BUSINESS STRATEGY AND PROCESSES

The main goal of Artea Group's long-term strategy is to become the best bank in Lithuanian by 2029. The Bank aims to provide the best customer experience, to be the first choice in the minds of clients, to outperform the market growth rates in terms of number of clients and loan portfolio, and to generate high double-digit returns for investors.

Achievements (desired results) that detail this ambition:

- From a customer perspective, to become No.1 in customer satisfaction in the banking sector.
- In terms of growth, to grow faster than the market in terms of number of active clients and loan portfolio.
- From an employee's perspective, the goal is to become a TOP3 employer in the financial sector.
- In terms of awareness, to become the first brand in the minds of consumers in the banking sector.
- From the investors' perspective, to deliver a 20% rate of return to investors.

In 2025, the Bank reviewed the results of the Double Materiality Assessment conducted in the previous year and, having identified no significant changes, confirmed that the same sustainability topics remain material to the Group. Based on the results of the Bank's Double Materiality Assessment, the following Material Sustainability Topics (including sub-topics and sub-sub-topics) were identified:

- Climate change (climate change mitigation, adapting to climate change, energy).
- Own workforce (working conditions (fair pay, social dialogue, freedom of association, collective bargaining, health and safety), equal treatment and equal opportunities for all (gender equality and equal pay for work of equal value, training and skills development), other work-related rights (privacy)).
- Consumers and end-users (information-related impacts on consumers and/or end-users (privacy, access to (quality) information), social inclusion of consumers and/or end-users (non-discrimination, access to products and services, responsible marketing)
- Business ethics (corporate culture, corruption and bribery).

The Double Materiality Assessment process and results (materiality matrix) and the interaction between material impacts, risks, and opportunities with the strategy and business model are detailed in the *Artea Bank Group 2025 Consolidated Sustainability Information*, which is part of the Bank's Financial Statements and Annual Report for 2025.

To actively contribute to climate change mitigation, the Bank joined the international *Science Based Targets initiative* (SBTi) in January 2024 and committed to become a climate-neutral bank by 2050. The Bank has also pledged to set both long-term and near-term targets aligned with the pathway required to achieve the 2050 goal.

Using the SBTi standard, in 2025 the Bank's Management Board approved short-term targets for reducing Scope 1 and Scope 2 greenhouse gas (GHG) emissions across the Artea Bank Group, as well as targets for reducing GHG emissions associated with the Bank's financing and investment activities. These approved targets will continue to be aligned with the new SBTi *Financial Institutions Net-Zero Standard* and integrated into the Bank's Climate Transition Plan. More detailed information on the Artea Group's Scope 1 and 2 GHG emissions and the Climate Transition Plan is available in the *Artea Bank Group 2025 Consolidated Sustainability Information*.

When updating the ESG Strategy in 2025 — which is an integral part of the Group's overall strategy—the Bank took into account the results of the Double Materiality Assessment, the identified material topics, and the decarbonisation plan (GHG emissions reduction plan) approved by the Management Board. The Artea Group's ESG Strategy addresses all three elements — environmental, social, and governance, and the established targets cover different time horizons, from short-term to long-term, depending on the nature of each objective. More detailed information on the ESG Strategy targets is available in the *Artea Bank Group 2025 Consolidated Sustainability Information* (section: Strategy, Business Model and Value Chain).

Green products and products aimed at improving energy efficiency. AB Artea Bank is the main financing partner for multiapartment building renovation projects in the country. Between 2011 and 2025, the Bank financed 3,140 renovation projects for multiapartment buildings, with a total value of EUR 1.26 billion.

Since 2022, the Bank has managed the EUR 275 million “Artea Retrofit Fund 1”, which is currently financing the renovation of 394 multi-apartment buildings, and since 2024 – the EUR 200 million “Artea Retrofit Fund 2”, which is financing the modernisation of 272 multi-apartment buildings. In 2025, the Bank also received an invitation from the European Investment Bank (EIB) to begin negotiations on establishing a new, third national renovation fund for multi-apartment buildings in Lithuania. The fund is expected to reach up to EUR 625 million, with capacity to renovate approximately 850 multi-apartment buildings. Artea Bank’s proposal to establish this fund was selected under the EIB’s call for financial institutions seeking financing from the *“Lithuania 2021–2027”* Controlling Fund.

AB *Artea Bank* also contributes to the development of renewable energy projects in the country. In 2024, it financed solar and wind power acquisition and installation projects worth nearly EUR 55 million. In 2025, financing volumes for solar and wind energy decreased, but the Bank placed greater emphasis on financing electricity storage solutions — the total value of credit agreements supporting BESS (Battery Energy Storage Systems) investments now exceeds EUR 40 million.

The Bank offers green housing loans to customers, intended to finance real estate with the highest levels of energy efficiency. In 2025, the Bank issued EUR 17.6 million in green housing loans.

AB *Artea Bank* also provides other energy-efficiency-oriented products, such as leasing for electric and hybrid vehicles and financing for business sustainability projects. Loans on preferential terms for electric and hybrid vehicles contribute to creating a more sustainable environment and encourage customers to choose more environmentally friendly modes of transport.

In 2026, the Bank continues focusing on financing other projects that improve business sustainability, such as:

- Renewable energy,
- Energy efficiency improvement projects,
- Waste management projects,
- Emission reduction projects,
- Sustainable forestry projects,
- Water and wastewater management projects.

In addition, the Bank undertakes other actions that contribute to the management of ESG risks (particularly climate and environmental risks) and to the reduction of GHG emissions:

- We periodically assess the impact of climate and environmental risks on the sectors and portfolios financed by the Bank (a Climate and Environmental Risk Materiality Assessment is carried out).
- We improve credit risk management processes. The lending decision-making framework ensures that clients with elevated ESG risk are properly assessed and that the approved financing structure enables the reduction of ESG risk levels.
- We monitor companies’ (clients’) efforts to reduce GHG emissions and adapt to new expectations. This supports better management of climate-related risks and may help avoid or mitigate potential negative impacts on the Bank’s portfolio.
- Climate and environmental risk factors are incorporated into the collateral valuation process, including assessment of the asset’s energy performance and analysis of physical climate risks. Evaluating these factors enhances credit risk management and promotes the transition toward more sustainable financing choices.
- We continuously monitor and implement new regulatory requirements that help improve the management of ESG risks.

Clients. Bank’s customers are direct beneficiaries of the Bank's and the Group's products and services. Customers maintain direct relations with the Group, perform various operations, such as opening accounts, taking out loans, using investment products or other Group services.

The Bank, in accordance with the requirements of relevant legal acts, has regulated rules, processes and systems that it uses to get to know its customers as best as possible both before the start of business relations and during business relations. Knowing the customer before starting business relations includes the following main stages: establishing, verifying and updating the identity of the customer and the beneficiary; collecting, verifying and assessing information about the customer; assessing the acceptability of the customer, etc. Meanwhile, continuous knowing the customer during business relations includes the following main stages: periodic and ad-hoc updates of knowing the customer information and internal analysis and assessment processes.

During the customer due diligence process, all information related to the customer and submitted to the Bank is collected, verified and assessed, including information about the customer's beneficiaries - controlling legal entities and/or individuals.

When making decisions on lending to business customers, the Bank is guided by the requirements of legal acts and has separate specialized Bank procedures and processes that regulate in detail the actions related to the lending process and the principles of credit risk management. During the lending process, not only the specifics of the customer's activities and financial indicators are assessed, but also the customer's business management (history, experience of shareholders and managers) and shareholder structure (control and economic relations, influence on the company's financial management). Possible problems with the company's management or fundamental changes that may result in significant strategic changes in operations, affect the company's reputation, etc. are also taken into account. When determining the company's risk group, the final result is influenced by the reputation and experience of shareholders and managers, for which appropriate scores are assigned.

During the credit risk assessment (rating) process of business customers, potential changes in customer risk due to ESG risk (together with increased climate and environmental risk) are assessed. Therefore, in order to meet the supervisory requirements applicable to the Bank, the Bank has included ESG risk assessment of customers in the business customer lending process:

- The Bank provides an ESG risk questionnaire to business clients, aiming to determine their ESG risk level and encourage them to implement ESG risk mitigation measures in their operations. The questionnaire consists of both qualitative and quantitative questions and covers all three ESG components: environmental, social, and governance risks.
- The Bank also collects clients' GHG data alongside their annual financial statements.
- The ESG risk assessment is integrated into the business client credit risk assessment (rating) process and client risk monitoring process.
- The ESG risk evaluation influences credit risk assessment and pricing, with social and corporate governance factors embedded into the business client rating system.
- Internal policies ensure proper risk management, while internal control measures secure the implementation of ESG principles.

The ESG risk assessment process and methodology are regularly reviewed and, if necessary, updated. The updates are also guided by the results of the Bank's regular Climate and Environmental Risk Materiality Assessment, as well as by relevant legal acts and methodologies.

Suppliers. The Bank's approach to supplier relationships is based on expectations outlined in the policy "Prevention of Corruption and Unacceptable Conduct" which requires suppliers to comply with ESG requirements. In cases of non-compliance, the situation is assessed, and the Bank reserves the right to terminate the collaboration. To maintain responsible and transparent relationships, the Bank actively monitors and evaluates its suppliers, ensuring adherence to ethical standards and legal requirements. This proactive approach mitigates risks and ensures that the Bank’s operations remain sustainable and responsible.

The "Supplier Code of Conduct," approved by the Bank's Board, reflects the Group's commitment to fostering sustainable partnerships with suppliers. This document establishes minimum obligations and ethical business conduct standards expected from all suppliers.

The Bank does not currently have a comprehensive supplier due diligence process, - suppliers are subject to a supplier due diligence process aimed to identify, assess, and manage any potential or actual negative impact on society and the environment caused by major suppliers. This process includes analyzing supplier-provided information and implementing additional measures to ensure supply chain responsibility. The due diligence process consists of:

- Questionnaire Submission – Major suppliers receive a comprehensive due diligence questionnaire to evaluate their impact and ESG risk mitigation measures. The questionnaire includes qualitative and quantitative questions covering all three ESG aspects: environmental, social, and governance risks.
- Response Analysis – Supplier responses are reviewed to assess potential impacts. The questionnaire is aligned with the Group's Supplier Code of Conduct, ensuring consistency with the Bank's strategic goals and values.
- Request for Additional Documents – If the answers to the questionnaire are not sufficient to assess the risk, additional documents or evidence may be requested.

The Bank regularly reviews the effectiveness of supplier risk management and conducts additional assessments in the event of significant changes. While the current process focuses on major suppliers, the Bank plans to expand and refine the due diligence scope over time to ensure comprehensive impact management.

Management

Different management bodies are responsible for managing ESG risk and ESG strategy in the Bank and Group companies.

Bank's Supervisory Council:

- At the level of the Bank's Supervisory Council, the ESG area is within direct responsibility of the member of the Supervisory Council who also serves as the Chairwoman of the Audit Committee and is a member of the Risk and Nomination Committees;
- Approves the Group's strategy, including the ESG strategy, which is an integral part of the Group's strategy;
- Approves the Bank's Risk Management Strategy and Risk Appetite Statement (together with ESG key risk indicators).

Bank's Management Board:

- At the level of the Bank's Management Board, direct oversight of ESG risk management is the responsibility of a member of the Management Board, who is also the Bank's Chief Risk Officer (CRO) holding the position of the Head of the Bank's Risk Management Division, and who has the ability to raise issues directly with the Management Board, the Risk Committee, and the Supervisory Council as necessary.
- The Bank's Management Board approves the ESG risk impact assessment for the Bank's operations, as well as the Climate and environmental risk materiality assessment and the Business environment scan (**once a year**).
- The Bank's Management Board is the top-level governance body responsible for aligning and integrating the ESG strategy into the Group's strategy and submitting it to the Bank's Supervisory Council for approval, as well as for the **annual** review of the implementation of the ESG strategy and the formulation of the strategic objectives of ESG within the context of the Group's strategy.

Risk Committee:

- Oversees ESG risk management in the Bank (**quarterly**);
- Conducts periodic monitoring of ESG risk indicators and overall ESG risk management (**quarterly**).
- Considers, on a proposal from the Bank's Management Board, changes to the ESG key risk indicators approved by the Supervisory Council;
- Conducts a deep dive into detailed ESG analyses as required.

Audit Committee

- Oversees the process of ensuring the integrity of the Bank's and Group's annual reports, including sustainability information.

Nomination Committee

- Monitors and assesses whether the Bank's governing bodies and key function holders have the core competencies required, including ESG risk management competencies.

Risk Management Committee:

- The Chief Risk Officer (CRO) chairs the Bank's Risk Management Committee;
- Oversees ESG risk management in the Bank (**monthly**);
- Conducts periodic monitoring of ESG risk indicators and overall ESG risk management (**monthly**).

Sustainable Action Group:

- The Sustainable Action Group is chaired by the Sustainability Officer;
- The Sustainable Action Group is composed of a total of 13 members from 7 different divisions (Chief Risk Officer, Director of the Risk Department, Director of the Credit Risk Management and Control Department, Director of the Product Development Department, Director of the Compliance Department, Director of the Personnel Department, the Sustainability Officer and other managers and specialists participate in the activities);
- The Sustainable Action Group is an advisory body on ESG risks and on the development of the ESG strategy, and conducts **quarterly** oversight of the implementation of the ESG strategy.

Other structural units, committees and functions:

- Banking Product Committee – responsible for the development of banking products, including green products, as well as products focused on improving energy efficiency and promoting a sustainable business model, and ESG risks are among the risks assessed in product development.
- Credit Committee – decides whether to grant loans to clients. The ESG risk class is also taken into account when considering lending.
- Retail Banking and Corporate Banking Divisions (first line of defence) – provide financing proposals to clients, also focused on improving energy efficiency and promoting a sustainable business model. Assesses the level of ESG risk of clients.
- Investment services – when investing, effort is made to avoid the negative impact of ESG risks on the price and liquidity of securities in the long term, and therefore compliance with the ESG criteria is assessed.
- The Non-Financial Risk Department (second line of defence) coordinates the Group's ESG risk management and control processes, drafts internal regulations to manage this risk and oversees their implementation.
- The Compliance Department (second line of defence) performs the internal regulatory compliance function in relation to the ESG risk management system, as well as compliance inspections.
- Internal Audit (third line of defence) - carrying out independent ESG audits on a risk basis, assessing the effectiveness of the ESG risk management control framework, making recommendations to strengthen the effectiveness of the ESG risk management control framework, and monitoring the implementation of the recommendations. Provides materials to the Bank's Audit Committee on issues identified during audits, recommendations made and their implementation. Advises on ESG risk management issues as needed.

Part of the activities of the Group companies (Artea Life Insurance UAB, Artea Asset Management UAB, Artea lizingas UAB) are integrated into the Bank's activities, therefore the above-mentioned Bank's committees and commissions deal with the ESG risk management issues of the subsidiaries. However, the subsidiaries have committees dedicated solely to their activities.

The Bank also has a **Labour Council**, made up of 11 staff members elected by secret ballot and holding various positions in the Bank. The activities of the Council are governed by its rules of procedure. It actively cooperates with the Bank's Human Resources, Asset Management and Administration and other departments, providing proposals that, among other things, reflect the ESG topics of interest to employees, in order to find the best solutions for the well-being of employees. The Group companies Artea Life Insurance UAB and Artea Asset Management UAB) also have Labour Councils, which operate on a similar basis to the Labour Council of the Bank.

More information in the Artea Group's 2025 Consolidated statement on Sustainability.

Integration of sustainability-related performance in incentive schemes. The Group's remuneration system includes a long-term incentive programme for nominated employees whose professional activities have the most significant impact on the nature of the Bank's risk. One of the four main indicators of this programme is the ESG indicator, which provides an ESG rating in the results of the Reputation Index survey. Depending on the Bank's market position, as determined by means of an ESG survey, the respective weights of key performance indicators (KPIs) are set.

ESG objectives can also be measured in terms of the achievement of the overall objectives of the organisation or assigned to specific posts with direct responsibility for this area. Currently, employee performance measurement is not directly based on specific sustainability-related targets or their impact, nor are ESG performance indicators considered as benchmarks for performance measurement or integrated into remuneration policies. The Group regularly reviews its remuneration system and its publicly disclosed Remuneration Policy and would, therefore, consider future improvements to better integrate sustainability objectives into its incentive and remuneration framework.

Risk management

Bank's ESG risk management contains of:

<table>
<tr><th>Components of the ESG risk management system:</th><th>Processes within the Bank:</th><th></th></tr>
<tr><td>Risk identification</td><td>Overall monitoring of ESG risks and legal regulation, as well as definition of risk categories and assessment methodologies;
Identification of ESG risks (Double Materiality Assessment);
Climate and environmental risk materiality assessment;
Business environment scan in relation to climate and environmental risks.</td><td rowspan="4">The Risk Management Strategy defines the Group's policy for identifying, assessing and managing risks.

The risk appetite statement defines the level of risk that the Group is willing to take in order to achieve its business objectives.</td></tr>
<tr><td>Risk assessment</td><td>Risk assessment process (Risk Map);
GHG emissions from financing and investment activities;
Stress testing and evaluation of results as part of the Internal Capital Adequacy Assessment Process (ICAAP);
Green asset ratio.</td></tr>
<tr><td>Risk management</td><td>Managing ESG risk as a distinct type of risk;
Integrating ESG risk management into the management of other financial and non-financial risks.</td></tr>
<tr><td>Risk monitoring and reporting</td><td>Internal reporting (see page 61 of the consolidated statement on Sustainability for details on the functions of the governing bodies);
External reporting (public disclosure).</td></tr>
<tr><td>Risk review and improvement</td><td>Continuous improvement of the risk management framework;
ESG training for employees.</td><td></td></tr>
</table>

From the beginning of year 2026 new European Banking Authority (EBA) Guidelines on the management of ESG risks (EBA/GL/2025/01) comes into force for the Bank. In accordance with these guidelines, in 2025 the Bank updated the Business Environment Scan related to climate and environmental risks and the Climate and Environmental Risk Materiality Assessment. In 2026 the Bank will continue developing it's Climate Transition Plan, in order to ensure full alignment with the above-mentioned guidelines.

Climate and environmental risk impact assessment is a regular process in the Bank, which is associated with the Double Materiality Assessment and the results of which are assessed during each review of the Group's strategy and Risk Management System (for example, when reviewing the Risk Appetite Statement, updating ESG risk indicators). In the new Group strategy (2024-2029), strengthening ESG standards is highlighted as one of the main strategic directions.

Climate and environmental impact assessment

The Climate and environmental risk materiality assessment looks at the impact of physical and transition risks on the Bank's activities, in terms of both financial and non-financial risks. The Climate and environmental risk materiality assessment and the Business environment scan are carried out at least once a year and approved by the Management Board of the Bank.

Use of Climate and environmental risk materiality assessment and the Business environment scan from a climate and environmental risk assessment perspective:

- part of the Group's Self-Assessment (risk assessment) process (once a year);
- the results and findings of the Climate and environmental risk materiality assessment and the Business environment scan feed into the review of the Bank's strategy (which also integrates ESG topics);
- Also used in the review of the Group's Risk Management Strategy and Risk Appetite Statement;
- in other internal processes, such as determining the level of client ESG risk, stress testing, determining ESG risk indicators, etc.

The Climate and environmental risk materiality assessment allows the Bank to get a holistic view and to direct its risk management strategy accordingly.

In 2025, when Climate and environmental risk materiality assessment was carried out, it included a detailed assessment of the impact of physical and transition risks on the following risks: credit, market, liquidity, operational and reputational, compliance and strategic (business model) and concentration risks, as well as the main sectors and portfolios financed by the Bank. The assessment identified the main risk drivers, risk transmission channels, assessed the impact of risks over different time horizons (short-, medium and long-term), and determined the final level of risk after assessing the Bank's risk management measures to mitigate these risks.

When assessing the impact of climate and environmental risk drivers, the Bank uses science-based climate scenarios: the Network for Greening the Financial System (NGFS) scenarios are used to assess the impact of transition risk: Net Zero 2050, delayed transition and current policies, while the Intergovernmental Panel on Climate Change (IPCC) scenarios – RCP2.8, RCP4.5 and RCP8.5 are used to assess the impact of physical risks.

The impact of climate and environmental risks on the Bank's standard financial and non-financial risks may vary from period to period. The Bank assesses the significance of climate and environmental risks by focusing on the following time periods:

Period	**YEARS**
Short-term	<1
Medium	1-5
Long-term	>5

Following the identification of potential transition and physical risk drivers, their transmission channels, and the assessment of the measures taken by the Bank to mitigate these risks, the impact and materiality of these risks in the context of the Bank's operations are further assessed. Although climate and environmental risks and their impact were assessed in the context of the Bank's various financial and non-financial risks, material impacts were observed for the following risk categories: credit risk and concentration risk, reputational risk and strategic (business model) risk:

Short term (<1 year) Medium term (1-5 years) Long term (>5 years)

Risk category	Possible impact	Climate scenario	Time horizon
Credit risk and concentration risk	In both the medium and long term, the potential impact of climate risk on different sectors and portfolios is mainly related to **transition risk** and related drivers (regulatory and technological changes, etc.). However, gradual adaptation to change and active measures to achieve a more sustainable business model reduce the potential impact of **physical risks.** The Bank's focus on certain sectors, such as real estate, may also have an impact.	*Net Zero 2050*	

	The **transition risk** tends to increase due to sudden changes (regulatory, technological, etc.) from 2030 onwards and their impact on the Bank's clients. Delayed action may also lead to an increase in the impact of **physical risks** (e.g., floods, droughts) on the Bank's clients and their activities. The Bank's focus on certain sectors, such as real estate, may also have an impact.	*Delayed transition*	● ●
	The **transition risk** is relatively low, as the Bank's clients do not face any regulatory or technological impetus to implement changes aimed at a more sustainable business model, but smaller companies may face a competitive disadvantage if they do not take proactive measures. However, in the long term, the impact of **physical risks** (depreciation of collateral, losses in the activities of the Bank's clients) may increase.	*Current policies*	● ●
Reputational risk	In both the medium and long term, there is a potential climate risk impact on the Bank's reputation related to its customers, i.e., their ability to adapt to changes associated with the implementation of the Green Deal, as well as the effectiveness of the Bank's measures to manage ESG risks. This risk is expected to increase over the long term and is highest in the delayed transition scenario. Meanwhile, although the Current Policies scenario assumes that the impact of climate risk is likely to be minimal, it is believed that smaller companies (the Bank's clients) may face a competitive disadvantage if they fail to take proactive measures.	*Net Zero 2050*	● ●
		Delayed transition	● ●
		Current policies	● ●
Strategic (business model) risk	The impact on strategic or business model risk is mainly related to the impact of climate risk on credit risk. In the medium term, the potential impact of climate risk (due to **transition risk**) on the Bank is fairly limited due to its broadly diversified loan portfolio and the Bank's active efforts in the area of transition planning. In the long term, however, climate risk is likely to increase due to the growing need for clients to transition to a more sustainable business model.	*Net Zero 2050*	● ●
	This scenario presents the greatest risk to the Bank, as delayed action by clients could result in a sudden impact and need for transition in certain sectors, which could pose additional challenges for the Bank in adapting its business model. Furthermore, in this scenario, the impact of not only **transition risk** but also **physical risk** (e.g., floods, droughts) on the Bank's clients and their activities increases.	*Delayed transition*	● ●
	The **transition risk** is relatively low, as the Bank's clients face no impetus for the transition, but smaller companies that do not take proactive measures may face a competitive disadvantage. In the long term, the impact of **physical risk** (depreciation of collateral, losses in the Bank's clients' activities) may increase, but the impact on the Bank's strategic or business model risk would likely be limited.	*Current policies*	● ●
General assessment	In the medium and long term, the level of climate risk (**transition risk**) tends to increase in the Net Zero 2050 and Delayed Transition scenarios, mainly due to increasing regulatory requirements for both the Bank and its clients and the additional need for resources to meet the new requirements, as well as changing investor and client expectations and priorities, which are oriented towards more sustainable solutions. Additionally, the risk increases in the case of the Delayed Transition scenario, where the need for sector transformation is urgent and adaptation may be more complex. In the Current Policies scenario, the impact of transition risk is relatively limited, but the impact of **physical risk** is increasing, although the impact on the Bank's strategic or business model risk would likely be limited. The growing impact on strategic and business risks in the longer term reflects the need to focus on climate and environmental risk management and the continuous improvement of the risk management framework.	*Net Zero 2050*	● ●
		Delayed transition	● ●
		Current policies	● ●

Transition risks

The materiality of transition risk drivers to credit risk is assessed both qualitatively by analysing the legal environment, best practices and international methodologies applied in the financial sector (e.g., the recommendations of the Task Force on Climate-Related Financial Disclosures, the reports of the European Banking

Authority, the Fit for 55 toolkit and information on the related legislation). The materiality assessment also uses internal information, such as GHG emissions from financing activities, and takes into account the Bank's existing methodology (e.g., sectors with high ESG risk) and the Bank's climate and environmental risk management measures. The impacts of transition risks are assessed for the largest sectors (real estate, construction, manufacturing, trade and transport, agriculture) and segments (retail clients and corporate clients) financed by the Bank over different time horizons: short-term (<1 year), medium (1-5 years) and long-term (>5 years).

Following the update of the Climate and environmental risk materiality assessment in 2025 and taking into account the potential impacts of transition risks on individual sectors, the Bank has also updated the ESG Risk Assessment for Corporate Clients (methodology and process). According to the methodology currently used, the Bank has identified the following sectors of economic activity where corporate clients may have the highest transition risk: agriculture, forestry and fishing, mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply, sewage treatment, waste management and remediation; and construction, transport and real estate affairs.

Physical risks

In 2025, the Bank updated its physical risk materiality assessment and supplemented it with climate scenarios from the Intergovernmental Panel on Climate Change (IPCC) – RCP2.8, RCP4.5 and RCP8.5. The impact assessment is carried out over different time horizons: short-term (<1 year), medium (1-5 years) and long-term (>5 years).

The following physical risk categories and their impact on credit risk were assessed:

- Extreme weather events;
- Chronic weather events;
- Environmental physical risks – water scarcity, loss of biodiversity, impacts on soils (including soil degradation and erosion), destruction of habitats, dwindling resources, pollution.

Methodology

The Bank uses a variety of publicly available studies, tools and sources to assess the impact of physical risks. For example, the Study on Climate Change Risks by the Middle of the 21st Century (by the Hydrometeorological Service) and the Study of Soil Degradation and Erosion, Coastal Erosion and Solifluction in Lithuania (by Assoc. Prof. Dr. Jonas Volungevičius, Prof. Dr. Darijus Veteikis and Dr. Laurynas Jukna), ThinkHazard!, Aqueduct tools. The analysis of environmental physical risks is based on policies and strategic plans of the European Union and Lithuania, as well as legislation and other sources. However, due to the lack of tools and sources, the analysis of environmental physical risks is of a more qualitative nature. Climate risk analysis (extreme and chronic weather events), on the other hand, is based on qualitative and quantitative approaches and, where possible, science-based climate scenarios.

Scope of the assessment

The materiality assessment uses the Bank's internal information, such as information on collateral (pledged real estate – registered address of the property, value of collateral). This internal information is then combined with physical risk maps (e.g., a flood map) to determine the proportion of the Bank's collateral that is exposed to future flood risk. The Bank's climate and environmental risk management measures (e.g., monitoring of insurance conditions) are also taken into account when determining the final (residual) risk level. Flood risk is the most relevant physical climate risk identified (and quantified). It affects a wide range of sectors in which real estate is used as collateral. The impact of flood risk is assessed on the Bank's corporate loan portfolio secured by real estate (Template 5).

The impacts of individual environmental risks are also assessed for other sectors financed by the Bank. Other environmental risks assessed include water scarcity, land use change, resource scarcity, biodiversity loss, destruction of habitats and pollution risks due to their environmental impacts in sectors such as agriculture, energy, manufacturing and construction. Land use change risks are relevant to the agriculture and construction sectors because of their potential impact on land and its characteristics. The water supply and waste recycling sectors, as well as the mining and quarrying sector, are exposed to resource scarcity and pollution risks.

Where possible, the Bank uses science-based scenarios (Representative Concentration Pathways (RCP); Shared Socioeconomic Pathways (SSP)) that allow for a better assessment of the long-term impacts of climate change under different scenarios, or uses other available scenarios according to the information source (e.g. realistic, optimistic and pessimistic scenarios). In other cases, qualitative expert assessment is used, based on the sources mentioned above, to determine how physical risk phenomena may affect individual sectors or segments financed by the Bank.

Memberships and Commitments

Partnership for Carbon Accounting Financials (PCAF). Recognizing that the majority of financial institutions' greenhouse gas (GHG) emissions and environmental impact originate from financing activities, the Bank joined the Partnership for Carbon Accounting Financials (PCAF) initiative at the beginning of 2023. The goal of this initiative is to help financial institutions measure and disclose GHG emissions from their financing and investment activities (Scope 3, Category 15 under the Greenhouse Gas (GHG) Protocol). The Bank selected the PCAF methodology due to its widespread recognition and applicability within the financial sector, as well as its alignment with the Bank's loan and securities portfolio data. Additionally, the PCAF methodology is based on the GHG Protocol, which the Bank follows when calculating its Scope 1 and 2 emissions, as well as other Scope 3 categories.

The Bank, seeking to actively contribute to climate change mitigation, joined the international Science Based Targets initiative (SBTi) in January 2024 and committed to becoming a climate-neutral bank by 2050, as well as setting long-term and near-term targets aligned with the trajectory required to achieve the 2050 objectives.

In July 2025, the Bank's Management Board approved short-term GHG reduction targets for Scope 1 and Scope 2 emissions of AB Artea Bank Group, as well as targets for reducing GHG emissions associated with financing and investment activities of AB Artea Bank. These approved targets will continue to be aligned with the new SBTi Financial Institutions Net-Zero Standard and integrated into the Bank‘s Climate Transition Plan. The targets and corresponding measures are planned to be prepared and validated with SBTi by mid-2027.

Additionally, the Bank has set other important sustainability objectives across the environmental, social, and governance (ESG) areas (for more details, see *AB Artea Bank Group's 2025 Consolidated statement on Sustainability*).

Risk appetite

The Group periodically updates its **Risk Management Strategy** and **Risk Appetite** documents. The Risk Appetite Statement includes the following ESG-related risk indicators and their limits: the share of excluded (non-financed) sectors, the share of high-ESG-risk exposures in the loan portfolio, and the employee turnover rate. In addition, the implementation status of internal audit recommendations has been added to the monitored indicators. To strengthen the Group's ESG risk management, ESG risk indicators are reviewed annually and updated when necessary.

The Bank also monitors other ESG risk indicators that have defined limits, such as the volume of taxonomy-aligned mortgage loans, fuel consumption of company vehicles, and completion rates of mandatory trainings.

In implementing the European Banking Authority (EBA) requirements (EBA/GL/2025/01), the Bank has expanded its list of monitored risk indicators. It has begun tracking ESG-related metrics and information associated with loan and collateral positions by energy efficiency class, greenhouse gas emissions and their intensity, as well as indicators related to physical climate risk impacts on the Bank's activities, and other metrics used to measure ESG risks.

Changes to the Bank's key ESG risk indicators are reviewed by the Risk Committee and approved by the Supervisory Board, based on proposals from the Management Board. Periodic monitoring of ESG risk indicators and overall ESG risk management is performed by the Risk Committee, which receives monthly reports, and quarterly reports are also submitted to the Risk Committee.

Indicator limits are continuously monitored and controlled by the second line of defence, and periodic reports are submitted to the Risk Committee (at the Management Board level), the Management Board itself, and the Risk Committee (at the Supervisory Board level). In cases of limit breaches, the Bank has implemented ad-hoc escalation procedures to the Risk Committee and the Management Board.

Stress testing

The Bank includes climate and environmental risk elements in internal stress testing, i.e. positions for which a high/medium-high risk assessment was determined during the assessment of the significance of climate change and environmental risk and risk factors with the highest probability of occurrence and potential impact. During testing, the occurrence of climate risk is assessed according to different climate scenarios. The Bank has improved the testing methodology and included the following Network for Greening the Financial System (NGFS) climate scenarios in the testing: Net Zero 2050 and Delayed transition, and also used the Baseline scenario, which does not have the impact of climate change. The negative impact of climate change on the Bank's capital needs is assessed by modeling the impact of transition and physical risks on the loan portfolio. The results of the stress testing are further used in the Bank's Internal Capital Adequacy Assessment Process (ICAAP) to ensure future capital adequacy.

Calculation of Financed GHG Emissions

To calculate financed greenhouse gas (GHG) emissions, the Bank uses GHG emissions data provided by clients or publicly available sources (such as companies' sustainability reports and Bloomberg). When direct data is not available, GHG emissions are calculated using the clients' most recent available financial information (revenue, equity, liabilities). The Bank also uses other internal or third-party data sources (for example, from the State Enterprise Centre of Registers), including building energy performance classes and floor area, as well as GHG data provided by manufacturers for leased vehicles based on the vehicle and fuel type.

In 2025, in implementing the requirements of the Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS), the Bank made efforts to improve its emissions calculation methodology in order to collect as much client GHG emissions data as possible. More detailed information on direct operational emissions and financed emissions is provided in the *AB Artea Bank Group 2025 Consolidated statement on Sustainability*.

Financed emissions are assessed once per year; therefore, the financed emissions figures presented in this report reflect 2025 data. In 2025, the Bank began assessing not only clients' Scope 1 and Scope 2 emissions but also Scope 3 emissions. Financed Scope 3 emissions (Template 1, column (j)) are reported for those portfolios where Scope 3 calculations are feasible. The Bank aims to use the highest possible data reliability class to ensure the most accurate assessment of financed emissions. To achieve this, the Bank is working to collect more emissions data directly from clients and to improve the reliability of other data sources used in the calculations.