# HOLM BANK AS

# ANNUAL REPORT

# 2019

# HOLM BANK GENERAL INFORMATION

Business name: Holm Bank AS (until 07.04.2019 AS Koduliising)

Registry code: 14080830

Legal Entity Identifier code: 25490087XKGBK7X97W87

Address: Posti tn 30, 90504 Haapsalu city, Lääne county

Telephone: +372 675 5055 E-posti aadress: info@holmbank.ee

Website: www.holmbank.ee

Reporting period: 01.12.2019 – 31.12.2019

Auditor: Ernst & Young Baltic AS

Members of the Supervisory Board:

- Kaido Veske
- Pärt Kivaste
- Ruslan Mahhov
- Reimo Hammerberg
- Kelly Veske

Members of the Management Board:

- Rauno Klettenberg
- Arne Veske
- Roul Tutt

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# CEO report

The year 2019 was successful for the Group from several different aspects and set path to go forward with a strong sense of confidence. Most important achievement during the year was obtaining a credit institution license in April. This was followed by the launch of several new products. The Group started to provide both credit products and deposits to the business customers. Becoming a bank allowed us to take a big step forward in our operations and strategic development. Our customer base has increased significantly, as well as our asset base, and at the same time we have reduced our direct financing costs.

Stable income growth was supported both by the economic environment and the constant growth of private consumption. The year was exemplified by steady growth in revenues, assets and customer base, which all were key factors in achieving a good financial result. For the first time, the Group also consolidated Latvian subsidiary, which due to the consolidation process had an impact on the reduced net profit. However, subsidiary allows the Group potentially to increase both the volume of assets and revenue from new market.

The Group took strategic step and launched cross-border operations. In this connection, we signed a cooperation agreement with Europe's leading deposit-taking platform Raisin. We started offering term deposits to German and Austrian customers, while decreasing dependencies only from local market and diversified funding sources. In addition, we acquired Latvian subsidiary SIA “Best Lizings”, whose main activity has been offering credit products to the private individual segment.

In May, a business loan to small and medium size companies, was added to the Bank's product portfolio. Our focus was primarily on financing smaller, sustainable companies. By the end of the year, loan portfolio of business customers increased close to 2 million Euros, and the largest sector was wholesale and retail trade.

We aim to be reliable partner for small businesses, which often have investments needs in an environment, where there is not sufficient cash flow to make one-off payment to invest. Addition to that we also help companies to finance and cover their working capital needs.

Bank’s core products are loan and deposits and we do not offer settlement services. We also do not deal with cash, whereas most of the provided services are available online. Bank checks customers' backgrounds’ in accordance with all "know your customers" and anti-money laundering rules. We are very diligent and understand the significance of this issue.

We have strengthened our risk management while maintaining the current risk profile. Most of the sales growth has resulted from private financing and instalment products, where our customers' risk behavior is historically more transparent. The rapid growth of volumes has also necessitated the skillful management of credit risk, where the Bank has been successful.

**Strategy**

In 2019 the European Banking Authority approved the issuance of credit institution license for the Bank. Since April 8th, 2019 the company's legal name is Holm Bank AS.

Holm Bank AS is a credit institution based on Estonian capital whereas the Bank's financial services are mainly related to the Estonian market. The main activity of the Bank are the provision of consumer and business financing through various financial services and credit products (consumer credit, business loans, leasing, credit card) in retail and e-commerce using "Holm" and "Liisi" trademarks. The Bank also offers fixed-term deposits.

There have been many changes in the Banking sector during the year, while from regulatory perspective the whole industry is operating in a dynamic environment. The number of large Scandinavian banks has decreased and many of them have taken steps to exit from the Estonian market. This has provided new opportunities for smaller players in the Banking industry, including Holm Bank AS. Holm Group's home market is Estonia and Latvia. This year we have attained a license for cross-border services in the Swedish market, where we are ready to launch credit products to private individuals.

The Estonian banking market has undergone significant changes where the market share of local banks has increased, mainly due to lower activity of Scandinavian-owned banks. As Bank is still a smaller player in terms of its volumes, we have not determined our objectives by general market share, nor will we set market share targets by segments. We shall focus on organic growth and are offering our customers products that allow them to meet their own targets and strategic objectives. This shall maintain also primary approach to grow our customer base in the future.

We have approved a decision that will enable us to contribute to the modernization of the Bank's technology and the renewal of core systems. This, in turn, will ensure smooth customer service, while we remain in line with requirements of today's banking regulations.

In the case of private individuals, we place strong emphasis on maintaining the existing customer base, increasing customer satisfaction, as well as acquiring new customers. We do this by offering loan products and deposits in addition to instalment products.

In the case of companies, we have placed our focus on increasing the volume of small and medium size companies in the loan portfolio, while keeping the portfolio diversified. We want to help customers who have a clear understanding and ambitions how growing their business. As the average loan amounts are relatively small, it is important to have a meaningful understanding of the business activities of these companies, followed by high-quality monitoring.

The Group's support functions are managed centrally. Financial and risk management of the Latvian subsidiary SIA "Best Lizings" is coordinated at the parent company level. Legal support consists of an outsourced local service, which is coordinated also at the group level. In this way, the principles of risk management as well as KYC and AML procedures will be harmonized and shall meet the Group standards.

# Operating environment

Throughout 2019, economic environment turned out to be favorable and supported the growth. At the beginning of the year, we expected increase both in private and corporate revenues to continue. That expectation was based on the positive outlook of economic growth. In terms of products, there was an expectation to expand credit card sales and portfolio, and even faster growth in microcredit. In terms of sales and portfolio of the classic instalment product, we expected the downward trend to continue in 2019, which was due to the continued shift in customer preferences towards credit cards and small loans.

The economic environment remained favorable for the operations of the Bank during the year. According to Statistics Agency, Estonia's gross domestic product (GDP) increased by 4.3% in 2019, which also supported private consumption. Last year's price growth was relatively moderate for the Estonian economy. The competitive situation remained relatively similar with the outcome from previous years. Favorable economic environment had a positive effect on the new sales of the Bank and on the quality of the loan portfolio.

Global economic activity remained subdued and showed signs of stabilization by the end of the year. In particular, the global manufacturing sector strengthened in the last quarter of 2019, while activity in the services sector remained broadly unchanged. Although, there were signs of stabilization at end of year, global trade remains modest. Changes in financial markets were minor last year. Asset price developments continue to be supported by the accommodative monetary policy stance and improved risk tolerance as trade tensions have eased further. At the end of last year, economic growth in Europe slowed down. Annual CPI inflation in the euro area rose to 1.3% in December 2019, primarily reflecting faster energy price inflation. Although labor cost pressures have intensified due to tighter labor market conditions, sluggish growth is holding back its pass-through to inflation.

**Significant events and changes in the operating environment in 2020**

Since the end of the year, significant events have taken place during the present year that will significantly change the outlook for the operating environment. Due to the global spread of the coronavirus, global risk tolerance deteriorated sharply, and market volatility increased rapidly. Long-term risk-free interest rates in the euro area declined, reaching much lower levels than at the beginning of the period. With global risk aversion soaring, euro area stock prices fell sharply and the spread between government and corporate bond yields widened. Increasing volatility in foreign exchange markets and the euro appreciated sharply against the currencies of the euro area's 38 most important trading partners. The growth outlook for the global economy is overshadowed by various risks, which through trade partners also have a negative impact on the well-being of the Estonian economy and businesses. The deteriorating growth outlook means that the profits, competitiveness and ability to service loans of Estonian companies may be hit harder in the future.

In Estonia, the current situation affects essentially most of the sectors in economy. The impact is particularly strong in the tourism sector, wholesale and retail trade and the service sector. The effects of the virus are transmitted to the economy through various channels. Firstly, the direct effect of restrictions on virus control, which hampers the work of companies. In turn the whole economy is also affected by decline in tourism and other travel services.

Exports-imports and production are moving also towards instability, as external demand from countries with a higher impact of the virus is declining. Disruptions in international supply chains also have a negative impact.

The central bank has also estimated that private consumption and investment shall continue with declining trend. People may postpone their spending to avoid the risk of infection and due to general uncertainty, and companies may limit investment.

The economic forecasts made at the beginning of the year must be adjusted, and this can be done once the real impact of the coronavirus can be assessed more accurately.

# Management report

Last year's financial results are characterized by strong growth. The Group's interest income has increased by 26.6% compared to the same period of the previous financial year. The Group's consolidated interest income in 2019 amounted to 10.1 million Euros. We are also pleased with the rapid growth and volume of both the deposit and loan portfolio. The Group's consolidated total statement of financial position increased by 70.6% (compared to the end of 2018), reaching up to 55.949 million Euros by the end of the December. The volume of equity is still high and makes up 33% of the Group's consolidated statement of financial position.

**Sales activities, financial portfolio development and quality**

Although we also launched a business loan product in 2019, by the end of the year, majority of the loan portfolio consisted of our two main products, which were instalments and credit cards.

The volume of the credit card increased by 53.3% during the year and amounted to 14.9 million Euros by the end of 2019. At the same time, both the number of card users and the average credit limit used by the card user increased significantly. Consumer loan product, launched on the market at the end of November 2018, continued to be favored by customers throughout the previous year and increased by 8.1 million Euros during the year 2019.

The consolidated financial portfolio of the Group amounted to 44.233 million Euros at the end of the year. The Bank's total financing portfolio increased to 41.9 million Euros by the end of the year, which resulted a 43% increase compared to the beginning of the period. The largest contribution to the growth resulted from private loan and a credit card product, which together grew by 13.32 million Euros during the year and accounted for most of the growth of the entire portfolio.

The instalment balance itself and the share in the portfolio decreased during the year as expected. What plays significant part, however, is the fact that we still have an extensive network of partners who offer our instalment products in more than two thousand points of sale. A clear alternative to instalment product is both a small loan and a credit card, which allow financing the purchase in the network of the above-mentioned cooperation partners as well as in e-shops where it is possible to pay by card.

In 2019, we also continued cooperation with Nord Varaliising OÜ to offer small leasing to companies. The business loan portfolio reached 1.95 million Euros by the end of the year, and the number of contracts 96 makes the average contract amount 20 thousand Euros. Thus, the concentration of the portfolio is low and well distributed.

The quality of the financing portfolio remained relatively stable during the year and the share of non-performing loans (delayed payments between 90-365 days) remained at 2.4%. In terms of private credit products, the smallest share of debt was in small loans both during the year and at the end of the year, where debts over 90 days accounted for 2.1% of the portfolio. The

corresponding share of credit card portfolio was 2.4% and the share of the leasing portfolio was 3.1%.

The term deposit portfolio amounted to 34.6 million Euros by the end of the year. The loan-to-deposit ratio rose to 126% by the end of December.

**Key events**

The European Central Bank issued a banking license to Holm Bank AS on April 2nd and the Bank has just completed its first year of operation. The Bank's operations continue to be based primarily on local capital and are aimed at sustainably serving its domestic customers.

After receiving the license, the Bank has continued to offer all products that became popular under the Liisi brand last year. These are primarily instalment, small loan and credit card. Last year we launched deposits for private and business customers and loans for small businesses.

In 2019, changes took place in the management of the Bank, and during the year several new employees and top specialists in their field joined the Bank. It helped to strengthen the Bank's operational structure and supported our development. In July, a change took place in the management of the Bank and Rauno Klettenberg, who has long experience in financial intermediation and finance, including more than 15 years in the Banking sector, took over as the Chairman of the Management Board.

In the third quarter, the Bank's deposit campaign continued successfully, and at the same time we took preparations for joining Raisin, Europe's leading deposit platform. We signed a cooperation agreement in September and started offering term deposits to customers in Germany and Austria. In the second half of the year, we repaid the LHV loan and replaced it with deposits, which reduced the Bank's financing costs.

At the end of the third quarter, the Bank acquired a 51.06% stake in SIA “Best Līzings”, a company offering financial products in the Latvian market. The purpose of the transaction was to expand the Bank's operations to foreign markets and to do so by acquiring a majority stake in a company already operating in the Latvian market. The subsidiary is a credit provider operating in Latvian market since 2008, which offers credit to Latvian companies and consumers through its cooperation partners.

# Management System

## Governing bodies

The governing bodies of the Group are the Supervisory Board and the Management Board.

The Supervisory Board consists of five members, who is responsible for the Group´s strategical decisions and supervises the actions of the Management Board. The Supervisory Board is appointed by the General Meeting of Shareholders for a three-year term.

The Management Board consists of three members who are responsible for the Group's day-to-day management. The Management Board is appointed by the Supervisory Board for a three-year term. When appointing members of the Management Board, the Supervisory Board ensures that the Management Board that is formed would be sufficiently diverse in composition through a profile of knowledge, skills, experience and education in order to make sure that the Management Board has the capability to effectively manage all of the Group's operating segments.

All members of a governing body are appointed based upon requirements applicable to members of governing bodies pursuant to the provisions of the Credit Institutions Act according to which the appointed individual must have the necessary knowledge, skills, experience, education, professional qualifications and impeccable reputation in business to be able to manage a credit institution. The Group has adopted an internal policy for the evaluation of the suitability of a member of its governing body: suitability is evaluated before the individual is appointed member of a governing body and, if necessary, during their term of office as members.

The sole owner of the Bank is Koduliising OÜ (before April 25th, 2019 business name was Liisi Valdus OÜ) that is owned 100 % by Arne Veske who is also the ultimate controlling party owner of companies within the Group.

## Committees

The Group has established the following committees:

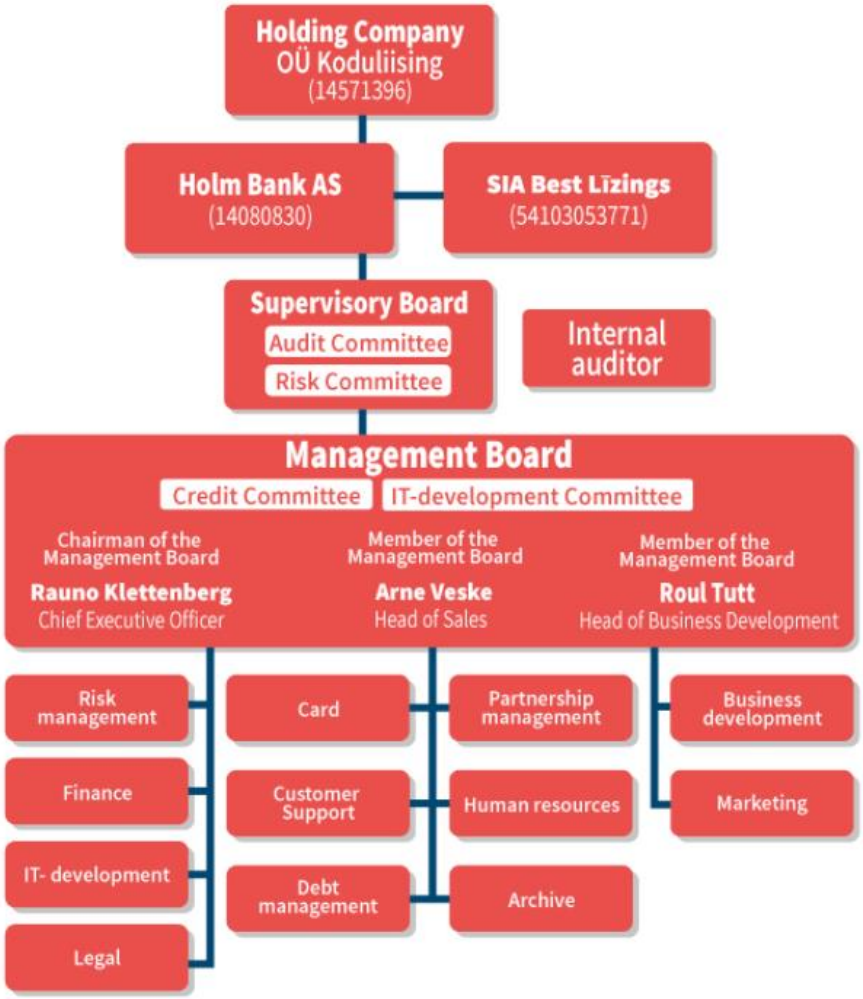
- Audit committee formed by the Group's Supervisory Board members that acts as an advisory body in respect of accounting, auditing, internal control and audit.
- Risk committee where the chairman of the committee is a member of the Supervisory Board and members of the committee are members of the Management Board and selected key persons. The risk Committee's main responsibility is the development of risk management strategy and activity plans for mitigating risks.
- Credit Committee that is competent decision-making organ with credit issuing.
- IT-development Committee that evaluates the Group's IT related development needs and coordination of IT development priorities.

**Internal control system**

For the purposes of ensuring the effectiveness of the Group's operations, reliability of financial reporting, compliance of operations with applicable laws and other legislation, internal regulations approved by governing bodies and the adoption of decisions on the basis of reliable and relevant information the Group has established an internal control system that involves all operational and management levels. The internal control system is based on three levels. The first level constitutes internal control that takes place internally within each division. The second level is made up of risk management function that operate as autonomous and independent control unit. The third level comprises the internal audit unit (KPMG Baltics OÜ).

**Development of the Group**

The structure of the Group is designed and confirmed by the Management Board according to the guidelines given by the Supervisory Board and taking into consideration of the Group's future development plans. With the accession of the "Best Lizings" SIA subsidiary to the Group, the Group coordinates its daily activities based on the principle of consolidation, which entails the establishment of collective and coordinated objectives and the implementation of common core values.



# Remuneration Policy

The Group has developed a unified remuneration policy that has been approved by the Supervisory Board. Adherence to objectives set by Remuneration Policy is controlled by the internal auditor.

The compensation structure consists of two components:

- basic salary, which is fixed pay agreed between employee and the Group within the employment contract;
- performance fee, which is an additional pay decided on the Group's resolution (bonus).

Bonuses are paid by the end of the calendar year to employees based on the contribution for achieving the Group's goals. The basic salary and performance fee are reasonably balanced. The sum of performance fee is confirmed by the Supervisory Board. The Group does not have employees whose remuneration would exceed at least one million Euros per year.

In addition to monetary incentives, the employees also have non-monetary benefits such as flexible working hours, possibility to work from home, different common activities and benefits for sporting. The employees work under employment contracts, members of the governing bodies work under authorization agreements.

# Financial results

**Budget**

The Group has prepared next 3 years outlook of 2020-2022.

**Budget key assumptions**

The budget has been prepared on pre COVID-19 economic environment in Estonia and wider in the world and does not reflect the changed macroeconomic conditions. More on COVID-19 impact on Group financial results are described on Note 22. Post statement of financial position events.

Key assumptions used:

- No significant changes expected in the macroeconomic environment on the markets operated. Slight economic growth has been expected to continue in Estonia, Sweden and Latvia, while domestic demand and -consumption show moderate growth trends.
- The Group has planned to continue with the existing product portfolio in the Estonian market and increase new sales by a fifth by the end of 2020 and customer portfolio.
- Sweden market entry plans are validated once Financial Supervision Authority has granted on March 24th, 2020 to the Group a cross-border license in Sweden. The Group has an expansion plans to Sweden to offer financial services to private consumers. Product to be launched is a consumer credit in the form of a temporary/purchase-based virtual payment card (credit card), that allows consumers to purchase goods or services on-line with the short-term credit offered. By the end of 2020 the Group plans to increase a Swedish loan portfolio to 6 million Euros.
- In Latvia, the Group plans a significant expansion of existing product portfolio: increase new sales more than four times by the end of 2020 and customer portfolio.

# Budget

**Statement of comprehensive income**

| *(in thousands of Euros)* | **2020** | **2021** | **2022** |
|---|---|---|---|
| Net interest income | 13 972 | 18 753 | 22 084 |
| Net fee and commission income | -1 642 | -1 931 | -2 185 |
| Other income | 112 | 112 | 112 |
| **Total income** | **12 442** | **16 935** | **20 011** |
| **Total operating expenses** | -9 783 | -10 864 | -12 025 |
| Depreciation and amortization | -332 | -388 | -388 |
| Loss allowances | -592 | -1 024 | -1 157 |
| **Profit before income tax** | **1 735** | **4 659** | **6 441** |
| Income tax | -75 | -75 | -75 |
| Advance income tax | -160 | -473 | -670 |
| **Net profit** | **1 500** | **4 111** | **5 696** |
| Profit (loss) attributable to non-controlling interest | -231 | 439 | 865 |
| Profit attributable to owners of the parent | 1 731 | 3 672 | 4 831 |

**Statement of financial position**

| *(in thousands of Euros)* | **2020** | **2021** | **2022** |
|---|---|---|---|
| Cash and cash equivalents | 5 386 | 8 824 | 15 694 |
| Loans granted (net) | 71 829 | 91 047 | 104 653 |
| Long-term financial investments | 3 427 | 3 035 | 2 642 |
| Other assets | 988 | 988 | 988 |
| **Total assets** | **81 630** | **103 894** | **123 977** |
| Deposits from customers | 60 028 | 78 193 | 92 593 |
| Other liabilities | 1 432 | 1 420 | 1 407 |
| **Total liabilities** | **61 460** | **79 613** | **94 000** |
| **Equity** | 20 170 | 24 281 | 29 977 |
| **Total liabilities and equity** | **81 630** | **103 894** | **123 977** |

| **Financial and operational ratios** | **2020** | **2021** | **2022** |
|---|---|---|---|
| ROE from profit | 8% | 18% | 21% |
| ROE from pre-tax profit | 9% | 21% | 24% |
| cost to income ratio % | 81% | 66% | 62% |
| loan to deposits % | 120% | 116% | 113% |
| Risk cost | 0,8% | 1,1% | 1,1% |
| Tier 1 Capital Ratio (%) | 28,38% | 19,34% | 17,12% |
| Capital Adequacy Requirement (CAD) | 28,38% | 25,40% | 21,79% |

# Financial results

| (*in thousands of Euros*) | **2019** | **2018** |
|---|---|---|
| **Total deposits** | **35 404** | **13 074** |
| **Total of loan receivables net of impairment** | **44 258** | **29 334** |
| **Total assets** | **56 095** | **32 787** |
| Net interest income | 8 835 | 7 061 |
| Net fee and commission income | -1 044 | -1 531 |
| **Net income** | **8 195** | **5 592** |
| Expenses | -6 091 | -3 337 |
| Profit before credit losses | 2 104 | 2 256 |
| Loan provision | -2 199 | -163 |
| Income tax | -122 | 0 |
| **Profit (-loss)** | **-216** | **2 093** |
| net profit attributable to owners of the parent | 255 | 2 093 |

# Key figures

| | 31.12.2019 |
|---|---|
| Common equity Tier 1% | 28,33 |
| Tier 1 % | 28,33 |
| CAD % | 28,33 |
| leverage ratio % | 21,66 |
| LCR % | 152,95 |
| NSFR % | 143,07 |
| return on equity (ROE) % * | 1,44 |
| return on assets (ROA) % | -0,49 |
| CFROI % | 11,45 |
| cost to income ratio % | 74,32 |
| net interest margin (NIM) % | 21,70 |
| spread % | 19,57 |
| loan to asset % | 78,90 |
| loan to deposits % | 125,89 |

Explanations

* Return on equity is calculated based on Holm Bank AS Group net profit and equity attributable to owners of the parent and does not include non-controlling interest.

Capital adequacy levels are calculated as reported in COREP report as at end of each year

LCR, NSFR are calculates as reported in COREP report as of end of each year

Return on equity (ROE) = net profit (attributable to owners of the parent) / average equity (attributable to owners of the parent) * 100

Return on assets (ROA) = net profit / average assets * 100

CFROI = Operating profit / capital (average)

Cost to income ratio = total operating expenses / total income * 100

Net interest margin (NIM) = net interest income/average interest earning assets * 100

Spread = yield on interest earning assets – cost of interest-bearing liabilities

Loan to asset = net loans / total assets * 100

Loan to deposits = net loans / deposits * 100

# Capital base

| *(in thousands of Euros)* | **31.12.2019** |
|---|---|
| Paid-in share capital | 50 |
| Share premium | 14 471 |
| Other reserves | 5 |
| Accumulated profit | 2 394 |
| Current financial year profit (loss) eligible* | -491 |
| Intangible assets (subtracted) | -857 |
| **Tier 1 own funds** | **15 572** |
| Additional Tier 1 capital | 0 |
| **Total Tier 1 capital** | **15 572** |
| **Total Tier 2 own funds** | 0 |
| **Net own funds for capital adequacy calculation** | **15 572** |

| **Capital requirements** | |
|---|---|
| Credit institutions under standard method** | 1 260 |
| Regional governments or local authorities | 10 |
| Retail exposure under standard method | 35 034 |
| Overdue exposure under standard method | 3 538 |
| Other assets under standard method | 3 062 |
| **Total capital requirements for covering the credit risk and counterparty credit risk** | **42 904** |
| Capital requirement against foreign currency risk under standard method | 0 |
| Capital requirement against interest position risk under standard method | 0 |
| Capital requirement against equity portfolio risks under standard method | 0 |
| Capital requirement against credit valuation adjustment risks under standard method | 0 |
| Capital requirement for operational risk under base method | 12 058 |
| **Total capital requirements for adequacy calculation** | **54 962** |
| **Capital adequacy (%)** | 28,33 |
| **Tier 1 Capital Ratio (%)** | 28,33 |
| **Core Tier 1 Capital Ratio (%)** | 28,33 |

*Deductions fort common equity tier 1 items according to Regulation (EU) No 575/2013 of the European Parliament and the Council of 26 June2013on Prudential requirements for credit institutions and investment firms Article 36.1.(a).

** standard method – as defined by Regulation (EU) No 575/2013 of the European Parliament and the Council of 26 June2013on Prudential requirements for credit institutions and investment firms, Part III, Title 2, Chapter 29.

# Overview of the Group's subsidiary in 2019

**SIA „Best Lizings"**

**Financial results**

| *(in thousands of Euros)* | **Q4 2019** |
|---|---|
| Net interest income | 216 |
| Net fee and commission income | -68 |
| Total net operating income | 148 |
| Other income | 5 |
| Operating expenses | -222 |
| Income tax | -13 |
| Credit losses | -881 |
| **Net loss** | **-962** |
| | |
| Loan portfolio | 2 259 |

# Social responsibility in the Group

The Group follows the generally accepted market principles of marketing in its promotional activities and communication. It is essential that public information provided, corresponds to Group's operations. The Group shall not be placed in a better light than its competitors and competitors are not disparaged. The website reflects the products we offer, as well as information that it is the website of a financial service provider and there is an invitation to read the terms and conditions and consult an expert. In advertising activities, we follow the advertising norms and restrictions applicable to financial institutions and check the compliance of the content and texts of advertisements with legislation. The Group makes sure that the information is relevant and straightforward for the customers to understand.

**Economic value created by the Group in 2018-2019**

| *(in thousands of Euros)* | **2019** | **2018** |
|---|---|---|
| **Total taxes paid** | **839** | **427** |
| Taxes paid (except labor taxes) | 209 | 52 |
| Labor taxes | 630 | 374 |
| **Salaries paid** | 1 898 | 1 118 |
| Jobs created | 25 | 24 |
| Dividends paid | 300 | 0 |
| **Purchases from suppliers** | **7 400** | **5 992** |
| incl. Estonian suppliers | 6 798 | 5 969 |
| **Investments made** | **364** | **332** |
| incl. investments on innovation | 61 | 0 |

The Group currently in progress of developing of the Virtual Card IT platform and the new Core system which is treated as investments on innovation.

# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated statement of comprehensive income

| *(in thousands of Euros)* | Note | 2019 | 2018 (restated) |
|---|---|---|---|
| Interest income | | 10 137 | 8 007 |
| Interest expense | | -1 302 | -946 |
| **Net interest income** | 6 | **8 835** | **7 061** |
| Fee and commission income | | 0 | 0 |
| Fee and commission expense | | -1 044 | -1 531 |
| **Net fee and commission income (expense)** | 7 | **-1 044** | **-1 531** |
| Other income | | 404 | 62 |
| Staff costs | 8 | -2 528 | -1 493 |
| Administrative and other operating expenses | 8 | -3 179 | -1 718 |
| Other expense | | -144 | 0 |
| Depreciation and amortization | 13, 13.1 | -240 | -126 |
| **Profit before credit losses** | | **2 104** | **2 256** |
| Net allowance for credit losses on financial instruments | 10 | -2 199 | -163 |
| **Profit (loss) before income tax** | | **-94** | **2 093** |
| Income tax | 5,20 | -122 | 0 |
| **Profit (loss) for the year** | | **-216** | **2 093** |
| **Total profit (loss) attributable to:** | | | |
| Owners of the parent | | 255 | 2 093 |
| Non-controlling interest | | -471 | 0 |
| **Profit (loss) for the year** | | **-216** | **2 093** |
| **Other comprehensive income** | | **0** | **0** |
| **Total comprehensive income for the year** | | **-216** | **2 093** |
| **Total profit (loss) and other comprehensive income attributable to:** | | | |
| Owners of the parent | | 255 | 2 093 |
| Non-controlling interest | | -471 | 0 |
| **Total comprehensive income for the year** | | **-216** | **2 093** |

Information on restatements is provided in Note 2.

Notes on pages 25 to 105 are an integral part of the consolidated financial statements.

# Consolidated statement of financial position

| *(in thousands of Euros)* | Note | 31.12.2019 | 2018 (restated) |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with central bank | 9 | 1 499 | 0 |
| Amounts due from credit institutions | 9 | 6 299 | 23 |
| Receivables from customers | 11 | 2 | 0 |
| Loans and advances to customers | 10 | 44 575 | 29 478 |
| Other assets | 12 | 900 | 993 |
| Investment property | 13.1 | 1 053 | 1 044 |
| Property, plant and equipment | 13 | 674 | 663 |
| Right-of-use assets | 13 | 237 | 0 |
| Intangible assets | 13 | 857 | 586 |
| **Total assets** | | **56 095** | **32 787** |
| **Liabilities** | | | |
| Deposits from customers | 14 | 35 404 | 0 |
| Loans received | 14 | 376 | 13 074 |
| Other liabilities | 15 | 1 901 | 1 374 |
| **Total liabilities** | | **37 681** | **14 448** |
| **Equity** | | | |
| Share capital | 17 | 50 | 50 |
| Share premium | 17 | 14 471 | 14 471 |
| Statutory reserve capital | 17 | 5 | 5 |
| Retained earnings | | 2 649 | 3 813 |
| **Total equity attributable to owners of the parent** | | **17 175** | **18 338** |
| Non-controlling interest | 5 | 1 238 | 0 |
| **Equity** | | **18 413** | **18 338** |
| **Total liabilities and equity** | | **56 095** | **32 787** |

Information on restatements is provided in Note 2.
Notes on the pages 25 to 105 are incremental part of this annual report

# Consolidated statement of cash flows

| *(in thousands of Euros)* | **Note** | **2019** | **2018 (restated)** |
|---|---|---|---|
| Profit (loss) before tax | | -94 | 2 093 |
| Adjustments, including | | -5 402 | -6 164 |
| Interest income | 6 | -10 137 | -8 007 |
| Interest expense | 6 | 1 302 | 946 |
| Allowance | 10 | 2 199 | 163 |
| Depreciation and amortisation | 13 | 240 | 126 |
| Other adjustments | | 994 | 609 |
| Statutory reserve capital at central bank | 9 | -140 | 0 |
| Changes in loans to customers | | -14 591 | -5 692 |
| Changes in other assets. | | -82 | -489 |
| Proceeds from deposits | 14 | 35 156 | 0 |
| Changes in other liabilities. | 15 | 527 | 0 |
| Interest received | | 9 805 | 7 060 |
| Loans received | | 4 450 | 5 385 |
| Repayments of loans received | | -17 150 | -993 |
| Interest paid | | -946 | -721 |
| **Cash flows from operating activities** | | **11 532** | **478** |
| | | | |
| Additions of property, plant and equipment and intangible assets | 13 | -657 | -756 |
| Acquisition of a subsidiary, net of cash acquired | 5 | -2 749 | 0 |
| Proceeds from sale of investment property | 13.1 | 0 | 526 |
| Proceeds from sale of financial assets | | 0 | 50 |
| **Cash flows from investing activities** | | **-3 406** | **-180** |
| | | | |
| Repayment of principal portion of lease liabilities | 14 | -88 | -8 |
| Dividends paid | 15 | -307 | -300 |
| Income tax paid on dividends | 15 | -97 | -75 |
| **Cash flows from financing activities** | | **-492** | **-383** |
| | | | |
| **Cash and cash equivalents at the beginning of the year** | 9 | 23 | 109 |
| Net increase/(decrease) in cash and cash equivalents | | 7 634 | -86 |
| **Cash and cash equivalents at the end of the year** | 9 | **7 658** | **23** |

Information on restatements is provided in Note 2.

Statutory reserve capital at central bank is not taken into an account in the statement of cash flows. Notes on the pages 25 to 105 are incremental part of this annual report.

# Consolidated statement of changes in equity

| *(in thousands of Euros)* | Share capital | Share premium | Statutory reserve capital | Retained earnings | Total | Non-controlling interest | Equity |
|---|---|---|---|---|---|---|---|
| **Balance as at 01.01.2018** | **50** | **14 471** | **0** | **1 725** | **16 245** | **0** | **16 245** |
| Transfer to statutory reserve capital | 0 | 0 | 5 | -5 | 0 | 0 | 0 |
| Dividends paid | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Profit for the year | 0 | 0 | 0 | 2 093 | 2 093 | 0 | 2 093 |
| Other comprehensive income | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total comprehensive income for 2018 | 0 | 0 | 0 | 2 093 | 2 093 | 0 | 2 093 |
| **Balance as at 31.12.2018** | **50** | **14 471** | **5** | **3 813** | **18 338** | **0** | **18 338** |
| | | | | | 0 | | |
| **Balance as at 01.01.2019** | **50** | **14 471** | **5** | **3 813** | **18 338** | **0** | **18 338** |
| Acquisition of subsidiary | 0 | 0 | 0 | -1 119 | -1 119 | 1 710 | 591 |
| Dividends paid | 0 | 0 | 0 | -300 | -300 | 0 | -300 |
| Profit for the year | 0 | 0 | 0 | 255 | 255 | -471 | -216 |
| Other comprehensive income | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total comprehensive income for 2019 | 0 | 0 | 0 | 255 | 255 | -471 | -216 |
| **Balance as at 31.12.2019** | **50** | **14 471** | **5** | **2 649** | **17 175** | **1 238** | **18 413** |

In 2018 no profits were distributed, dividends paid in 2018 were declared in earlier periods.

Acquisition of Latvian subsidiary is disclosed in more detail in Note 5.

Notes on the pages 25 to 105 are incremental part of this annual report.

# Note 1. General information

The Group's main area of activity is to offer consumer financing in retail and e-commerce under the "Liisi" trademark. The main area of activity is the issuance of small loans in the form of consumer loans, hire-purchase, credit cards, leasing and business loans. Until 30th of September 2019 the Group has operated solely in Estonian marketplace. At the end of September, the Group has acquired a 51% ownership in Latvian entity SIA "Best Lizings"

The Group is a credit institution with a concentrated circle of owners. The sole shareholder of the Group is OÜ Koduliising, which is 100% owned by Arne Veske, who is the ultimate controlling party of Holm Bank AS. The registered address of the Bank is Posti tn 30, Haapsalu City, Estonia.

On 2nd April 2019, the European Central Bank issued a credit institution license to Holm Bank AS to act as a creditor (Decision No. 4.1-1 / 14 of the Management Board of the Financial Supervision Authority of 06.03.2017). As of 08.04.19, the Bank's business name is Holm Bank AS. These financial statements were approved by the Management Board on 30.04.2020. The shareholders of the Group have the right not to approve the prepared report and to demand the preparation of a new report.

# Note 2. Summary of significant accounting policies

Holm Bank AS (registry code 14080830) is a credit institution registered in Estonia. The registered address is Posti str. 30, 90504 Haapsalu, Lääne County. In addition to Holm Bank AS, the Holm Bank AS consolidation Group (hereinafter the Group) includes the SIA „Best Lizings" financial results.

**Basis of preparation**

Holm Bank AS (hereinafter: the Bank) consolidated financial statements for the year 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union.

The consolidated financial statements have been prepared on a historical cost and going concern basis (see also Note 22). Reporting period is from 01.01-31.12.2019. All Euro values in this report are presented in thousands of Euros.

The preparation of consolidated annual report in accordance with IFRS requires the Management Board to use critical accounting estimates in certain areas.

The original consolidated financial statements of the Group has been prepared is Estonian. In case of the conflict with English, the Estonian version shall prevail.

**Consolidation**

**Subsidiary**

Subsidiary is an entity over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and could affect those returns through its power over the entity. Subsidiary is consolidated from the date on which control is transferred to the Group. Intragroup receivables and liabilities, transactions and unrealized gains and losses on transactions between the Group entities are eliminated upon consolidation. Financial statements of the subsidiary have been amended, where necessary, to bring its accounting principles into conformity with the accounting principles adopted by the Group. The financial year of the subsidiary coincide with the parent financial year.

Business combinations under common control are accounted for using a pooling of interest method. Under the pooling of interest method, the acquirer accounts for the combination by recognizing the assets and liabilities of the acquire at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination that would otherwise be done under the acquisition method. The only adjustments made are to align accounting policies. No 'new' goodwill is recognized as a result of the combination. The only goodwill that is recognized, if any, is any existing goodwill relating to either of the combining parties. Any difference between the consideration transferred and the

acquired net assets is reflected within equity. Any non-controlling interest is measured as a proportionate share of the book values of the related assets and liabilities. Any expenses of the combination are expensed immediately in the statement of comprehensive income. Comparative amounts have not been restated as if the combination had taken place at the beginning of the earliest comparative period presented. Instead, the Group accounts for the combination prospectively from the date on which it occurred.

In consolidated statement of comprehensive income non-controlling interest share of profit or loss is disclosed separately from owners of the parent. Non-controlling interests' share in subsidiary's results and Equity is recognized in consolidated statement of financial position separately from the Equity attributable to the shareholders.

**The Bank separate reports presented in the notes of the consolidated annual report**

The Bank's primary financial statements in note 21 are prepared using the same accounting principles, except for the recognition and measurement of the subsidiary, as those that have been used for preparing the consolidated annual report.

**Accounting of income and expenses**

Occasionally, the Group earns fee and commission income from financial services it provides to its customers. Fee and commission income is recognized at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services.

When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time.

Expenses that are directly related to the generation of fee and commission income are recognized as fee deduction.

**Interest income and expenses**

Interest income and expenses are calculated by applying the effective interest rate to the gross carrying amount of financial assets or liabilities, except for:

- Purchased or originated credit-impaired (POCI) financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset.
- Financial assets that are not POCI but have subsequently become credit-impaired (Stage 3), for which the effective interest rate is applied to the amortized cost of the financial asset on subsequent reporting periods.

More details are disclosed in accounting principles Note section „Amortized cost and effective interest rate (EIR).

**Fees and commission income**

The Group recognizes under fees and commission income the cancellation fees of 2% charged to customers for early termination.

**Foreign currency transactions. Assets and liabilities denominated in a foreign currency**

The functional and presentation currency of the Group is Euro.

Monetary assets and liabilities denominated in a foreign currency have been translated into Euros based on the foreign currency exchange rates of the European Central Bank prevailing on the statement of financial position date. Foreign currency transactions are recorded based on the foreign currency exchange rates of the European Central Bank prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from revaluation are recognized in the statement of comprehensive income as finance income and expenses of that period.

**Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, demand deposits in central bank and other banks, that are available for use without any restrictions.

**Accounting principles of financial assets and financial liabilities**

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets under normal market conditions are recognized on the trade date, the date on which the Group commits to the purchase or sale of the asset.

At initial recognition, a financial asset or financial liability is measured at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss (FVPL), transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions.

Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in income statement. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for assets measured at amortized cost and at fair value through other comprehensive income (FVOCI), which results in an accounting loss being recognized in income statement when an asset is newly originated.

**Financial assets**

Classification and subsequent measurement.

**Debt instruments**

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective. Classification and subsequent measurement of debt instruments depend on: - the Group's business model for managing financial assets; and - the contractual cash flow characteristics of the financial asset.

Business model: the business model reflects how the Group manages the financial assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of other business model and measured at fair value through profit or loss. Factors considered by the Group in determining the business model for management of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers of the Group are compensated. The Group's business model for unsecured consumer loans is to collect contractual cash flows. The Group has not sold so far debt instruments, sales shall be considered, when the significant increase in credit risk is identified. Therefore, the business model for the portfolio is to hold assets to collect contractual cash flows. Cash flow characteristics of the asset: where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell the assets, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to additional risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Based on these factors, the Group classifies its debt instruments into one of the three measurement categories:

- Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at fair value through profit or loss, are measured at amortized cost.
- Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at fair value through profit or loss, are measured at fair value through other comprehensive income.
- Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss.

During the reporting period, the Group has measured all its debt instruments at amortized cost.

There were no changes in the classification and measurement of financial liabilities.

**Amortized cost and effective interest rate (EIR)**

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest rate (hereinafter EIR) method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowances. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes all fees paid and received between contracting parties, transaction costs, premiums or discounts that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired (POCI) financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted EIR, which is fair value at initial recognition of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows. When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original EIR. Any changes in value are recognized in income statement.

**Equity instruments**

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets or assets after deducting all the liabilities. The Group has decided to measure equity investment at fair value through profit or loss.

**Modification of loans**

As per customer's request the Group may renegotiate the contractual terms. Changes to contractual terms are normally not substantially different to the original agreement and therefore the renegotiation or modification does not result in contract derecognition. The Group recalculates the gross carrying amount of the financial asset based on the revised cash flows discounted at the original effective interest rate and recognizes a modification gain or loss in income statement. The Group also considers potential impact in deterioration in credit risk, depending on the terms of the modification.

**Loans write-off's**

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery.

**Financial Liabilities**

The Group recognizes financial liabilities at amortized cost. Financial liabilities are removed from the statement of financial position only in case of the basis of recognizing the liability no longer exists. Right of use assets liability is disclosed on the statement of financial position under other liabilities.

**Allowance**

**12-month ECL**

12-month ECLs are defined as the portion of lifetime ECLs that represents the ECLs resulting from default events on the financial instrument that are possible within 12 months after the reporting date. This means that 12-month ECLs represent the lifetime cash shortfalls that will result from a default occurring in the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months) weighted by the probability of that default occurring.

**Lifetime ECL**

Lifetime ECLs are defined as the ECLs that result from all possible default events over the expected life of the financial instrument.

**Probability of default (PD)**

PD is an estimate of the likelihood of default over a given time horizon.

**Exposure at default (EAD)**

EAD is an estimate of the exposure at the future default date considering the expected changes in the exposure after the reporting period (e.g. repayments, drawdowns on committed facilities).

**Loss given default (LGD)**

LGD is an estimate of loss arising if default event occurs. It is based on the difference between the contractual cash flows and cash flows that are expected to be collected after the default event.

**Discount rate**

Effective interest rate that is used to discount the expected credit losses to a present value at the reporting date.

**Credit conversion factors (CCF)**

Undrawn loan commitments will be converted into credit exposure equivalents using CCF.

**Stage 1**

Delinquency stage which includes customers whose credit behavior is historically good and whose internal credit rating is white, green or yellow.

**Stage 2**

Delinquency stage which includes customers whose internal credit rating is red. These customers have their credit risk significantly increased since initial recognition.

**Stage 3**

Delinquency stage which includes customers who have defaulted on their loans – i.e. late payments have reached over 90 days. The internal credit rating for these customers is black.

**Expected credit loss methodology of the Group**

**General concept**

The allowance model of the Group is an expected loss model, which means that it is not necessary for a loss event to occur before an allowance loss is recognized. As a result, all financial assets of the Group generally carry a loss allowance. ECLs are a probability-weighted estimate of credit losses over the expected life of a financial instrument. Credit losses are the present value of expected cash shortfalls.

The assessment of ECLs is based on reasonable and supportable information – that is, information reasonably available without undue cost or effort at the reporting date.

Allowance is measured at an amount equal to 12-month ECLs, lifetime ECLs or changes in lifetime ECLs. Allowance is measured as either 12-month ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition.

If a significant increase in credit risk of an instrument has occurred since initial recognition, then allowance is measured as lifetime ECLs. If the credit risk on financial instruments, for which lifetime ECLs have been recognized, subsequently improves so that the requirement for recognizing lifetime ECLs is no longer met, then the loss allowance is measured at an amount equal to 12-month ECLs.

The measurement of ECLs reflects:

- An unbiased and probability-weighted amount,
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort.

The methods used by the Group to measure ECLs may vary based on the type of financial instrument and the information available.

The allowance loss (or reversal) recognized in profit or loss is the amount required to adjust the loss allowance to the appropriate amount at the reporting date.

**Cash shortfalls**

A cash shortfall is the difference between:

- The cash flows due to the Group in accordance with the contract; and
- The cash flows that the entity expects to receive.

Cash shortfalls are identified as follows:

- For 12-month ECLs cash shortfalls resulting from default events that are possible in the next 12 months (or a shorter period if the expected life is less than 12 months).
- For lifetime ECLs cash shortfalls resulting from default events that are possible over the expected life of the financial instrument.

**Debt collection costs**

The Group typically incurs costs in collecting its debts. These might include the following:

- Employee benefits for collections staff, telecommunications, postage and legal and court fees. These are generally recognized as operating expenses when they are incurred in accordance with the IFRS requirements applicable to such items.
- The costs of obtaining and selling collateral that is part of the contractual terms of a debt instrument, which are reflected in the estimate of expected cash shortfalls on a collateralized financial asset.

**Individual or collective ECL measurement**

ECLs may be measured on an individual or collective basis.

ECLs on individually large exposures are measured individually if the Group has reasonable and supportable information that is available without undue cost or effort to measure ECLs on an individual basis. Otherwise collective basis of measurement is used.

To measure ECLs on a collective basis, financial instruments are grouped based on shared credit risk characteristics. Shared credit risk characteristics:

- Instrument type;
- Credit risk ratings;
- Collateral type;
- Remaining term to maturity;

Collective basis of ECL measurement is performed for the following financial instruments:

- Hire-purchase;
- Consumer loans;
- Car loans;
- Credit cards;
- Business loans.

More detailed segmentation may be applied for allowance purposes as appropriate for model development.

**Allocation of lending exposures to stages**

All financial instruments are allocated to the following stages:

- Stage 1 – Delinquency stage which includes customers whose credit behavior is historically good and whose internal credit rating is white, green or yellow.
- Stage 2 – Delinquency stage which includes customers whose internal credit rating is red. These customers have their credit risk significantly increased since initial recognition.
- Stage 3 – Delinquency stage which includes customers who have defaulted on their loans – i.e. late payments have reached over 90 days. The internal credit rating for these customers is black.

For financial instruments allocated to Stage 1 the 12-month ECL are determined.

For financial instruments that have their credit risk significantly increased since initial recognition the financial instruments are allocated to Stage 2 and lifetime ECL are determined.

For financial instruments that are defaulted the financial instrument shall be allocated to Stage 3 and lifetime ECL are determined.

If the credit risk on financial instruments, for which lifetime ECLs have been recognized, subsequently improves so that the requirement for recognizing lifetime ECLs is no longer met, then the loss allowance is measured at an amount equal to 12-month ECL.

**Definition of default**

The definition of default is consistent with that used for internal credit risk management purposes. Defaulted clients are considered to be those whose internal credit rating is black – i.e. late payments have reached over 90 days. When appropriate, qualitative indicators are taken into an account into the definition of default. The definition of default is applied consistently, unless information that becomes available indicates that another default definition is more appropriate for a financial instrument.

**Assessing significant increase in credit risk**

At each reporting date assessment is performed to determine whether the credit risk on a financial instrument has increased significantly since initial recognition.

Significant increase in credit risk is considered to have taken place if any of the following criteria is met:

- The contractual payments of the lending exposure are past due for more than 30 days;
- Internal credit grading system rates the borrower to be with a significant increase in credit risk.

Assessment of significant increase in credit risk is performed on a collective basis unless financial instruments are measured for ECLs on an individual basis.

For the purpose of assessing significant increases in credit risk on a collective basis, financial instruments are grouped on the basis of shared credit risk characteristics. Shared credit risk characteristics:

- Instrument type;
- Credit risk ratings;
- Collateral type;
- Remaining term to maturity;

The aggregation of financial instruments may change over time as new information becomes available.

The presumption that credit risk on a financial instrument has increased significantly when payments are more than 30 days past due can be rebutted only if the Group has reasonable and supportable information demonstrating that even if contractual payments are more than 30 days past due, this does not represent a significant increase in credit risk. For example, this might be the case if:

- Non-payment was an administrative oversight instead of resulting from the borrower's financial difficulty; or

- Historical evidence demonstrates that there is no correlation between a significant increase in the risk of default on financial assets and payments on them being more than 30 days past due, but there is such a correlation for financial assets on which payments are more than 60 days past due.

**Credit grading system**

Significant increase in credit risk is identified on the borrower's credit rating since initial recognition. Information obtained from credit grading system is used as a supplement to form an appropriate basis for identifying significant increases in credit risk

Description of the internal credit grading system are the following:

- White – new contract that has no historical information;
- Green – contractual payments have been paid on time or at a maximum been due for 7 days;
- Yellow – contractual payments have been due for 8 – 30 days;
- Red – contractual payments have been due for 31 – 90 days;
- Black – contractual payments have been due for over 90 days.

Payment practice of borrowers may improve, and this is influenced in the credit grading system. However, improvement can happen grade-by-grade (e.g. if the credit grading system has been black, it can only improve to red).

The following table gives an overview of how significant credit risk is assessed based on credit grading system:

| Credit grade | White | Green | Yellow | Red | Black |
|---|---|---|---|---|---|
| Past due days information | 0 days | 0-7 days | 8-30 days | 31-90 days | Over 90 days |
| SICR | No SICR | | | SICRS | Defaulted |

**Rebuttable presumption of 30 days past due**

There is a rebuttable presumption that credit risk on a financial instrument has increased significantly when payments are more than 30 days past due. The presumption can be rebutted only if an entity has reasonable and supportable information demonstrating that even if contractual payments are more than 30 days past due, this does not represent a significant increase in credit risk.

**Macro-economic forecasts and forward-looking information**

The measurement of ECL of the Group is an unbiased probability-weighted amount determined by evaluating a range of possible outcomes using reasonable and supportable information that is available without undue cost and effort at the reporting date, including forecasts of future economic conditions.

The Group evaluates three possible macro-economic scenarios:

- Baseline scenario which is based on neutral forecasts and most likely expectations of future economic conditions.
- Negative scenario which is based on expectations of negative economic conditions and the effect of those conditions on expected credit losses.
- Positive scenario which is based on expectations of positive economic conditions and the effect of those conditions on expected credit losses.

Each possible macro-economic scenario receives a probability of occurring. This probability is a management estimate and is based on reasonable and supportable forward-looking information that is available without undue cost and effort. This estimate may include both external and internal forward-looking information.

**Developing macro-economic scenarios**

Macro-economic scenarios are developed internally. Externally developed forecast is consulted when developing macro-economic scenarios. Possible sources include (but are not limited to):

- Bank of Estonia
- Ministry of Finance of the Republic of Estonia.

Macro indicators for the ECL model have been chosen based on statistical analysis of correlations between the macro indicators and the observed external proxies of default rates.

The following observed external proxies of default rates were used for statistical analysis:

- Stock of loans overdue data from Bank of Estonia was used as a proxy of default rates.

The following macro indicators were used for statistical analysis:

- Unemployment rate
- Labor productivity and unit labor cost
- Average gross wages growth
- Inflation rate
- EURIBOR rate
- House price index growth

Only variables that have at least a moderate or higher correlation been selected as appropriate macro indicators for macro-economic scenario developments. Selected macro indicators used for macro-economic scenarios are the following:

- Unemployment rate shows strong observed correlation and significance with the proxy default rate. Lower unemployment rate means borrowers are able to repay the loans. Higher unemployment rate reduces the borrower's ability to repay the loans.
- Labor productivity and unit labor cost is strongly correlated with the default rates. In general, economic growth can be attributed to growing employment or rising labor productivity. When labor productivity decreases it may be estimated that economic growth is slowing down. This can have a similar effect on default rates that to those changes in unemployment rate and average gross wages growth.
- Average gross wages growth is strongly correlated with the default rates. Higher incomes give the ability for the borrowers to repay the loans. Lower incomes decrease the ability of the borrowers to repay the loans.

The following table summarizes the selected macro indicators statistical analysis.

| **Macro-indicator** | **R Square** | **Standard Error** | **Significance F** |
|---|---|---|---|
| Unemployment rate | 0.8384 | 0.0194 | 0.0000 |
| Labor productivity and unit labor cost | 0.6082 | 0.0334 | 0.0078 |
| Average gross wages growth | 0.4831 | 0.0380 | 0.0376 |

Macro-economic scenarios are monitored actively and developments in macro-indicators are incorporated as new data becomes available. This is performed quarterly.

The macro-economic scenarios developed are documented separately.

**ECL calculation**

Measurement of ECLs is based 3 parameters (PD, EAD and LGD). ECL are calculated using the following formula: ECL = EAD * PD * LGD.

ECL calculations are based on the following components:

- Probability of Default (PD) is an estimate of default likelihood over a given time horizon
- Exposure at Default (EAD) is an estimate the exposure at the future default date considering the expected changes in the exposure after the reporting period (e.g. repayments, drawdowns on committed facilities.
- Loss Given Default (LGD) is an estimate of loss arising if default event occurs. It is based on the difference between the contractual cash flows and cash flows that are expected to be collected after the default event.
- Discount rate is used to discount expected losses to the present value at the reporting date.

Allowance is measured as either 12-month ECL or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of an instrument has occurred since initial recognition, then allowance is measured as lifetime ECLs.

12-month ECLs are defined as the portion of lifetime ECLs that represents the ECLs resulting from default events on the financial instrument that are possible within 12 months after the reporting date. This means that 12-month ECLs represent the lifetime cash shortfalls that will result from a default occurring in the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months) weighted by the probability of that default occurring.

Lifetime ECLs are defined as the ECLs that result from all possible default events over the expected life of the financial instrument.

The following gives an summary overview of the above concept.


Two types of PDs are used for calculating ECLs:

- 12-month PD is the estimated probability of default occurring within the next 12 months. 12-month PD is used for calculating 12-month ECLs.
- Lifetime PD is the estimated probability of a default occurring over the remaining life of the financial instrument. Lifetime PD is used for calculating lifetime ECLs.

PD is calculated for each portfolio separately. The following is a description of how PD is determined for each portfolio.

### Hire-purchase

12-month PDs and lifetime PDs are calculated using Markov's Chain transition matrices that represent the loan portfolio movement between delinquency buckets within twelve-month period. The migration is calculated using the count of loans. To smoothen seasonality effects prior year transition matrices are averaged. The average PD is taken into use when calculating ECLs.

### Consumer loans

Due to low internal historical credit loss experience of consumer loans it is not practical to calculate 12-month PDs and lifetime PDs for consumer loans. Therefore, the Group uses the credit loss experience of similar loan products as a proxy for 12-month PD's and lifetime PD's. For consumer loans internal historical credit loss experience of hire-purchase is used as a proxy. This approach is considered appropriate because both loan products share similar credit risk characteristics:

- Similar characteristics of the financial instrument;
- Similar characteristics of the borrower; and
- Similar macro-economic effects on probability of default due to similar characteristics of the borrowers.

The Group reviews the methodology and assumptions used for customer loans regularly. When sufficient historical credit loss experience of consumer loans is present the methodology and assumptions are updated.

**Car loans**

12-month PDs and lifetime PDs are calculated using Markov's Chain transition matrices that represent the loan portfolio movement between delinquency buckets within twelve-month period. The migration is calculated using the count of loans. To smoothen seasonality effects prior year transition matrices are averaged. The average PD is taken into use when calculating ECLs.

**Credit cards**

12-month PDs and lifetime PDs are calculated using Markov's Chain transition matrices that represent the loan portfolio movement between delinquency buckets within twelve-month period. The migration is calculated using the count of loans. To smoothen seasonality effects prior year transition matrices are averaged. The average PD is taken into use when calculating ECLs.

**Business loans**

Due to low internal historical credit loss experience on business loans it is not practical to calculate 12-month PDs and lifetime PDs for business loans. As the Group does not have other sources of entity-specific data for estimating probability of default for business loans (other similar loan products), it is appropriate to use other readily available sources for comparable financial instruments as a proxy for 12-month PDs and lifetime PDs.

12-month PD for:

- Financial instruments in "Not delayed" delinquency stages is determined by reference to Basel III rules for corporate exposures and is based on the minimum requirement of 0.05%.
- Financial instruments in the "1-30 days" delinquency stage is considered to have a credit rating of BBB/B and a weighted long-term average default rate based on S&P studies is used as a proxy for default rate. The proxy default rate is 1.42%.

Financial instruments in Stage 2 are considered to have a credit rating of CCC/C and a weighted long-term average default rate based on S&P studies is used as a proxy for default rate. The proxy default rate is 26.63.

The Group reviews the methodology and assumptions used for business loans regularly. When sufficient historical credit loss experience of business loans is present the methodology and assumptions are updated as necessary.

**Loss given default**

LGD model methodology is designed at each portfolio level and varies based on debt recovery approach.

For secured exposures the LGD modelling considers the following:

- Collateral valuations;
- Sale discounts;
- External costs of realisation of collateral;
- Time to realisation of collateral.

For unsecured exposures the LGD modelling considers the following.

- Time to recovery;
- Recovery rates.

The estimation of LGD takes into an account discounting of cash shortfalls considering their expected timing.

The following is a description of how PD is determined for each portfolio.

**Hire-purchase**

For hire-purchase loan recovery is based on cash collection.

Stage 1 and Stage 2 LGD is determined by comparing how much cash was recovered after default with the outstanding debt at default. Data history covers a suitable period (full economic cycle).

For Stage 3 LGD from Stage 1 and Stage 2 is used as a proxy and is adjusted depending on how long the loans have been in default. The longer the loan is in default, the higher the LGD is for that exposure.

LGD takes into an account discounting of cash shortfalls considering their expected timing.

**Consumer loans**

Due to low internal historical credit loss experience of consumer loans it is not practical to calculate LGD for consumer loans. Therefore, the Group uses the loss given default experience of similar loan products as a proxy for consumer loans LGD. For consumer loans internal historical loss given default experience of hire-purchase is used as a proxy. This approach is considered appropriate because:

- Both consumer loans and hire-purchase loan recovery is based on cash collection;
- Both loan products share similar characteristics of the financial instrument and similar characteristics of the borrower.

The Group reviews the methodology and assumptions used for customer loans regularly. When sufficient historical credit loss experience of consumer loans is present the methodology and assumptions are updated.

**Car loans**

For car loans LGD is derived directly from the value of collateral.

Because expected cash flows are a probability-weighted estimate, they include possible scenarios (positive, negative and baseline) in which the cash flows recoverable from collateral decrease (or, where relevant, increase). The LGD model considers the following for each scenario:

- Collateral valuations;
- Discount to appraised values;
- Estimated value of carrying amount (to take into an account that value of collateral decreases in time but it will always have a remaining carrying amount);
- Estimated cost to sale.

When calculating the allowance loss for a collateralized car loans, a gain is not recognized, even if the collateral is expected to have a higher value than the gross carrying amount of the loan.

**Credit cards**

For credit cards loan recovery is based on cash collection.

Stage 1 and Stage 2 LGD is determined by comparing how much cash was recovered after default with the outstanding debt at default. Data history covers a suitable period (full economic cycle).

For Stage 3 LGD from Stage 1 and Stage 2 is used as a proxy and is adjusted depending on how long the loans have been in default. The longer the loan is in default, the higher the LGD is for that exposure.

LGD takes into an account discounting of cash shortfalls considering their expected timing.

**Business loans**

Due to low internal historical credit loss experience of business loans it is not practical to calculate LGD for business loans. As the Group does not have other sources of entity-specific data for estimating LGD for business loans (other similar loan products), it is appropriate to use other readily available sources for comparable financial instruments as a proxy LGD.

LGD for business loans is determined by reference to Basel III rules for corporate exposures and is based on the minimum requirement of 40% for unsecured exposures. Although business loans are collateralized (surety and guarantee) the collateral is not eligible collateral under Basel III rules, therefore LGD for unsecured corporate exposures is used.

The Group reviews the methodology and assumptions used for business loans regularly. When sufficient historical credit loss experience of business loans is present the methodology and assumptions are updated.

**Exposure at default**

How loan exposures are expected to change over time are incorporated into ECLs models of financial instruments of the Group where necessary. Period of exposure over which possible defaults are considered when measuring ECLs are incorporated into ECLs models of financial instruments of the Group.

**Hire-purchase**

Period of exposure for hire-purchase is the maximum contractual period.

Exposure at default is modelled differently for 12-month ECLs and lifetime ECLs. For 12-month ECLs exposure at default reflects expected lifetime changes in the exposure's balance that are permitted by contractual terms. A cash flow model is used to estimate the exposure at each future month-end over the next 12-month period, considering expected movements in exposure at default.

For lifetime ECLs EAD is estimated on a conservative approach and it is estimated that exposure at default remains constant – i.e. changes in the exposure's balance that are permitted by contractual terms are not taken into an account.

**Consumer loans**

Period of exposure for consumer loans is the maximum contractual period.

Exposure at default is modelled differently for 12-month ECLs and lifetime ECLs. For 12-month ECLs exposure at default reflects expected lifetime changes in the exposure's balance that are permitted by contractual terms. A cash flow model is used to estimate the exposure at each future month-end over the next 12-month period, considering expected movements in exposure at default.

For lifetime ECLs EAD is estimated on a conservative approach and it is estimated that exposure at default remains constant – i.e. changes in the exposure's balance that are permitted by contractual terms are not taken into an account.

**Car loans**

Period of exposure for car loans is the maximum contractual period.

Exposure at default is modelled differently for 12-month ECLs and lifetime ECLs. For 12-month ECLs exposure at default reflects expected lifetime changes in the exposure's balance that are permitted by contractual terms. A cash flow model is used to estimate the exposure at each future month-end over the next 12-month period, considering expected movements in exposure at default.

For lifetime ECLs EAD is estimated on a conservative approach and it is estimated that exposure at default remains constant – i.e. changes in the exposure's balance that are permitted by contractual terms are not taken into an account.

**Credit cards**

Credit cards of the Group include both a loan and an undrawn commitment component. Period of exposure for credit cards is the maximum contractual period. For undrawn loan commitments, period of exposure is determined by considering expected credit risk management actions that serve to mitigate risk, meaning that the undrawn commitment component is only available for clients who are in Stage 1 and in the delinquency bucket "Not overdue".

Exposure at default for credit cards is simplified and changes in the exposure's balance that are permitted by contractual terms are not taken into an account (except for undrawn commitment). Such simplification is estimated to be appropriate because the credit cards have a free payment schedule. Meaning that customers must pay at least a minimum amount defined by contractual terms, other than that the customer may freely choose the amount of the principal to be repaid on a monthly basis. To reflect expected lifetime changes in the exposure's balance would require incorporating behavioral data on how customers use the credit cards. However, many behavioral indicators often lag and consequently they need to be considered in conjunction with other more forward-looking information. However, the Group does not have relevant data without undue cost or effort to incorporate behavioral indicators and forward-looking information into expected lifetime changes in the exposure's balance that are permitted by contractual terms.

Therefore, for both 12-month ECLs and lifetime ECL exposures it is estimated on a conservative approach that the exposure at default remains constant – i.e. changes in the exposure's balance that are permitted by contractual terms are not taken into an account.

Undrawn loan commitments will be converted into credit exposure equivalents using CCFs. The committed but undrawn amount of the exposure is multiplied by the CCF. CCF is estimated by use of regulatory CCF ratio of 20% as an approximation of CCF for credit cards of the Group.

**Business loans**

Period of exposure for business loans is the maximum contractual period.

Exposure at default is modelled differently for 12-month ECLs and lifetime ECLs. For 12-month ECLs exposure at default reflects expected lifetime changes in the exposure's balance that are permitted by contractual terms. A cash flow model is used to estimate the exposure at each future month-end over the next 12-month period, considering expected movements in exposure at default.

For lifetime ECLs EAD is estimated on a conservative approach and it is estimated that exposure at default remains constant – i.e. changes in the exposure's balance that are permitted by contractual terms are not taken into an account.

**Time value of money**

ECLs are measured in a way that reflects the time value of money – i.e. ECLs are calculated by estimating the timing of expected cash shortfalls associated with defaults and discounting them back to the statement of financial position date using the effective interest rate (or an approximation).

ECLs are discounted to the reporting date, not to the expected default date or another date.

The calculation of the effective interest rate includes:

- All fees and points received from parties to the contract that are integral part of the effective interest rate;
- Transaction costs; and
- All other premiums or discounts.

The effective interest rate is revised as a result of:

- Periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interests;
- Costs and fees arising as part of modifications that do not result in derecognition.

When ECLs are measured collectively the average effective interest rate of the portfolio of financial instruments is determined.

**Contractual or estimated cash flows**

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and allocating the interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial instrument. In determining the effective interest rate, all payments included in the terms and conditions of the contracts are taken into consideration. The calculation of the effective interest rate includes transaction costs that are integral part of the effective interest rate. Expected credit losses are not included in the effective interest method calculation.

**Hire-purchase, consumer loans, car loans and business loans**

Because ECLs are measured on a collective basis for these financial instruments, the estimate of ECLs reflects discount rates that are an approximate of the effective interest rate of the portfolio of the financial instrument that is measured for ECLs on a collective basis.

**Credit cards and undrawn loan commitments of credit cards**

For credit cards and undrawn loan commitments of credit cards the effective interest rate cannot be readily determined, because the contractual interest rate can vary significantly from period to period for the same credit card customer.

Therefore, the nominal average interest rate of the portfolio is used as an approximate of the effective interest rate of the portfolio and for undrawn loan commitments.

**Property, plant and equipment and intangible assets**

Property, plant, equipment and intangible assets are initially recognized at acquisition cost, consisting of the purchase price and costs directly related to the purchase. The assets are then recognized at their acquisition cost less accumulated depreciation and accumulated losses from impairment. The straight-line method is used for depreciation and amortization of property, plant, equipment and intangible assets, the expected residual value is zero.

**Property, plant and equipment**

Property, plant and equipment are items with physical substance that have useful life of more than one year. Assets with a shorter useful life are expensed as incurred.

Assets with indefinite useful life, (land, art pieces, museum exhibits and books) are not depreciated.

The estimated economic useful lives are as follows:

- Buildings 30 years
- Computer Software 10 years
- Machinery and Equipment 5 years
- IT equipment and furniture 5 years
- Land and art not amortized

**Intangible assets**

Intangible assets are recognized in the statement of financial position only if the following conditions are met:

- the asset is controlled by the Group;
- it is probable that the future economic benefits that are attributable to the asset will be collected by the Group;
- the acquisition cost of the asset can be measured reliably. Intangible assets (except for goodwill) are amortized using the straight-line method over the useful life of the asset. Property, plant, equipment and intangible assets are tested for impairment if there are any indicators of impairment (except for goodwill). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amount with their recoverable amount.

**Computer software**

Costs associated with the ongoing maintenance of computer software are recognized as an expense as incurred. Acquired computer software, which is not an integral part of the related hardware, is recognized as an intangible asset. Development costs that are directly attributable to the design and testing of identifiable software products controlled by the Group are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- Management Board intends to complete the software product and use it;
- there is an ability to use the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources for completing the development and using the software product are available;
- the expenditure attributable to the software product during its development can be reliably measured.

Capitalized software development costs include payroll expenses and other expenses directly related to development. Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Computer software development costs are amortized over their estimated useful lives (up to 10 years) using the straight-line method.

**Investment property**

Investment property comprise land and buildings held to earn rentals or for capital appreciation or both rather than used in the Group own business activities. Investment property is initially recognized at cost, comprising its purchase price and any costs directly attributable to its acquisition.

Depreciation is calculated on a straight-line basis. Depreciation rates are determined separately for each investment property, depending on its useful life. The useful life of investment property is 30 years for buildings. Land is not depreciated.

An investment property shall be derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains and losses arising from derecognition of investment property are recognized in profit or loss for the period.

**Lease accounting**

**IFRS 16: Leases**

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model.

**The Group as lessee**

Based on the IFRS 16 the lessees will be required to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and depreciation of lease assets separately from interest on lease liabilities in the income statement.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases for low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Group has adopted the IFRS 16 as of 01.01.2019 but has not restated comparatives for the 2018 reporting period as permitted under the specific transition provisions in the standard. As the result of application, the total assets in the statement of financial position as at 01.01.2019

increased by 94 thousand Euros and liabilities increased by 94 thousand Euros. During the year 2019 204 thousand Euros was additionally recorded as lease.

Standard has impact of total assets in the statement of financial position as at 31.12.2019 237 thousand Euro (94 thousand Euro as at 01.01.2019), previously being expensed to comprehensive income statement after IFRS 16 implementation being capitalized under rights of use assets in statement of financial position.

**The Group as lessor**

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group provides lease agreement for business customers in cooperation with Nord Varaliising. The Group is offering financing for the business customers brought by Nord Varaliising and acquires the asset subject to lease. Mediation fees to Nord Varaliising are paid at the moment of asset acquisition. The receivables from the finance lease agreements are recognized in net present value of the minimum lease payments, from which the payments of principal received have been deducted. Financial income is recognized over the rental period based on the pattern reflecting a constant periodic rate of return on the lessor's net investment in the operational lease. Initial service fees collected at issuance are included into the calculation of effective interest rate and lessor's net investment. Lessor's direct expenses, related to the contract, are part of effective interest rate and are booked as decrease of leasing income over the period of leasing contract. Allowances for lease receivables are presented on the respective line of statement of financial position at negative value. The lease receivable from the client is recognized in the statement of financial position of delivering the assets being the object of the agreement to the client.

**Provisions and contingent liabilities**

**Corporate Income Tax**

**Corporate income tax in Estonia**

Income tax is paid on fringe benefits, gifts, donations, costs of entertaining guests, dividends and payments not associated with business activities. There are no differences in Estonia between the tax bases and residual book values of assets that could entail deferred income tax.

Dividend is a disbursement made on the basis of the corresponding resolution of the shareholders of the Group from Net Profit or Retained Earnings, in accordance with the dividend recipient's holding in the Group. Pursuant to the Income Tax Act currently in effect, profit distributed as dividends is taxed at the rate of 20/80 on the amount paid out as net dividends. The corporate income tax arising from the payment of dividends is recognized as income tax expense in the income statement of the period in which dividends are declared, regardless of the period for which the dividends are declared or the actual payment date. The maximum amount of income tax payable, which would arise from paying out the retained earnings as dividends, is disclosed in Note 17 to the financial statements. From 1 January 2018,

credit institutions in Estonia have to pay corporate income tax from profits earned in the previous quarter. The amendment has been in force since 1 January 2018, but the first payment is calculated and declared from the profit earned in the second quarter of 2018. The income tax rate of advance payment is 14%. When distributing profits and calculating the related income tax liability, the credit institution can take into account the payment paid. Only companies with profits are taxed. From 2019, tax rate of 14/86 can be applied to dividend payments. That beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding financial years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three previous years, 2018 would be the first year to be taken into account.

**Corporate income tax in Latvia**

In accordance with the new Corporate Income Tax Law, starting from 1 January 2018, corporate income tax with a rate of 20/80 is applied on profits arisen after 2017. Transitional provisions of the law allow for reductions in the income tax payable on dividends, if the entity has unused tax losses or certain provisions recognized by 31 December 2017. Due to the new tax law, there are no longer differences between the tax bases and carrying amounts of assets and liabilities.

**Reserves**

**Statutory reserve**

According to the Estonian Business Law § 160 (3) during each financial year, at least 1/20 of the net profit shall be transferred to the statutory reserve, until the statutory and other reserves reach 1/10 (§ 160 (2)) of share capital. Statutory reserve may be used to cover a loss (§ 161 (1), or to increase share capital. Payments to shareholders from statutory and other reserves are not allowed (§ 161 (2).

**Other reserves**

It us up to the Group’s Shareholders meeting to decide that other amounts are also transferred to the statutory and other reserves. Statutory and other reserves may also be used to increase the share capital and it may not be used for making pay-outs to shareholders.

**Related parties**

The following are considered to be the Group’s related parties in a context of the consolidated financial statements: persons named in Credit Institutions Act § 84 (1)-(3).

**Changes in presentation**

Due to the fact that Holm Bank AS received a banking license in 2019, the Group has revisited the presentation of information in the financial statements and has made certain retrospective adjustments which had no cumulative effect on equity:

- Penalty interest and charges for late payments which form part of effective interest rate were reclassified from other income to interest income;
- Fees which are an integral part of effective interest rate were reclassified from fee expense to interest expense;
- Other customer related receivables were reclassified to receivables from customers;
- Accrued expenses were reclassified from loans and advances to other assets;
- Loan interest payable was reclassified from other liabilities to loans received;
- Financing received to fund the operations of the Group were reclassified from financing activities to operating activities in the statement of cash flows.

The effect of changes on the Consolidated statement of financial position as at 31 December is provided below.

| | ***31 December 2019*** | | | ***31 December 2018*** | | |
|---|---|---|---|---|---|---|
| *(in thousands of Euros)* | **Previously recorded amounts** | **Effect of reclassifi-cation** | **Adjusted data** | **Previously recorded amounts** | **Effect of reclassifi -cation** | **Adjusted data** |
| Loans and advances to customers | 44 577 | -2 | 44 575 | 29 544 | -67 | 29 478 |
| Receivables from customers | 0 | 2 | 2 | 0 | 0 | 0 |
| Other assets | 657 | 243 | 900 | 926 | 67 | 993 |
| Loans received | 619 | -243 | 376 | 13 008 | -66 | 12 942 |
| Other liabilities | 0 | 0 | 0 | 1 440 | 66 | 1 506 |
| | **45 853** | **0** | **45 853** | **44 918** | **0** | **44 918** |

The effect of changes on the Consolidated Statement of Comprehensive Income for 2018 is provided below.

| | *2018* | | |
|---|---|---|---|
| *(in thousands of Euros)* | **Previously recorded amounts** | **Effect of reclassification** | **Adjusted data** |
| Interest income | 7 172 | 835 | 8 007 |
| Interest expense | 777 | 169 | 946 |
| Fee income | 455 | -455 | 0 |
| Fee expense | 1 700 | -169 | 1 531 |
| Other income | 442 | -380 | 62 |
| | **10 546** | **0** | **10 546** |

The effect of changes on the statement of cash flows as at 31 December 2018 is provided below.

| | *2018* | | |
|---|---|---|---|
| *(in thousands of Euros)* | **Previously recorded amounts** | **Effect of reclassification** | **Adjusted data** |
| Interest income | 7 172 | 835 | 8 007 |
| Interest expense | 777 | 169 | 946 |
| Other income | 442 | -380 | 62 |
| Other adjustments | -39 | -624 | -663 |
| Cash flows from operating activities | -3 174 | 3 670 | 496 |
| Cash flows from financing activities | 3 295 | -3 670 | -375 |
| | **8 473** | **0** | **8 473** |

**Adoption of new or revised standards and interpretations**

The following new or revised Standards and Interpretations became effective as of January 1st, 2019:

- **IFRS 16: Leases**
  IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (‘lessee’) and the supplier (‘lessor’). The new standard requires lessees to recognize most leases on their financial statements. Lessees have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

  As per Management Board there is no significant impact on the income statement, although the presentation in the income statement changes as other expenses will be replaced by depreciation of the right-of-use asset and interest expenses on the lease liability. There is no significant impact on capital adequacy.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**
  The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. As per Management Board there is no significant impact on the Group financial statements.

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**
  The Amendments relate to whether the measurement, in particular allowance requirements, of long- term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. As per Management Board there is no significant impact on the Group financial statements.

- **IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments**
  The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. As per Management Board there is no significant impact on the Group financial statements.

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**
  The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements as per Management Board there is no significant impact on the Group financial statements.

- The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. As per Management Board there is no significant impact on the Group financial statements.

  - **IFRS 3 Business Combinations and IFRS 11 Joint Arrangements**: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
  - **IAS 12 Income Taxes**: The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should

be recognized according to where the past transactions or events that generated distributable profits has been recognized.

- **IAS 23 Borrowing Costs**: The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2019 that would be expected to have material impact to the Group.

**New accounting pronouncements**

Certain new or revised standards and interpretations have been issued, that are mandatory for the Group's annual periods beginning or after January 1st, 2020 and which the Group has not early adopted.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. As per Management Board there shall be no significant impact on the Group financial statements.

- **Conceptual Framework in IFRS standards**
  The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accounting document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

- **IFRS 3: Business Combinations (Amendments)**
  The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. As per Management Board there shall be no significant impact on the Group financial statements.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. As per Management Board there shall be no significant impact on the Group financial statements.

- **Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)**
  The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. As per Management Board there shall be no significant impact on the Group financial statements.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**
  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote

consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the Group issuing own equity instruments. These Amendments have not yet been endorsed by the EU. As per Management Board there shall be no impact as statement of financial position is presented in order of liquidity.

# Note 3. Risk management

## General information

Risk management is the processes established to ensure that all material risks and associated risk concentrations are identified, measured, limited, controlled, mitigated and reported on a timely and comprehensive basis. The objective of the risk management framework is to ensure that whenever the Group takes reasonable risks that are required to generate reasonable returns, or whenever we put capital at risk, the Group does it in an objective, documented and transparent fashion which must be understood and considered by all Group employees and within all activities. All material risk types shall be managed via established risk management processes and communication lines with clear responsibilities assigned.

The main risks categories that the Group has identified in its operations are credit risk, market risk, liquidity risk, operational risk, business risks and capital related risks. The Group shall continuously, as part of ICAAP/ILAAP process, re-assess and re-identify the Group´s risks and shall update main risk categories list accordingly.

Financial strength, adequate capitalization and strong liquidity position is main principle of the Group risk management. The Group shall possess a well-diversified and balanced risk exposure, over-reliant risk-taking and concentrations shall be avoided. The Group shall maintain all the time strong and rather conservative capitalization and capital adequacy. The Group shall all the time maintain adequate capital level to cover risks and shall ensure compliance with ICAAP/SREP capital requirements as well as target capital level set internally.

Sound risk culture is core priority of the Group. Risk culture is a term describing shared views, values and beliefs across the organization as well as individual attitude to risks, knowledge and understanding about risk and perception of culture. Risk culture is behavior towards taking risk (conservative, rational, aggressive), behavior towards policy compliance and behavior toward negative outcomes (learning vs blaming culture) within the Group. The risk culture is set of common values and principles to manage risk and return.

The Group risk management is risk appetite driven. The Group takes risks only within risk capacity and shall ensure risk taking activities are within the Group capacity of taking such risks. The Group capital shall be all times adequate for covering all of risks and must exceed its aggregated risks. The Group must not accept a certain risk, if its capital is inadequate for covering future losses resulting from the materialization of this risk or the risk may affect the conservative liquidity position.

Maximum level and types of risk the Group is willing to assume, within its risk capacity, to achieve its strategic objectives are defined on Risk Appetite Statement established by the Supervisory Board. The risk appetite is basis for the Group risk management. Every activity and business decision most comply with the Risk appetite Statement. The Group shall accept only risks within its risk capacity and risk appetite in compliance with risk appetite metrics.

The Group main business activities are consumer and SME finance. Loan portfolio credit risk is predominantly most significant risk on the Group risk profile, where above average risk level is accepted. However, the Group shall avoid unreasonably high credit risk, using a diversified loan portfolio, a low average loan amount, a higher than average interest rate and constant monitoring of the loan portfolio quality for excessive credit risk mitigation.

The Group risk appetite to all other risk categories is rather conservative, on below average level and risks can be taken only to support core activities. The risk exposures to any such other risks, there uncertain changes in any individual position may seriously affect the Group overall risk position shall be avoided, mitigated or properly controlled.

The Group applies “three lines of defense” model to identify the functions within the Group responsible to address and manage the risks. The business units, as the first line of defense take risks and are responsible for their operational management directly and on a permanent basis. For that purpose, business lines should have appropriate processes and controls in place that aim to ensure that risks are identified, analyzed, measured, monitored, managed, reported and kept within the limits of the institution’s risk appetite and that the business activities are in compliance with external and internal requirements. The second line of defense are independent risk management function and compliance functions. The risk management function facilitates the implementation of a sound risk management framework throughout the Group and has responsibility for further identifying, monitoring, analyzing, measuring, managing and reporting on risks and forming a holistic view on all risks on an individual and consolidated basis. The compliance function monitors compliance with legal and regulatory requirements and internal policies, provides advice on compliance to the management body and relevant employees and establishes policies and processes to manage compliance risks and to ensure compliance. Third line of defense, the independent internal audit function, conducts risk-based and general audits and reviews the internal governance arrangements, processes and mechanisms to ascertain that they are sound and effective, implemented and consistently applied.

**NOTE 3.1a Own funds**

| *(in thousands of Euros)* | **31.12.2019** | **31.12.2018** |
|---|---|---|
| Paid-in share capital | 50 | 50 |
| Share premium | 14 471 | 14 471 |
| Other reserves | 5 | 5 |
| Accumulated profit | 2 394 | 1 720 |
| Profit or loss eligible | -491 | 0 |
| Intangible assets (subtracted) | -857 | -586 |
| **Tier 1 own funds** | **15 572** | **15 660** |
| Additional Tier 1 capital | 0 | 0 |
| **Total Tier 1 capital** | **15 572** | **15 660** |
| **Total Tier 2 own funds** | **0** | **0** |
| **Total net own funds** | **15 572** | **15 660** |

The Group has been in compliance with externally imposed capital requirements throughout the period.

| **NOTE 3.1b Requirements** | **CET1** | **Tier 1** | **Capital Adequacy Requirement (CAD)** |
|---|---|---|---|
| Base capital requirement | 4,50% | 6,00% | 8,00% |
| Total SREP capital requirement | 4,50% | 6,00% | 8,00% |
| Capital conservation buffer | 2,50% | 2,50% | 2,50% |
| Systemic risk buffer | 0,95% | 0,95% | 0,95% |
| **Capital requirements total** | **7,95%** | **9,45%** | **11,45%** |
| **CAD (31.12.2019, actual)** | **23,8%** | **23,8%** | **23,8%** |

### 3.2. Credit risk

Credit risk is a risk that the counterparty to transaction is not capable of performing or willing to perform its contractual obligations. Within credit risk the Group identified country risk and FX lending risk and concentration risk

Credit risk arises in the Group's direct lending operations, and in its payment services, liquidity management and investment activities where counterparties have repayment or other obligations to the Group.

Credit risk in loan portfolio is most significant risk of the Group risk profile and most significant driver of the Group overall risk exposure. The Group knowingly accept moderate, above average credit risk in loan portfolio. The credit policy includes customer base with higher credit risk level and corresponding higher default rate, where higher risk is compensated with higher interest rates. At the same time the Group´s target is to avoid unreasonably high risk within loan portfolio.

The Group credit risk appetite are to avoid over-reliant risk level and risk mitigation through:

- optimal risk and return balance;
- above average interest rates level;
- below average contract maturities;
- significantly below average contract amounts;
- well diversified portfolio, risk concentrations shall be avoided;
- above average proportion of overdues and loan losses, which at the same time shall be properly considered on product pricing;
- adequate and conservative provisioning;
- constant monitoring of off-balance items;
- well-controlled credit risk taking and risk profile;
- strict limiting and constant monitoring the loan portfolio quality.

Responsible lending is critical part of loan portfolio risk appetite.

Credit risk in other assets arising from other statement of financial position and off- balance sheet assets (such as investments, fixed assets etc.). The Group target is to hold proportion of other assets risk credit is minimal and the Group target risk appetite is rather conservative.

Credit risk with counterparties arising from payment services which are necessary for servicing the Group's core activities and from money market activities associated with holding and management of liquid assets (mainly as exposures to credit institutions). The payment services are not considered to be the Group core business (except services which are necessary for servicing the Group's core activities).

Country risk is a specific form of risk over which the Group can exercise no direct influence, but which may lead to serious deterioration of credit quality.

For country risk mitigation the Group shall continuously monitor and assess economic, social and political developments as well as overall macroeconomic situation and regulatory

environment developments. As of reporting date the Group's target markets are Estonia and Latvia.

FX lending risk arises from issuing loans, where base currency is other than euro. As a general principle, all credits shall be issued on Euro. As of reporting date all loans issued by the Group are nominated on Euro.

The Group concentration risk strategy is to avoid significant impact of a default of any single counterparty with well-diversified loan portfolio, where majority of single customer or connected customer concentrations are below 0,1% of total loan portfolio. Large single exposures in credit portfolio shall be avoided or mitigated properly.

The Group maximum credit risk as at 31.12.2019 amounted to 68,303 thousand Euros (31.12.2018: 44,908 thousand Euros):

### 3.2.1. Maximum exposure to credit risk

| *(in thousands of Euros)* | **Note** | **31.12.2019** | **31.12.2018** |
|---|---|---|---|
| Due from banks | 9 | 7 797 | 23 |
| Loans and advances to customers | 10 | 44 575 | 29 478 |
| Receivables from customers | 11 | 2 | 0 |
| **Total financial assets** | | **52 373** | **29 501** |
| Exposures related to off-balance sheet items | 18 | 15 930 | 15 406 |
| **Total maximum exposure to credit risk** | | **68 303** | **44 908** |

### 3.2.2. Credit risk measurement

#### (a) Instalment

The Group offers instalment product to customers through cooperation partners both in their stores and in online stores. The purpose of the instalment payment is to pay for the purchased goods and services according to the repayment schedule. In the contract between the Group and the customer the loan amount is fixed which is to be paid to the merchant for the purchased goods / services. The maximum loan amount is 10,000 Euros and the contract period is 60 months.

#### (b) Liisi credit card

In the case of an instalment card the customer will get a personal instalment limit, within the customer can make payments in all stores and e-shops with card payment facilities around the world. The resource of the payment is a physical credit card issued to the customer and registered as a VISA co-brand program. The purpose of the instalment payment is to pay for the purchased goods and services according to the payment plan. The Group offers a 15day interest-free period and there is no monthly fee on the card. The maximum credit limit is 5,000 Euros and the maximum instalment period is up to 60 months.

#### (c) Money Loan

In the case of a money loan there are no restrictions to the customer's specific purchase, place of purchase or purpose of the loan. The loan amount will be transferred to the customer's current account after the loan agreement came into force. The loan limit is up to 25,000 Euros and the maximum repayment schedule is 96 months.

#### (d) Leasing

The purpose of the leasing is to pay for the purchased goods according to the payment schedule. The Group offers leasing only for our business clients. The Group acquires the property selected by the Customer from the Seller and leases it to the Customer during an agreed period of time. The maximum lease period is up to 60 months. In the end of the lease period the Seller has an obligation to purchase the property back or the Customer has option to buy out the property.

#### (e) Business loan

In 2019 introduced the Group a new product called business trade credit which offers a flexible and personal financing option to our small and medium sized business customers. Business loan can be used either to complete necessary stock reserves, for different investments or for other business developments. As collaterals, the Group accepts personal sureties and mortgages. We provide loans up to 250 000 Euros for 60 months.

**Rating**

| *(in thousands of Euros)* | **Rating agency** | **Credit institutions** | **Total 31.12.2019** | **Credit institutions** | **Total 31.12.2018** |
|---|---|---|---|---|---|
| Central bank (The Bank of Estonia) | N/A | 1 499 | 1 499 | 0 | 0 |
| A- to A+ | Standard & Poor's | 5 881 | 5 881 | 16 | 16 |
| Baa1 | Moody's | 418 | 418 | 7 | 7 |
| **Total (Note 9)** | | **7 797** | **7 797** | **23** | **23** |

The funds of the Group are represented on the table above according to ratings given by Standard & Poor's and Moody's and central bank is not rated.

**Distribution of assets and liabilities by geographic region**

**31.12.2019**

| *(in thousands of Euros)* | **Note** | **Estonia** | **Latvia** | **Germany** | **Austria** | **Total** |
|---|---|---|---|---|---|---|
| Due from banks | 9 | 7 402 | 395 | 0 | 0 | **7 797** |
| Loans and advances to customers | 10 | 42 140 | 2 435 | 0 | 0 | **44 575** |
| Receivables from customers | 11 | 2 | 0 | 0 | 0 | **2** |
| **Total financial assets** | | **49 544** | **2 830** | **0** | **0** | **52 373** |
| Deposits from customers | 14 | 23 638 | 0 | 10 660 | 1 105 | **35 404** |
| Loans received | 14 | 376 | 0 | 0 | 0 | **376** |
| Other financial liabilities | 17 | 1 755 | 146 | 0 | 0 | **1 901** |
| **Total financial liabilities** | | **25 770** | **146** | **10 660** | **1 105** | **37 681** |

**31.12.2018**

| *(in thousands of Euros)* | **Note** | **Estonia** | **Latvia** | **Germany** | **Austria** | **Total** |
|---|---|---|---|---|---|---|
| Due from banks | 9 | 23 | 0 | 0 | 0 | **23** |
| Loans and advances to customers | 10 | 29 478 | 0 | 0 | 0 | **29 478** |
| Receivables from customers | 11 | 0 | 0 | 0 | 0 | **0** |
| **Total financial assets** | | **29 501** | **0** | **0** | **0** | **29 501** |
| Deposits from customers | 14 | 0 | 0 | 0 | 0 | **0** |
| Loans received | 14 | 13 074 | 0 | 0 | 0 | **13 074** |
| Other financial liabilities | 17 | 1 374 | 0 | 0 | 0 | **1 374** |
| **Total financial liabilities** | | **14 448** | **0** | **0** | **0** | **14 448** |

**Distribution of loans granted by industry (gross):**

| *(in thousands of Euros)* | **31.12.2019** | **%** | **31.12.2018** | **%** |
|---|---|---|---|---|
| Individuals | 41 142 | 88,9% | 27 720 | 91,1% |
| Wholesale and retail | 1 152 | 2,5% | 371 | 1,2% |
| Professional, scientific and technical activities | 518 | 1,1% | 187 | 0,6% |
| Manufacturing | 488 | 1,1% | 346 | 1,1% |
| Transport and logistics | 467 | 1,0% | 287 | 0,9% |
| Administrative activities | 388 | 0,8% | 138 | 0,5% |
| Accommodation and food service activities | 381 | 0,8% | 329 | 1,1% |
| Construction | 371 | 0,8% | 270 | 0,9% |
| Agriculture | 366 | 0,8% | 158 | 0,5% |
| Human health and social work activities | 255 | 0,6% | 72 | 0,2% |
| Other servicing activities | 213 | 0,5% | 86 | 0,3% |
| Activities of households as employers; | 112 | 0,2% | 127 | 0,4% |
| Art and entertainment | 91 | 0,2% | 102 | 0,3% |
| Information and communication | 89 | 0,2% | 58 | 0,2% |
| Real estate activities | 79 | 0,2% | 30 | 0,1% |
| Other areas at activities | 139 | 0,3% | 134 | 0,4% |
| **Total (Note 10)** | **46 251** | **100%** | **30 414** | **100%** |

### 3.2.3.4.1 Selected indicators for private person credit portfolios

**Economic variable assumptions**

The most significant period-end assumptions, as outlined on the tables below are used for the ECL calculations as at 31 December 2019. The scenarios "base", "upside" and "downside" were used for all portfolios. The Group uses same economic variable assumptions both for private persons and companies.

| | Base scenario | Downside scenario | Upside scenario |
|---|---|---|---|
| **General macro-financial indicators** | **2020E** | **2020E** | **2020E** |
| Wage growth, % | 5,73% | 1,73% | 7,73% |
| Unemployment rate, % | 5,20% | 9,20% | 3,90% |
| Labour productivity and unit labour cost (change), % | 2,03% | -1,97% | 3,83% |

### 3.2.3.4.2 Selected indicators for companies

| | Base scenario | Downside scenario | Upside scenario |
|---|---|---|---|
| **General macro-financial indicators** | **2020E** | **2020E** | **2020E** |
| Wage growth, % | 5,73% | 1,73% | 7,73% |
| Unemployment rate, % | 5,20% | 9,20% | 3,90% |
| Labour productivity and unit labour cost (change), % | 2,03% | -1,97% | 3,83% |

The weightings assigned to each economic scenario at 31 December 2019 were as follows:

| | Base scenario | Downside scenario | Upside scenario |
|---|---|---|---|
| Weights of economic scenarios | 75% | 20% | 5% |

**Sensitivity analysis**

The table below illustrates the impact of changing scenario weights of positive and negative scenarios to the portfolio as it was at 31 December 2019.

| **31.12.2019** | **65-5-30** | **65-15-20** |
|---|---|---|
| *(in thousands Euros)* | (base/up/down) | (base/up/down) |
| Change in scenario weights | 90 | -46 |

Set out below are the changes to the ECL as at 31 December 2019 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Group's economic variable assumptions (for example, the impact on ECL of increasing the estimated unemployment rate by X% in each of the base, upside, downside scenarios):

**31.12.2019**

| *(in thousands of Euros)* | **Impact of increase** | **Impact of decrease** |
|---|---|---|
| Unemployment rate +1%/-1% | 17 | -17 |
| Unit labour +1%/-1% | -18 | 18 |
| Wage growth +5%/- 5% | -123 | 124 |

The Group has performed stress test scenarios when PD and LGD estimations will both increase by 0.5. The impact of the described stress test to allowance is aggregated in the table below. The table includes loans, which have collective allowance, and which have material balances and potential impact.

**2019**

| *(in thousands Euros)* | **Impact on loss allowances** |
|---|---|
| LGD 0,5% increase | 13 |
| LGD 0,5% decrease | -13 |
| PD 0,5% growth | 83 |
| PD 0,5% decline | -80 |

### 3.2.4 Credit risk exposure

#### 3.2.4.1 Maximum exposure to credit risk – Financial instruments subject to allowance

The following tables contain an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. Information on how the Expected Credit Loss (ECL) is measured and how the three stages above are determined is included in note 3.2.3. „Expected credit loss measurement “. The gross carrying amount of financial assets below also represents the Group’s maximum exposure to credit risk on these assets.

## Loans distribution by product and by internal ratings

**Business loans**
**2019 ECL staging**

| *(in thousands of Euros)* | **Stage 1** | **Stage 2** | **Stage 3** | Purchased or Initiated credit impaired | |
|---|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | | **Total** |
| Grading | | | | | |
| White | 0 | 0 | 0 | 0 | **0** |
| Green | 1 906 | 0 | 0 | 0 | **1 906** |
| Yellow | 0 | 0 | 0 | 0 | **0** |
| Red | 0 | 31 | 0 | 0 | **31** |
| Black 1 | 0 | 0 | 24 | 0 | **24** |
| Black 2 | 0 | 0 | 0 | 0 | **0** |
| Black 3 | 0 | 0 | 0 | 0 | **0** |
| **Gross carrying amount** | **1 906** | **31** | **24** | **0** | **1 961** |
| Loss allowances | -4 | -3 | -9 | 0 | **-16** |
| **Carrying amount** | **1 903** | **28** | **15** | **0** | **1 945** |

**Small loan**
**2019 ECL staging**

| *(in thousands of Euros)* | **Stage 1** | **Stage 2** | **Stage 3** | Purchased or Initiated credit impaired | |
|---|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | | **Total** |
| Grading | | | | | |
| White | 453 | 2 | 0 | 0 | **456** |
| Green | 5 733 | 8 | 0 | 0 | **5 742** |
| Yellow | 1 210 | 4 | 0 | 0 | **1 214** |
| Red | 0 | 968 | 0 | 0 | **968** |
| Black 1 | 0 | 0 | 347 | 0 | **347** |
| Black 2 | 0 | 0 | 0 | 0 | **0** |
| Black 3 | 0 | 0 | 0 | 0 | **0** |
| **Gross carrying amount** | **7 397** | **982** | **347** | **0** | **8 727** |
| Loss allowances | -39 | -89 | -131 | 0 | **-258** |
| **Carrying amount** | **7 358** | **894** | **217** | **0** | **8 469** |

**Leasing**
**2019 ECL staging**

| *(in thousands of Euros)* | **Stage 1** | **Stage 2** | **Stage 3** | Purchased or Initiated credit impaired | |
|---|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | | **Total** |
| Grading | | | | | **0** |
| White | 1 006 | 3 | 0 | 0 | **1 009** |
| Green | 1 089 | 14 | 0 | 0 | **1 104** |
| Yellow | 307 | 23 | 0 | 0 | **331** |
| Red | 0 | 322 | 0 | 0 | **322** |
| Black 1 | 0 | 0 | 124 | 0 | **124** |
| Black 2 | 0 | 0 | 55 | 0 | **55** |
| Black 3 | 0 | 0 | 11 | 0 | **11** |
| **Gross carrying amount** | **2 403** | **363** | **189** | **0** | **2 955** |
| Loss allowances | -6 | -10 | -63 | 0 | **-79** |
| **Carrying amount** | **2 397** | **353** | **126** | **0** | **2 876** |

**Credit Card**
**2019 ECL staging**

| *(in thousands of Euros)* | **Stage 1** | **Stage 2** | **Stage 3** | Purchased or Initiated credit impaired | |
|---|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | | **Total** |
| Grading | | | | | **0** |
| White | 18 | 0 | 0 | 0 | **18** |
| Green | 12 502,0 | 8,41 | 0 | 0 | **12 510** |
| Yellow | 605 | 0,00 | 0 | 0 | **605** |
| Red | 0 | 1 164,31 | 0 | 0 | **1 164** |
| Black 1 | 0 | 0 | 478 | 0 | **478** |
| Black 2 | 0 | 0 | 199 | 0 | **199** |
| Black 3 | 0 | 0 | 20 | 0 | **20** |
| **Gross carrying amount** | **13 125** | **1 173** | **697** | **0** | **14 995** |
| Loss allowances | -116,09 | -191,58 | -357,70 | 0,00 | **-665** |
| **Carrying amount** | **13 009** | **981** | **340** | **0** | **14 330** |

**Hire-purchase**
**2019 ECL staging**

| *(in thousands of Euros)* | **Stage 1** | **Stage 2** | **Stage 3** | Purchased or Initiated credit impaired | |
|---|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL | Lifetime ECL | | **Total** |
| Grading | | | | | **0** |
| White | 2 251 | 25 | 0 | 0 | **2 276** |
| Green | 3 975 | 8 | 0 | 0 | **3 982** |
| Yellow | 9 043 | 20 | 0 | 0 | **9 063** |
| Red | 0 | 1 189 | 0 | 0 | **1 189** |
| Black 1 | 0 | 0 | 834 | 0 | **834** |
| Black 2 | 0 | 0 | 156 | 0 | **156** |
| Black 3 | 0 | 0 | 110 | 0 | **110** |
| **Gross carrying amount** | **15 269** | **1 242** | **1 101** | **0** | **17 611** |
| Loss allowances | -60 | -112 | -484 | 0 | **-657** |
| **Carrying amount** | **15 209** | **1 129** | **617** | **0** | **16 955** |

### 3.2.4.3 Description of the nature and quality of the collateral held

Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

**31.12.2019**

| *(in thousands of Euros)* | **Gross carrying amount** | **Loss allowances** | **Carrying amount** | **Fair value of collateral held** |
|---|---|---|---|---|
| **Credit-impaired assets** | | | | |
| Business loans | 5 109 | -106 | 5 003 | 3 088 |
| incl. hire-purchase | 191 | -12 | 180 | 0 |
| incl. small loan | 2 | 0 | 2 | 0 |
| incl. business loan | 1 961 | -16 | 1 945 | 0 |
| incl. leasing | 2 955 | -79 | 2 876 | 3 088 |
| Loans to private individuals | 41 140 | -1 568 | 39 572 | 0 |
| incl. hire-purchase | 17 420 | -645 | 16 775 | 0 |
| incl. credit card | 14 995 | -665 | 14 330 | 0 |
| incl. small loan | 8 725 | -258 | 8 467 | 0 |
| **Total credit-impaired assets** | **46 251** | **-1 675** | **44 575** | **3 088** |

**31.12.2018**

| *(in thousands of Euros)* | **Gross carrying amount** | **Loss allowances** | **Carrying amount** | **Fair value of collateral held** |
|---|---|---|---|---|
| **Credit-impaired assets** | | | | |
| Business loans | 2 694 | -124 | 2 570 | 2 487 |
| incl. hire-purchase | 196 | -1 | 196 | 0 |
| incl. small loan | 0 | 0 | 0 | 0 |
| incl. business loan | 0 | 0 | 0 | 0 |
| incl. leasing | 2 498 | -124 | 2 374 | 2 487 |
| Loans to private individuals | 27 720 | -812 | 26 908 | 0 |
| incl. hire-purchase | 17 320 | -509 | 16 811 | 0 |
| incl. credit card | 9 781 | -299 | 9 482 | 0 |
| incl. small loan | 618 | -4 | 615 | 0 |
| **Total credit-impaired assets** | **30 414** | **-936** | **29 478** | **2 487** |

In case of other loan products – Hire-purchase, Credit card, Small loan, Business loan - and in order to increase customer`s credit worthiness, the Group is asking from customers an extra guarantee.

**Loans against collateral as at 31.12.2019**

| *(in thousands of Euros)* | Hire-purchase | Credit card | Small loan | Leasing | Business loan | Total |
|---|---|---|---|---|---|---|
| Others | 0 | 0 | 0 | 2 955 | 0 | **2 955** |
| Unsecured loans | 17 613 | 14 995 | 8 727 | 0 | 1 961 | **43 296** |
| **Total** | **17 613** | **14 995** | **8 727** | **2 955** | **1 961** | **46 251** |

**Loans against collateral as at 31.12.2018**

| *(in thousands of Euros)* | Hire-purchase | Credit card | Small loan | Leasing | Business loan | Total |
|---|---|---|---|---|---|---|
| Others | 0 | 0 | 0 | 2 498 | 0 | **2 498** |
| Unsecured loans | 17 517 | 9 781 | 618 | 0 | 0 | **27 916** |
| **Total** | **17 517** | **9 781** | **618** | **2 498** | **0** | **30 414** |

In the table above, collateral information of loans and advances are disclosed based on the collateral type and carrying value or fair value of collateral held if it is lower.

The Group does not consider additional guarantee requested from customer as collateral, rather as enhancement of liquidity. All such loans are presented on the table above as unsecured loans, and therefore these are not reassessed.

| *(in thousands of Euros)* | Carrying amount | Fair value of collateral held |
|---|---|---|
| **As at 31.12.2019** | **44 575** | **3 088** |
| Hire-purchase | 16 95 | 0 |
| Credit card | 14 330 | 0 |
| Small loan | 8 469 | 0 |
| Leasing | 2 876 | 3 088 |
| Business loan | 1 945 | 0 |
| **As at 31.12.2018** | **29 478** | **2 487** |
| Hire-purchase | 17 007 | 0 |
| Credit card | 9 482 | 0 |
| Small loan | 615 | 0 |
| Leasing | 2 374 | 2 487 |
| Business loan | 0 | 0 |

### 3.2.5 Loss allowances

In the following table there are presented unused portions of credit card limits. The Group has established provision for unused credit cards limit. Assumption used is, that with a period of 30 days the 20% of unused credit card limit could be taken into use, e.g. the off-balance sheet liability used for calculating provision amounts to 3 186 thousand Euro and provision amounts to 24 thousand Euro.

The Group has categorized all off-balance sheet liabilities under stage 1 as all customers with debt more than 3 days are closed automatically and unused limit is no longer available.

**Credit quality of off-balance sheet liabilities (unused credit card limits)**

| *(in thousands Euros)* | **31.12.2019** | **31.12.2018** |
|---|---|---|
| Stage 1 | 15 930 | 15 406 |
| Stage 2 | 0 | 0 |
| Stage 3 | 0 | 0 |
| **Total** | **15 930** | **15 406** |

### 3.3 Market risk

Market risk is the risk of loss from changes in market prices and rates on unfavorable direction (including interest rates, credit spreads, equity prices, foreign exchange rates and commodity prices), the correlations among them, and their levels of volatility. Within market risk the Group identified are currency risk (FX risk), trading portfolio risk (position risk), equity risk, and interest rate risk in banking book (IRRBB). The Group does not accept commodity risk.

Market risk may arise from the Group's activity at the financial markets (if any) and from majority of Group products: loans, deposits, trading portfolio etc. Market risks predominantly arise from the Group's core business activities, taking the market risk is not the Group main activity.

Based on the overall strategy, the market risk strategy is conservative. Preferred are activities necessary for supporting the Group core activities. Speculative market risk positions shall be avoided. The Group does not have trading book. Interest rate risk in banking book arises naturally as part of business (mainly due to different maturities of customers loans and deposits).

Taking the trading portfolio positions is not the Group´s core activity. The Group's risk appetite in its treasury operations is driven by the objective of maintaining a strong liquidity and funding position to support the lending activities and shall be set by Risk Appetite Statement.

### 3.3.1 Currency risk

Currency risk is the risk of loss due to changes in spot and forward prices, and the volatility of currency exchange rates. The Group strategy is conservative. The objective of currency risk management is to minimize open net currency positions so that the Group would not be too sensitive to foreign currency exchange movements and potential risk to profit will be minimal. Speculative positions shall be avoided, the Group shall mitigate open currency position if considered necessary. The Group does not provide currency related services to customers and does not accept any other forms of currency trading. As of reporting date all assets and liabilities of the Group are nominated in Euro.

### 3.3.2 Trading portfolio position risk

Trading portfolio position risk is a risk to the earnings or market value of a portfolio due to uncertain future interest rates. The trading book position risks are broken down into a general risk and specific risk components. General risk is intended to potential losses caused by general market fluctuations, the specific risk is caused by issuer-specific risks.

Taking the trading portfolio positions is not the Group´s core activity. The Group's risk appetite in its treasury operations is driven by the objective of maintaining a strong liquidity and funding position to support the lending activities and shall be set by Risk Appetite Statement. The Group risk appetite is on below average level. The Group does not take speculative trading positions. The Group does not provide customer focused trading activities. As of reporting date the Group does not have material trading portfolio position risks.

### 3.3.3 Interest rate risk

Interest rate risk in banking book (IRRBB) is the current or prospective risk to the institution's earnings and own funds arising from adverse movements in interest rates caused by banking book assets and liabilities. Interest rate risk in banking book is significant risk for the Group. The main sources of structural interest rate risk are adverse changes in loan and/or deposits interest rates. The interest rate risk management is integrated with credit- and liquidity risk management and is also considered as part of loan portfolio credit risk management and funding risk management. The basis of the Group IRRBB strategy is to balanced position in short term (next 12-24 months) perspective and controlled open risk position in longer perspective by active management of interest sensitive assets and liabilities structure and maturities. Open long term IRRBB risk to economic value of equity (EVE) target level is below 5% of own funds. The Group IRRBB risk appetite is closely inter-related to and driven by credit risk and liquidity risk appetite.

As of 31.12.2019 the Banking book interest rate risk (IRRBB) is on low level and the Group interest rate sensitive assets and interest rate sensitive liabilities are cumulatively well balanced both in economic value of equity (EVE) and expected net interest income (NII) on earnings perspective.

The table below shows the structure of the interest-bearing assets and interest-bearing liabilities grouped by the recalculation dates of interest rates at the principal amounts of receivables and liabilities.

**31.12.2019**

| *(in thousands of Euros)* | Note | Up to 3 months | 3-12 months | 1-5 years | Over 5 years | Subtotal | Accrued interest | Loss allowances | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | | |
| Due from banks | 9 | 7 797 | 0 | 0 | 0 | 7 797 | 0 | 0 | 7 797 |
| Loans and advances to customers | 10 | 7 544 | 10 209 | 13 682 | 13 804 | 44 920 | 1 013 | -1 675 | 44 575 |
| **Total** | | **15 341** | **10 209** | **13 682** | **13 804** | **52 717** | **1 013** | **-1 675** | **52 372** |
| **Financial liabilities** | | | | | | | | | |
| Deposits from customers | 14 | 4 225 | 17 944 | 12 987 | 0 | 35 156 | 247 | 0 | 35 404 |
| Loans received | 14 | 0 | 0 | 0 | 0 | 0 | 3 | 0 | 3 |
| Loans from related parties | 14 | 0 | 300 | 0 | 0 | 300 | 0 | 0 | 300 |
| Lease liabilities | 14 | 6 | 31 | 37 | 0 | 74 | 0 | 0 | 74 |
| **Total** | | **4 232** | **18 274** | **13 024** | **0** | **35 530** | **250** | **0** | **35 780** |
| **Net interest sensitivity gap** | | **10 791** | **-8 065** | **657** | **13 804** | **17 187** | | | |
| **Cumulative net interest sensitivity gap** | | **10 791** | **2 726** | **3 383** | **17 187** | | | | |

**31.12.2018**

| *(in thousands of Euros)* | Note | Up to 3 months | 3-12 months | 1-5 years | Over 5 years | Subtotal | Accrued interest | Loss allowances | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | | |
| Due from banks | 9 | 23 | 0 | 0 | 0 | 23 | 0 | 0 | 23 |
| Loans and advances to customers | 10 | 6 256 | 8 044 | 6 517 | 8 907 | 29 580 | 690 | -936 | 29 478 |
| **Total** | | **6 279** | **8 044** | **6 517** | **8 907** | **29 604** | **690** | **-936** | **29 502** |
| **Financial liabilities** | | | | | | | | | |
| Deposits from customers | 14 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Loans received | 14 | 0 | 939 | 12 128 | 0 | 13 066 | 0 | 0 | 13 066 |
| Loans from related parties | 14 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Lease liabilities | 14 | 0 | 8 | 0 | 0 | 8 | 0 | 0 | 8 |
| **Total** | | **0** | **946** | **12 128** | **0** | **13 074** | **0** | **0** | **13 074** |
| **Net interest sensitivity gap** | | **6 135** | **7 098** | **-5 610** | **8 907** | **16 530** | | | |
| **Cumulative net interest sensitivity gap** | | **6 135** | **13 233** | **7 623** | **16 530** | | | | |

### 3.4 Liquidity risk

Liquidity risk is the risk of being unable to fulfil its obligations in a timely manner or in the full extent without incurring significant costs. Funding risk is the risk of being unable to engage resources without negatively affecting its daily activities or financial position. The purpose of liquidity risk management is to ensure that the Group is able fulfil its obligations in a timely manner and in the full extent, and to cope with a liquidity crisis for as long as possible. The Group shall have appropriate liquidity for fulfilling its obligations at any given moment in time. The primary objective of the liquidity management is to maximize shareholders value and support the Group main activities through a proactive and well-functioning asset-liability management and through minimizing liquidity and funding risks by conservative liquidity management. The profit expectations shall not override liquidity requirements. The liquidity management shall contribute to the profitability of the Group, but there shall be clear distinction between liquidity needs and profit targets. The Group is clearly identifying the liquidity reserves management as a non-profit center.

Liquidity risk is one of most significant risks on the Group risk profile. The Group liquidity risk strategy is to maintain low and conservative liquidity risk profile and reasonable liquidity reserves. The Group shall avoid significant liquidity risks by maintaining rather larger liquidity reserves. The liquidity and funding strength are one of the first priorities of the Group.

Important components of the Group liquidity risk appetite are:

- conservative and highly liquid liquidity reserves;
- optimal liquidity reserves structure, liquidity structure of the statement of financial position to ensure that less-liquid assets are matched with stable funding;
- to keep survival horizon to ensure the Group has sufficient liquidity to withstand a severely stressed scenario;
- contingency planning, which defines the actions and sources to be taken should the Group encounter a liquidity shortfall in stressed situation.
- regular stress testing to ensure the liquid reserves are sufficient.

The target risk appetite for any other risk, that may seriously affect the Group liquidity position shall be avoided.

The Group's appetite for liquidity risk is cautious - the Group prefers secure solutions and tends to hold larger liquidity reserves.

The main objective of the Group´s funding risk appetite is to ensure reasonable and stable funding of the Group lending activities. Secondary objective of the funding management is optimization of the costs, size and composition of external resources involved, but cost-effectiveness and cost-competitiveness shall never override, stable and conservative funding requirements.

Important components of the Group funding risk appetite are:

- primary source of funding are retail deposits;
- appropriate maturity structure of funding;

- very well diversified funding portfolio;
- concentrations by customers, maturities etc. shall be avoided;
- diversification of funding sources by countries and channels;
- flexible and attractive funding strategy, pricing above market average;
- balanced growth of funding and lending portfolios.

The liquidity risk management principles, framework and accountability to ensure the capability adequately assess and manage liquidity and funding risk as part of general risk management framework within the Group and its consolidated entities set by Liquidity Risk Policy established by the Supervisory Board.

The Group shall all times hold appropriate amount on liquidity reserves (liquidity buffer) with the aim of securing the ability of the Group to meet its obligations in the event of a liquidity crisis as defined by the legislation, by the Risk Appetite Statement and by the Liquidity Risk Policy. The liquidity reserves shall allow the Group to continue business as usual, at least during the tolerance period (both with and without corrections in business activities). The size and composition of the liquidity buffer shall take account the results of the liquidity risk stress tests. General requirements for liquidity buffer size and composition set by Liquidity Risk Policy.

The Group´s liquidity and funding management and control has three levels. The first level (CFO) has primary responsibility for liquidity and funding risk identification, management, monitoring and reporting throughout the Group. The second level (risk management function) is responsible for upholding principles and framework and ensuring independent monitoring, reporting, assessment and control. The third level of assurance is provided by the Internal Audit. Management of the Group´s liquidity and funding are centralized on the group level

The following tables present the distribution of financial assets and liabilities, excl. derivatives, by due dates and by future contractual undiscounted cash flows and in a separate column the statement of financial position balance is disclosed.

**31.12.2019**

| *(in thousands of Euros)* | Note | On demand | Up to 3 months | 3-12 months | 1-5 years | Over 5 years | Total | Carrying value |
|---|---|---|---|---|---|---|---|---|
| **Liabilities by contractual maturity dates** | | | | | | | | |
| Deposits from customers | 14 | 481 | 3 774 | 18 309 | 13 689 | 0 | 36 253 | **35 404** |
| Loans received | 14 | 3 | 0 | 0 | 0 | 0 | 3 | **3** |
| Loans from related parties | 14 | 0 | 0 | 309 | 0 | 0 | 309 | **300** |
| Lease liabilities | 14 | 0 | 6 | 31 | 37 | 0 | 74 | **74** |
| Other financial liabilities | 15 | 0 | 999 | 52 | 96 | 0 | 1 146 | **1 146** |
| Unused loan commitments | 18 | 3 186 | 0 | 0 | 0 | 12 744 | 15 930 | **0** |
| **Total liabilities** | | **3 670** | **4 779** | **18 700** | **13 821** | **12 744** | **53 715** | **36 926** |
| | | | | | | | | |
| **Assets held for managing liquidity risk by contractual maturity dates** | | | | | | | | |
| Amounts due from banks | 9 | 7 797 | 0 | 0 | 0 | 0 | 7 797 | **7 797** |
| Loans and advances to customers | 10 | 0 | 8 153 | 13 620 | 18 021 | 13 816 | 53 293 | **44 575** |
| Receivables from customers | 11 | 0 | 2 | 0 | 0 | 0 | 2 | **2** |
| Other financial assets | 12 | 0 | 341 | 0 | 0 | 0 | 341 | **341** |
| **Total assets held for managing liquidity risk** | | **7 797** | **8 495** | **13 620** | **18 021** | **13 816** | **61 750** | **52 715** |
| **Maturity gap from assets and liabilities** | | **4 127** | **3 716** | **-5 080** | **4 200** | **1 072** | **8 035** | **15 789** |
| **Cumulative maturity gap from assets and liabilities** | | **4 127** | **7 843** | **2 763** | **6 963** | **8 035** | | |

**31.12.2018**

| *(in thousands of Euros)* | Note | On demand | Up to 3 months | 3-12 months | 1-5 years | Over 5 years | Total | Carrying value |
|---|---|---|---|---|---|---|---|---|
| **Liabilities by contractual maturity dates** | | | | | | | | |
| Deposits from customers | 14 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Loans received | 14 | 0 | 2 | 929 | 12 135 | 0 | 13 066 | **13 066** |
| Loans from related parties | 14 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Lease liabilities | 14 | 0 | 0 | 8 | 0 | 0 | 8 | **8** |
| Other financial liabilities | 15 | 0 | 718 | 0 | 0 | 0 | 718 | **718** |
| Unused loan commitments | 18 | 3 081 | 0 | 0 | 0 | 12 325 | 15 406 | **0** |
| **Total liabilities** | | **3 081** | **720** | **936** | **12 135** | **12 325** | **29 198** | **13 792** |
| | | | | | | | | |
| **Assets held for managing liquidity risk by contractual maturity dates** | | | | | | | | |
| Amounts due from banks | 9 | 23 | 0 | 0 | 0 | 0 | 23 | **23** |
| Loans and advances to customers | 10 | 0 | 6 661 | 10 021 | 8 141 | 8 907 | 33 730 | **29 478** |
| Receivables from customers | 11 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Other financial assets | 12 | 0 | 469 | 0 | 0 | 0 | 469 | **469** |
| **Total assets held for managing liquidity risk** | | **23** | **7 129** | **10 021** | **8 141** | **8 907** | **34 222** | **29 970** |
| **Maturity gap from assets and liabilities** | | **-3 058** | **6 409** | **9 084** | **-3 994** | **-3 418** | **5 024** | **16 178** |
| **Cumulative maturity gap from assets and liabilities** | | **-3 058** | **3 351** | **12 436** | **8 442** | **5 024** | | |

The following table presents the distribution of assets and liabilities by classification of current and non-current.

| *(in thousands of Euros)* | Note | 31.12.2019 | 31.12.2018 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and balances with central bank | 9 | 1 499 | 0 |
| Amounts due from credit institutions | 9 | 6 299 | 23 |
| Loans and advances to customers | 10 | 19 511 | 15 740 |
| Receivables from customers | 11 | 2 | 0 |
| Other assets | 12 | 900 | 993 |
| **Total current assets** | | **28 211** | **16 756** |
| | | | |
| **Non-current assets** | | | |
| Loans and advances to customers | 10 | 25 063 | 13 738 |
| Investment property | | 1 053 | 1 044 |
| Property, plant and equipment | 13 | 911 | 663 |
| Intangible assets | 13 | 857 | 586 |
| **Total non-current assets** | | **27 884** | **16 030** |
| **Total assets** | | **56 095** | **32 787** |
| | | | |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Deposits from customers | 14 | 22 015 | 0 |
| Loans received | 14 | 3 | 939 |
| Loans from related parties | 14 | 300 | 0 |
| Lease liabilities | 14 | 74 | 8 |
| Other financial liabilities | 15 | 1 901 | 1 374 |
| **Total current liabilities** | | **23 993** | **2 321** |
| | | | |
| **Non-current liabilities** | | | |
| Deposits from customers | 14 | 13 689 | 0 |
| Loans received | 14 | 0 | 12 128 |
| **Total non-current liabilities** | | **13 689** | **12 128** |
| **Total liabilities** | | **37 681** | **14 448** |

### 3.5 Fair value of financial assets and financial liabilities

The following tables show a reconciliation of the opening and closing amounts of financial assets and liabilities which are recorded at fair value.

Under Level 1 the Group has disclosed cash and cash equivalents. As at 31.12.2019 the Group did not have any financial derivatives or actively traded assets (31.12.2018 0 Euros). Level 2 should be disclosed assets, which are ceased to be actively traded during the year and fair values are subsequently obtained using valuation techniques using observable market inputs. As at 31.12.2019 the Group did not have such assets (31.12.2018 0 Euros). Under Level 3 are recorded fewer liquid instruments. Therefore, the Group requires significant unobservable inputs to calculate their fair value.

**31.12.2019**

| *(in thousands of Euros)* | **Note** | **Level 1** | **Level 2** | **Level 3** | **Total fair value** | **Carrying value** | **Difference** |
|---|---|---|---|---|---|---|---|
| **Financial assets at amortized cost** | | | | | | | |
| Cash and balances with central banks | 9 | 1 499 | 0 | 0 | 1 499 | 1 499 | 0 |
| Amounts due from credit institutions | 9 | 6 299 | 0 | 0 | 6 299 | 6 299 | 0 |
| Loans and advances to customers | 10 | 0 | 0 | 44 575 | 44 575 | 45 575 | 0 |
| Receivables from customers | 11 | 0 | 0 | 2 | 2 | 2 | 0 |
| Other financial assets | 12 | 0 | 0 | 341 | 341 | 341 | 0 |
| **Total financial assets at amortized cost** | | **7 797** | **0** | **44 917** | **52 715** | **54 389** | **0** |
| | | | | | | | |
| **Financial liabilities at amortized cost** | | | | | | | |
| Deposits from customers | 14 | 0 | 0 | 35 404 | 35 404 | 35 404 | 0 |
| Loans received | 14 | 0 | 0 | 3 | 3 | 3 | 0 |
| Loans from related parties | 14 | 0 | 0 | 300 | 300 | 300 | 0 |
| Lease liabilities | 14 | 0 | 0 | 74 | 74 | 74 | 0 |
| Other financial liabilities | 15 | 0 | 0 | 1 146 | 1 146 | 1 146 | 0 |
| **Total financial liabilities at amortized cost** | | **0** | **0** | **36 926** | **36 926** | **36 926** | **0** |

**31.12.2018**

| *(in thousands of Euros)* | Note | Level 1 | Level 2 | Level 3 | Total fair value | Carrying value | Difference |
|---|---|---|---|---|---|---|---|
| **Financial assets at amortized cost** | | | | | | | |
| Cash and balances with central banks | 9 | 0 | 0 | 0 | 0 | 0 | 0 |
| Amounts due from credit institutions | 9 | 23 | 0 | 0 | 23 | 23 | 0 |
| Loans and advances to customers | 10 | 0 | 0 | 29 478 | 29 478 | 29 478 | 0 |
| Receivables from customers | 11 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other financial assets | 12 | 0 | 0 | 469 | 469 | 469 | 0 |
| **Total financial assets at amortized cost** | | **23** | **0** | **29 947** | **29 970** | **29 970** | **0** |
| | | | | | | | |
| **Financial liabilities at amortized cost** | | | | | | | |
| Deposits from customers | 14 | 0 | 0 | 0 | 0 | 0 | 0 |
| Loans received | 14 | 0 | 0 | 13 066 | 13 066 | 13 066 | 0 |
| Loans from related parties | 14 | 0 | 0 | 0 | 0 | 0 | 0 |
| Lease liabilities | 14 | 0 | 0 | 8 | 8 | 8 | 0 |
| Other financial liabilities | 15 | 0 | 0 | 718 | 718 | 718 | 0 |
| **Total financial liabilities at amortized cost** | | **0** | **0** | **13 792** | **13 792** | **13 792** | **0** |

### 3.6 Operational risk

Operational risk is risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes compliance and legal risk, but excludes strategic and, reputational risks.

Legal risk is the risk resulting from non-conformity with or misinterpretation of legislation, contracts, good practice and standards of ethics. Legal risk may materialize in any of the above risk types, as the Group may be subject of claim or proceedings due to the contractual or other legal responsibilities.

Compliance risk is risk of allowance to the Group's business model, reputation and financial conditions, resulting from failure to fully meet laws, regulations, internal rules and obligations to customers, employees and other stakeholders.

Operational risk is inherent part of business. It is neither possible nor cost effective to eliminate all operational risks. Therefore, smaller losses are normal part of the operations. The Group operational risk appetite is to keep minimal and reasonable operational risk level to minimize the level of operational risk and potential losses, considering strategic objectives and principle of economic efficiency. The Group objective is to ensure well controlled operational risk level and management.

Fraud and criminality monitoring and avoidance is important part of the Group operational risk appetite. The Group shall have ability to readily identify losses caused by internal and external fraud and criminality, including cybercrime, and to take appropriate measures.

The inseparable part of the Group risk appetite is reliability and quality of the outsourcing and partners, the correctness of the performance of their duties, and the ability by partners to comply with relevant legislation and business standards in the conclusion of consumer credit agreements.

Anti-money laundering and terrorist financing preventing is a very important objective of the Group target operational risk profile. The Group must have the capacity, a clear organizational structure and appropriate resources to detect and take appropriate action in relation to the prevention of money laundering and terrorist financing.

Business Continuity Management is the risk of incurring losses resulting from the interruption of normal business activities. Interruptions in Group's infrastructure as well as in the infrastructure that supports Group's businesses (including third party vendors) and the communities in which the Group is located (including public infrastructure like electricity, communications etc.). Business Continuity plans for all identified critical processes and for IT systems supporting these processes are established by respective units.

The Group established the group level Recovery Plan in accordance with the Group Recovery and Resolution Directive (BRRD) regulatory framework, Financial Crisis Prevention and Resolution Act and complemented by the guidelines and technical standards. The Recovery Plan describes a set of measures that can be applied in distress to restore the sound financial position of the Group and to ensure the continuity of critical financial services provided.

The Group has a clear objective do not have any appetite for this type of risk and that it has the clear objective of minimizing the occurrence of any economic, regulatory or reputational impact on the Group. The Group does not intentionally engage in activity that results in violation of the requirements set forth in legal acts or other regulations.

The Group established operational risk management principles, framework and accountability to ensure the capability adequately assess and manage operational risk within the AS Holm Group and its consolidated entities. The operational risk management is integrated to all of the Group general management and risk management frameworks.

The Group general requirements on the operational risk management are:

- all material operational risk areas shall be identified, assessed, monitored and treated in effective and consistent manner;
- appropriate and reliable risk management tools shall be implemented to support operational risk analysis and decision making;
- every employee is primarily responsible for managing and controlling the operational risks generated in their sphere of action in both personal and business conduct;
- internal controls shall be designed to provide reasonable assurance that the Group has efficient and effective operations, assets are safeguarded, reports are reliable.

The purpose of the operational risk management activity is to move from defensive to preventive risk analysis and loss prevention activities.

Accountability, reporting and escalation requirements by operational risk categories, areas and activities by countries on activities and by lines of defense established by Operational Risk Policy established by Supervisory Board.

### 3.7. Business risks

According to the Group internal definition business risks are reputational risk and strategic risk.

Reputational risk is the current or prospective risk to the Group earnings, own funds or liquidity arising from damage to the Group reputation.

Strategic risk is risk the business- and competition environment or impact of regulatory actions to the Group activities and achievement of business goals as well as risk of the inadequate strategy or inadequate implementation of strategy or changes in customer expectations or inadequate implementation new technologies will result in loss or significantly reduce revenues.

The reputation risk and strategic risk are essential part of the business model and shall be analyzed as part of the strategic and operational planning. The Group strategy on reputational risk management is to avoid reputational risks and to avoid situations that could potentially lead to a negative impact on the reputation and the accompanying drop in revenue or loss of confidence.

Strategic risk strategy is to control and reduce risk by implementing adequate and suitable to the current economic environment strategy, based on comprehensive planning process, as well as to respond adequately and in a timely manner to changes. The Group strategic risk target risk profile is on open level - ready to consider all options, proactive, decisions made on risk-return balance basis.

According to the Risk Appetite Statement the Group does not have any risk appetite for reputational risk and that it has the clear objective of minimizing the occurrence of any economic, regulatory or reputational impact caused by reputational risk. The Group shall avoid situations that could potentially lead to a negative impact on the reputation.

The strategic and reputational risk are managed by Management Board based on strategic plans approved by the Supervisory Board.

### 3.8 Offsetting assets and liabilities

On this 2019 annual report the Group has not offset financial assets and liabilities.

## Note 4. Operating segment

The Group has not implemented segment reporting, relevant business decisions are made on entity level.

Interest income is reported net as Management Board primarily relies on net interest revenue as a performance measure, along with the gross income and expense and growth and quality of credit portfolio and allowance losses.

# Note 5. Subsidiary

As at 31.12.2019 the Consolidation Group has one subsidiary, SIA "Best Lizings"(ownership of 51%), which is consolidated into current the Group consolidated report:

At the end of September, 2019 Holm Bank AS acquired 51% ownership in Latvian entity SIA „Best Lizings" for total consideration of 2,898,010 Euro. First down payment of 1,000,000 Euro was made on September 26th, 2019 and further 1,898,010 Euro was paid on October 29th, 2019. SIA „Best Lizings" is under common control of Holm Bank AS's ultimate controlling party. Therefore, the transaction was accounted for as a business combination under common control.

The purpose of the transaction was to expand the Group's operations to foreign markets and to do so by acquiring a majority stake in a company already operating in the Latvian market. The subsidiary is a credit provider operating in Latvian market since 2008, which offers credit to Latvian companies and consumers through its cooperation partners.

Upon the acquisition, Holm Bank AS recognized the difference of 1,118,562.75 Euro between the consideration transferred and the carrying amount of net assets acquired directly in equity (in consolidated retained earnings). Comparative amounts have not been restated as if the combination had taken place at the beginning of the earliest comparative period presented.

As at 31.12.2019 and 31.12.2018 Holm Group has no affiliated companies.

| | **SIA „Best Lizings"** | |
|---|---|---|
| **Summarized statement of Financial Position** | **31.12.2019** | **30.09.2019** |
| Loans and advances to customers and other current assets | 2 951 | 3 781 |
| Non-current assets | 23 | 18 |
| Current liabilities | 446 | 310 |
| Non-current liabilities | 0 | 0 |
| **Total net assets** | **2 527** | **3 489** |

| | **SIA „Best Lizings"** |
|---|---|
| **Summarized statement of Profit or Loss and Other Comprehensive Income** | **01.10.2019-31.12.2019** |
| Total net interest and fee income | 148 |
| Loss before income tax | -949 |
| Income tax | -13 |
| **Net profit** | **-962** |
| Total comprehensive income | -962 |
| Profit and other comprehensive income allocated to non-controlling interests | -471 |

| Summarized statement of Cash Flows | SIA „Best Lizings“ 01.10.2019-31.12.2019 |
|---|---|
| Net cash generated from/(used in) operating activities | 176 |
| Net cash generated from/(used in) investing activities | -8 |
| Net cash generated from/(used in) financing activities | 78 |
| **Net increase/(decrease) in cash and cash equivalents** | **246** |
| Cash and cash equivalents at the beginning of the year | 149 |
| **Cash and cash equivalents at the end of the year** | **395** |

# Note 6. Net interest income

| **Interest income** *(in thousands Euros)* | **Note** | **2019** | **2018** |
|---|---|---|---|
| **Interest income using effective interest calculation** | | | |
| Hire-purchase | | 4 723 | 7 516 |
| Credit card | | 3 598 | 0 |
| Small loan | | 1 000 | 0 |
| Leasing | | 349 | 0 |
| Business loan | | 84 | 0 |
| From balances with credit institutions | | 0 | 36 |
| Other loans | | 384 | 455 |
| **Subtotal** | | **10 137** | **8 007** |
| | | | |
| **Interest expenses** | | | |
| | | | |
| Deposits from customers | 14 | -345 | 0 |
| Loans received | 14 | -956 | -946 |
| Cash and balances with central banks | | -1 | 0 |
| **Total** | | **-1 302** | **-946** |
| | | | |
| **Net interest income** | | **8 835** | **7 061** |

| **Interest income of loans by customer location** *(in thousands of Euros)* | **2019** | **2018** |
|---|---|---|
| Estonia | 9 920 | 8 007 |
| Latvia | 217 | 0 |
| **Total** | **10 137** | **8 007** |

# Note 7. Net fee and commission income

| **Fee and commission expense** *(in thousands Euros)* | **2019** | **2018** |
|---|---|---|
| Expenses related to partners | -731 | -1 187 |
| Expenses related to cards | -197 | -315 |
| Transaction costs | -67 | -20 |
| Other fee expense | -49 | -8 |
| **Total** | **-1 044** | **-1 531** |
| | | |
| **Net fee and commission income** | **-1 044** | **-1 531** |

The Group recognizes under fees and commission income the deposits early cancellation fees of 2% charged to customer. Fees are recognized on a cash basis. Fees that are included in the calculation of the effective interest rate of a financial instrument measured at amortized cost,

such as loan origination fees, are allocated over the expected tenor of the instrument applying the effective interest method and presented in “Net interest income”.

Expenses that are directly related to the generation of fee and commission income are recognized under “Fee and commission expenses”.

In 2018 expenses related to charge cards included a substantial amount of on-off expenses due to the replacement of charge cards following the liquidation of the Company's then partner Versobank AS.

# Note 8. Operating expenses

| *(in thousands of Euros)* | **Note** | **2019** | **2018** |
|---|---|---|---|
| Wages, salaries and bonuses | | -1 898 | -1 118 |
| Social security and other taxes | | -630 | -374 |
| **Total staff costs** | | **-2 528** | **-1 493** |
| IT expenses | | -1 117 | -282 |
| Marketing expenses | | -778 | -273 |
| Consultation expenses | | -240 | -229 |
| Office expenses | | -240 | -229 |
| Depreciation and amortization | 13, 13.1 | -240 | -126 |
| Operating expenses | | -126 | -135 |
| Transportation and communication costs | | -135 | -182 |
| Other administrative expenses | | -120 | -139 |
| Information services | | -106 | -71 |
| Other staff costs | | -99 | -59 |
| Other operating expenses | | -218 | -120 |
| **Total other operating expenses** | | **-3 419** | **-1 844** |
| **Total operating expenses** | | **-5 947** | **-3 337** |

Average number of employees working for HOLM Group in 2019 was 86 (2018: 65)

# Note 9. Receivables from central banks and credit institutions

| *(in thousands of Euros)* | **2019** | **2018** |
|---|---|---|
| Demand and term deposits with maturity of less than 3 months * | 6 299 | 23 |
| Statutory reserve capital at central bank | 140 | 0 |
| Demand deposit from central bank * | 1 359 | 0 |
| Allowance | 0 | 0 |
| **Total** | **7 797** | **23** |
| * cash and cash equivalents in the statement of cash flows | 7 658 | 23 |

Mandatory banking reserve as at 31.12.2019 was 1% (2018: 0% Holm Bank AS received a banking license from the European Central Bank on 02.04.2019) of all financial resources collected (deposits from customers and loans received). The reserve requirement is to be fulfilled as a monthly average in Euros or in the foreign securities preapproved by the central bank.

# Note 10. Loans and advances to customers

| *(in thousands of Euros)* | **31.12.2019** | **31.12.2018** |
|---|---|---|
| **Business loans** | **5 109** | **2 694** |
| incl. leasing | 2 955 | 2 498 |
| incl. business loan | 1 961 | 0 |
| incl. hire-purchase | 191 | 196 |
| incl. small loan | 2 | 0 |
| **Loans to private individuals** | **41142** | **27 720** |
| incl. hire-purchase | 17 422 | 17 320 |
| incl. credit card | 14 995 | 9 781 |
| incl. small loan | 8 725 | 618 |
| **Total** | **46 251** | **30 414** |
| Loss allowances | -1 675 | -936 |
| **Total** | **44 575** | **29 478** |

Allowance losses accumulated during the year differ from the amount of allowance losses recognized in the statement of profit or loss, that have been written off earlier as uncollectible claims. As at 31.12.2019 uncollectible claim had been received in the amount 335 thousand euro (31.12.2018: 0 euro). These receipts were recorded among allowance losses in the statement of profit or loss.

| **Changes in loss allowances in 2019** | **Total** |
|---|---|
| **Balance as at 1 January** | **-936** |
| Allowance loss during the year | -2 199 |
| Written off during the year | 1 460 |
| **Balance as at December 31** | **-1 675** |

| **Changes in loss allowances in 2018** | **Total** |
|---|---|
| **Balance as at 1 January** | **-4 177** |
| Allowance loss during the year | -163 |
| Written off during the year | 3 404 |
| **Balance as at December 31** | **-936** |

# Note 11 Receivables from customers

| *(in thousands of Euros)* | **31.12.2019** | **31.12.2018** |
|---|---|---|
| Other receivables for providing services to customers | 2 | 0 |
| **Total** | **2** | **0** |

All receivables are collected within 12 months of the end of the reporting period and are considered as current asset (Note 3).

# Note 12 Other assets

| (in thousands of Euros) | **31.12.2019** | **31.12.2018** |
|---|---|---|
| **Financial assets** | | |
| Guarantee deposits of VISA | 341 | 469 |
| **Subtotal** | **341** | **469** |
| **Non-financial assets** | | |
| Receivables to hire-purchase partners | 219 | 379 |
| Prepayments are expected to be used within 12 months | 340 | 145 |
| **Subtotal** | **559** | **524** |
| **Total** | **900** | **993** |

Prepayments include office rent deposit, insurance, periodicals and training.

Prepayments are expected to be received or used within 12 months of the end of the reporting period and are therefore considered current assets.

# Note 13. Property, plant and equipment and intangible assets

| *(in thousands of Euros)* | Land and buildings | Other equipment | Right-of-use assets: Land and buildings | Right-of-use assets: Other equipment | Total right-of-use assets | Total property, plant and equipment | Intangible assets | Total intangible assets | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 01.01.2018** | | | | | | | | | |
| Cost | 393 | 60 | 0 | 0 | 0 | 453 | 341 | 341 | **794** |
| Accumulated depreciation and amortization | -17 | -18 | 0 | 0 | 0 | -35 | -30 | -30 | **-65** |
| **Carrying amount 31.12.2017** | **376** | **43** | **0** | **0** | **0** | **418** | **312** | **312** | **730** |
| Additions of non-current assets | 276 | 0 | 0 | 0 | 0 | 276 | 332 | 332 | **607** |
| Depreciation/amortisation charge | -16 | -16 | 0 | 0 | 0 | -31 | -57 | -57 | **-89** |
| **Balance as at 31.12.2018** | | | | | | | | | |
| Cost | 669 | 60 | 0 | 0 | 0 | 729 | 673 | 673 | **1 402** |
| Accumulated depreciation and amortization | -33 | -33 | 0 | 0 | 0 | -66 | -87 | -87 | **-153** |
| **Carrying amount 31.12.2018** | **636** | **27** | **0** | **0** | **0** | **663** | **586** | **586** | **1 249** |
| Changes in accounting policies (IFRS 16) | 0 | 0 | 0 | 94 | 94 | 94 | 0 | 0 | **94** |
| **Carrying amount 01.12.2019** | **636** | **27** | **0** | **94** | **94** | **757** | **586** | **586** | **1 342** |
| Additions of non-current assets | 0 | 35 | 204 | 0 | 204 | 239 | 364 | 364 | **603** |
| Additions through acquisitions of subsidiari | 0 | 17 | 0 | 0 | 0 | 17 | 1 | 1 | **18** |
| Depreciation/amortisation charge | -24 | -17 | -40 | -21 | -60 | -101 | -94 | -94 | **-195** |
| **Balance as at 31.12.2019** | | | | | | | | | **0** |
| Cost | 669 | 113 | 204 | 94 | 297 | 1 079 | 1 038 | 1 038 | **2 116** |
| Accumulated depreciation and amortization | -57 | -51 | -40 | -21 | -60 | -167 | -181 | -181 | **-348** |
| **Carrying amount 31.12.2019** | **612** | **62** | **164** | **73** | **237** | **911** | **857** | **857** | **1 768** |

The Group has capitalized as intangible assets of the new Core system as of 31.12.2019 149,423 Euros (2018,331 thousand Euros) and for the development of the Virtual Card IT platform as of 31.12.2019 214,459 Euros (31.12.2018 0 Euros).

In 2018, the Group purchased in an arm's length transaction the office space in the City of Tallinn at Ehitajate tee 114 (250 thousand Euros) they had been previously using under a lease agreement. The Group had fully amortized property, plant and equipment still used by the Group as at 31.12.2019 in amount 30 thousand Euros (31.12.2018: 0 Euros).

## Note 13.1. Investment property

| *(in thousands of Euros)* | **Investment properties** |
|---|---|
| **Balance as at 01.01.2018** | |
| Cost | 1 494 |
| Accumulated depreciation | -43 |
| **Carrying amount 31.12.2017** | **1 451** |
| Additions of non-current assets | 155 |
| Disposals of investment property | -526 |
| Depreciation charge | -37 |
| **Balance as at 31.12.2018** | |
| Cost | 1 123 |
| Accumulated depreciation and amortization | -80 |
| **Carrying amount 31.12.2018** | **1 044** |
| Additions of non-current assets | 54 |
| Depreciation charge | -45 |
| **Balance as at 31.12.2019** | |
| Cost | 1 177 |
| Accumulated depreciation | -124 |
| **Carrying amount 31.12.2019** | **1 053** |

In the financial year, the Group made improvements to a property in the City of Haapsalu at Posti tn 30 in amount 54 thousand Euros (2018: 155 thousand Euros). In 2018 an investment property in the City of Viljandi at Jakobsoni 21a was sold. Total lease income amounted to 59 thousand Euros the reporting year (2018: 32 thousand Euros); any direct expenses related to investment property were immaterial.

# Note 14. Deposits from customers and loans received

**31.12.2019**

| *(in thousands of Euros)* | **Individuals** | **Legal entities** | **Financial intermediate** | **Other financial intermediate** | **Total** |
|---|---|---|---|---|---|
| Demand deposit | 481 | 0 | 0 | 0 | **481** |
| Term deposits | 33 726 | 749 | 0 | 200 | **34 675** |
| Loans received | 0 | 0 | 0 | 0 | **0** |
| Loans from related parties | 0 | 300 | 0 | 0 | **300** |
| Lease liabilities | 0 | 0 | 74 | 0 | **74** |
| Accrued interest liability | 243 | 3 | 3 | 1 | **250** |
| **Total** | **34 450** | **1 052** | **76** | **201** | **35 780** |

**31.12.2018**

| *(in thousands of Euros)* | **Individuals** | **Legal entities** | **Financial intermediate** | **Other financial intermediate** | **Total** |
|---|---|---|---|---|---|
| Demand deposit | 0 | 0 | 0 | 0 | **0** |
| Term deposits | 0 | 0 | 0 | 0 | **0** |
| Loans received | 0 | 0 | 13 066 | 0 | **13 066** |
| Loans from related parties | 0 | 0 | 0 | 0 | **0** |
| Lease liabilities | 0 | 0 | 8 | 0 | **8** |
| Accrued interest liability | 0 | 0 | 0 | 0 | **0** |
| **Total** | **0** | **0** | **13 074** | **0** | **13 074** |

# Note 15. Other liabilities

**Financial liabilities**

| *(in thousands of Euros)* | **Note** | **31.12.2019** | **31.12.2018** |
|---|---|---|---|
| **Financial liabilities** | | | |
| Debts to partners | | 883 | 680 |
| Other short-term financial liabilities | | 99 | 38 |
| Lease liabilities | 16 | 164 | 0 |
| **Subtotal** | | **1 146** | **718** |
| **Non-financial liabilities** | | | |
| Tax liabilities | | 81 | 44 |
| Payables to employees | | 165 | 74 |
| incl. related parties | 19 | 10 | 14 |
| Dividend payables | | 348 | 355 |
| Other short-term liabilities | | 161 | 183 |
| **Subtotal** | | **755** | **656** |
| **Total** | | **1 901** | **1 374** |

Payables to employees consist of vacation pay accrual for the reporting period and the increase in liabilities is caused by the increase in the number of employees during the year.

All liabilities are payable within 12 months and are therefore recognized as current liabilities.

# Note 16. Right of use assets and lease liabilities

| *(in thousands of Euros)* | **Up to 1 year** | **1 to 5 year** | **Total** |
|---|---|---|---|
| Non-cancellable lease payables as of 31.12.2019 | **94** | **161** | **255** |

# Note 17. Equity

**Transactions with share capital and share premium**

| | Share capital | Share premium | Total |
|---|---|---|---|
| **Share capital as at 31.12.2017** | **50** | **14 471** | **14 521** |
| **Share capital as at 31.12.2018** | **50** | **14 471** | **14 521** |
| **Share capital as at 31.12.2019** | **50** | **14 471** | **14 521** |

**Statutory reserve capital in equity is as follows:**

| *(in thousands of Euros)* | |
|---|---|
| **Statutory reserve as at 31.12.2017** | **0** |
| Transferred from 2017 net profit | 5 |
| **Statutory reserve as at 31.12.2018** | **5** |
| Transferred from 2018 net profit | 0 |
| **Statutory reserve as at 31.12.2019** | **5** |

Share capital is paid in in full through cash contributions. The nominal value of the shares is 1 Euro and as at 31.12.2019 the number of shares amounted to 50 thousand Euros (31.12.2018: 50 thousand Euros).

In the reporting year, Holm Bank AS paid dividends to shareholders amounting to a total of 307 thousand Euros (2018: 300 thousand Euros). As at 31.12.2019, the retained earnings of the Group totaled 3 995 thousand Euros (31.12.2018: 3 813 thousand Euros). As of 31.12.2019 it is possible to pay out dividends in amount EUR 3 210 (2018: 3 050 thousand Euro). Part of the potential dividends (1/3 from dividends paid out in 2018-2019) would be taxed at a preferential rate of 14/86 and the remaining part 20/80. The related income tax charge would be 785 thousand Euro (2018:763 thousand Euro with 20/80 tax rate).

# Note 18. Contingent assets and liabilities

| Non-cancellable agreements | Unused loan commitments |
|---|---|
| Liability in contractual amount 31.12.2019 | 15 930 |
| Liability in contractual amount 31.12.2018 | 15 406 |

Unused loan commitments represent off-balance sheet liability of credit cards unused limits.

Tax authorities have the right to review the Group tax records for up to 5 years after submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. The tax authorities have not performed any tax audits at the Group during 2018-2019.

# Note 19. Transactions with related parties

Related parties include shareholders of the Group's owner, the Group executive and higher management and their relatives as well as companies related to or under the control or significant influence of the shareholder's owner. During the reporting period there has been no transactions with the Group executive and higher management and their relatives.

In 2019, remuneration paid to management board and the supervisory board totaled 537 thousand Euros (2018: 230 thousand Euros), including all taxes.

**Transactions**

| *(in thousands of Euros)* | Note | 2019 | 2018 |
|---|---|---|---|
| **Interest expense on loans received** | 6 | **163** | **243** |
| incl. shareholders, their related entities and close relatives that have significant influence | | 163 | 243 |

**Balances**

| *(in thousands of Euros)* | Note | 31.12.2019 | 31.12.2018 |
|---|---|---|---|
| **Receivables as at the year-end** | | **0** | **16** |
| incl. shareholders, their related entities and close relatives that have significant influence | 12 | 0 | 16 |
| **Loans received as at the year-end** | | **300** | **0** |
| incl. shareholders, their related entities and close relatives that have significant influence | 14 | 300 | 0 |
| **Liabilities as at the year-end** | | **10** | **14** |
| incl. shareholders, their related entities and close relatives that have significant influence | 15 | 10 | 14 |

# Note 20. Income tax expense

| *(in thousands of Euros)* | **2019** | **2018** |
|---|---|---|
| Advance corporate income tax | 76 | 0 |
| Income tax paid on dividends | 46 | 0 |
| **Total income tax expense** | **122** | **0** |

The Group is calculating 14% advance income tax. Advance corporate income tax for the year 2019 was EUR 76 thousand (2018: 0 thousand).

# Note 21. Financial statements of parent company

In accordance with the Estonian Accounting Act, information on the primary financial statements of the parent of the Consolidation Group shall be disclosed in the notes to the financial statements. These primary financial statements of the parent of the Group are not separate financial statements as defined by IAS 27 Separate financial statements. The separate primary statements of the parent have been prepared using the same accounting policies that have been used for the preparation of the consolidated financial statements, except for investments into subsidiaries, which are reported at cost in the parent's primary financial statements.

**Statement of comprehensive income of the parent**

| *(in thousands of Euros)* | **2019** | **2018** |
|---|---|---|
| Interest income | 9 919 | 8 007 |
| Interest expense | -1 300 | -702 |
| **Net interest income** | **8 619** | **7 304** |
| Net service fees | -976 | -1 700 |
| Other operating income | 385 | 62 |
| **Total income** | **8 028** | **5 666** |
| | | |
| Staff costs | -2 432 | -1 493 |
| Administrative and other operating expenses | -3 080 | -1 718 |
| Other expense | -120 | 0 |
| Depreciation and amortization | -237 | -126 |
| **Profit before credit losses** | **2 159** | **2 330** |
| | | |
| Loss allowances | -1 304 | -163 |
| **Profit before income tax** | **855** | **2 167** |
| | | |
| Income tax | -109 | 0 |
| **Profit for the year** | **746** | **2 167** |
| **Other comprehensive income** | **0** | **0** |
| **Total comprehensive income for the year** | **746** | **2 167** |

**Statement of financial position of the parent**

| *(in thousands of Euros)* | **31.12.2019** | **31.12.2018** |
|---|---|---|
| **Assets** | | |
| | | |
| Cash and balances with central banks | 1 499 | 0 |
| Amounts due from credit institutions | 5 903 | 23 |
| Loans and advances to customers | 41 999 | 29 334 |
| Other receivables and assets | 3 721 | 3 429 |
| Investments in subsidiaries | 1 779 | 0 |
| **Total assets** | **54 901** | **32 787** |
| | | |
| **Liabilities** | | |
| Deposits from customers | 35 404 | 0 |
| Loans received | 76 | 13 074 |
| Accrued expenses and other liabilities | 1 730 | 1 374 |
| **Total liabilities** | **37 210** | **14 448** |
| | | |
| **Equity** | | |
| Share capital | 50 | 50 |
| Share premium | 14 471 | 14 471 |
| Statutory reserve capital | 5 | 5 |
| Retained earnings | 3 140 | 3 813 |
| **Equity** | **17 666** | **18 338** |
| | | |
| **Total liabilities and equity** | **54 876** | **32 787** |

**Statement of cash flows of the parent**

| *(in thousands of Euros)* | **2019** | **2018** |
|---|---|---|
| Profit before tax | 855 | 2 093 |
| Adjustments, including | -8 213 | -6 140 |
| Interest income | -9 920 | -8 007 |
| Interest expense | 1 301 | 946 |
| Allowance | 1 304 | 163 |
| Depreciation and amortization | 237 | 126 |
| Other adjustments | -1 135 | 632 |
| Statutory reserve capital at central bank | -140 | 0 |
| Changes in loans to customers | -12 664 | -5 692 |
| Changes in other assets | 53 | -489 |
| Proceeds from deposits | 35 404 | 0 |
| Changes in other liabilities | 248 | 0 |
| Interest received | 9 668 | 7 060 |
| Loans received | 4 150 | 5 385 |
| Repayments of loans received | -17 150 | -993 |
| Interest paid | -933 | -721 |
| **Cash flows from operating activities** | **11 278** | **503** |
| | | |
| Additions of property, plant, equipment and intangible assets | -648 | -756 |
| Additions of a subsidiary | -2 898 | 0 |
| Proceeds from sale of investment property | 0 | 500 |
| Proceeds from sale of financial assets | 0 | 50 |
| **Cash flows from investing activities** | **-3 546** | **-206** |
| | | |
| Repayment of principal portion of lease liabilities | -88 | -8 |
| Dividends paid | -307 | -300 |
| Income tax paid on dividends | -97 | -75 |
| **Cash flows from financing activities** | **-492** | **-383** |
| | | |
| **Cash and cash equivalents at the beginning of the year** | **23** | **109** |
| Net increase/(decrease) in cash and cash equivalents | 7 240 | -86 |
| **Cash and cash equivalents at the end of the year** | **7 263** | **23** |

**Statement of changes in shareholders' equity**

| *(in thousands of Euros)* | Share capital | Share premium | Statutory reserve capital | Accumulated loss/retained earning | Total |
|---|---|---|---|---|---|
| **Balance as at 01.01.2018** | **50** | **14 471** | **0** | **1 725** | **16 245** |
| Transfer to statutory reserve capital | 0 | 0 | 5 | -5 | **0** |
| Dividends paid | 0 | 0 | 0 | 0 | **0** |
| Profit for the year | 0 | 0 | 0 | 2 093 | **2 093** |
| Other comprehensive income | 0 | 0 | 0 | 0 | **0** |
| Total comprehensive income for 2018 | 0 | 0 | 0 | 2 093 | **2 093** |
| **Balance as at 31.12.2018** | **50** | **14 471** | **5** | **3 813** | **18 338** |
| | | | | | |
| **Balance as at 01.01.2018** | **50** | **14 471** | **5** | **3 813** | **18 338** |
| Acquisition of subsidiary | 0 | 0 | 0 | -1 119 | **-1 119** |
| Dividends paid | 0 | 0 | 0 | -300 | **-300** |
| Profit for the year | 0 | 0 | 0 | 746 | **746** |
| Other comprehensive income | 0 | 0 | 0 | 0 | **0** |
| Total comprehensive income for 2019 | 0 | 0 | 0 | 746 | **746** |
| **Balance as at 31.12.2019** | **50** | **14 471** | **5** | **3 140** | **17 666** |

| *(in thousands of Euros)* | 2019 | 2018 |
|---|---|---|
| **Equity** | 17 666 | 18 338 |
| Acquisition of subsidiary: acquisition value | -1 779 | 0 |
| Acquisition of subsidiary: equity method | 1 289 | 0 |
| **Adjusted unconsolidated equity** | **17 175** | **18 338** |

# Note 22. Post statement of financial position events

### Impact and measures related with the COVID-19 pandemic

The Group has also made changes in operational processes in order to follow dynamics and quality of the loan portfolio. Increased attention has been paid to portfolio credit and liquidity risk management, and additional reporting has been introduced to assess and analyses weekly changes at the management level. Holm Bank AS Group financial forecasts have been adjusted in connection with the decision taken in March to postpone cross-border activities in Sweden. We have analyzed potential changes also in the financial forecasts for operations both in Estonia and our Latvian subsidiary, which will be submitted to the Supervisory Board for approval. In the future, we will monitor changes in the economic situation on an ongoing basis and adjust financial forecasts when necessary. As part of the ICAAP and ILAAP process, we have performed additional stress tests.

In order to ensure the sustainable servicing of both business and private individual customers, in the light of changed economic environment, we have adopted a flexible strategy regarding grace periods. After evaluation customer readiness and financial ability to service the debt and reaching to the conclusion that the payment difficulties are currently of a temporary nature, we have provided grace period usually between 2-4 months.

According to management estimates the possible changes on macroeconomic environment caused by COVID -19 pandemic may have a negative effect on performance. As currently there are no sufficient and reliable data to forecast the total impact of the possible crisis the analysis focuses to possible weaknesses and to the reverse stress testing on going concern model.

As a result of the analysis, the Management Board estimates that the Group's current capital and liquidity position and ability to cover the risks to which the Group may be exposed 12 months ahead, including uncertainty about the impact of the COVID-19 pandemic, which is currently difficult to predict. At present, it is difficult to assess the extent of the economic downturn and its impact on the strategy and this probably will lead to changes in the Group's strategy for 12 months, but the Group’s sustainability of the Group within possible changes on macroeconomic environment caused by COVID -19 pandemic is good and the Group capitalization and liquidity risk are in conservative level.

As of annual report disclosure date, where are now material deviations on the Group credit quality or liquidity positions. Where are no significant changes in default rates within loan portfolio and the government has already begun to ease restrictions. AS of disclosure date it is where are no evidence nor not certain that the government will introduce payment leave (moratorium) for customers. The Group’s ability to attract new financing is on appropriate level, financing plans have been completed in accordance with the initial plans. The Group has conservatively increased liquidity reserves significantly. The share of long-term deposits as of disclosure date increased by 40% compare to 31.12.2019 (from total 47,5% of deposits are with maturity over 1 year). Increased liquidity reserves are sufficient to cover possible short-term changes in funding. There is no evidence of an outflow of deposits. The Group ability to absorb credit losses is very good and the Group’s capitalization is on good and conservative level.

The Management Board estimates that the Group's current capital and liquidity position and ability to cover the risks to which the Group may be exposed are good, including 12 months ahead and including uncertainty about the impact of the COVID-19 pandemic.

# Signatures of the Management Board to the consolidated annual report

Hereby we confirm the Holm Bank AS 2019 consolidated annual report:

_____
Rauno Klettenberg
Chairman of the Management Board

_____
Arne Veske
Member of the Management Board

_____
Roul Tutt
Member of the Management Boards

Tallinn, 30th, April 2020

Building a better working world

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Translation of the Estonian Original

**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of Holm Bank AS

*Opinion*

We have audited the consolidated financial statements of Holm Bank AS and its subsidiary (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

*Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (Estonia), and we have fulfilled our other ethical responsibilities in accordance with the requirements of code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Allowance for expected credit loss on loans to customers** | |
| As disclosed in Note 10 Loans and advances to customers to the consolidated financial statements, the carrying amount of loan receivables as at 31 December 2019 amounts to EUR 44 475 thousand which corresponds to 79% of the Group's assets.<br><br>Impairment of loans is a subjective area due to the level of judgement applied by the management in determining the extent of credit losses which is dependent on the credit risk related to such loans and receivables. Such an assessment is inherently uncertain, involving forecasting of future macroeconomic conditions in a number of scenarios as well as an assessment of the credit standing of the exposures by employing models based on a series of historical data and assumptions and an assessment of valuation and timing of recovery of collaterals.<br><br>The use of different modelling techniques and assumptions around the calculation of the expected credit losses could produce significantly different estimates of loss allowance. These models require the significant judgment of management regarding appropriate segmentation, the identification of significant changes in credit risk, the inclusion of forward-looking elements as well as the application of management overlays to reflect on circumstances beyond the modelling capabilities.<br><br>The Group is applying the expected credit loss model as required by IFRS 9. The Group's impairment allowance policy is presented in the accounting policies section in Note 2 sub-section Allowance to the consolidated financial statements. Critical accounting estimates and judgments are set out also in Note 2 Summary of significant accounting policies to the consolidated financial statements.<br><br>Given the complexity and judgements related particularly to the calculation of expected credit losses, the impairment allowance for loans to customers is considered a key audit matter. | Our audit procedures included, amongst others:<br><br>• We gained an understanding and tested the key controls over the loan issuance, booking and monitoring and loan impairment provisioning process. We obtained and read the Group's Impairment provisioning policy that is based on the IFRS 9 and involved our internal IFRS 9 specialists to assess its compliance with the requirements of IFRS 9.<br><br>• We assessed the Group's methodology regarding the identification of impairment indications and determination by the management of the expected credit losses, including governance over the determination of key judgements. This included the determination of probability weighted macroeconomic scenarios, staging criteria and the credit risk parameters models.<br><br>• We tested the mathematical accuracy of the impairment allowance calculations. On sample basis we tested the data flow in the models and verified the correctness of parameters subject to estimation by tracing them to the original source documents for the purposes of testing information prepared by the entity (IPE).<br><br>• In accordance with Group's methodology due to individually small size of each loan, expected credit loss for loans calculated on a collective basis. We analysed the Group's methodology, inputs and assumptions used. We also tested the completeness and accuracy of the underlying loan information used in the expected credit loss models by agreeing details to the Group's source systems as well as re-performing the calculation of the expected credit loss. For the key assumptions in the model, we evaluated evidence provided by the management.<br><br>• For a sample of loans and model outputs with the support of valuation specialists, we performed recalculations of ECL. ECL adjustments related to expert credit judgement were analysed. Our analysis considered management's assumption of ECL adjustments.<br><br>• We performed analytical procedures, such as a comparison of loan loss impairment allowance balances to prior year, movements between stages, provisioning rate analysis etc.<br><br>• Finally, we assessed the completeness of the related disclosures contained in *Note 3. Risk management, 10 Loans and advances to customers* and *2 Summary of significant accounting policies* to the consolidated financial statements. |

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**Interest income recognition**

As disclosed in the Group's accounting policies outlined in Note 2 subsection *Amortised cost and effective interest rate (EIR)*, interest income from financial instruments measured at amortized cost is recognized at the effective interest rate ("EIR"). During the financial year in the consolidated statement of comprehensive income the Group recognized interest income from loans to customers amounting to EUR 10 137 thousand.

The calculation of the EIR includes commissions paid or received between the Group and its customers, which are an integral part of the EIR. Correct interest income recognition is highly dependent on appropriate design of the interest income recognition process.

Accounting for all EIR components is inherently more complex in the finance services sector when compared to some other industries due to the large number of customers, various contractual terms with customers, modification of those terms, as well as the amount of commissions included in the EIR calculation, including top-side adjustments at the Group level.

Therefore, interest income recognition is considered to be relatively complex area of accounting. Due to the above circumstances, the interest income recognition is a key audit matter for the 31 December 2019 audit.

Our audit procedures included, amongst others:

We gained understanding of the loan origination process, the process of the calculations of the effective interest rate, accounting and income recognition process. We identified related controls, evaluated their design and implementation and tested key controls.

We assessed whether the Group's accounting policies in relation to the interest income recognition are following IFRS 9 and reviewed Group's calculation of the effective interest rate.

We tested a sample of agreements related to the issued loans to customers. For the selected sample of agreements, we recalculated accrued interest income, commissions forming part of the EIR and principal outstanding at the financial year end compared results of our calculations with the amounts recognized by the Group. We also reviewed respective agreement terms, agreement modifications and other supporting data.

We performed analytical procedures, such as a comparison of the EIRs to prior year, to market rate by products.

We also considered the accuracy of the Group's description of the accounting policy related to interest income, and whether interest income is adequately disclosed in *Note 6. Net interest income* to the consolidated financial statements.

*Other information*

Management is responsible for the other information. Other information consists of CEO report, operating environment, management report, management system, remuneration policy, financial results, overview of the Group's subsidiary in 2019 and Social responsibility in the Group but does not consist of the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*Responsibilities of management and those charged with governance for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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*Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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**Report on other legal and regulatory requirements**

*Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.*

Appointment and approval of the auditor

In accordance with the decision made by the shareholder we have been chosen to carry out the audit of Group's consolidated financial statements the first time in 2017. Our appointment to carry out the audit of Group's consolidated financial statements in accordance with the decision made by shareholder has been renewed annually and the period of total uninterrupted engagement is 3 years.

Consistence with Additional Report to Supervisory Board and Audit Committee

Our audit opinion on the annual financial statements expressed herein is consistent with the additional report to the Supervisory Board and Audit Committee of the Group, which we issued in accordance with Article 11 of the Regulation (EU) No. 537/2014 on the same date as the date of this report.

Non audit services

We confirm that in light of our knowledge and belief, services provided to the Group are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In addition to statutory audit services and services disclosed in the financial statements, no other services were provided by us to the Company and its controlled undertakings.

The responsible certified auditor on the audit resulting in this independent auditors' report is Olesia Abramova.

Tallinn, 1 May 2020

*/digitally signed/*

Olesia Abramova
Authorised Auditor's number 561
Ernst & Young Baltic AS
Audit Company's Registration number 58

*/digitally signed/*

Riina Alt
Authorised Auditor's number 618

# Profit allocation proposal

The Management Board of Holm Bank has proposed to the General Meeting of Shareholders to allocate the profit as follows:

- Retained Earnings 31.12.2019 3 768 thousand Euros;
- Distribute dividends 0 thousand Euros;
- Statutory Reserve Capital 5 thousand Euros.

_____
Rauno Klettenberg
Chairman of the Management Board

_____
Arne Veske
Member of the Management Board

_____
Roul Tutt
Member of the Management Board

Tallinn, 30th, April 2020

# Signatures of the Supervisory Board to the annual report

The supervisory board has reviewed the Holm Bank AS 2019 annual report, independent auditor's report and profit allocation proposal and approved them to be presented to shareholder's general meeting for approval.

_____
Kaido Veske
Chairman of the Supervisory Board

_____
Kelly Veske
Member of the Supervisory Board

_____
Reimo Hammerberg
Member of the Supervisory Board

_____
Pärt Kivaste
Member of the Supervisory Board

_____
Ruslan Mahhov
Member of the Supervisory Board

Tallinn 30th April, 2020

# Profit allocation as per EMTA classification

In thousand Euros

| **Main activity** | **2019** | **2018** |
|---|---|---|
| EMTAK code 64929 | | |
| Other credit granting (except pawnshops) | | 7 627 |