For local institutions that are subsidiaries of large EU banking groups, the rating of the parent company may be applied. Off-balance-sheet exposures such as guarantees and credit commitments are assigned the same treatment as the corresponding on-balance-sheet exposures.

The association of external ratings with credit quality steps (CQS) follows the mapping published by the European Banking Authority. Risk weights are applied in line with CRR requirements.

CQS	Standard & Poor's	Moody's	Fitch	Typical risk weight (institutions/corporates)*
1	AAA to AA-	Aaa to Aa3	AAA to AA-	20%
2	A+ to A-	A1 to A3	A+ to A-	50%
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	100%
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	100%
5	B+ to B-	B1 to B3	B+ to B-	150%
6	CCC+ and below	Caa1 and below	CCC+ and below	150%

* Risk weights differ slightly depending on the exposure class (sovereigns, institutions, corporates).

Market Risk

Market risk refers to the risk of losses arising from adverse movements in market variables. In accordance with the Group's updated Material Risk Identification (MRI) process, the material market risk subtypes at consolidated level are:

- Interest Rate Risk in the Banking Book (IRRBB), and
- Foreign Exchange (FX) risk.

The Group does not apply the Alternative Internal Model Approach (AIMA). Market risk exposures arise primarily from structural balance sheet positions, client-driven activities, LHV Kindlustus investment portfolio and own fund units of LHV Varahaldus.

Interest Rate Risk in the Banking Book (IRRBB)

The Group defines Interest Rate Risk in the Banking Book (IRRBB) as the risk to capital and earnings from adverse changes in interest rates affecting banking book positions. It arises from repricing mismatches, basis risk, and embedded behavioural options in client products.

The Group manages IRRBB within a structured risk management framework that combines governance, measurement, and active mitigation. The objective is to ensure that exposure to interest rate movements remains consistent with the Group's risk appetite and regulatory expectations, while supporting stable earnings and capital.

For risk control and measurement, IRRBB is assessed by the Treasury function using both the economic value perspective (ΔEVE) and the earnings perspective (ΔNII) under a range of supervisory and internal interest rate shock scenarios. All interest rate-sensitive assets, liabilities, and off-balance sheet positions are included, with behavioural assumptions applied to non-maturing deposits and prepayments.

The Group applies both supervisory and internally defined interest rate shock scenarios in line with EBA/BCBS standards, including:

- Parallel upward and downward shocks
- Steepener and flattener shocks
- Short-term rate shocks

In addition, the Group develops internal stress scenarios to reflect specific risk factors, such as sudden market repricing, asymmetric moves across maturities, or changes in customer behaviour regarding non-maturing deposits and loan prepayments.

For each scenario, both ΔEVE (long-term change in the present value of cash flows) and ΔNII (12-month earnings sensitivity) are calculated. Complementary gap analysis is performed to monitor repricing mismatches across maturity buckets.

IRRBB is managed within the Group's risk appetite framework and integrated into ICAAP. Exposures are calculated monthly, with results reported at least quarterly to the Management Board and Supervisory Board. This ensures timely identification of changes in interest rate sensitivity and enables proactive management

actions. Stress testing is performed regularly, and management actions are defined where necessary. Risk limits are established for IRRBB metrics to ensure exposures remain within approved thresholds.

Mitigation strategies include maintaining a balanced repricing structure of assets and liabilities, applying behavioural modelling to non-maturing deposits and prepayment options, and using hedging instruments on a selective basis (e.g. FX derivatives for liquidity purposes). Structural balance sheet measures, such as adjusting loan and deposit pricing, are the primary tools to align interest rate sensitivity with the Group's risk appetite.

IRRBB is primarily managed through structural balance sheet measures, including alignment of asset and liability repricing profiles, loan and deposit pricing adjustments and liquidity buffer duration management. The use of derivatives for IRRBB hedging is limited, reflecting the Group's conservative risk appetite and relatively simple balance sheet structure. Where used, derivatives consist mainly of FX instruments for liquidity and funding management and are not material for IRRBB. For interest rate risk management specifically, the Group currently does not rely on large-scale derivative hedging. Derivatives are recognised at fair value through profit or loss.

The Group does not apply hedge accounting to IRRBB positions at present; therefore, no formal hedge accounting relationships under IFRS are in place. Instead, exposures are managed on an economic basis within Treasury's risk management framework, and results are reported through regular Δ EVE and Δ NIII sensitivity measures.

For the purposes of internal risk management, the Group applies modelling and parametric assumptions that are aligned with regulatory requirements but may differ in granularity or calibration from those disclosed in template EU IRRBB1. Internal risk management may apply more conservative assumptions (e.g. stability of deposits, credit spread add-ons for securities) compared to the regulatory disclosure in EU IRRBB1:

- Non-maturing deposits (NMDs): behavioural models are used to distinguish stable and unstable components. Average repricing maturities are assigned based on historical customer behaviour and conservative supervisory caps. Stable balances are modelled with longer effective maturities, while unstable balances are assumed to reprice rapidly.
- Loan prepayments: assumptions are based on observed client behaviour and historical repayment patterns. A conservative prepayment rate is applied to fixed-rate loan portfolios, with higher rates used in falling-rate scenarios to capture embedded optionality.
- Embedded options: customer early withdrawal options on deposits and loan prepayment options are incorporated, with stressed utilisation rates applied to reflect potential behavioural changes under interest rate shocks.
- Discounting: future cash flows are discounted using relevant risk-free yield curves for each currency.
- Currencies: modelling is performed separately for material currencies (EUR, GBP), with results aggregated for consolidated disclosure.
- Cash flows without contractual repricing dates: are allocated to appropriate maturity buckets based on behavioural modelling and conservative assumptions.

The IRRBB measures reported in template EU IRRBB1 provide a comprehensive view of the Group's exposure to changes in interest rates, capturing both the long-term impact on the economic value of equity (Δ EVE) and the short-term effect on net interest income (Δ NIII). These measures are central to the Group's risk management framework, as they link directly to capital adequacy and earnings stability under adverse market conditions.

Since the previous disclosure, the Group's IRRBB profile has remained stable and within approved risk appetite limits. Changes reflect balance sheet growth, shifts in deposit composition and yield curve developments. In

particular, an increase in the proportion of fixed-rate lending and higher levels of non-maturing deposits influenced repricing gaps and sensitivity. At the same time, the Group maintained a conservative duration structure in its liquidity buffer, limiting volatility in ΔEVE .

The Group has reviewed its IRRBB measures and confirms that there is no additional relevant information beyond what is already disclosed in template EU IRRBB1. All material assumptions, methodologies, and results are fully reflected in the reported figures. For the purposes of IRRBB measurement, the Group applies behavioural modelling to non-maturity deposits (NMDs) in line with EBA guidelines. Based on observed client behaviour and conservative supervisory caps, the average repricing maturity assigned to NMDs is appx. 7 months or 0.5672 years, while the longest repricing maturity applied does not exceed the regulatory cap of 10 years.

Within this framework, retail deposits classified as stable are modelled with longer effective maturities, while less stable and corporate deposits are assigned shorter repricing horizons, ensuring that modelling remains prudent. These assumptions are periodically reviewed and validated against historical data to ensure ongoing appropriateness.

The reported measures confirm that the Group's exposure to IRRBB is modest, well controlled, and resilient under both supervisory and internal stress scenarios. The observed variations are not material in terms of risk appetite and remain consistent with the institution's conservative interest rate risk management strategy.

Foreign Exchange Risk

Foreign exchange risk refers to the potential adverse impact on the Group's capital or earnings arising from fluctuations in foreign currency exchange rates.

At consolidated level, FX risk primarily arises from the structural investment in LHV Bank Ltd., a UK-based subsidiary whose functional currency is GBP. This exposure represents a strategic, long-term structural position and is not hedged, in line with the Group's risk appetite framework. The associated FX volatility primarily affects consolidated capital ratios through translation effects.

The Group has minimal tolerance for open FX positions arising from other sources. Non-structural FX exposures are mainly short-term and originate from client-driven activities, including cross-border payment services, foreign currency exchange transactions and temporary settlement mismatches. Such positions are managed conservatively, monitored on an intraday basis and, as a general rule, closed within the same business day in accordance with internal procedures.

FX risk exposure is measured using net open position metrics and sensitivity analysis. Internal limits are calibrated relative to CET1 capital and are set at conservative levels consistent with the Group's low market risk appetite.

Price Risk

Market price risk arises from client driven short-term brokerage positions in the Group's banking entities, as well as investment portfolio held by LHV Kindlustus and own fund units held by LHV Varahaldus in line with regulatory requirements. Price risk was assessed as immaterial during the Material Risk Identification process in year 2025.

Market price risk is assessed through sensitivity analysis and stress testing, and internal risk metrics are calibrated relative to capital.

Governance and Risk Management Framework

Market risk management is governed by the Group Market Risk Policy and related internal rules. The Group's overall risk appetite for market risk is low and reflects its predominantly retail-focused banking model.

Responsibilities are allocated in accordance with the three lines of defence:

- The Supervisory Board approves the Market Risk Policy and relevant risk appetite limits.
- The Management Board ensures implementation of the framework, approves KRIs and monitors compliance.
- The Asset and Liability Committees (ALCO) oversee market risk exposures at entity level.
- The first line of defence (primarily Treasury and relevant business units) is responsible for day-to-day management of market risk exposures.
- The second line of defence establishes methodologies, monitors aggregate exposures, performs independent oversight and ensures compliance with risk appetite limits.
- Internal Audit provides independent assurance over the effectiveness of the framework.

Market risk exposures and limit utilisation are regularly monitored and reported to senior management and the Supervisory Board. Breaches of established limits are escalated in accordance with internal policies and are subject to remediation measures.

Stress Testing and ICAAP Integration

Market risk is incorporated into the Group's stress testing framework and ICAAP assessments.

Stress testing evaluates the impact of severe but plausible adverse interest rate, credit spread and foreign exchange movements on earnings, capital and liquidity buffers. Market risk sensitivities are reflected in both the economic and normative ICAAP perspectives. Reverse stress testing is used to identify extreme market movements that could materially affect capital adequacy.

The risk appetite and KRI framework includes limits on maximum losses under defined stress scenarios, ensuring that market risk exposures remain within the Group's low overall risk tolerance.

Liquidity Risk

Liquidity Risk Management Strategy and Process

LHV Group's liquidity risk management framework is designed to ensure that the Group can meet its payment obligations as they fall due under both normal and stressed conditions, without incurring unacceptable losses or compromising its business model or strategic objectives.

The Group's funding profile is primarily based on retail deposits from Estonian customers, which represent the most stable source of funding. This core funding base is supplemented by diversified funding sources, including other customer deposits and wholesale market instruments, both unsecured and secured. Covered bonds are issued to fund the residential mortgage portfolio and provide stable long-term funding. Unsecured bonds contribute to funding diversification and support compliance with the Minimum Requirement for Own Funds and Eligible Liabilities (MREL).

Funding concentration, maturity profile and currency composition are actively managed to ensure diversification and resilience. As part of its financial planning cycle, the Group prepares a forward-looking Funding Plan covering at least a three-year horizon. The plan aligns projected balance sheet development with funding capacity, planned issuance activities and maturity structure, ensuring consistency between business strategy, liquidity risk appetite and capital planning.

The Group maintains liquidity buffers above regulatory minimum requirements and within its internal risk appetite thresholds.

Risk Appetite and Measurement

Liquidity risk appetite is defined in the Group Risk Appetite Statement and calibrated to ensure sufficient resilience under both normal and stressed conditions. The calibration of limits takes into account the Group's business model, funding structure, stress testing results and conclusions of the Internal Liquidity Adequacy Assessment Process (ILAAP).

The identification of liquidity and funding risk as a material risk category is confirmed annually through the Material Risk Identification (MRI) process. The MRI ensures that all relevant liquidity risk drivers are appropriately reflected in the risk taxonomy, risk appetite framework and stress testing programme.

The risk appetite is defined using the following primary metrics:

- Liquidity Coverage Ratio (LCR),
- Net Stable Funding Ratio (NSFR),
- 3-month liquidity survival horizon (SREP metric),
- Asset encumbrance ratio.

Internal thresholds are set above regulatory requirements with sufficient management buffers to ensure resilience under severe but plausible stress scenarios. These thresholds are aligned with ILAAP outcomes and are reviewed at least annually or when material changes in the risk profile occur.

In addition to regulatory ratios, complementary internal metrics and early warning indicators are monitored on the entity level, including funding concentration measures, survival period indicators, wholesale funding reliance and market-based indicators. These metrics support forward-looking monitoring and timely escalation where emerging risks are identified.

The measurement framework combines regulatory metrics, internal risk appetite indicators and stress testing results to ensure a comprehensive and forward-looking assessment of liquidity adequacy. Outcomes are considered in funding planning, contingency preparedness and strategic decision-making.

Governance and Organisation

Liquidity and funding risk management is governed in accordance with the three lines of defence model.

The Supervisory Board (including the Risk and Capital Committee) approves the Liquidity and Funding Risk Policy and risk appetite limits and reviews material breaches and remediation measures. The Management Board ensures effective implementation of the liquidity framework, approves group level KRIs and monitors compliance with established limits.

The Asset and Liability Committees (ALCO) oversee liquidity and funding management at entity level, including funding strategy, liquidity position and contingency planning. The first line of defence, primarily Treasury function, is responsible for day-to-day liquidity management, execution of funding strategy, maintenance of liquidity buffers and intraday liquidity management. The second line of defence establishes methodologies and limits, performs independent monitoring and challenge, and conducts the Internal Liquidity Adequacy Assessment Process (ILAAP). Internal Audit provides independent assurance over the effectiveness of the framework.

Liquidity risk metrics and stress testing results are regularly reported to senior management and the Supervisory Board. Breaches of risk appetite limits are escalated in accordance with internal policies and are subject to remediation planning.

Stress Testing and ILAAP

Liquidity stress testing is a central component of the framework and is conducted in accordance with the Group's stress testing guidelines and annual plan.

The framework includes institution-specific, market-wide and combined stress scenarios, as well as reverse liquidity stress testing. Stress tests assess the liquidity survival horizon, behaviour of deposit outflows, wholesale funding access, collateral availability and market liquidity of buffer assets. The liquidity buffer portfolio is regularly assessed for sensitivity to adverse interest rate movements and market value shocks.

Reverse stress testing identifies extreme scenarios that could threaten the Group's liquidity position or viability. Outcomes are considered in risk appetite calibration, funding planning, contingency measures and recovery planning.

ILAAP provides a forward-looking assessment of liquidity adequacy over a three-year horizon under baseline and stressed conditions. It incorporates systemic and idiosyncratic scenarios and is aligned with the Group's Material Risk Identification process. The interaction between liquidity risk and capital adequacy is assessed

through coordination between ILAAP and ICAAP processes, particularly in stress scenario design and contingency planning.

Covered bond collateral pools are stress-tested in accordance with applicable legislation and internal risk management rules to ensure continued compliance and sufficient overcollateralization.

Liquidity Contingency Planning

Banking entities maintain a Liquidity Contingency Plan (LCP), which defines actions to be taken under different levels of liquidity stress. According to the local regulatory requirements, LCP for LHV Bank is incorporated into the entity's Recovery Plan.

The LCP:

- establishes escalation levels linked to early warning indicators,
- defines clear decision-making responsibilities,
- specifies realistic and feasible liquidity preservation and recovery measures,
- aligns with the Group Recovery Plan.

Liquidity contingency plans are reviewed and tested at least annually to ensure operational readiness.

Asset Encumbrance

Asset encumbrance risk arises from an excessive proportion of assets being pledged as collateral, potentially limiting access to additional secured or unsecured funding and affecting the position of unsecured creditors.

The primary source of asset encumbrance within LHV Group is the issuance of covered bonds by LHV Bank, which are used as a stable long-term funding source for the residential mortgage portfolio. Assets assigned to covered bond programmes are managed within established overcollateralisation requirements and regulatory limits.

The Group monitors asset encumbrance through a dedicated risk appetite limit and maintains the encumbrance ratio at a conservative level to preserve funding flexibility and ensure continued access to diversified funding sources. Encumbrance levels are considered in funding planning, stress testing and contingency assessments.

Operational Risk

Operational Risk Management Objectives and Policies

While financial crime risk, model risk, and compliance risk are included within the regulatory scope of operational risk, particularly under the CRR definition, LHV separates these risks internally to support more effective governance and control. This distinction enables:

- More granular ownership and accountability
- Allocation of dedicated expertise aligned with evolving regulatory expectations (e.g. AMLA, DORA)
- Tailored risk management, escalation, reporting, and resource planning

Despite this internal separation, each risk category is integrated into the current CRR-aligned Pillar 3 operational risk disclosure process to ensure compliance with regulatory definitions while maintaining clarity within the internal control environment.

Internal Risk Definitions at LHV:

- **Operational Risk:** The risk of loss resulting from inadequate or failed internal processes, people, systems, or from external events. This includes legal, ICT, and third-party risk, but excludes strategic, compliance, financial crime, and model risk.
- **Compliance Risk:** The risk of legal or regulatory sanctions, financial loss, or reputational damage arising from non-compliance with applicable laws, regulations, contractual obligations, or internal policies.
- **Financial Crime Risk:** The risk that LHV, its employees, clients, or counterparties are misused for criminal activities, including money laundering, terrorist financing, or fraud.
- **Model Risk:** The risk of losses resulting from the use of incorrect or misused models in decision-making processes.

The overarching objective of managing operational, compliance, financial crime, and model risks is to:

- Ensure the stability and resilience of LHV's operations
- Maintain ethical conduct and meet regulatory obligations
- Minimise potential losses from internal failures or external threats

LHV defines its risk objectives within centralized Group Risk Appetite, through a combination of qualitative statements and quantitative limits, which are cascaded consistently to all subsidiaries to ensure aligned risk-taking across the Group.

Risk management is supported by a comprehensive Risk Management Framework, which includes in addition to cross-risk policies following risk type specific policies:

- Operational Risk Management Policy
- Compliance Policy
- Financial Crime Prevention Policy
- Model Risk Policy

These policies are supported by detailed risk standards, methodologies, and tools that define requirements for identifying, assessing, measuring, mitigating, monitoring, and reporting risks. This framework ensures a structured and consistent approach to risk management, aligned with the Group's strategic objectives and risk appetite.

Structure and the Organization of the Operational Risk Management Function

LHV applies Three Lines of Defence model, as described within the section Risk Management Approach and Governance, across all risk categories, including operational risk, compliance risk, financial crime risk and model risk.

Supervisory Board

The Group Supervisory Board is responsible for setting the overarching risk principles and oversight, including the approval of the Risk Appetite Statement and risk policies for all material risks. The board is supported by the Risk and Capital Committee and Audit Committee.

Management Board

The Management Board is responsible for the implementation and supervision of risk management practices. It can be supported by a dedicated Management Board-level committees, for example Risk Committee or AFC Committee.

Lines of Defence

- First Line: Business units are responsible for managing risks inherent in their activities. This includes operational controls, regulatory compliance, transaction monitoring, and model use.
- Second Line:
 - Non-Financial Risk Function oversees general operational risk, incl. ICT, third-party, and operational resilience risks.
 - Compliance Function oversees compliance risks, including conduct and internal fraud risks.
 - AFC Compliance Function is responsible for group-wide financial crime prevention, sanctions enforcement, and AML practices.
 - Model Risk is overseen by the Modelling and Validation Function.
- Third Line: Internal Audit provides independent assurance across all risk categories.

Scope and Nature of the Risk Measurement System

For daily risk management LHV employs a range of tools to assess operational risk, compliance risk, financial crime risk and model risk:

- Regular and *ad hoc* risk assessments, like Risk and Control Self-Assessments (RCSAs), IT risk analysis, change risk assessments etc., to cover operational processes, products, third-party's, IT systems, changes.
- Scenario analysis, to cover severe, but plausible risks.
- Compliance Risk Registers and Regulatory Mapping maintained by the Compliance Function.
- Annual AFC Risk Assessments and residual scoring led by the AFC Compliance Function.
- Model Risk Tiering and Residual Risk Scoring, managed by Modelling and Validation Function.
- Incident Reporting System for capturing and analysing incidents and losses.
- Controls Assurance, including compliance checks and audits.

- Key Risk Indicators (KRIs) to monitor risk levels and dynamics.

For capital calculation purposes (Pillar 1) Basic Indicator Approach (BIA) was used until 2024 and Simplified Standardised Approach (SSA) is being used starting 2025. Operational risk capital as of 31.12.2025 is EUR 28.4 million

Scope and Nature of the Operational Risk Reporting Framework

Regular Reporting is conducted to Group and Group-company MB and SB through Risk Reports and Compliance reports as described within section Risk Reporting and Monitoring. If relevant, ad hoc thematic reviews, including compliance control reports are presented.

Breaches of RAF metrics are escalated to the Supervisory Board, accompanied with the action plan developed by the risk owner and independent opinions from the Risk Management Function.

Policies and Strategies for the Risk Mitigation and Risk Hedge

For risk hedging LHV uses operational risk insurance covering Professional Indemnity and Fraud, Cyber and Directors & Officers Liability.

LHV's risk mitigation strategies are defined across a set of risk-type specific policies and standards and additional mitigants/controls, defined within risk assessments. Below are examples of key controls defined within risk policies and standards.

Operational risk: Change Risk Management

- Mandatory risk assessments for significant product/IT/partner/process changes
- Involvement of mandatory and impacted stakeholders
- Independent risk & compliance opinions required pre-approval
- Change type specific mandatory activities
- Hypercare periods defined for major implementations

Operational Risk: ICT & Cyber Risk Controls

- Secure development lifecycle with separation of test and production
- Vulnerability scans, penetration testing, and recovery simulations
- 24/7 incident detection and alerting
- Information Security Management System

Operational Risk: Third-Party Risk

- Due diligence and suitability assessment prior to onboarding
- Contractual protections, continuity clauses, exit plans for critical services
- Annual reassessments, with stronger controls for ICT-critical suppliers

Operational Risk: Operational Resilience & Business Continuity

- Business Impact Analysis (BIA) used to map critical processes, dependencies
- Scenario analysis includes cyberattacks, pandemics, telecom failures, terrorism, etc.
- BCPs required for all time-critical processes, with yearly testing

- Regular crisis management trainings

Compliance Risk

- Regulatory change management processes
- Regular compliance risk assessments
- Mandatory staff training and policy attestations

Financial Crime Risk (AFC)

- Risk-based customer due diligence
- Sanctions screening and transaction monitoring
- Dedicated AFC tools and suspicious activity reporting
- Enhanced due diligence for fintech and correspondent banking

Model Risk

- Formal model development and approval governance
- Model validation protocols and tiering

Environmental, social and governance risk

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. The updated materiality assessment was finalised in November 2025 and conducted as a double materiality assessment, covering both impact and financial materiality across the value chain. As part of the process, a Business Environment Scan (BES) was performed to identify and assess external ESG-related factors that may affect LHV's business model, strategy, and risk profile.

With regard to climate and environmental risk drivers, transition risk was identified as material. Physical risk was assessed as immaterial due to its limited impact. Social and governance risks were included in the assessment from the perspective of LHV's own operations. In addition, their materiality has been evaluated within the broader material risk identification process, with corresponding risk management requirements defined under the existing risk management and governance frameworks. Social risks are currently not material drivers of credit or market risk in LHV's portfolio; however, potential impacts on operational and reputational risks have been identified. Governance risks are assessed internally, as well as from counterparty and customer perspectives, and are considered within credit risk, operational risk, and financial crime risk management.

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.

In Q4 2025 LHV initiated the development of Prudential Transition Plan, which was finalized and approved by the Supervisory Board in January 2026. The purpose of this Plan is to ensure that LHV Group remains safe, sound and adequately capitalised over the short, medium and long term as financial risks arising from climate- and environmental factors materialise during the transition to a climate-neutral economy. Transition Plan complements the ESG Risk Management Policy and translates the outputs of the Group’s ESG risk identification and materiality assessment processes into forward-looking objectives, risk-appetite considerations, capital planning and management actions, including under severe but plausible transition scenarios, in order to preserve the resilience of the business model and the adequacy of the Group’s capital position

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 acquisition of energy efficient homes, renovation of buildings that currently have a low energy class and promoting the adoption of zero and low-emission vehicles.

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:

Activities and transactions non-compliant with LHV Credit Policy
• 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.

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| <ul style="list-style-type: none"> • Distribution of tobacco products or e-cigarettes where these products constitute more than 30% of the company's revenue. |
| <ul style="list-style-type: none"> • Transportation of oil or other hazardous substances using vessels that do not comply with International Maritime Organization (IMO) standards. |
| <ul style="list-style-type: none"> • 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.

Note on EU Taxonomy Regulation Disclosures

LHV Group closely monitors the evolving regulatory landscape for ESG reporting. We are actively observing the development of the amended Implementing Technical Standards (ITS) on Pillar 3 ESG risks by the European Banking Authority (EBA) and the broader simplification initiatives proposed under the European Commission's "Omnibus" package.

In line with the transitional guidance issued by the EBA, which temporarily suspends the mandatory disclosure of quantitative templates related to the EU Taxonomy (Templates 6-10 of Implementing Regulation (EU) 2024/3172) for the 2025 reporting period, we have elected not to include these specific templates within this Pillar 3 report.

However, LHV remains fully committed to transparency regarding its sustainability performance and alignment with the EU Taxonomy. Our complete, audited EU Taxonomy disclosures for the 2025 financial year, including the Green Asset Ratio (GAR) and supporting metrics, are published in the LHV Group 2025 Annual Report.

We will continue to follow regulatory developments and will implement the final amended ITS on Pillar 3 ESG disclosures as required upon its entry into force.

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 ESG rating model is used to assign a rating based on both qualitative and quantitative data, including sector-specific risks and management practices, which then further feeds into the overall customer credit rating. Where relevant, client transition plans are used as an input to ESG risk assessment and engagement, particularly for counterparties operating in higher transition-risk sectors. Within LHV's ESG risk framework, sector-level transition risk is reflected through baseline ESG risk scores, which may be adjusted where credible and evidence-based mitigating actions are demonstrated by the client. 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.

E-risk 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, and Prudential Transition Plan. 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 and ESG Risk Analyst. 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 at least 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, sustainability, and the Group's overall risk appetite. ESG risks are considered within the broader risk framework to ensure that remuneration outcomes do not incentivise excessive risk-taking, including in relation to climate- and

environmental risks. The policy includes ESG performance metrics, such as compliance with risk policies, achievement of sustainability objectives, and ethical conduct, within the criteria for determining variable compensation. Where relevant, progress against selected ESG-related KPIs may be taken into account as part of the performance assessment of relevant teams and business units, in line with the Group's remuneration framework.

In addition, LHV Bank'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

Climate and Environmental Risk

LHV's risk management framework is designed to capture the short-, medium-, and long-term effects of climate and environmental risks. For the purpose of risk management, short-, medium- and long-term horizons are defined in accordance with internal risk management policies and are consistently applied across the processes.

Climate and environmental risk drivers are categorised primarily into two types:

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

ESG risk functions as a cross-taxonomy risk driver. The main tool used to identify and assess material climate and environmental risk drivers and their impact on LHV's risk profile is the ESG materiality assessment. The materiality assessment is performed in line with LHV's internal ESG risk management methodology, which evaluates risk drivers against defined materiality thresholds considering likelihood, severity of impact and time horizon. In the materiality assessment, environmental and climate risk drivers are evaluated across short-, medium-, and long-term horizons in relation to all of LHV's primary risk categories through relevant transmission channels. A long list of risk drivers was compiled from authoritative sources (e.g. TCFD, TNFD, SASB, ECB, ISSB and ESRS), industry knowledge, previous materiality assessments and consultation with financial sector risk experts. Climate and environmental risk drivers were then assessed on their impact through those transmission channels on the traditional risk types, such as credit risk, market risk, liquidity risk, operational risk, strategic risk, and legal and compliance risk.

Within last materiality assessment following transmission channels were covered and their materiality assessed:

- Retail Customer Collateral: material transmission channel
- Retail Customer Cashflow: not material transmission channel
- Corporate Customer Collateral: material transmission channel
- Corporate Customer Cashflow: material transmission channel
- Assets Under Management: not material transmission channel
- Own Assets: material transmission channel
- LHV Operations: material transmission channel

Initial qualitative analysis identified a short-list of potentially material risk drivers for enhanced analysis and quantification. These risk drivers are listed in the ESG Risk Management Policy annex and are used as a basis for ESG rating model.

Final quantification of the potential impact of risk drivers was performed with scenario analysis utilizing NGFS scenarios for transition risk and RCP scenarios for physical risks. Materiality was assessed in line with the general Material Risk Identification process using aligned materiality thresholds. The assessment identified that climate and environmental risk drivers have a material effect on the credit risk of LHV. Transition risk was evaluated as material, while physical risk has not shown material impact throughout the short-, medium- and long-term periods analysed. From the risk driver perspective, the following transition risk drivers were identified as material:

- Collateral energy efficiency
- Sectoral transition costs

Although physical risk did not show material impact, LHV decided to monitor flood risk as the most significant identified physical risk driver through dedicated monitoring metrics.

Following the completion of the materiality assessment, an ESG rating model was created and implemented. The ESG rating forms integral part of the overall internal credit rating and may affect Probability of Default (PD) estimates and, consequently, pricing, provisioning and risk-adjusted return measures, and is thus incorporated into credit decision-making process. This ensures that higher ESG and transition risk is either mitigated through client action, priced appropriately, or reflected in capital-consuming risk parameters. At the same time, the model supports structured client engagement, as credible transition plans or other effective mitigating measures may lead to improvements in the client's ESG risk assessment.

Climate- and environmental considerations have also been integrated into the collateral appraisal processes for both residential and corporate real estate. Collateral assessments incorporate relevant energy efficiency and location-based indicators, supporting risk-sensitive valuation and monitoring.

The results of the materiality assessment were used to review the Risk Appetite and KRI framework. In line with the result of materiality assessment, the main focus is on the credit risk management. The risk appetite statement limits exposure to high ESG risk customers and promotes a higher share of energy-efficient collaterals. Quantitative indicators and thresholds are defined within the RAF. Breaches of RAF metrics are escalated to the Supervisory Board, while breaches of KRIs are escalated to the Management Board in accordance with internal escalation procedures. Remedial actions may include enhanced monitoring, exposure reduction measures, pricing adjustments or other risk mitigation actions.

A new KRI to track flood risk was introduced at the Group level and cascaded further to the Group's banking entities. Metrics are regularly monitored by relevant risk owners and risk management function.

The overall framework and materiality conclusions are reviewed at least annually and approved by the relevant governance bodies.

LHV is continuously enhancing its risk management tools and the availability of relevant data. 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.

The materiality assessment was followed by a gap analysis of data required for the identification, measurement, monitoring and management of material and relevant non-material climate and environmental risk drivers.

Based on the outcome, LHV developed a strategy to address missing data. Relevant KPIs were included in the Prudential Transition Plan to ensure effective monitoring of execution. Data collection strategy focuses on:

- Improving collateral-based data quality and availability for both physical and transition risks;
- Enhancing processes and completeness of customer-based climate and environmental data;
- Further developing internal methodologies for scenario analysis and stress testing.

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 climate and environmental risk drivers 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.

Climate and environmental risk is integrated into LHV's ICAAP in both the economic and normative perspectives. The ICAAP assessment considers potential impacts of material C&E risk drivers on capital adequacy over the planning horizon. The economic ICAAP assessment quantifies potential capital impacts from material climate and environmental risk drivers. While incremental internal capital needs have been identified under certain scenarios, these are adequately covered by existing capital buffers.

No material impact of climate and environmental risk drivers on liquidity risk was identified, resulting in no explicit implementation in ILAAP. Liquidity risk is nevertheless monitored for potential climate and environmental-related transmission channels and LHV will incorporate climate and environmental considerations into ILAAP should they become material.

To mitigate climate and environmental 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. Sustainable financing products and targeted lending activities support portfolio steering towards lower transition risk exposures and improved collateral energy performance. Furthermore, LHV engages with clients to encourage credible transition planning and risk mitigation measures, thereby supporting reduction of transition risk drivers within the credit portfolio.

In 2024, LHV signed a cooperation agreement with the European Investment Fund (EIF), enabling LHV Pank to provide loans to SMEs, finance renovation projects for apartment associations, and offer leasing solutions for electric and hybrid vehicles under the EIF Sustainable Loan sub-programme. These activities support improvement of collateral energy efficiency and contribute to mitigating transition-related risk exposure within the portfolio.

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.

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.

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.

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 ESG risk rating assigned based on both qualitative and quantitative data using an ESG rating model. 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.

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.

Remuneration Policy

The remuneration framework of LHV Group is overseen by the Supervisory Board, composed of six members, which plans the activities of the LHV Group, organises the management, and supervises the activities of the Management Board, including the approval and oversight of the remuneration strategy. The Supervisory Board meets once a month or as needed, but not less often than once every three months.

The Remuneration Committee, composed of three Supervisory Board members (Tiina Mõis, Rain Lõhmus, and Andres Viisemann), ensures alignment with long-term business, sustainability, and risk goals. The Committee is responsible for advising on the development and implementation of the remuneration strategy and plays a role in assessing variable pay practices and performance-based elements, including ESG metrics. The number of meetings is not specifically disclosed, but the Committee meets, including electronically, as necessary and at least once a year, and is actively involved throughout the year. External consultants are not explicitly named; however, the Group systematically applies the Fontes/Figure benchmarking methodology to evaluate job roles and salary levels. This methodology underpins the pay structure and job grading system across the Group and informs the design of fair and market-aligned remuneration packages.

The Remuneration Policy applies to all LHV Group entities, including Estonia and the United Kingdom. It applies to AS LHV Pank (and its subsidiary AS LHV Finance), LHV Bank Ltd, AS LHV Kindlustus, AS LHV Varahaldus, and AS LHV Paytech, covering all employees (full-time, part-time, permanent, and temporary) and all business lines. The most significant differences between Group companies are that LHV Varahaldus has no remuneration committee and applies specific disclosure requirements, and LHV Bank applies rules arising from its country of operations.

LHV Group conducts an annual self-assessment at the start of each financial year to identify employees whose professional activities have, or may have, a material impact on the Group's risk profile. The assessment covers both past performance and forward-looking factors, considering quantitative and qualitative criteria, the level of responsibility, and decision-making authority. Identified categories include senior management, staff performing control functions, and employees with significant impact on credit risk (transactions equal to or greater than 0.5% of LHV Tier 1 own funds and at least EUR 5 million nominal value). The process is initiated by HR, reviewed by Compliance, and independently assessed by Internal Audit, with final results presented to the Supervisory Boards of the relevant Group companies and introduced to the Remuneration Committee. Identified employees are subject to specific share ownership retention rules and restrictions on transferring downside risks.

LHV Group's Remuneration Policy ensures fair, motivating, transparent, and legally compliant compensation that supports the recruitment and retention of skilled employees, aligns employee and shareholder interests, and promotes effective risk management. Remuneration typically consists of a base salary and performance-based pay, with performance criteria linked to both quantitative and qualitative indicators, adjusted for risk, and designed to discourage excessive risk-taking. The policy is reviewed at least annually, with the Remuneration Committee developing strategic principles, overseeing implementation, and reviewing self-assessment results, which are also presented to the Supervisory Boards. Compliance reviews the process, Internal Audit conducts an independent assessment, and the Supervisory Board of AS LHV Group approves the policy and key remuneration decisions. At the end of 2024, the Remuneration Committee evaluated the implementation of the policy, analysed its impact on compliance with risk management, capital adequacy, and liquidity requirements, and approved updates for submission to the Supervisory Board. A key change was the

consolidation of the Group-wide option programme principles into the Group-level Remuneration Policy, replacing separate sections in subsidiary documents. This ensures a unified understanding across all Group companies and reduces the administrative burden of making updates. The updated policy was approved by the Supervisory Board and took effect following their decision.

Performance measurement criteria combine quantitative and qualitative indicators, adjusted for risk, to ensure alignment with long-term interests and to discourage excessive risk-taking. Quantitative indicators include financial and economic efficiency measures such as profit, revenue, capital adequacy, and liquidity, covering a sufficient period to reflect risks taken. Qualitative indicators include achievement of strategic objectives, customer satisfaction, compliance with risk management policies, adherence to internal and external procedures, management skills, creativity, motivation, and cooperation with other units and control functions. Ex ante risk adjustment is applied by incorporating risk-based indicators into performance criteria and ensuring these are directly linked to the decisions of the individual being assessed. Ex post adjustment is ensured through malus and clawback provisions, which allow withholding or reclaiming variable remuneration in case of identified risks, non-compliance, or negative long-term outcomes.

Employees in Risk, Compliance, and Internal Audit functions are evaluated against function-specific objectives focused on the quality and effectiveness of their own control areas, including adherence to regulatory requirements and contribution to sound risk management. Their variable compensation is not linked to the financial results of the business units they oversee, ensuring independence, objectivity, and compliance in line with the Remuneration Policy. Guaranteed variable pay is granted only in exceptional cases, such as the recruitment of key individuals, and only within the first year of employment, subject to the same risk alignment principles as other variable remuneration. Severance payments are capped at six months of fixed salary, comply with applicable employment laws and contractual terms, and must not reward failure. The granting of any guaranteed variable pays or severance is subject to internal governance procedures and, where applicable, review by the Remuneration Committee.

LHV Group takes current and future risks into account in its remuneration processes by applying specific measures to categories of staff whose decisions have a material impact on the institution's risk profile, including Management Board members (four executives), senior managers such as heads of Corporate Banking, Risk, IT, and Internal Audit, and other risk takers, including employees with significant credit risk exposure as defined above. The remuneration of these individuals is subject to stricter controls to ensure prudent risk-taking and alignment with long-term objectives. These controls include the deferral of bonuses, the application of malus and clawback provisions, and performance evaluation based on risk-adjusted quantitative and qualitative key performance indicators, ensuring that remuneration outcomes remain consistent with the Group's long-term interests, sound risk management practices, and applicable regulatory requirements.

The Group applies a maximum ratio of variable to fixed remuneration of 200% (2:1) for identified staff, in accordance with Article 94(1)(g) of the CRD and as approved by the General Meeting of Shareholders. This limit applies to key risk takers and Management Board members across all Group entities and is intended to ensure that performance-related pay does not encourage excessive risk-taking, while remaining aligned with the Group's long-term interests, risk appetite, and capital base.

Performance criteria are applied at multiple levels. At the institutional level, quantitative metrics include profitability, revenue growth, cost efficiency, capital adequacy, and liquidity, while qualitative metrics cover strategic goal achievement, customer satisfaction, compliance, and sustainability objectives. At the business line level, measures reflect the unit's contribution to the Group's results, adherence to risk management policies, and cooperation with other business units and control functions. At the individual level, performance is assessed against quantitative targets and qualitative factors such as initiative, quality of work, adherence to

internal and external regulations, teamwork, and contribution to the company's culture. Individual variable remuneration is calculated based on a combination of personal results and the Group's overall performance, with eligibility dependent on meeting both personal and company-level targets. Poor results at either level may result in a full or partial reduction of variable pay. The ratio of cash bonus to options is determined by job level and regulatory role classification, ensuring alignment with long-term shareholder interests and prudent risk-taking. For identified staff, a significant portion of variable remuneration is awarded in options and other equity-linked instruments under the long-term incentive programme, subject to deferral, retention, and restrictions on transferring downside risk, in line with CRD requirements and the Group's Remuneration Policy. In cases of underperformance - defined as failure to meet financial thresholds, breach of internal or external regulations, significant risk management deficiencies, or unsatisfactory audit or compliance evaluations - variable remuneration may be reduced, deferred, or cancelled. Weak performance is assessed through missed scorecard targets, negative risk outcomes, or other material deviations from strategic and risk objectives, with malus and clawback mechanisms ensuring alignment with prudent risk-taking and long-term sustainability.

LHV applies deferral arrangements in accordance with CRD requirements. For identified staff and other material risk takers, a portion of variable remuneration is deferred for up to five years, with deferred amounts delivered partly in equity-linked instruments, primarily share options under the long-term incentive programme. Options vest in a single tranche at the end of the deferral period, and a one-year retention period applies to subscribed shares, during which they cannot be sold, pledged, or otherwise encumbered, and transferring downside risk is prohibited. The proportion of deferred and instrument-based remuneration varies by employee level and regulatory role. Malus may be applied during the deferral period in cases such as misconduct, breach of regulations, significant risk management failures, reputational damage, loss of qualifications, or material deterioration in financial performance. Clawback, if permitted by national law, may be triggered after vesting under similar circumstances, including material risk events, regulatory sanctions, or audit findings. A retention requirement applies to equity-based instruments awarded to identified staff, including Management Board members and other material risk takers, with shares acquired through the long-term incentive programme required to be held for at least one calendar year after exercising options.

Variable remuneration at LHV is based on both financial and non-financial performance indicators, including return on equity, profitability, business unit objectives, compliance with internal and external regulations, and the effectiveness of internal controls. The structure of variable components is designed to balance short-term performance, rewarded through annual bonuses, with long-term value creation supported by share options or other equity-linked instruments. The proportion of cash and non-cash instruments is determined by staff classification and applicable CRD requirements, with deferral and retention provisions applied where relevant.

As of the 2025 reporting year, LHV Group does not apply any derogation under Article 94(3) of the CRD. No exemptions are used regarding the structure of variable remuneration, including deferral arrangements, instrument payouts, or malus and clawback mechanisms. All remuneration for identified staff fully complies with the requirements of Article 94(1) of the CRD, without applying the thresholds set out in points (a) or (b) of Article 94(3).

In 2025, the total amount of remuneration paid to LHV's Supervisory Board members (including former member Heldur Meerits) for participation in Supervisory Board meetings was EUR 96 thousand, including all taxes, out of which four members (Rain Lõhmus, Andres Viisemann, Raivo Hein and Liisi Znatokov) received EUR 15 thousand each (participated in all meetings), two members (Tiina Mõis and Tauno Tats) received EUR 13.5 thousand each (were absent from one meeting), Heldur Meerits (deceased) received EUR 9 thousand (was absent from two meetings). During the same period, LHV Management Board remuneration under Board member contracts was: Chairman Mihkel Torim EUR 16 thousand per month from 22 July 2025 (EUR 85.6 thousand) and former Chairman Madis Toomsalu EUR 19 thousand per month until 21 July 2025 (EUR 127.2

thousand); Meelis Paakspuu EUR 15 thousand per month (EUR 180 thousand), Jüri Heero EUR 14 thousand per month (EUR 168 thousand) and Kadri Haldre EUR 12 thousand per month (January–June) and EUR 14 thousand per month from July (approx. EUR 156 thousand). Total remuneration of the Management Board (executive members) for the same period amounted to EUR 716.8 thousand.