

Holm Bank AS

Annual report

2022

Table of contents

Table of contents 2

General information 3

Abbreviations and key 4

Management report 5

Consolidated financial statements 21

Notes to the consolidated financial statements 25

Note 1 Adoption of new or revised standards and interpretations 40

Note 2 Significant accounting judgements, estimates and assumptions 42

Note 3 Risk management 44

Note 4 Investments in subsidiary 71

Note 5 Net interest income 72

Note 6 Net fee income 73

Note 7 Other income 73

Note 8 Operating expenses 74

Note 9 Income tax 75

Note 10 Receivables from central banks and credit institutions 75

Note 11 Loans and advances to customers 76

Note 12 Other assets 80

Note 13 Investment property 81

Note 14 Property, plant and equipment 82

Note 15 Right of use assets and lease liabilities 83

Note 16 Intangible assets 84

Note 17 Loans and deposits from customers 84

Note 18 Other liabilities 85

Note 19 Equity 86

Note 20 Contingent assets and liabilities 86

Note 21 Transactions and balances with related parties 86

Note 22 Unconsolidated financial statements of parent company 88

Profit allocation proposal 92

Independent auditor's report 93

Signatures of the Management Board 98

General information

Business name:	Holm Bank AS
Registry code:	14080830
Activity field:	Other credit granting (provision of credit services and deposits)
First entry:	13.07.2016
Holm Bank AS legal address:	Lääne county, Haapsalu city, Posti street 30, 90504
OÜ Koduliising legal address: (parent company)	Lääne county, Haapsalu city, Posti street 30, 90504
Holm Bank Latvia SIA (subsidiary of Holm Bank AS)	Pils iela 16, Alūksne, LV-4301, the Republic of Latvia
Telephone:	+372 675 5055
E-mail:	info@holmbank.ee
Group website:	www.holmbank.ee
Reporting period:	01.01.2022-31.12.2022
Members of the Management Board:	Kaspar Kalvet
	Monika Tomberg
	Arvi Lipp
Members of the Supervisory Board:	Arne Veske
	Pärt Kivaste
	Ruslan Mahhov
	Reimo Hammerberg
	Kelly Veske
Owner and final beneficiary (100%):	Arne Veske
Reporting currency:	EUR
Presented units:	in thousands
Auditor:	Ernst & Young Baltic AS

Abbreviations and key

The following styles of abbreviation are used in current Annual Report:

IASB	International Accounting Standards Board
Interpretations Committee	IFRS Interpretations Committee (formerly International Financial Reporting Interpretations Committee (IFRIC))
YOY	Year-on-year
APR	Annual Percentage Rate
EIR	Effective Interest Rate
OCI	Other comprehensive income
CGU	Cash generating unit
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
SPPI	Solely payments of principle and interest
FVA	Fair value adjustment
ECL	Expected credit loss
12mECL	12 month expected credit loss
LTECL	Lifetime expected credit loss
PD	Probability of default
LGD	Loss given default
EAD	Exposure at default
POCI	Purchased or originated credit impaired (financial assets)
NPL	Non-performing loans (defaulted)
ROUA	Right of use assets (financial lease)



Management report

Holm Bank AS is a privately held credit institution active in Estonia and Latvia. In 2022, Holm conducted business through two legal entities, Holm Bank AS (hereinafter: the Bank) and Holm Bank Latvia SIA (hereinafter: the Subsidiary). Together these legal entities formed the Holm Bank AS consolidation group (hereinafter: the Group).

2022. was characterized by material changes in external environment. While the health crisis subsided, new concerns arose regarding geopolitical developments in the region, drastically increased price inflation and the stricter monetary policy of the central banks that led to rapid increase in interest rates. The future confidence of people and companies decreased, and the economy entered a recession.

Still, for the Group, the year 2022 was in many ways a success. During the year, the Group substantially expanded its activities in both Estonia and Latvia and the loan portfolio reached the highest level of the company's history to date. Despite the above noted negative developments in external environment the Group managed to materially improve the credit quality of the loan portfolio and the share of non-performing loans dropped to record low levels. Several new people with key competencies joined the Group and we invested substantial amounts into future oriented IT solutions.

The main new achieved external capabilities included new products available to the clients, such as home loan, mortgage loan, leasing, virtual credit card and mobile app. Additionally, several key internal processes were strengthened by these investments, including processes related to finance and risk management.

The Group finished the year with a very strong capital and liquidity position that with a large margin exceeded all internal and regulatory requirements.

By the end of 2022 the Group finalized its new updated multi-year strategy and financial plan that set the main goals for the coming years, accounting among other factors to the changed external environment. The focus of the strategy is increasing business volumes in the Estonian and Latvian markets.

Operating environment

The 2022. operating environment was in many ways a complicated one. The most important key trends included negative geopolitical developments, rapid price inflation, stricter monetary policy and economy that turned into a recession. Fortunately, more positive signals are visible when looking forward.

In February a new active phase in Russian-Ukraine war began that has by today become the largest military conflict in Europe over many decades and the end of which is not visible also by the time this report is published. Although this war has an important negative impact to the confidence of the people, companies, capital markets and government priorities in the entire region, the direct impact to the Group's activities has been low. The Group has no clients, investments, or assets in the directly affected countries, also we have no relations with the private and legal entities affected by sanctions related to the war. The Group diligently monitors all the direct and indirect effects of the war and plans it activities accordingly.

The other important development that affected the operating environment was the drastically increased price inflation, caused in part by the combined effect of many years of loose monetary policy, the supply chain disruptions caused by the health crisis and the effects of the already mentioned war. Several key product categories were particularly affected, including energy prices, that in turn led to broad-based price inflation. During 2022, the Estonian consumer price index rose more than over the previous 9 years combined and the inflation rates averaged nearly 20%, that in several points in time was the highest rate in Europe. Still, the peak rates of inflation were observed in the third quarter and the pace of price rises over the last months was already substantially lower. Expectedly, also future inflation rates will be much lower than in 2022, affected by the higher interest rates and economic slowdown.

2022 saw significant changes in monetary policy. The European Central Bank raised rates for the first time in July and followed up with several more rate rises. Market expectations looking forwards include further rate rises and the interest rate levels will for a longer time remain higher than was the case over the recent years. Together with the increase in interest rates, changes have been made also to the asset purchase programs. Among others, these changes have an important indirect impact to asset markets, having already affected the prices of real estate and financial assets.

These changes have also had a material impact on the Group's activities. For loan contracts where applicable rates are tied to Euribor, these rates have led to increased gross interest revenues. At the same time, the interest rates paid on term deposits have also increased substantially which had led to a substantial rise in the Group financing costs.

Although the nominal economic growth in 2022 was strong, this was led mostly by price increases and the real economic growth slowed throughout 2022. Due to lower confidence of people and companies as well a weak demand from export markets, the real gross domestic products turned into a recession in the second half of the year.

On the positive side, the decrease in real gross domestic product has not so far had a strong negative impact on the labor market and the labor market statistics remain relatively strong, both in terms of average wages, total amount of employed people, as well as the relative share of unemployed people. Still, the Group carefully monitors the situation in the labor market and if needed, adjusts its activities as appropriate.

Equally, despite rapid price inflation and the slowing economy, the financial standing of most companies and individuals remains relatively strong. This is indirectly supported by the general low level of delinquencies across the banking sector, also there is no evidence of requests for loan restructurings comparable to some difficult economic periods in the past.

Also in a forward-looking view, there is a reason to be carefully optimistic. According to the latest forecasts of the Bank of Estonia, the real economy will in 2023 again turn into a small but positive growth and the price inflation slows to the levels significantly below those seen last year. These developments, should they materialize, will expectedly have a positive impact on the confidence of companies and individuals.

Managing the complex external environment is supported by the Group's vision and strategy to be a bank that offers flexible financial services that take into account the clients' individual needs. We believe our small size allows us to react to changes fast and come through the complex external environment with a stronger market position that what we had when we entered these turbulent times.



Strategy

The main activity of the Group is financing consumers and companies through various financial services and financial products. The Group extends credit in Estonia and Latvia and attracts deposits in Estonia, Germany and Austria.

The history of the Group reaches back to 1995 when the predecessor of the company started operations in Haapsalu, Estonia. The trademark Liisi has been in use since then.

The Bank today continues these activities and also uses the trademark Liisi to offer instalment loans until this day.

The second trademark Holm belongs to the Bank since 2019 to provide a variety of retail and business products, leasing, and term deposits.

"Holm" refers to a small island in Swedish language. The name was inspired from the islands of Western Estonia, which coastal people call holms, and there is a direct connection to the Bank's hometown. Also the owner of Holm, Arne Veske, is well-known by his maritime activities and interests.

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

As the sole shareholder the Bank has a controlling interest over the business of the subsidiary Holm Bank Latvia SIA.

Vision

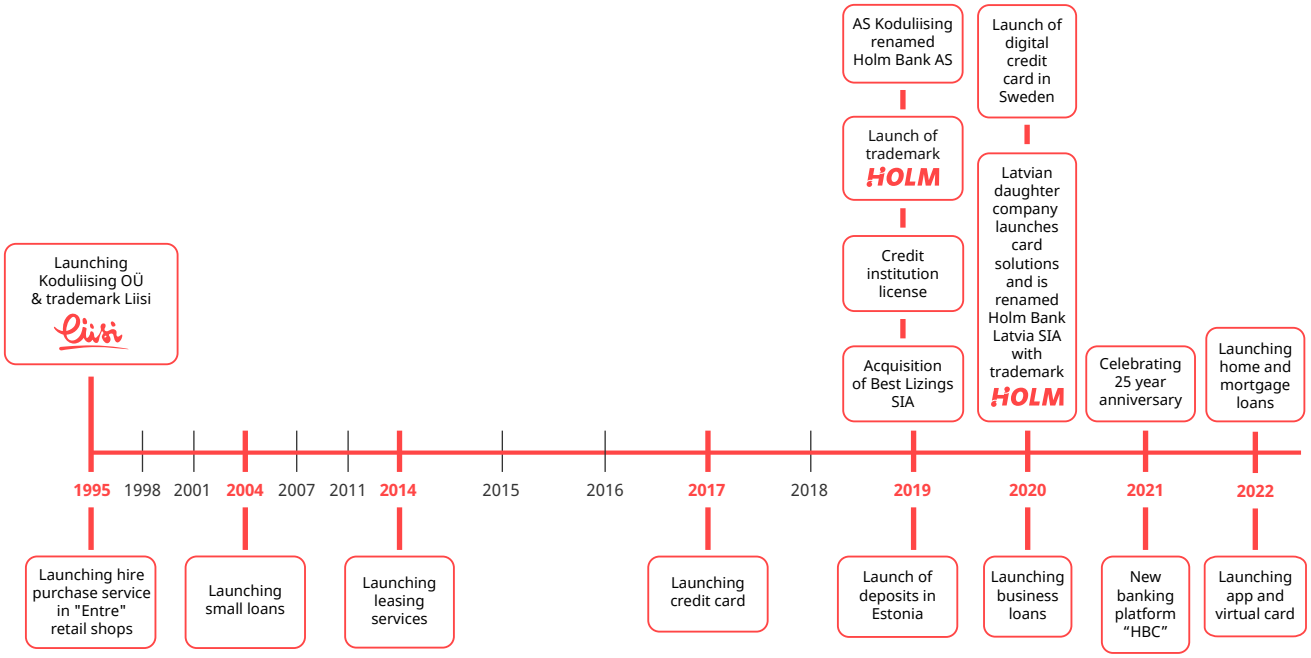
To be personalized and flexible digital finance solutions provider across Europe.

Mission

To help people and businesses to create value through our financial resources.

At the end of 2022 the Group updated its multi-year strategy and financial plan that set the Group's updated main objectives for the coming years, among else, in consideration of the main developments in external operating environment and the competitive landscape. Key points of the strategy include:

- Continued increase of business volumes in both Estonia and Latvia
- Development of existing capabilities, pace of new products development lower than to date
- Substantial increase of profitability
- The activities foreseen in the strategy and financial plan will serve as a foundation for additional ambitious plans in the future.



Products

Liisi hire purchase

Liisi3

Liisi hire purchase - invoice based

Small loan

Home consumer loan

Kodu energialaen

Renovation loan

Car loan

Travel loan

Mortgage loan

Home loan

Credit card

Deposit

Business loan

Holm app

In the reporting period, the Group continued to expand the portfolio of financial services it offers to the clients. The most important new products were home loans, mortgage loans, various leasing products for both business and private clients, virtual card and mobile app.

From one side, the new products offer additional options to existing clients and allow for the more complete servicing of their wishes and needs. From another side they open for the Group additional opportunities to grow via new clients – most importantly home loan, mortgage loan and various leasing products are in both the Estonian and Latvian markets very big volume products, competing in which markets allows the Group to achieve its future growth ambitions.

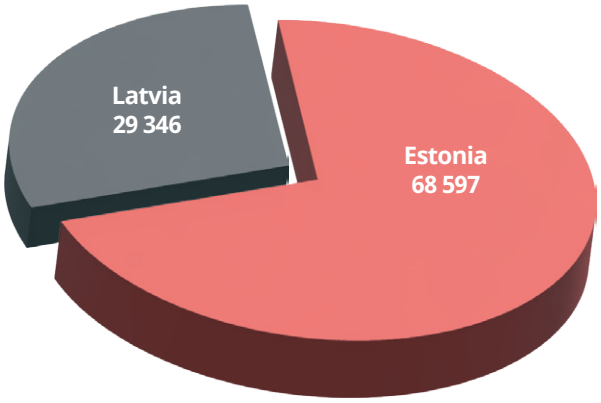
Financial performance

The financial results of the reporting period were multi-faceted. From one side, good results were achieved and set targets met in terms of growth of business volumes both in Estonia and in Latvia. From another side, increased interest costs caused by increased market interest rates as well as substantial future-oriented investments made into personnel and IT solution, as well as cost inflation, led to a net result that was worse than in the previous accounting period. Finally, the net result was affected by conservative additional credit loss provisions made in view of uncertainties in the economic outlook and partial write-off of intangible assets.

Total loan portfolio grew 58% in 2022, reaching the highest level of the company's history to date. At the end of the year, the net loan portfolio was EUR 97.9 million (EUR 62.0 million as of 31.12.2021). The portfolio growth was broad-based, all key segments grew both in terms of client type as well as in both countries that the Group was active in. The Estonian net loan portfolio grew by 51% and reached EUR 68.6 million (EUR 45.3 million as of 31.12.2021) and the Latvian net loan portfolio grew by 101% and reached EUR 29.3 million (EUR 14.6 million as of 31.12.2021).

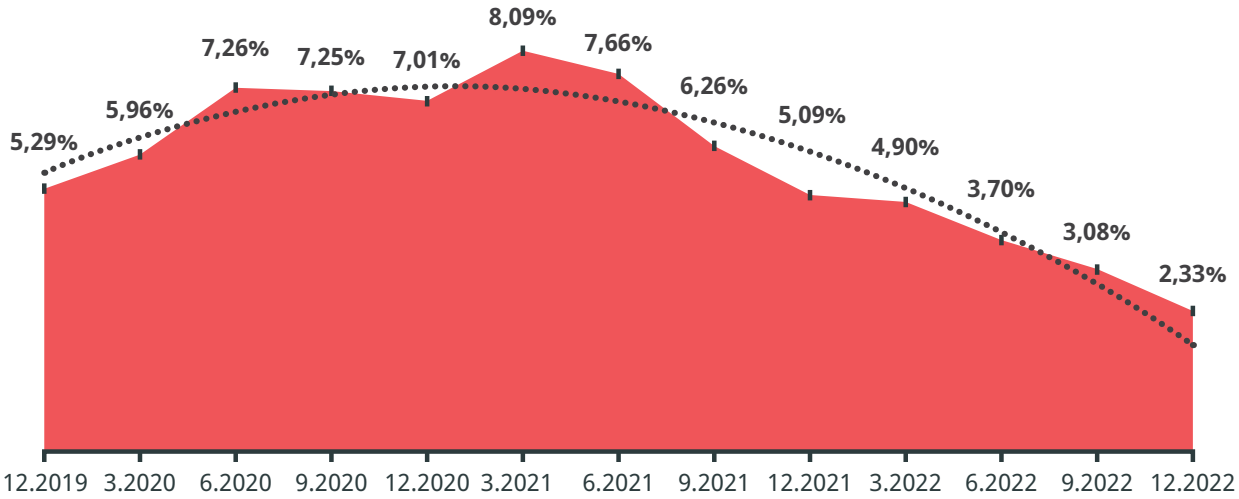
Portfolio distribution by countries

in thousand euros



While the loan portfolio grew, key focus area was the continued improvement in the quality of the loan portfolio and that was reflected in the improvement of all key metrics measuring credit risk. Thereof, the share of portfolio with no payment delay increased to 92% by the end of the year, from 87% the year before. The riskiest share of the portfolio, loans classified as non-performing, was in continuous decline and the share of such loans decreased to 2.3% by the end of the year, compared to 5.1% the year before.

Gross-ratio of non-preforming loans



Despite improved credit quality the Group maintain a conservative stance in making credit risk provisions to cover potential future credit losses. The total volume of expected credit loss provisions increased by 19% and reached EUR 1.7 million (EUR 1.4 million as of 31.12.2021). Thereof, due to conservative approach and in consideration of uncertainty in the economic outlook, the Group created in addition to normal model-based provisions additional portfolio-level credit loss provisions with a purpose to provide additional cover for possible credit risk losses .

Out of that total, while the amount of credit loss provisions associated with Stage 3 loans decreased due to the above-mentioned substantial decrease in the share of such loans in the loan portfolio, the amount of credit loss provisions carried to cover exposures in Stage 1 and Stage 2 increased by a combined 97%, much faster than portfolio growth and reflecting the even more conservative stance the Group maintains in formulating credit provisions. The Group continues to write down 100% of all loans that are more than 365 days in debt.

Total assets increased substantially driven by the loan portfolio, increasing by 45% and reaching EUR 128.3 million by the end of the year (EUR 88.9 million as of 31.12.2021). In addition to the loan portfolio, the largest assets the Group held were liquid assets in the central bank and other credit institutions.

There were no material structural changes in the reporting period on the liabilities side. The Group did not issue new equity or debt securities. The amount of client term deposits grew by 62% during the year and reached the highest level of the company's history to date by the end of the year, EUR 104.4 million (EUR 64.3 million as of 31.12.2021). The growth was broad-based, increase was seen in Estonian, German and Austrian depositors total deposit volume.

It is important to note that 100% of the Group's deposit base is made up of term deposits. Such form of financing from one side increases the depositors' income from depositing as well as the Group's financing costs, but from another side it materially limits the Group's liquidity risk, because the end dates of deposits and likely time of deposit outflows are known with much more precision than is the case in case of demand deposits.

The Group finished the year with a very strong capital and liquidity position, exceeding with a large margin all related internal and regulatory requirements.

In terms of capital, total capital adequacy was 24.5% of total risk weighted assets at the end of the year (28.5% as of 31.12.2021) and Tier 1 capital adequacy was 19.8% of total risk weighted assets at the end of the year (23.2% as of 31.12.2021). Although both metrics exceed with a large margin all related internal and regulatory requirements, they are both lower than at the end of the previous reporting period, because the increase in business volumes and the loan portfolio increased the volume of risk weighted assets.

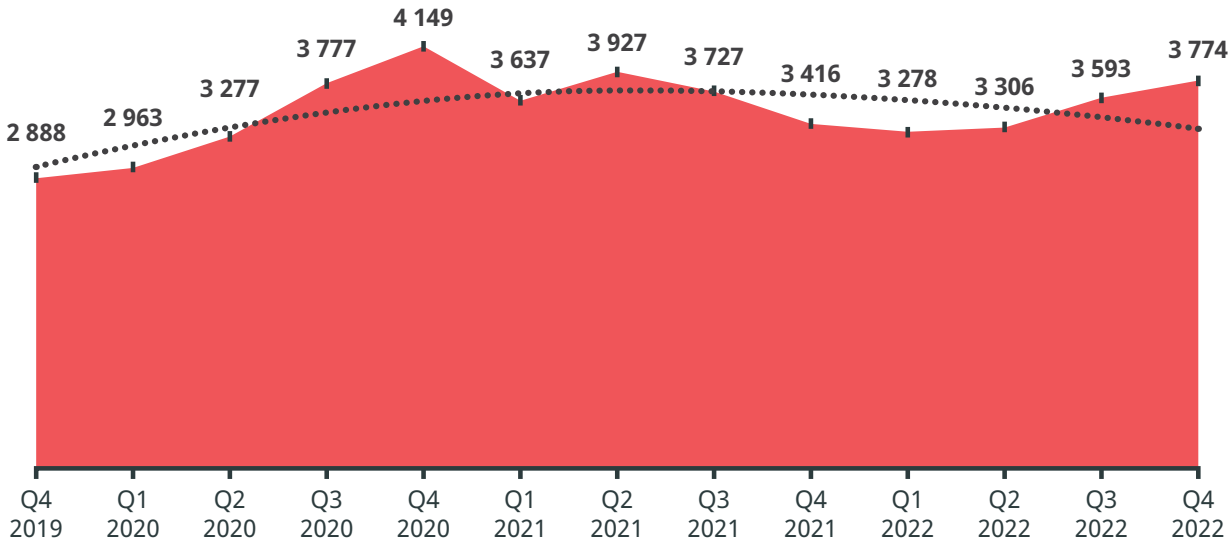
From liquidity side, the key metrics include the relative volume of loans to deposits, that by the end of the year had strengthened to the level of 93.8% (96.6% as of 31.12.2021), while the regulatory LCR metric had strengthened to the level of 237% (224% as of 31.12.2021), exceeding with a large margin the regulatory minimum of 100%.

Considering the short useful life of some formerly developed IT systems, the Group has taken more conservative approach and decided to write off part of intangible assets related to these developments in amount of 356 thousand euros.

The results were less positive from profitability point of view. Net revenues decreased by 15% in the reporting period, amounting to EUR 11.4 million (EUR 13.3 million as of 31.12.2021), while operating expenses increased by 13% in the reporting period, amounting to EUR 9.2 million (EUR 7.8 million as of 31.12.2021). Despite the substantial decrease of credit losses by 24% to EUR 3.3 million (EUR 4.3 million as of 31.12.2021), the net result of the reporting period was a loss of EUR 1.1 million, compared to a profit of EUR 1.0 million the year before.

Consolidated interest income

in thousand euros



The main cause of the negative net result was the decrease in net revenues. That was caused from one side intense competitive situation and the related pressure on sales prices, from another side an important part of portfolio growth was from lower income products, such as home loans, leasing and low risk business loans. The net revenues were also negatively affected by the substantially increased interest costs, driven by the increase in market interest rates, as well as the increased commission expense, driven by increased sales volumes.

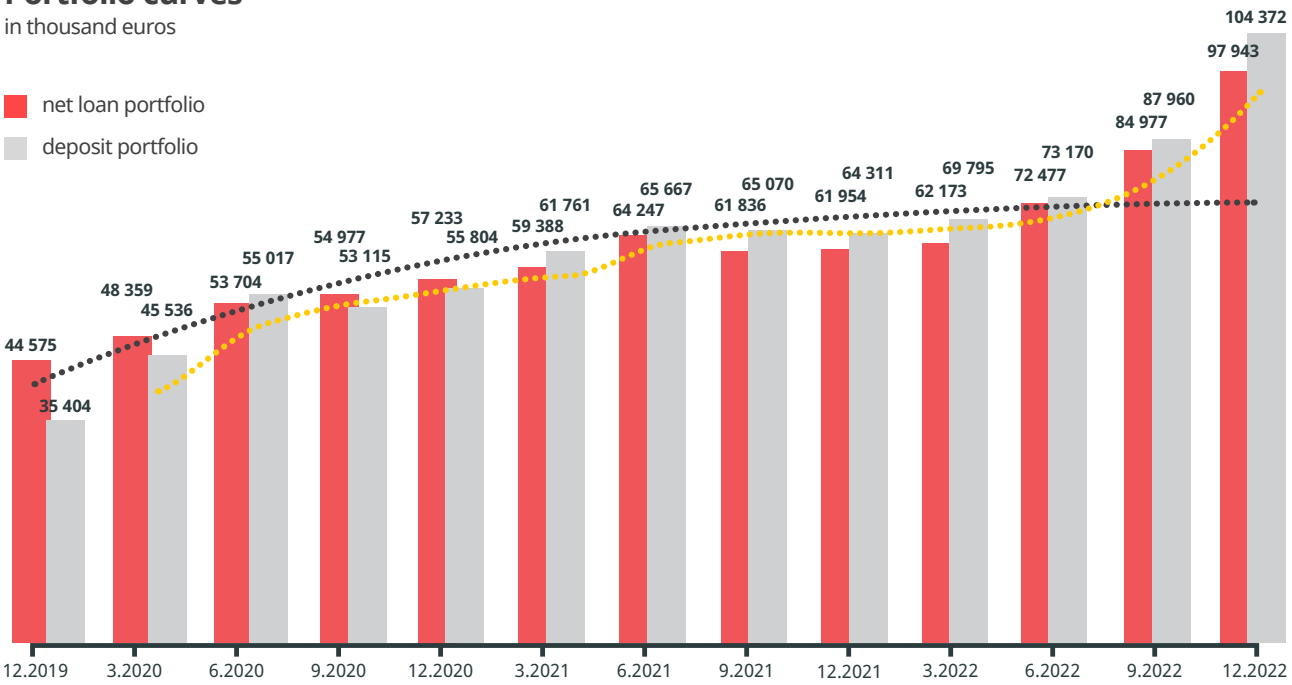
There were no major changes in the size and structure of the operating cost base.

The amount of new credit losses decreased substantially compared to the prior reporting period, due to the already mentioned improvement in the portfolio credit quality.

The Group approaches 2023 with careful optimism. The capital and liquidity positions are very strong. Important achievements and investments into business volume growth, personnel, processes, and IT infrastructure create preconditions for a substantial increase in net revenues in the future. Improved credit quality and a conservative stance in making credit loss provisions give reason to expect substantial improvement in profitability going forwards and reduce vulnerability to unforeseen risks.

Portfolio curves

in thousand euros



Governing bodies

The governance arrangements match the individual risk profile and business model of the Group. To meet compliance with regulatory requirements, the individual position for which assessment is made is taken into account.

The Group ensures that all members of the management board and other key management personnel are always individually suitable for their positions within the Group. Additionally, an assessment of the supervisory board and management board is performed collectively to ensure suitability for its role and responsibilities within the Group.

The governing bodies of the Group are the supervisory board and the management board. The supervisory board is currently made of five members who are responsible for strategic decisions and the oversight of the activities of the management board. The supervisory board members are appointed for three years by the general meeting of the shareholders. The chairman of the supervisory board is Arne Veske. There were no changes of the supervisory board members and chairman during the accounting period.

The management board is currently made of three members who are responsible for the daily management of the Group. When appointing the members of the management board, the supervisory board ensures that the management board 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. From 01.11.2022 the chairman of the management board is Kaspar Kalvet, until 31.10.2022 the chairman of the management board was Rauno Klettenberg. From 04.04.2022 the member of the management board is Monika Tomberg. Until 25.05.2022 the member of the management board was Kristi Luite. Arvi Lipp was a member of the management board through the reporting period.

All members of the 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, before the appointment period is prolonged, and regularly on annual basis.

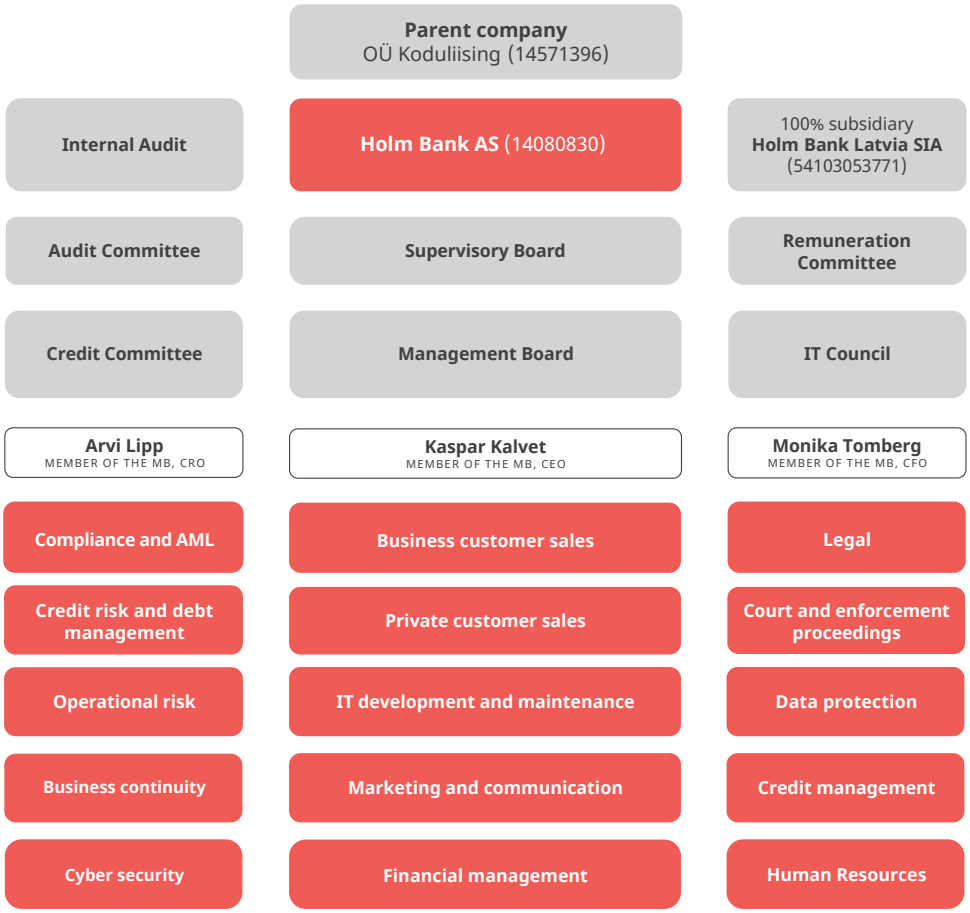
The sole owner of the Group is OÜ Koduliising, that is owned 100 % by Arne Veske, who is also the ultimate beneficiary and controlling party of the companies within the Group.

Group structure

The structure of the Group is designed and approved by the Group's management board according to the guidelines given by the supervisory board and taking into consideration the Group's business activities and future development plans.

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.

Group's structure as of 31.12.2022 is given on the following diagram:



Committees

The Group has established the following committees:

Audit committee, formed by the supervisory board and acts as an advisory body in respect to accounting, audit, internal controls, and internal audit topics, as well as fulfils the tasks of the risk committee.

Credit committee, formed by the management board and acting as per guidelines approved by the supervisory board, is a competent decision-making body in regard to taking credit decisions.

IT development committee, formed by the manage-

ment board, evaluates the Group's IT related development needs and coordinates IT development priorities.

Remuneration committee, formed by the supervisory board, is a competent body that mainly monitors the remuneration of managers and employees and evaluates the implementation of the remuneration principles at least once a year.

Proportionally to the nature, extent, and the level of complexity of the Group, there are no risk committee and nomination committee established in the Group. The tasks and the roles of the risk committee are executed by the audit committee and those of the nomination committee are executed by the supervisory board of the Group.

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 based on 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:

1. The first level constitutes internal control that takes place internally within each division. This line takes risks and is 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.

2. The second level is made up of risk management and compliance function that operates as autonomous and independent control unit. 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 risk management function assists in the implementation of risk management measures by the business units in order to ensure that the process and controls in place at the first line of defense are properly designed and effective.

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. Both functions may intervene to ensure the modification of internal control and risk management systems within the first line of defense where necessary.

3. The third level comprises the internal audit unit. Third line 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. The internal audit function is in charge also of the independent review of the first two lines of defense. The internal audit function performs its tasks fully independently of the other lines of defense.

Remuneration policy

The Group has developed a unified remuneration policy that has been approved by the remuneration committee and the supervisory board. Adherence to objectives set by remuneration policy is controlled by the internal auditor. The policy sets the main principles of remuneration that ensure the sustainable motivation and development of the employees, clarity, and transparency in determining remuneration and any related privileges, and the basis of payment of variable compensation.

The compensation structure consists of two components - basic salary, which is fixed pay agreed between employee and the Group within the employment contract; and the variable fee, which is an additional pay that also includes performance-based bonuses.

Bonuses are paid on the conditions set in the policy, additional conditions are set for employees that perform such tasks, that their activities affect materially the Group risk profile. The basic salary and performance fee are reasonably balanced. The sum of performance fee is confirmed by the remuneration committee and 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 contract of services.

Consolidated financial key parameters

thousands of euros	2022	2021
Net interest income	12 220	13 427
Net fee income (expense)	-2 050	-1 752
Other income	1 188	1 645
Net operating income	**11 358**	**13 320**
Expenses	-9 224	-7 765
Profit before credit losses	**2 133**	**5 555**
Net allowance for credit losses on financial instruments	-3 265	-4 313
Income tax	-18	-233
Profit (loss) for the year	**-1 149**	**1 009**
Net profit attributable to owners of the parent	-1 149	992
Average assets	108 633	83 318
Average equity attributable to owners of the parent	17 660	18 340
Net loan portfolio as at the end of the period	97 943	61 954
Total assets as at the end of the period	128 336	88 930
Total deposits as at the end of the period	104 372	64 311
EBITDA, th.EUR	5 276	7 315
ROA %	-1,1%	1,2%
ROE %	-6,5%	5,5%
AU %	13,9%	19,6%
CFROI %	12,1%	29,5%
CIR %	81,2%	58,3%
NIM %	17,6%	24,7%
SPREAD %	17,6%	24,7%
Loan to asset %	76,3%	69,7%
Loan to deposits %	93,8%	96,3%
Capitalization ratio %	17,4%	29,4%
Gross non-performing loan ratio %	2,3%	5,1%
Equity ratio %	13,3%	20,5%
LCR %*	237,4%	224,3%
NSFR %*	145,2%	161,7%
Leverage ratio %*	15,0%	20,7%

Explanations:
*Capital adequacy levels (LCR, NSFR, leverage ratio) are calculated according to COREP report as at the end of the period on unconsolidated level.
EBITDA (profit/loss before taxes, depreciation and interest expense)
Return on assets (ROA) = net profit (attributable to owners of the parent company) / average assets * 100
Return on equity (ROE) = net profit (attributable to owners of the parent company) / average equity (attributable to owners of the parent) * 100
Asset utilization (AU) = total revenue / average assets * 100
CFROI = Operating profit / average equity (attributable to owners of the parent) * 100
Cost to income ratio (CIR) = total operating expenses / net operating 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
Capitalization ratio = total equity / net loan portfolio * 100
Gross non-performing loan ratio = gross non-performing loan portfolio / total gross loan portfolio * 100

Capital base

thousands of euros	31.12.2022	31.12.2021
Paid-in share capital	50	50
Share premium	14 471	14 471
Other reserves	5	5
Accumulated profit	6 640	5 421
Profit or loss eligible	-534	1 219
Financial sector entities where the institution has a significant investment	-5 151	-5 151
Intangible assets (subtracted)	-693	-788
The applicable amount of insufficient coverage for non-performing exposures	-2	-2
Tier 1 own funds	14 786	15 225
Additional Tier 1 capital	0	0
Total Tier 1 capital	14 786	15 225
Total Tier 2 own funds	3 500	3 500
Total net own funds	**18 286**	**18 725**
Capital requirements		
Regional governments or local authorities	17	4
Credit institutions under standard method*	2 428	2 563
Retail exposure under standard method	42 260	32 694
Corporates exposure under standard method	753	753
Residential mortgages	2 219	123
Commercial mortgages	1 012	780
Overdue exposure under standard method	3 012	3 777
Other assets under standard method	3 316	3 563
Total capital requirements for covering the credit risk and counterparty credit risk	**55 018**	**44 258**
Capital requirement against foreign currency risk under standard method	0	2 874
Capital requirement for operational risk under base method	19 515	18 590
Total capital requirements for adequacy calculation	**74 533**	**65 722**
Capital adequacy (%)	19,8%	23,2%
Tier 1 Capital Ratio (%)	19,8%	23,2%
Core Tier 1 Capital Ratio (%)	24,5%	28,5%

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

Sustainability goals

The bank is a responsible bank of good plans. All Group companies are responsible in their lending policies as well as more broadly in the society, helping to create value at individual and societal level, create jobs and improve the quality of life.

We care about our employees by continuously improving our work processes and are working towards improving our employees' welfare and support their professional and personal growth. We prioritize gender equality and follow a strict policy of non-discrimination. The Group remuneration policy is transparent and fair. We value work and life balance. The Group operates on the principles of flexible working and allows flexible working hours and work from home to all employees, whose nature of the work allows for it. We provide additional health insurance on company's expense and support employees on important family occasions.

The Group has prioritized charity and has been a long-standing supporter of several cultural events, young sportsmen etc.

We contribute to the green transition and think actively, what we could do for the benefit for the society and work towards this objective. We help the country and society to achieve climate goals by supporting companies that act with climate objectives in mind and develop sustainable economy. We are in the process of establishing principles that exclude financing of projects that contradict the principles of sustainability and climate goals. Environmental impact estimation in consideration of environment related regulations and their possible changes will have an important place in those principles.

The Group is in the process of establishing its sustainability objectives, so that we could help even more and give our support to the society in achieving the sustainability goals.

Social responsibility and creation of economic value

At Holm we believe that a healthy and active lifestyle sharpens the mind and creates the conditions for the creation of good plans. The slogan of the bank is "Holm – the bank of good plans" and so we try to act on good plans ourselves as well as help others do the same. In 2022 we continued to support sports and cultural events as well as several charity projects.

At the end of the year, we helped to fulfil childrens' dreams by supporting SA Heategevusfond Minu Unistuste Päev. The purpose of this organization is to bring joy to the children that are combatting diseases. In addition to the financial support offered by the Bank the employees of the Bank also contributed by organizing a charity fair, where there were sold self-made handicraft items and foodstuff. The proceeds were donated to charity to support children combatting diseases.



We also continued our tradition of supporting the Christmas party of Haapsalu Viigi Kool. We donated a Christmas tree and helped to fill the wheel of presents with things donated by the Bank and employees. The children enjoyed the presence of our employees in the party where we could all do handicraft together and create Christmas decorations.



Through the years we have supported different fields of sports. Our purpose is to help the training conditions, better sports results and to propagate sporty lifestyle.

For several years we have supported the cycling club Cycling Tartu MTÜ (prior called Ampler-Tartu2024 Cycling Team, now Tartu2024 Cycling Team). As a thank you for our support the club has decorated its helmets with Holm logo.



We also continued to support Haapsalu Korvpalliklubi. The members of the club proudly wear competition shirts with Holm logo and inspire through their activities young people from the area to be active and practice sports.





From the fall of 2022 Holm expanded the number of clubs we support to Virumaa as we started to support MTÜ Rakvere Korvpall activities.



Holm continues to support the football club Welco that in addition to good sports results has continued to build its home stadium in Tartu. The football park construction has been delayed due to the pandemic and the increase in construction prices, but it is planned to complete it by summer of 2023. The park is named after Holm and will provide good training opportunities to sportsmen as well as amateurs.



In 2022 summer, we supported a youth football festival in Haapsalu that gave the opportunity for a variety of kids all over Estonia to compete in football.



We continued cooperation with children and youth club Kratila that keeps kids in sports on a daily basis and in addition offers them nice sports camps during school holiday, so that children can spend their free time in a sporty and healthy way.



Holm sailboat Matilda 4 team, that included Holm supervisory board members Kelly Veske and Arne Veske, continued with great achievements! In August 2022 the team won a silver medal in ORC European Championships held in Norway.



At the end of the summer, we supported the Valge Daam chess tournament in Haapsalu that enriched the summer program of the town and brought together chess enthusiasts from the area as well as from afar.



The summer sport season was ended by the Estonian and Baltic top horse-riding competition Tallinn International Horse Show that Holm supported already for the second year in a row. This is an important event for sportsmen as well as the entire horse-riding community, but additionally it offers a lot for everybody that love these elegant animals and the adrenaline coming together with the competition. Probably more than one child will find their way to horse riding practice from watching this event and maybe someday they will take part as competitors also.



In the wintertime we continued to support a skiing team that in addition to one of the best skiers in Estonia, Henri Roos, represent a lot of other ambitious skiers who actively and successfully took part in different competitions but also helped to teach Holm employees to become better skiers.



Holm contribution to the culture is mainly related to supporting music events and in 2022 Holm continued to support TAFF:fest, Harmonica Festival and Augustibluus, all of which have become much awaited events by the music enthusiasts.



Holm employees follow active lifestyle also in their private daily lives and almost every Holm employee has a hobby, be it something in the field of sports or related to culture – balance is important in everything, and it creates the basis to achieve good results.

Economic value created by the Group

thousands of euros	2022	2021
Paid CIT	**135**	**327**
inc. Estonia	126	269
inc. Latvia	9	58
Paid labor taxes	**1 867**	**1 924**
inc. Estonia	1 793	1 806
inc. Latvia	74	118
Paid VAT	**94**	**232**
inc. Estonia	20	136
inc. Latvia	74	96
Total taxes paid	**1 961**	**2 156**
Net salaries paid	**3 233**	**2 684**
inc. Estonia	2 676	2 269
inc. Latvia	557	415
Jobs created	**12**	**14**
inc. Estonia	11	14
inc. Latvia	1	0
Paid to suppliers	**5 228**	**6 374**
inc. Estonia	3 329	4 953
inc. Latvia	1 899	1 421
Investments made	**3 400**	**4 323**
inc. Estonia	3 400	4 302
inc. Latvia	0	21
Dividends paid	**0**	**0**

Responsible lending

The principles of responsible lending in the Group shall be based on good banking practice and high ethical standards and principles of responsible lending. The activities of the Group should in no way compromise generally accepted ethical, environmental, and legal principles nor should the Group have transactions with counterparts suspected to have of questionable morality. A customer relationship is based on mutual trust.

When making positive loan decisions, we believe in the integrity, ability, and financial capacity of the customer to perform its obligations both for the private individual and, in case of business customers. We do not credit customers when it is likely that they are not able to service their liabilities. Credit granting procedures shall be composed in compliance with the principles of responsible lending and approved by the Management Board.

Consolidated financial statements

Consolidated statement of comprehensive income

thousands of euros	Note	2022	2021
Interest revenue calculated using the effective interest method		13 952	14 707
Interest expense calculated using the effective interest method		-1 731	-1 280
Net interest income	**5**	**12 220**	**13 427**
Fee income		0	6
Fee expense		-2 050	-1 753
Net fee income (expense)	**6**	**-2 050**	**-1 752**
Other income	7	1 188	1 645
Net operating income		**11 358**	**13 320**
Personnel expenses	8	-4 626	-3 654
Administrative and other operating expenses	8	-3 187	-3 631
Depreciation and amortisation expense	13-16	-1 411	-481
Credit loss expense on financial assets	11	-3 265	-4 313
Total operating expenses		**-12 489**	**-12 078**
Profit (loss) before income tax		**-1 132**	**1 241**
Income tax	9	-18	-233
Profit (loss) for the year		**-1 149**	**1 009**
Equity holders of the parent		-1 149	992
Non-controlling interest		0	16
Total other compehensive income (loss) for the year		**0**	**0**
Total comprehensive income (loss) for the year		**-1 149**	**1 009**
Equity holders of the parent		-1 149	992
Non-controlling interest		0	16

Notes on pages 25 to 91 are an integral part of the consolidated financial statements.

Consolidated statement of financial position

thousands of euros	Note	31.12.2022	31.12.2021
Assets			
Cash and balances with central bank	10	4 800	3 048
Amounts due from credit institutions	10	13 035	13 979
Receivables from customers	12	190	123
Loans and advances to customers	11	97 943	61 954
Other assets	12	930	1 142
Investment property	13	929	964
Property, plant and equipment	14	621	644
Right-of-use assets	15	815	932
Intangible assets	16	9 072	6 143
Total assets		**128 336**	**88 930**
Liabilities			
Deposits from customers	17	104 372	64 311
Loans received	17	136	174
Bonds and other securities	17	3 523	3 523
Lease liabilities	15	873	976
Other liabilities	18	2 346	1 711
Total liabilities		**111 250**	**70 695**
Equity			
Share capital	19	50	50
Share premium	19	14 471	14 471
Statutory reserve	19	5	5
Retained earnings	19	2 560	3 709
Total equity attributable to parent		17 086	18 235
Total equity attributable to non-controlling interest		0	0
Total equity		**17 086**	**18 235**
Total liabilities and equity		**128 336**	**88 930**

Notes on pages 25 to 91 are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

thousands of euros

	Note	2022	2021
Paid interests		-1 252	-940
Cash payments for the interest portion of the lease liability	15	-11	-15
Received interests		13 533	14 370
Paid fees		-200	-196
Received fees		727	9
Paid out to customers		-82 998	-57 704
Loan principal repayments		43 269	48 137
Paid out to related parties		-175	-1 999
Repayments of related party loans		1	1
Received loans	17	0	187
Principal repayments of received loans	17	-37	-13
Principal repayments of related party loans	21	0	-50
Changes in limit account		558	3 450
Received deposits		71 649	22 112
Deposit repayments		-30 943	-13 008
Paid prepayments		-1 085	-635
Received prepayments		918	375
Paid trade payables		-5 234	-6 374
Received debts from buyers and received other claims		-12	782
Received from written off loans	11	899	1 333
Paid net salaries		-3 233	-2 684
Paid tax liabilities, exc. CIT		-1 867	-1 924
Paid CIT (corporate income tax)		-135	-327
Cash flows from operating activities		**4 371**	**4 886**
Additions of property, plant, equipment and intangible assets		-3 400	-2 070
Received from the sales of property, plant, equipment and intangible assets		0	1
Cash flows from investing activities		**-3 400**	**-2 070**
Repayment of principal portion of lease liabilities	15	-122	-135
Redemption of minority shares	4	0	-2 253
Received from issuing bonds	17	0	3 500
Cash flows from financing activities		**-122**	**1 113**
Change in cash and cash equivalents		**849**	**3 929**
Cash and cash equivalents at the beginning of the period		**17 028**	**13 151**
Net increase/(decrease) in cash and cash equivalents		849	3 929
Net foreign exchange differencies		-42	-53
Cash and cash equivalents at the end of the period	**10**	**17 835**	**17 028**

Cash and cash equivalents comprise		31.12.2022	31.12.2021
Cash on hand		0	0
Non-restricted current account	10	13 035	13 979

Notes on pages 25 to 91 are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

thousands of euros	Note	Share capital	Share premium	Statutory reserve	Retained earnings	Total	Non-controlling interest	Equity
Balance as at 01.01.2021		**50**	**14 471**	**5**	**3 919**	**18 444**	**1 035**	**19 479**
Profit/loss for the year		0	0	0	992	992	16	1 009
Other comprehensive income/loss		0	0	0	0	0	0	0
Total comprehensive income/loss		**0**	**0**	**0**	**992**	**992**	**16**	**1 009**
Redemption of minority shares	4	0	0	0	-1 202	-1 202	-1 051	-2 253
Balance as at 31.12.2021		**50**	**14 471**	**5**	**3 709**	**18 235**	**0**	**18 235**
Balance as at 01.01.2022		**50**	**14 471**	**5**	**3 709**	**18 235**	**0**	**18 235**
Profit/loss for the year		0	0	0	-1 149	-1 149	0	-1 149
Other comprehensive income/loss		0	0	0	0	0	0	0
Total comprehensive income/loss		**0**	**0**	**0**	**-1 149**	**-1 149**	**0**	**-1 149**
Balance as at 31.12.2022		**50**	**14 471**	**5**	**2 560**	**17 086**	**0**	**17 086**

Notes on pages 25 to 91 are an integral part of the consolidated financial statements.

HOLM

Bank of good plans.

Notes to the consolidated financial statements

Corporate information

Holm Bank AS together with its subsidiary provides retail and corporate banking. The main area of activity is the issuance of small loans in the form of consumer loans, instalments, credit cards, home and mortgage loans, leasing and business loans. Group grants credits in Estonian and Latvian marketplaces, and until November 2021 also in Sweden. Deposits are involved in Estonian, German and Austrian markets.

The Bank is a credit institution with a concentrated circle of owners. The ultimate controlling party of Holm Bank AS is OÜ Koduliising, whose sole shareholder is Arne Veske.

The registered address of the Bank is Posti tn 30, Haapsalu City, Estonia.

On April 2nd 2019, the European Central Bank issued a credit institution license to Holm Bank AS.

Since February 2021 the Group has been the owner of 100% shares in Latvian entity Holm Bank Latvia SIA, when the minority of 48,93% was acquired. The acquisition took place as a result of a transaction between companies under common control (see Note 4).

Since August 2020, a virtual card service was offered as a cross-border service in the Swedish market. By the end of 2021, the sales targets could not be realized, which was primarily limited by the poor credit quality and high risk of fraud. In November 2021, the Supervisory Board decided to close down the cross-border operations in the Swedish market. In the beginning of 2022, the total on balance Swedish portfolio was sold.

The consolidated financial statements for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of Management Board on 28th April 2023.

The shareholder of the Group has the right for compelling reasons not to approve the prepared report and to demand the preparation of a new report. The audit company Ernst & Young Baltic AS (registry code: 10877299, address Rävala pst 4, 10143 Tallinn) and the lead auditor Olesia Abramova (identity code 48010214216, auditor's professional certificate no. 561) act as the auditor of the group. The auditor of the Group has not provided any services during 2022, which are not permitted according to the Auditors Activities Act of the Republic of Estonia.

Basis of preparation

In addition to Holm Bank AS, the consolidated financial results presented in current 2022 report include also financial results of Holm Bank Latvia SIA, in which Holm Bank AS had until February 2021 51,07% direct ownership, and after that 100%.

Current consolidated financial statements of 2022 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and their interpretations as adopted by the European Commission to be effective for the year 2022.

These statements have been prepared on a historical cost basis and on going concern basis and are presented in euros and all values are rounded to the nearest thousands except when otherwise indicated.

The preparation of consolidated annual report in accordance with IFRS requires the Management Board to use critical accounting estimates in certain areas (see Note 2).

The Group presents its statement of financial position in order of liquidity based on the Group's intention and perceived ability to recover/settle assets/liabilities item of the corresponding financial statement line.

An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in Note 3.20.

The original consolidated financial statements of the Group have been prepared is Estonian. In case of any conflicts with the version translated into English, the Estonian version shall prevail.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at 31 December 2022.

Subsidiary is an entity over which the Bank has control. The Bank controls an entity when the Bank 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.

The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Bank gains control until the date the Bank ceases to control the subsidiary.

Intra-group receivables and liabilities, transactions and unrealized gains and losses on transactions between the Group entities are eliminated in full upon consolidation.

Profit or loss and each component are attributed to the equity holders of the parent of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiary to bring their accounting policies in line with the Group's accounting policies.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Subsidiary

Financial statements of the subsidiary have been amended, where necessary, to bring its accounting principles into conformity with the accounting principles adopted by the Bank. The financial year of the subsidiary coincide with the parent financial year. The subsidiary is consolidated in the financial statements from the date on which control is transferred to the Group.

Business combinations under common control are accounted for using the 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.

Goodwill does not arise from the recognition of such a business combination. The difference between the cost of the acquisition and the carrying amount of the acquired net assets is recognized in equity. Any non-controlling interest is measured as a proportionate share of the book values of the related assets and liabilities.

Any transaction costs 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 Bank accounts for the combination prospectively from the date on which it occurred.

In consolidated statement of comprehensive income non-controlling interest's share of profit or loss is presented separately from profit or loss attributed to owners of the parent. Also non-controlling interest's share in subsidiary's equity is recognized in consolidated statement of financial position separately from the equity attributable to the owners of the parent.

Unconsolidated primary financial statements of the parent disclosed in the notes to the consolidated financial statements

The parent company's primary financial statements in Note 22 are prepared using the same accounting principles that have been used for preparing the consolidated financial statements, except for the investment in the subsidiary, which is measured at cost in the unconsolidated financial statements, and which is tested for impairment in case indications of impairment exist.

Recognition of interest income and expenses

Under IFRS 9 interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortized cost. The Group calculates interest income by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets and purchased or originated credit impaired (POCI) financial assets.

If a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3' (NPL), the Group calculates interest income by applying the effective interest rate to the net amortized cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

The credit risk-adjusted effective rate is the rate that exactly discounts estimated future cash flows (including credit losses) to the amortized cost of a financial asset that is estimated to be impaired. Thus, other character-

istics of potentially different interest rates and product life cycles are taken into account at different stages.

The assessment of cash flows bases on the assumption that the customer makes payments in accordance with the agreed terms.

Foreign currency transactions, assets and liabilities

The functional currency of the Bank and presentation currency of these consolidated financial statements is Euro. For each entity in the group, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation.

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. Transactions in foreign currencies are initially recorded in the functional currency at the spot currency exchange rates ruling at the date of the transaction. Foreign exchange gains and losses resulting from revaluation are recognized in the statement of comprehensive income as finance income and expenses of that period.

Non–monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values of financial assets or liabilities, including derivative financial instruments, in active markets are based on quoted market prices.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 —Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Fair value hierarchy for financial instruments is disclosed in Note 3.21.

Cash and cash equivalents

Cash and cash equivalents in the statements of financial position and cash flows comprise non-restricted cash at banks and short-term deposits with an original maturity of three months or less, which are subject to an insignificant risk of changes in value. Group's consolidated and unconsolidated cash flow statements are prepared by using the direct method for the reflection of operating activities.

Accounting principles of financial instruments

Initial recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument.

Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Group recognizes balances due to investors when funds are transferred to the Group.

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value (as defined in Note 3.21) and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

- Amortized cost
- FVOCI
- FVPL

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied.

Currently no trading and derivative instruments are recognized in this report.

Financial assets - classification and subsequent measurement

Debt instruments

Debt instruments are those instruments which 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 might sell debt instruments hold to collect contractual cash flows in case of their credit deterioration.

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 measures 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 (SPPI), 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.

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.

Modification of loans

As per customer's request the Group may renegotiate the contractual terms. The Group regularly monitors the adequacy of the credit loss allowances for financial assets in relation to the expected credit loss over its lifetime and also takes these circumstances into account when changing the terms of the agreement, classifying the loan into forbearance if necessary. The bases of such classifications are described in more detail below in the section of Definition of default. 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. The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has

not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Group considers the following factors:

- Change in currency of the loan
- Change in loan maturity
- Change in the interest rates
- Change in expected cash flows
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition.

Based on the change in cash flows discounted at the original EIR, the Group records a modification

gain or loss, to the extent that an impairment loss has not already been recorded (see Note 5).

For financial liabilities, the Group considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than 10%. For financial assets, this assessment is based on qualitative factors.

Derecognition of financial assets

Financial assets are derecognised from the statement of financial position when a change in the contractual terms results in a material change in the contractual cash flows, as described in the previous paragraph. The Group also 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 assets are derecognized when collection is no longer considered probable. Based on the Group's previous practice regarding the decrease in the probability of receivables collection, automatic write-offs for receivables over 365 days past due have been systematically implemented. Collection is not limited to write-offs and will be continued as off-balance sheet.

If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount, and after that derecognized. Any subsequent recoveries are credited to other income.

Financial liabilities

Financial liabilities are initially recognized on the balance sheet at their acquisition cost. After initial measurement, debt issued and other borrowed funds are subsequently measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the EIR.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

Impairment of financial assets

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 cash flows due to the Group in accordance with the contract; and cash flows that the Group 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.

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 on the basis of shared credit risk by instrument type and credit risk ratings.

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

- Instalments;
- Consumer loans;
- Car loans;
- Credit cards;
- Business loans;
- Home loans;
- Mortgage loans.

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

The Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, in this section all referred to as 'financial instruments'. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). Details on how the Group determines if there has been a significant increase in credit risk are set out in Note 3.4 -3.15.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on collective basis.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1 – -The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events

on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date.

These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.

Stage 2 – When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3 - For loans considered credit-impaired, the Group recognizes the lifetime expected credit losses. The method is similar to that for Stage 2 assets, with the PD set at 100%.

The internal credit rating for these customers is black.

Group didn't have POCI assets as of 31.12.2021 and 31.12.2020.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

Impairment losses and releases are accounted for as an adjustment of the financial asset's gross carrying value.

The main parameters the Group uses in assessing credit risk are the probability of default (PD), loss given default (LGD) and exposure at default (EAD).

Definition of default

The Group considers a financial instrument defaulted for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments, which exceed absolute and

relative materiality thresholds (for retail 1% relative and 100 euros absolute and for non-retail 1% relative and 500 euros absolute) or if the correspondent event should result in treating the customer as defaulted. The Group has aligned its definition of credit impaired assets under IFRS 9 to the European Banking Authority (EBA) definition of non-performing loans (NPLs).

As a part of a qualitative assessment of whether an exposure is credit-impaired, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations.

Such events include:

- An exposure is forborne or modified due to financial difficulties of the borrower
- Internal rating of the borrower indicating default
- The borrower requesting emergency funding from the Group
- The borrower having past due liabilities to public creditors or employees
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Group
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/ protection
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least 12 consecutive months.

The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

The Group's Credit Risk Department operates its internal rating models, by running separate models for its key portfolios in which its customers are rated with colors from white to black for internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenario as appropriate.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contractor otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Group determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Group's models.

Loss given default

The Loss Given Default reflects the economic loss that may occur in the event of default of more than 90 days on the basis of country specific loss rates identified using historical loss statistics.

It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral or credit enhancements that are integral to the loan and not required to be recognised separately. It is usually expressed as a percentage of the EAD.

Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI receivables. The inputs for these LGD rates are estimated and, where possible, calibrated through backtesting against recent recoveries. These are repeated for each economic scenario as appropriate.

The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate.

These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Group segments its retail and corporate lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the group.

Probability of default

The definition of probability of default corres-ponds to the definition used in Group risk management. This is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The probability of default reflects how high is the probability that the loan customer will experience a settlement default of more than 90 days by the 12th month after the assessment.

Forward looking information

In its ECL models, the Group relies on the following forward-looking information as economic input (Note 3.10-3.11):

- Unemployment rate
- Labor productivity and unit labor cost
- Average gross wages growth

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustment when such differences are significantly material.

Time horizon

Generally, time horizon used to analyze the information from the past is considered at least 12 month. 12-month-horizon is also used the other way for forward-looking estimates.

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.
- As a part of a qualitative assessment of whether an exposure is credit-impaired, the Group also considers a variety of instances that may indicate unlikeliness to pay.

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 are instrument type and credit risk ratings.

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.

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.

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).

Description of the internal credit grading system are the following:

- **White** – new contract that has no historical information and contractual payments have been due not more than 30 days. This includes contracts where the customer is still relatively unknown and his/her payment history is insufficient to make more up-to-date credit decisions.
- **Green** – contractual payments have been paid on time or at a maximum been due for 7 days. The improvement can only take place by one step throughout the contract period, provided that the customer's payment behavior has been impeccable in the last 3 months, ie can be improved to green.
- **Yellow** – contractual payments have been due for 8 – 30 days (customers with known history). The improvement can only take place by one step throughout the contract period, provided that the customer's payment behavior has been impeccable over the last 3 months, ie can improve to green.
- **Red** – contractual payments have been due for 31 – 90 days. The improvement can only take place by one step during the entire contract period, provided that the customer's payment behavior has been impeccable during the last 3 months, ie it cannot be better than yellow. Contracts with higher risk due to the economic sector must immediately fall into this rating class. During reporting period the contracts related to restaurants, accommodation services and travelling sectors were automatically classified as carrying higher risk.
- **Black** – contractual payments have been due for over 90 days. Improvement can take place in condition that the customer's payment behavior has been impeccable within the last 3 months. However, it can only go back one level from the black rating to red. In the case of forbearance, the improvement can only take place if the payment behavior is correct during last 12 months and by only one step throughout the contract period.

The following table illustrates an overview of the assessment of a significant increase in credit risk based on a days past due classification, but is not exhaustive and the other criterias described above must be considered in conjunction with the table below:

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

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) European Central Bank, Bank of Estonia, Bank of Latvia, and local Ministries of Finance.

Macro-economic scenarios are monitored actively and developments in macro-indicators are incorporated as new data becomes available. The macro-economic scenarios developed are documented separately.

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. Stock of loans overdue data from Bank of Estonia and Bank of Latvia were used as a proxy of default rates. The following macro indicators were used for statistical analysis:

- Unemployment rate
- Average gross wages growth
- Gross domestic product change
- Consumer price index change

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.
- 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.
- Gross domestic product is the indicator which is calculated as the ratio of real gross domestic product to the average population of a specific year. It is a limited measure (for example not including unpaid household work nor considering negative effects of economical environmental degradation), but gives input of economic activity and is also used as a proxy for the development in a country's material living standards.
- Consumer price index is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the consumer price index are used to assess price changes associated with the cost of living. The consumer price index is one of the most frequently used statistics for identifying periods of inflation or deflation.

Expert judgement

The Group uses both models and expert judgement in order to determine ECLs. The degree of judgement that is required to estimate ECL depends on the model outcome, materiality and the availability of detailed information. The model provides guidance and transparency as to how economic events could affect the impairment of financial assets. Model overlay may be applied to the modelled outcome to incorporate an estimated impact of factors not captured by the model. Such judgemental adjustment to the model-generated ECLs may be applied to significant exposures at a counterparty level or at a portfolio level. See Note 3.12.

Collateral valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms of real estate and other leased assets. Collateral, unless repossessed, is not recorded on the Group's statement of financial position. Cash flows expected from credit enhancements which are not required to be recognised separately by IFRS standards and which are considered integral to the contractual terms of a debt instrument which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL.

Collateral is generally assessed, at a minimum, at inception and re-assessed on a yearly basis. Details of the impact of the Group's various credit enhancements are disclosed in Note 3.13.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers or based on housing price indices.

Forborne and modified loans

The Group has not joined the national payment moratorium. The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral.

The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include significant concerns raised by the Risk Department.

Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. It is the Group's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

If modifications are substantial, the loan is derecognised and the loan is recognized by the modified terms. The Group also reassesses whether there has been a significant increase in credit risk and whether the assets should be classified as Stage 3.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing;
- The probation period of 12 months has passed from the date the forborne contract was considered performing;
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- No indicators would allow the Bank to consider the contract as defaulted.

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, 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.

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.

The Group tests property, plant and equipment and intangible assets (other than goodwill) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually. To this end, their carrying amount is compared 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.

Costs expensed before the capitalization criteria are met 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. Subsequent to initial recognition investment property is measured at cost less depreciation and impairment, if any.

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 up to 30 years for buildings The items for which depreciation rates are determined separately depend directly on the timing of use of the asset. 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 Group as lessee

Based on the IFRS 16 the lessees are 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.

See Note 15.

The Group as lessor

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

Taxes

Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date in the countries where the Group operates and generates taxable income. Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income respectively and not in the statement of profit or loss.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiary, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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, except for the temporary differences from certain investments in subsidiary, associates and joint ventures. As the parent controls the dividend policy of the subsidiary, it is also able to control the timing of the reversal of temporary differences associated with that investment. Therefore, if the parent has decided not to distribute such profits in the near future, the parent does not recognize a deferred income tax liability. If the parent has decided that dividends will be paid, the deferred income tax liability is recognized to the extent of those payments.

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 19 to the financial statements.

Advance income tax payments on profits at a rate of 14 per cent are made quarterly. The income tax paid in advance can be netted against tax payable on dividend distributions, where the tax rate is between 20 and 14 per cent. No deferred tax liability is recognised related to possible future tax costs on dividends from Estonia.

Corporate income tax in Latvia

Legal entities have not been required to pay income tax on earned profits starting from 1 January 2018 in accordance with amendments made to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax is paid on distributed profits and deemed profit distributions.

Consequently, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. Starting from 1 January 2018, both distributed profits and deemed profit distributions have been subject to the tax rate of 20 per cent of their gross amount, or 20/80 of net expense.

Corporate income tax on dividends is recognized in the profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year.

Provisions and other contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Group determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the income statement net of any reimbursement in other operating expenses.

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings both in Estonia and in other jurisdictions, arising in the ordinary course of the Group's business.

When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed.

However, when the Group is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group does not include detailed, case-specific disclosers in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents.

Reserves

Statutory reserve

According to the Estonian Business Law § 336 (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 (§ 336 (2)) of share capital.

Statutory reserve may be used to cover a loss (§ 337 (1), or to increase share capital. Payments to shareholders from statutory and other reserves are not allowed (§ 337 (2).

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Group. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

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). Consequently, the related parties are the managers of the credit institution, the sole shareholder of the group or persons with an equivalent interest (spouses, children and parents).

Offset of the assets and liabilities

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

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position except when IFRS netting criteria are met.

During current reporting period the Group has made no offset between financial assets and liabilities.

Note 1

Adoption of new or revised standards and interpretations

The accounting policies have been applied consistently to all periods presented, except for the following new and / or amended IFRSs, which have been applied since 1 January 2022:

IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- IFRS 3 Business Combinations (Amendments) update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- IAS 16 Property, Plant and Equipment (Amendments) prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments) specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- Annual Improvements 2018-2020 make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

Management has assessed that the amendments will have no significant impact on the Group's financial statements.

New accounting pronouncements

IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)

The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures.

Management has assessed that the amendments will have no significant impact on the Group's consolidated 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, 2024 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 company issuing own equity instruments.

In November 2021, the Board issued an exposure draft (ED), which clarifies how to treat liabilities that are subject to covenants to be complied with, at a date subsequent to the reporting period. In particular, the Board proposes narrow scope amendments to IAS 1 which effectively reverse the 2020 amendments requiring entities to classify as current, liabilities subject to covenants that must only be complied with within the next twelve months after the reporting period, if those covenants are not met at the end of the reporting period. Instead, the proposals would require entities to present separately all non-current lia-

bilities subject to covenants to be complied with only within twelve months after the reporting period. Furthermore, if entities do not comply with such future covenants at the end of the reporting period, additional disclosures will be required.

The proposals will become effective for annual reporting periods beginning on or after 1 January 2024 and will need be applied retrospectively in accordance with IAS 8, while early adoption is permitted. The Board has also proposed to delay the effective date of the 2020 amendments accordingly, such that entities will not be required to change current practice before the proposed amendments come into effect. These Amendments, including ED proposals, have not yet been endorsed by the EU.

The Group presents the statement of financial position in the order of liquidity, therefore as per Management Board this change will have no material effect (except for the notes, which describe current and non-current assets and liabilities).

- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments) specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- Annual Improvements 2018-2020 make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

Management has assessed that the amendments will have no significant impact on the Group's financial statements.

IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)

The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors.

Management has assessed that the amendments will have no significant impact on the Group's consolidated financial statements.

IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. The amendments have not yet been endorsed by the EU. Management has assessed that the amendments will have no significant impact on the Group's consolidated financial statements.

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's current financial statements as the amendments are not effective, as well after the pronouncements will be effective.

IFRS 17: Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2023 with earlier application permitted, provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17. This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretional participation contracts. The Group does not issue contracts in scope of IFRS 17, management has assessed that the amendments will have no significant impact on the Group's financial statements.

Note 2

Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Management's estimates base on the experience in the past and their best knowledge, which is considered reasonable in current circumstances. Forward-looking estimates are based on known and past events and their consequences. Management regularly reviews such decisions and updates them when there exist indications that would require such changes in the estimates.

Estimates include impairment losses on financial assets, going concern, provisions and other contingent liabilities, capitalization of intangible assets, determination of the lease term for lease contracts with renewal and termination options. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognized in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/ estimates involved.

Impairment losses on financial assets

The expected credit loss model follows a "three-stage" approach based on changes in the credit quality of the financial instruments since their initial recognition.

The Group continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition.

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as the account becoming forborne. In certain cases, the Group may also consider that events are a significant increase in credit risk as opposed to a default.

Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets, the Group applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

In its ECL models, the Group relies on a broad range of forward-looking information as economic inputs, such as unemployment, unit labour and wages growth.

The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

The forward-looking adjustment is performed by comparing the forecasted economic inputs change for one year from reporting date, with the latest growth and rate changes available.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary. See Notes 3.11, 3.12, 3.13 and 12

Going concern

The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future.

Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Provisions and other contingent liabilities

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings both in Estonia and in other jurisdictions, arising in the ordinary course of the Group's business. When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed.

However, when the Group is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group does not include detailed, case-specific disclosers in its financial statements. Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

No significant litigation was identified that was likely to result in significant and measurable economic damage as of the reporting date. As of the reporting date, the Group has identified contingent liabilities arising from unused limits of customers, the realization of which is probable, but the amount of which cannot be accurately measured. See Notes 3.15 and 20.

Capitalization of intangible assets

For capitalization of expenses in process of developing Group's new core system and other IT systems management uses certain assumptions. Capitalization of salary expenses of IT personnel in the development phase is based on employee time sheets and personnel involved in development dedicate up to 100% of their time on developing new functionality. Therefore, up to 100% of salary expenses of involved personnel are capitalized under intangible assets. When an asset is ready for its intended use, its useful life is determined and considered whether the asset is impaired (as certain assets will be abandoned soon). In the last case, the value of the asset is reduced accordingly through the impairment of the asset in the statement of comprehensive income. See Note 16.

Determination of the lease term for lease contracts with renewal and termination options (group as a lessee)

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

See Note 15.

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Risk management

Note 3.1 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 behaviour towards taking risk (conservative, rational, aggressive), behaviour towards policy compliance and behaviour 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 must 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 defence” model to identify the functions within the Group responsible to address and manage the risks. The business units, as the first line of defence take risks and are responsible for their operational management directly and on a permanent basis. For that purpose, the necessary processes and controls are in place for business units 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 defence 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, pro-

vides 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 defence, 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 3.2 Own funds

The Group reports the compliance to capital requirements of Holm Bank AS only on unconsolidated level. Consolidated reporting is done based on parent company's, OÜ Koduliising, level. Both, Holm Bank AS and its consolidated figures on parent level have been in compliance with externally imposed capital requirements throughout the period.

Note 3.3 Capital management

For the evaluation of the ICAAP capital requirement the Group compares aggregated risks with its capital, in order to evaluate the adequacy of internal capital.

The main elements of the Group capital management are:

- regular and continuous assessment of current capital requirements;
- continuous assessment possible future capital requirements ("capital planning");
- capital planning and allocation;
- continuous monitoring of SREP capital requirements;
- determining internal capital buffer as indicator.

If the assessment of internal capital adequacy for aggregated risks is higher than Regulatory capital requirements, the Group holds capital to at least the level of internal capital adequacy assessment.

If the assessment of ICAAP/ILAAP capital adequacy for aggregated risks is lower than Regulatory capital requirements, the Group holds capital to at least the level of Regulatory capital requirements.

As part of ICAAP/ILAAP the Group analyses the extent of each material risk that can be mitigated through capital, and other methods and procedures that should be implemented for risk management.

The Group is compliant with Estonian Credit Institution Act § 35 (2) and the initial capital requirement referred to Article 26 (1) (a)-(e) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council is fulfilled.

Note 3.4 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 is 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.

The Group target is to hold proportion of other assets (investments, fixed assets) risk credit minimal and the Group target risk appetite is rather conservative.

Credit risk with counterparties arise 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 loans shall be issued in Euro. As of reporting date all loans issued by the Group in Estonia and Latvia were nominated in 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.

Note 3.5 Maximum exposure to credit risk
thousands of euros

	Notes	31.12.2022	31.12.2021
Cash and cash equivalents	10	17 835	17 028
Loans and advances to customers	11	97 943	61 954
Guarantee deposits of credit cards	12	367	647
Total financial assets		**116 145**	**79 629**
Exposures related to off-balance sheet items	20	12 571	8 922
Total maximum exposure to credit risk		**128 716**	**88 551**

Note 3.6 Credit products



Instalment

The Group offers instalment products 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 thousand euros and the contract period is 120 months.



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. In Estonia we offer virtual card services as well. The purpose of the instalment payment is to pay for the purchased goods and services according to the payment plan. The Group offers a 15-day-interest-free period in Estonia and Latvia and there is no monthly fee on the card. The maximum credit limit is 5 thousand euros and the maximum the instalment period is termless in Estonia and 60 months in Latvia.



Small 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 thousand euros and the maximum repayment schedule is 120 months.



Home Loan

In the case of a home loan the purpose must be the acquisition of residential property (purchase and/or construction). The loan must be secured by mortgage. The loan limit is up to 400 thousand euros and the maximum repayment schedule is 360 months.



Mortgage Loan

In the case of a mortgage loan there are no restrictions to the purpose of the loan. The loan must be secured by mortgage. The loan limit is up to 400 thousand euros and the maximum repayment schedule is 360 months.



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 amount is 500 thousand euros and maximum lease period 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.



Business loan

Product called business trade credit 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. The maximum amount of business loans arises from the purpose of the credit application, the creditworthiness of the applicant and other possible circumstances affecting the loan application, with period of up to 60 months.

Note 3.7 Rating thousands of euros	**Notes**	**Rating agency**	**Credit institutions**	**Total 31.12.2022**
Central bank (The Bank of Estonia)		N/A	4 800	**4 800**
A- to A+		Standard & Poor's	4 529	**4 529**
Baa1		Moody's	8 506	**8 506**
Total	**10**		**17 835**	**17 835**

thousands of euros	**Lisa**	**Rating agency**	**Credit institutions**	**Total 31.12.2021**
Central bank (The Bank of Estonia)		N/A	3 048	**3 048**
A- to A+		Standard & Poor's	2 949	**2 949**
Baa1		Moody's	7 391	**7 391**
Total	**10**		**13 388**	**13 388**

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.

Note 3.8 Distribution of assets and liabilities by geographic region

31.12.2022 thousands of euros	Notes	Estonia	Latvia	Sweden	Germany	Austria	Total
Cash and cash equivalents	10	16 942	893	0	0	0	**17 835**
Guarantee deposits of credit cards	12	349	18	0	0	0	**367**
Loans and advances to customers	11	68 597	29 346	0	0	0	**97 943**
Total financial assets		**85 888**	**30 257**	**0**	**0**	**0**	**116 144**
Deposits from customers	17	29 882	0	0	68 783	5 707	**104 372**
Bonds	17	3 523	0	0	0	0	**3 523**
Loans from other institutions	17	136	0	0	0	0	**136**
Other financial liabilities	18	1 544	95	1	0	0	**1 639**
Total financial liabilities		**35 085**	**95**	**1**	**68 783**	**5 707**	**109 671**

31.12.2021 thousands of euros	Notes	Estonia	Latvia	Sweden	Germany	Austria	Total
Cash and cash equivalents	10	15 863	1 165	0	0	0	**17 028**
Guarantee deposits of credit cards	12	601	46	0	0	0	**647**
Loans and advances to customers	11	45 276	14 569	2 109	0	0	**61 954**
Total financial assets		**61 740**	**15 780**	**2 109**	**0**	**0**	**79 629**
Deposits from customers	17	25 056	0	0	35 761	3 494	**64 311**
Bonds		3 523	0	0	0	0	**3 523**
Loan liabilities from related parties	17	174	0	0	0	0	**174**
Other financial liabilities	18	912	54	1	0	0	**967**
Total financial liabilities		**29 664**	**54**	**1**	**35 761**	**3 494**	**68 974**



Note 3.9 Distribution of loans granted by industry (gross)

thousands of euros	Notes	31.12.2022	%	31.12.2021	%
Individuals		82 847	83,14%	55 805	88,03%
Wholesale and retail		4 375	4,39%	985	1,55%
Professional, scientific and technical activities		2 131	2,14%	414	0,65%
Manufacturing		2 057	2,06%	965	1,52%
Transport and logistics		1 485	1,49%	434	0,68%
Administrative activities		1 431	1,44%	607	0,96%
Accommodation and food service activities		1 394	1,40%	334	0,53%
Construction		845	0,85%	527	0,83%
Agriculture		641	0,64%	410	0,65%
Human health and social work activities		370	0,37%	148	0,23%
Other servicing activities		364	0,37%	2 142	3,38%
Activities of households as employers		347	0,35%	20	0,03%
Art and entertainment		239	0,24%	108	0,17%
Information and communication		224	0,22%	136	0,21%
Real estate activities		178	0,18%	315	0,50%
Other areas at activities		715	0,72%	39	0,06%
Total	**11**	**99 642**	**100,00%**	**63 390**	**100,00%**





Note 3.10 Selected macro-financial indicators

The most significant period-end assumptions, as outlined on the tables below are used for the ECL calculations as at 31 December 2022. The scenarios "base", "upside" and "downside" were used for all portfolios. For macro-financial indicators in each scenario and customer group is used actual end of 2022 values and forecasted values for 2023. To calculate the forward-looking view for the ECL model the changes of these values are adjusted with regression coefficients calculated based on historical data and for the results scenarios are weighted using the weights in the table below.

31.12.2022 General macro-financial indicators	Actual 2022	Base scenario 2023E	Downside scenario 2023E	Upside scenario 2023E
Retail customers in Estonia				
Unemployment rate, %	5,60%	7,30%	8,50%	6,20%
Wage growth, %	8,90%	8,50%	5,20%	9,70%
Consumer Price Index (change), %	19,40%	9,20%	9,30%	6,60%
Gross domestic product (change), %	-1,30%	0,40%	0,00%	0,70%
Corporate customers in Estonia				
Unemployment rate, %	5,60%	7,30%	8,50%	6,20%
Wage growth, %	8,90%	8,50%	5,20%	9,70%
Consumer Price Index (change), %	19,40%	9,20%	9,30%	6,60%
Gross domestic product (change), %	-1,30%	0,40%	0,00%	0,70%
Retail customers in Latvia				
Unemployment rate, %	6,85%	7,80%	8,10%	7,20%
Consumer Price Index (change), %	15,86%	9,00%	10,90%	8,30%
Gross domestic product (change), %	0,20%	-0,30%	-0,90%	0,40%

31.12.2021 General macro-financial indicators	Actual 2021	Base scenario 2022E	Downside scenario 2022E	Upside scenario 2022E
Retail customers in Estonia				
Unemployment rate, %	5,70%	5,50%	8,70%	4,90%
Wage growth, %	7,33%	6,50%	3,70%	7,40%
Gross domestic product (change), %	8,60%	3,70%	2,20%	4,00%
Corporate customers in Estonia				
Unemployment rate, %	5,70%	5,50%	8,70%	4,90%
Consumer Price Index (change), %	3,09%	2,80%	1,50%	3,60%
Gross domestic product (change), %	8,60%	3,70%	2,20%	4,00%
Retail customers in Latvia				
Unemployment rate, %	6,70%	6,90%	8,70%	6,60%
Consumer Price Index (change), %	2,00%	4,00%	1,50%	4,60%
Gross domestic product (change), %	4,80%	5,10%	2,20%	6,50%

Weightings assigned to each economic scenario at 31 December 2022	Base scenario	Downside scenario	Upside scenario
Weights of economic scenarios in Estonia	75,00%	20,00%	5,00%
Weights of economic scenarios in Latvia	65,00%	30,00%	5,00%

Weightings assigned to each economic scenario at 31 December 2021	Base scenario	Downside scenario	Upside scenario
Weights of economic scenarios in Estonia	75,00%	20,00%	5,00%
Weights of economic scenarios in Latvia	65,00%	30,00%	5,00%

Note 3.11 Sensitivity analysis

Set out below are the changes to the ECL as at 31 December 2022 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 percentage in each of the base, upside, downside scenarios):

31.12.2022 thousands of euros	Impact of increase	Impact of decrease
Unemployment rate +1%/-1%	9	-9
Consumer Price Index change +1%/-1%	0	0
Wage growth +5%/- 5%	-12	12
Gross domestic product change, +1%/-1%	-1	1

31.12.2021 thousands of euros	Impact of increase	Impact of decrease
Unemployment rate +1%/-1%	8	-1
Consumer Price Index change +1%/-1%	3	-3
Wage growth +5%/- 5%	-9	2
Gross domestic product change, +1%/-1%	-3	3

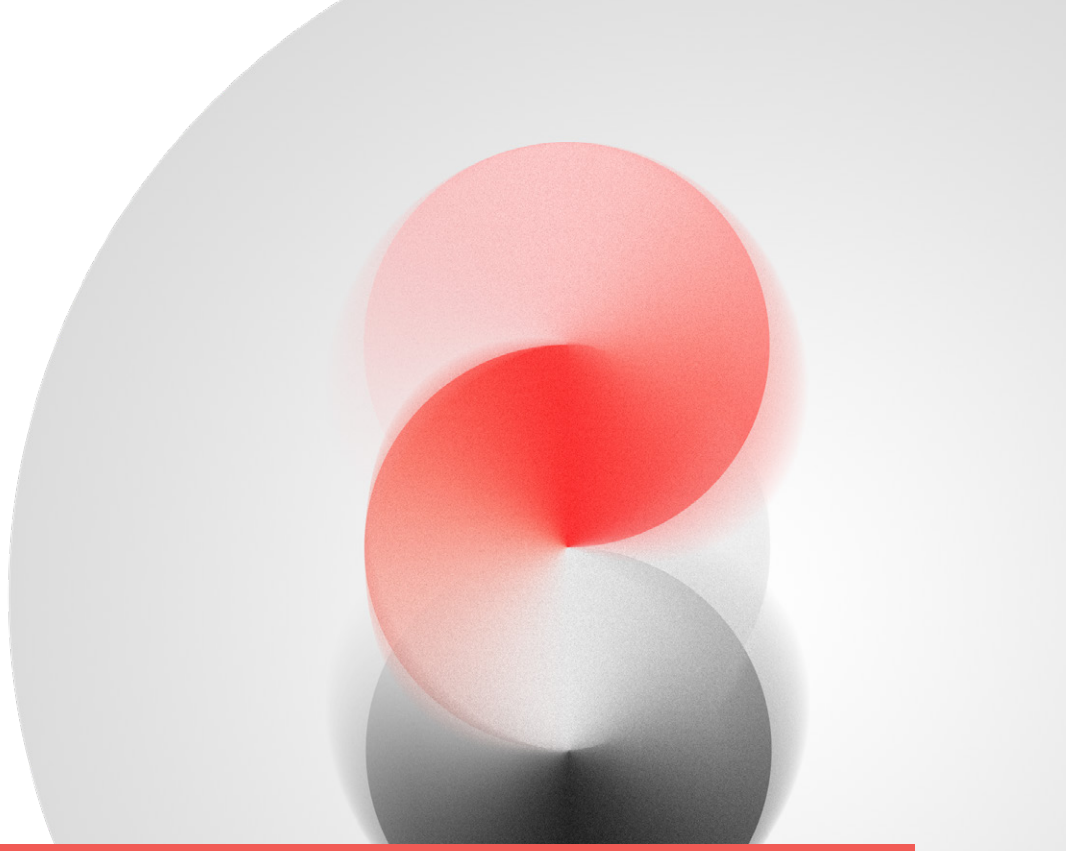
The Group has performed stress test scenarios when PD and LGD estimations will both increase by 1%. The impact of the described stress test to allowance is aggregated in the table below. The table includes loans, which have collective allowance, and which have material balances and potential impact.

2022 thousands of euros	Impact on ECL
LGD 1% increase	64
LGD 1% decrease	-64
PD 1% growth	104
PD 1% decrease	-104

2021 thousands of euros	Impact on ECL
LGD 1% increase	49
LGD 1% decrease	-48
PD 1% growth	95
PD 1% decrease	-93

Note 3.12 Expert judgement

The Group uses models and expert judgement for calculating ECL. The degree of expert judgement depends on model outcome, materiality and information available. Expert judgement may be applied to incorporate factors not captured by the models, either on counterparty or portfolio level. Considering the macroeconomic uncertainties and the uncertainties revealed in various data analyses including backtesting, overlays on portfolio level using expert judgement have been determined. As at 31 December 2022, model overlays made through expert judgement amounted to 236 thousand euros. The model overlays are reevaluated regularly in connection with the assessment of ECL allowances.



Note 3.13 Distribution of loans to stages by products

Instalment thousands of euros	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
31.12.2022				
White	2 553	105	7	**2 664**
Green	5 343	85	5	**5 433**
Yellow	443	327	7	**777**
Red	0	331	20	**352**
Black	0	7	366	**373**
Gross carrying amount	**8 338**	**855**	**405**	**9 599**
Loss allowances	-31	-17	-148	**-196**
Carrying amount	**8 308**	**838**	**257**	**9 403**

Instalment thousands of euros	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
31.12.2021				
White	2 708	105	3	**2 816**
Green	5 974	136	7	**6 118**
Yellow	652	361	4	**1 017**
Red	0	407	35	**442**
Black	0	2	429	**431**
Gross carrying amount	**9 334**	**1 011**	**479**	**10 824**
Loss allowances	-11	-24	-149	**-183**
Carrying amount	**9 323**	**988**	**330**	**10 641**



Credit card thousands of euros	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
31.12.2022				
White	86	1	0	**87**
Green	10 591	40	0	**10 631**
Yellow	1 126	256	2	**1 384**
Red	0	549	19	**567**
Black	0	11	392	**403**
Gross carrying amount	**11 802**	**858**	**413**	**13 073**
Loss allowances	-19	-6	-136	**-160**
Carrying amount	**11 784**	**852**	**277**	**12 913**

Credit card thousands of euros	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
31.12.2021				
White	128	0	0	**128**
Green	11 602	88	2	**11 693**
Yellow	1 692	567	2	**2 261**
Red	0	713	16	**730**
Black	0	20	1 005	**1 025**
Gross carrying amount	**13 422**	**1 388**	**1 026**	**15 836**
Loss allowances	-1	-2	-276	**-278**
Carrying amount	**13 421**	**1 387**	**750**	**15 558**



Small loan thousands of euros	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
31.12.2022				
White	7 629	158	17	**7 804**
Green	40 042	773	25	**40 839**
Yellow	2 663	1 489	56	**4 208**
Red	0	2 006	91	**2 096**
Black	0	23	1 008	**1 031**
Gross carrying amount	**50 334**	**4 448**	**1 197**	**55 979**
Loss allowances	-472	-263	-406	**-1 141**
Carrying amount	**49 862**	**4 184**	**791**	**54 838**

Small loan thousands of euros	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
31.12.2021				
White	3 460	56	0	**3 516**
Green	19 138	506	17	**19 661**
Yellow	2 066	1 164	25	**3 254**
Red	0	1 407	322	**1 729**
Black	0	4	1 070	**1 075**
Gross carrying amount	**24 664**	**3 137**	**1 434**	**29 235**
Loss allowances	-106	-263	-484	**-853**
Carrying amount	**24 558**	**2 874**	**950**	**28 382**



Home loan thousands of euros	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
31.12.2022				
White	1 451	0	0	**1 451**
Green	911	0	0	**911**
Yellow	0	0	0	**0**
Red	0	0	0	**0**
Black	0	0	0	**0**
Gross carrying amount	**2 362**	**0**	**0**	**2 362**
Loss allowances	-4	0	0	**-4**
Carrying amount	**2 358**	**0**	**0**	**2 358**

Home loan thousands of euros	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
31.12.2021				
White	0	0	0	**0**
Green	0	0	0	**0**
Yellow	0	0	0	**0**
Red	0	0	0	**0**
Black	0	0	0	**0**
Gross carrying amount	**0**	**0**	**0**	**0**
Loss allowances	0	0	0	**0**
Carrying amount	**0**	**0**	**0**	**0**

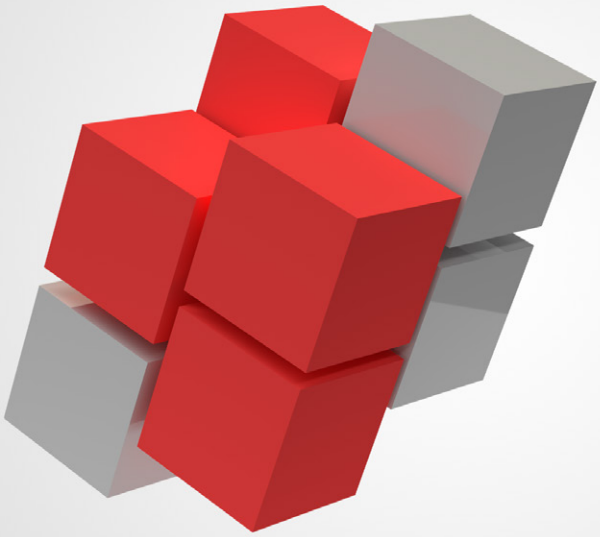


Mortgage loan thousands of euros	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
31.12.2022				
White	938	0	0	**938**
Green	985	0	0	**985**
Yellow	260	73	0	**333**
Red	0	0	0	**0**
Black	0	0	0	**0**
Gross carrying amount	**2 183**	**73**	**0**	**2 256**
Loss allowances	-3	-1	0	**-4**
Carrying amount	**2 180**	**73**	**0**	**2 252**

Mortgage loan thousands of euros	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
31.12.2021				
White	0	0	0	**0**
Green	0	0	0	**0**
Yellow	0	0	0	**0**
Red	0	0	0	**0**
Black	0	0	0	**0**
Gross carrying amount	**0**	**0**	**0**	**0**
Loss allowances	0	0	0	**0**
Carrying amount	**0**	**0**	**0**	**0**

Business loan thousands of euros	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
31.12.2022				
White	1 817	122	0	**1 938**
Green	7 618	496	0	**8 114**
Yellow	305	271	124	**700**
Red	0	51	0	**51**
Black	0	0	145	**145**
Gross carrying amount	**9 740**	**940**	**269**	**10 948**
Loss allowances	-24	-19	-146	**-188**
Carrying amount	**9 716**	**920**	**123**	**10 760**

Business loan tuhandetes eurodes	**Riskiklass 1** 12 kuu oodatav kahju	**Riskiklass 2** Lepingu-perioodi kahju	**Riskiklass 3** Lepingu-perioodi kahju	**Kokku**
31.12.2021				
White	160	0	0	**160**
Green	3 952	246	0	**4 199**
Yellow	95	259	0	**354**
Red	0	103	0	**103**
Black	0	0	228	**228**
Gross carrying amount	**4 208**	**609**	**228**	**5 045**
Loss allowances	-4	-19	-94	**-117**
Carrying amount	**4 204**	**589**	**134**	**4 927**



Leasing thousands of euros	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
31.12.2022				
White	1 053	5	0	**1 053**
Green	3 028	225	0	**3 253**
Yellow	574	459	0	**1 034**
Red	0	46	0	**46**
Black	0	0	39	**39**
Gross carrying amount	**4 655**	**731**	**39**	**5 425**
Loss allowances	-7	-5	-3	**-15**
Carrying amount	**4 648**	**726**	**36**	**5 410**

Leasing thousands of euros	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
31.12.2021				
White	145	5	0	**149**
Green	910	29	0	**939**
Yellow	949	29	0	**978**
Red	0	326	0	**326**
Black	0	0	58	**58**
Gross carrying amount	**2 004**	**389**	**58**	**2 451**
Loss allowances	0	0	-5	**-5**
Carrying amount	**2 004**	**389**	**54**	**2 446**

Note 3.14 Credit-impaired assets and the collateral held

31.12.2022 thousands of euros	Note	Gross carrying amount	Loss allowances	Carrying amount	Fair value of collateral held
Credit-impaired assets					
Business loans		**310**	**-149**	**161**	**40**
incl. leasing		39	-3	36	40
incl. business loan		269	-146	123	0
incl. Instalment		2	0	2	0
Loans to private individuals		**2 013**	**-689**	**1 324**	**0**
incl. instalment		403	-148	255	0
incl. credit card		413	-136	277	0
incl. small loan		1 197	-406	791	0
Total credit-impaired assets	**11**	**2 323**	**-838**	**1 485**	**40**

31.12.2021 thousands of euros	Note	Gross carrying amount	Loss allowances	Carrying amount	Fair value of collateral held
Credit-impaired assets					
Business loans		**286**	**-99**	**187**	**50**
incl. leasing		58	-5	54	50
incl. business loan		228	-94	134	0
Loans to private individuals		**2 938**	**-908**	**2 030**	**0**
incl. instalment		479	-149	330	0
incl. credit card		1 026	-276	750	0
incl. small loan		1 434	-484	950	0
Total credit-impaired assets	**11**	**3 225**	**-1 007**	**2 217**	**50**

Above are given financial assets that are credit-impaired and related collateral held in order to mitigate potential losses. In case of loan products – instalment, credit card, small loan, business loan - and in order to increase customer`s credit worthiness, the Group is asking from customers an extra guarantee. The fair value of the collateral held has been taken into account as a reducing factor in ECL models.

Loans against collateral as at 31.12.2022 thousands of euros	Instalment	Credit card	Small loan	Leasing	Business loan	Home loans	Mortgage loans	Total
Others	0	0	0	5 425	0	0	0	**2 527**
Real estate secured loans	0	0	0	0	8 622	2 362	2 256	**362**
Unsecured loans	9 599	13 073	55 979	0	2 326	0	0	**80 977**
Total	**9 599**	**13 073**	**55 979**	**5 425**	**10 948**	**2 362**	**2 256**	**99 642**

Loans against collateral as at 31.12.2022 thousands of euros	Instalment	Credit card	Small loan	Leasing	Business loan	Home loans	Mortgage loans	Total
Others	0	0	0	2 451	0	0	0	**2 451**
Real estate secured loans	0	0	0	0	2 796	0	0	**2 796**
Unsecured loans	10 825	15 836	29 234	0	2 248	0	0	**58 143**
Total	**10 825**	**15 836**	**29 234**	**2 451**	**5 045**	**0**	**0**	**63 390**

In the table above, collateral information of loans and advances are disclosed based on the collateral type and carrying value. The Group does not consider additional guarantee requested from customer as collateral, rather as enhancement of liquidity.

All such loans are presented in the table above as unsecured loans.

Note 3.15 Loss allowances for undrawn loan commitments

The Group constitutes provisions for unused credit card limit among loss allowances of loan portfolio. It is assumed that the additional impact on credit losses resulting from unused credit card limits is 5% of the existing credit card claim in use. See also Note 20.

Note 3.16 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 currency risk (FX risk), equity risk, and interest rate risk in banking book (IRRBB). The Group does not have exposure to 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. Interest rate risk in banking book arises naturally as part of business (mainly due to different maturities of customers loans and deposits).

Trading portfolio positions are 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.

Note 3.17 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 majority of assets and all liabilities of the Group are nominated in Euro.

Note 3.18 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 trading portfolio.

Note 3.19 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.

In 2022 the Group started to offer products related to EURIBOR as well. Since the portfolio related to EURIBOR is less than 5% the possible affect from interest rate changes is analysed in total portfolio level. As of 31.12.2022 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.

31.12.2022 thousands of euros	Note	Up to 3 months	Up to 3-12 months	1-5 years	Over 5 years	Sub-total	Accured interest	Loss allow-ances	Total
Financial assets									
Due from banks	10	17 835	0	0	0	**17 835**	0	0	**17 835**
Loans and advances to customers	11	16 705	17 573	48 863	14 377	**97 518**	2 124	-1 709	**97 933**
Total		**34 540**	**17 573**	**48 863**	**14 377**	**115 353**	**2 124**	**-1 709**	**115 768**
Financial liabilities									
Deposits from customers	17	7 435	50 695	45 066	0	**103 197**	1 175	0	**104 372**
Bonds	17	0	0	0	3 500	**3 500**	23	0	**3 523**
Loans from other institutions	17	3	34	99	0	**136**	0	0	**136**
Lease liabilities	15	35	131	623	51	**839**	0	0	**839**
Total		**7 473**	**50 860**	**45 788**	**3 551**	**107 672**	**1 198**	**0**	**108 870**
Net interest sensitivity gap		**27 067**	**-33 288**	**3 076**	**10 826**	**7 681**			
Cumulative net interest sensitivity gap		**27 067**	**-6 221**	**-3 145**	**7 681**				

31.12.2021 thousands of euros	Note	Up to 3 months	Up to 3-12 months	1-5 years	Over 5 years	Sub-total	Accured interest	Loss allow-ances	Total
Financial assets									
Due from banks	10	17 028	0	0	0	**17 028**	0	0	**17 028**
Loans and advances to customers	11	9 640	22 730	27 006	2 093	**61 469**	1 921	-1 436	**61 954**
Total		**26 668**	**22 730**	**27 006**	**2 093**	**78 497**	**1 921**	**-1 436**	**78 982**
Financial liabilities									
Deposits from customers	17	11 085	25 971	26 351	0	**63 406**	905	0	**64 311**
Bonds	17	0	0	0	3 500	**3 500**	23	0	**3 523**
Loans from other institutions	17	3	34	136	0	**174**	0	0	**174**
Lease liabilities	15	34	104	659	179	**976**	0	0	**976**
Total		**11 122**	**26 109**	**27 146**	**3 679**	**68 056**	**928**	**0**	**68 984**
Net interest sensitivity gap		**15 546**	**-3 379**	**-140**	**-1 586**	**10 441**			
Cumulative net interest sensitivity gap		**15 546**	**12 167**	**12 027**	**10 441**				

Note 3.20 Liquidity risk

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

31.12.2022 thousands of euros	Note	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying value
Assets held for managing liquidity risk by contractual maturity dates								
Amounts due from banks	10	17 835	0	0	0	0	**17 835**	17 001
Loans and advances to customers	11	0	19 900	24 264	63 648	20 166	**127 978**	97 943
Other financial assets	12	0	568	0	0	0	**568**	568
Total assets held for managing liquidity risk		**17 835**	**20 467**	**24 264**	**63 648**	**20 166**	**146 381**	**115 512**
Liabilities by contractual maturity dates								
Deposits from customers	17	0	7 574	51 771	47 540	0	**106 885**	104 372
Bonds	17	0	61	182	975	4 049	**5 267**	3 523
Loans from other institutions	17	0	3	35	100	0	**138**	136
Lease liabilities	15	0	37	137	647	51	**872**	873
Other financial liabilities	18	0	1 627	0	0	0	**1 627**	1 627
Undrawn loan commitments	20	2 514	0	0	0	10 057	**12 571**	0
Total liabilities		**2 514**	**9 303**	**52 125**	**49 261**	**14 156**	**127 360**	**110 532**
Maturity gap from assets and liabilities		**15 321**	**11 165**	**-27 862**	**14 387**	**6 010**	**19 021**	**4 980**
Cumulative maturity gap from assets and liabilities		**15 321**	**26 485**	**-1 376**	**13 011**	**19 021**		
Worst case scenario with the earliest usage of undrawn commitments								
Total liabilities		**12 571**	**9 303**	**52 125**	**49 261**	**4 099**	**127 360**	**110 532**
Maturity gap from assets and liabilities		**5 264**	**11 165**	**-27 862**	**14 387**	**16 067**	**19 021**	**4 980**
Cumulative maturity gap from assets and liabilities		**5 264**	**16 428**	**-11 433**	**2 954**	**19 021**		

31.12.2021 thousands of euros	Note	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying value
Assets held for managing liquidity risk by contractual maturity dates								
Amounts due from banks	10	17 028	0	0	0	0	**17 028**	13 151
Loans and advances to customers	11	0	12 351	27 575	35 267	2 417	**77 609**	61 954
Other financial assets	12	0	647	0	0	0	**647**	647
Total assets held for managing liquidity risk		**17 028**	**12 998**	**27 575**	**35 267**	**2 417**	**95 284**	**75 752**
Liabilities by contractual maturity dates								
Deposits from customers	17	1 251	9 950	26 605	27 836	0	**65 641**	64 311
Bonds	17	0	61	182	975	4 536	**5 755**	3 523
Loans from other institutions	17	0	3	35	138	0	**176**	174
Lease liabilities	15	0	37	112	686	181	**1 015**	976
Other financial liabilities	18	0	967	0	0	0	**967**	967
Undrawn loan commitments	20	1 784	0	0	0	7 138	**8 922**	0
Total liabilities		**3 036**	**11 018**	**26 934**	**29 634**	**11 855**	**82 477**	**69 951**
Maturity gap from assets and liabilities		**13 992**	**1 980**	**641**	**5 632**	**-9 439**	**12 807**	**5 802**
Cumulative maturity gap from assets and liabilities		**13 992**	**15 972**	**16 613**	**22 246**	**12 807**		
Worst case scenario with the earliest usage of undrawn commitments								
Total liabilities		**10 174**	**11 018**	**26 934**	**29 634**	**4 718**	**82 477**	**69 951**
Maturity gap from assets and liabilities		**6 854**	**1 980**	**641**	**5 632**	**-2 301**	**12 807**	**5 802**
Cumulative maturity gap from assets and liabilities		**6 854**	**8 834**	**9 475**	**15 108**	**12 807**		

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.

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

thousands of euros	Note	31.12.2022	31.12.2021
Current assets			
Cash and balances with central bank	10	4 800	3 048
Amounts due from credit institutions	10	13 035	13 979
Loans and advances to customers	11	34 693	32 855
Other assets	12	1 120	1 265
Total current assets		**53 648**	**51 147**
Non-current assets			
Loans and advances to customers	11	63 241	29 099
Investment property	13	929	964
Property, plant and equipment	14	621	644
Right-of-use assets	15	815	932
Intangible assets	16	9 072	6 143
Total non-current assets		**74 678**	**37 782**
Total assets		**128 326**	**88 930**
Liabilities			
Current liabilities			
Deposits from customers	17	59 306	37 960
Loans received	17	37	37
Bonds	17	23	23
Lease liabilities	15	165	138
Other liabilities	18	2 346	1 711
Total current liabilities		**61 877**	**39 869**
Non-current liabilities			
Deposits from customers	17	45 066	26 351
Loans received	17	99	136
Bonds	17	3 500	3 500
Lease liabilities	15	672	837
Total non-current liabilities		**49 338**	**30 824**
Total liabilities		**111 216**	**70 695**

Note 3.21 Fair value of financial assets and financial liabilities

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

Below are the methodologies and assumptions used to determine fair values for the financial instruments which are not recorded and measured at fair value in the Group's financial statements. These fair values were calculated for disclosure purposes only. These methodologies and assumptions relate only to the instruments in the tables and, as such, may differ from the techniques and assumptions explained in the referred notes.

For financial assets and financial liabilities that have a short-term maturity (less than three months), the carrying amounts, which are net of impairment, are a reason-

able approximation of their fair value. Such instruments include: cash and balances with central banks; due to and from banks; demand deposits; and savings accounts without a specific maturity. Such amounts have been classified as Level 1 on the basis that no adjustments have been made to the balances in the statement of financial position. Under Level 1 the Group has disclosed cash and cash equivalents.

As at 31.12.2022 and 31.12.2021 the Group did not have any financial derivatives or actively traded assets. The fair values of these instruments are estimated by a discounted cash flow model based on contractual cash flows using actual or estimated yields and discounting by yields incorporating the counterparties' credit risk.

Under Level 3 are recorded fewer liquid instruments. These are not traded frequently, so it is difficult to give them a reliable and accurate market price. The Group requires significant unobservable inputs to calculate their fair value. A fair value for these assets cannot be determined by using readily observable inputs or measures, such as market prices. Instead, they are calculated using estimates by risk-adjusted value ranges, e.g mathematical (ECL) models and subjective assumptions.

The fair values of loans and receivables are estimated by discounted cash flow models that incorporate assumptions for credit risks, foreign exchange risk, probability of default and loss given default estimates. Credit risk for large corporate and a subset of the small business lending, when appropriate, is derived from market observable data, such as credit default swaps or comparable traded debt. Where such information is not available, the Group uses historical experience and other information used in its collective impairment models. Fair values of consumer lending and mortgage portfolios are calculated using a portfolio-based approach, grouping loans as far as possible into homogenous groups based on similar characteristics. The Group then calculates and extrapolates the fair value to the entire portfolio, using discounted cash flow models that incorporate interest rate estimates considering all significant characteristics of the loans. The credit risk is applied as a top-side adjustment based on the collective impairment model incorporating probability of defaults and loss given defaults.

Estimated fair values of off-balance sheet positions are based on market prices for similar instruments or on discounted cash flow models, as explained above, which incorporate the credit risk element through the discount factor.

31.12.2022 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	10	4 800	0	0	**4 800**	4 800	0
Amounts due from credit institutions	10	13 035	0	0	**13 035**	13 035	0
Loans and advances to customers	11	0	0	97 943	**97 943**	97 943	0
Other financial assets	12	0	0	367	**367**	367	0
Total financial assets at amortized cost		**17 835**	**0**	**98 300**	**116 145**	**116 145**	**0**
Financial liabilities at amortized cost							
Deposits from customers	17	0	0	104 372	**104 372**	104 372	0
Loans from related parties	17	0	0	136	**136**	136	0
Bonds	17	0	0	3 523	**3 523**	3 523	0
Other financial liabilities	18	0	0	1 627	**1 627**	1 627	0
Total financial liabilities at amortized cost		**0**	**0**	**109 658**	**109 658**	**109 658**	**0**

31.12.2021 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	10	3 048	0	0	**3 048**	3 048	0
Amounts due from credit institutions	10	13 979	0	0	**13 979**	13 979	0
Loans and advances to customers	11	0	0	61 954	**61 954**	61 954	0
Other financial assets	12	0	0	647	**647**	647	0
Total financial assets at amortized cost		**17 028**	**0**	**62 601**	**79 629**	**79 629**	**0**
Financial liabilities at amortized cost							
Deposits from customers	17	0	0	64 311	**64 311**	64 311	0
Loans from related parties	17	0	0	174	**174**	174	0
Bonds	17	0	0	3 523	**3 523**	3 523	0
Other financial liabilities	18	0	0	967	**967**	967	0
Total financial liabilities at amortized cost		**0**	**0**	**68 975**	**68 975**	**68 975**	**0**

Note 3.22 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.

Note 3.23 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.

Note 4

Investments in subsidiary

The Group has one subsidiary, Holm Bank Latvia SIA, and is consolidating the financial results of subsidiary. The subsidiary is a credit provider operating in Latvian market since 2008, which offers credit to Latvian companies and consumers through its cooperation partners.

In February, 2021 Holm Bank AS acquired the rest of the ownership (48.93%) in Latvian entity for total consideration of 2 253 thousand euros. The transaction was accounted under common control.

Upon the acquisition, Holm Bank AS recognized the difference of 1 202 thousand euros between the consideration transferred and the carrying amount of net assets acquired directly in equity (in consolidated retained earnings).

As of 31.12.2022 the Bank is the sole shareholder of Latvian subsidiary.

As at 31.12.2022 and 31.12.2021 the Group had no affiliated companies.

Note 5

Net interest income

Interest income thousands of euros	**2022**	**2021**
Interest income using effective interest calculation method		
Instalment	2 500	3 473
Credit card	3 532	4 514
Small loan	6 226	5 264
Home loan	17	0
Mortgage loan	31	0
Leasing	401	339
Business loan	449	475
From balances with credit institutions	2	1
From balances with central banks	4	0
Other loans	790	642
Total	**13 951**	**14 707**

Interest expenses using effective interest calculation method thousands of euros	**2022**	**2021**
Deposits from customers	-1 135	-835
Loans received	-583	-432
Interest expense from lease liabilities	-12	-13
Cash and balances with central banks	-2	0
Total	**-1 731**	**-1 280**
Net interest income	**12 220**	**13 427**

Interest income of loans by customer location thousands of euros	**2022**	**2021**
Estonia	10 027	11 360
Sweden	22	394
Latvia	3 902	2 953
Total	**13 951**	**14 707**

The Group recognizes the difference in significant cash flows arising from modifications in the terms of loan agreements under interest income, either by reducing or increasing it, except to the extent that credit losses have already been recognized. During the reporting period, the amendment to the Group resulted in income of 55 thousand euros (2021: 69 euros).

Note 6

Net fee income

Fee income thousands of euros	**2022**	**2021**
Other fee income	0	0
Total	**0**	**0**

Fee expense thousands of euros	**2022**	**2021**
Financial internediation services	-1 721	-1 218
Expenses related to cards	-239	-397
Transaction costs	-38	-71
Other fee expense	-52	-67
Total	**-2 050**	**-1 753**
Net fee income	**-2 050**	**-1 753**

Note 7

Other income

Other income thousands of euros	**Note**	**2022**	**2021**
Rental income		115	112
Profit from asset sales	11	237	239
Received off-Balance Sheet claims	11	899	1 333
Received penalties		0	15
Net change from exchange rate fluctuations		-63	-53
Other income in total		**1 187**	**1 645**

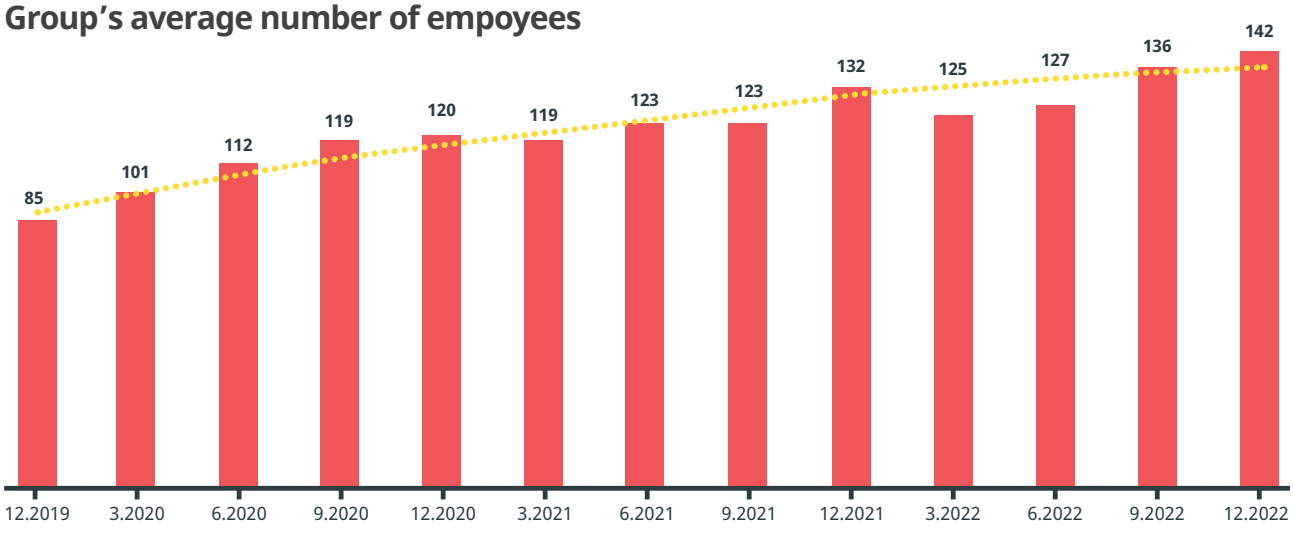
Note 8

Operating expenses

Operating expenses thousands of euros	Note	2022	2021
Wages, salaries and bonuses		-3 252	-2 652
Social security and other taxes		-1 038	-801
Fringe benefits		-158	-81
Other staff costs		-178	-119
Personnel expenses		**-4 626**	**-3 654**
IT expenses		-399	-538
Marketing expenses		-982	-1 178
Consultation expenses		-462	-643
Office expenses		-146	-156
Expenses relating to low-value assets or short-term leases		-45	-72
Transportation and communication costs		-94	-74
Other administrative expenses		-155	-123
Queries		-307	-340
Other expenses		-598	-505
Operating expenses		**-3 187**	**-3 631**
Depreciation and amortization		-1 411	-481
Other expenses		**-1 411**	**-481**
Credit loss expense on financial assets	11	-3 265	-4 313
Total operating expenses		**-12 489**	**-12 078**

Average number of employees working in the Group in 2022 was 132 (2021: 132).

Group's average number of empoyees



Note 9

Income tax

Income tax thousands of euros	**2022**	**2021**
Current tax		
Advance corporate income tax (14%)	-12	-191
Advance corporate income tax (20%)	-6	-42
Income tax paid on dividends	0	0
Total income tax expense	**-18**	**-233**

Taxation is based on a consistent tax rates: 14% is implemented in Estonia and 20% in Latvia.

No temporary differences have been risen relating to origination and reversal in current and prior period. Deferred tax liabilities from outside basis differences have not been recognized as subsidiary ended with loss and no contributions from retained earnings are planned.

Reconciliation of effective legal tax rates have had no material effect on the Group's financials.

Note 10

Receivables from central banks and credit institutions

Receivables from central banks and credit institutions thousands of euros	**31.12.2022**	**31.12.2021**
Demand and term deposits with maturity of less than 3 months *	13 035	13 979
Statutory reserve capital at central bank	834	535
Demand deposit from central bank	3 966	2 513
Total cash and cash equivalents	**17 835**	**17 028**

* cash and cash equivalents in the statement of cash flows

Due amounts with central bank with original maturity exceeding 3 months are not considered among the cash and cash equivalents in the statement of cash flows.

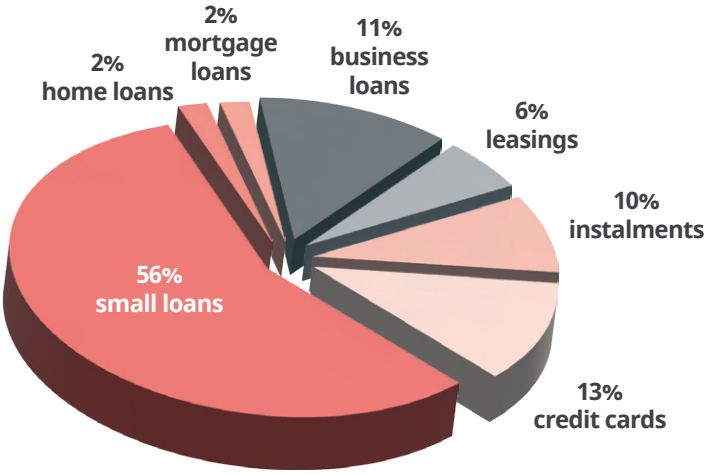
Mandatory banking reserve as at 31.12.2022 and 31.12.2021 was 1% (Holm Bank AS received a banking license from the European Central Bank on 02.04.2019) of all financial resources collected (deposits from customers and loans received).

The reserve requirement is to be fulfilled as a monthly average in Euros or in the foreign securities preapproved by the central bank.

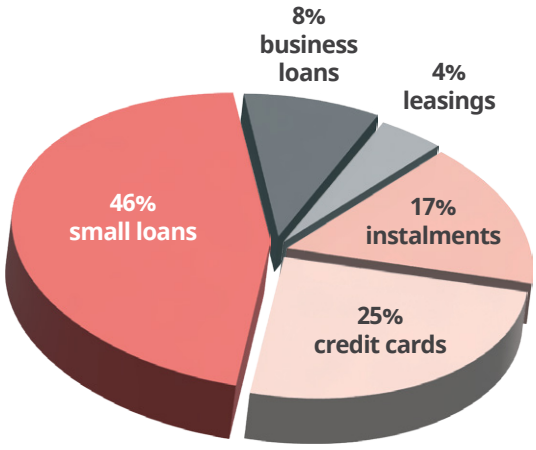
Note 11

Loans and advances to customers

Distribution by customer type and products thousands of euros	**31.12.2022**	**31.12.2021**
Business loans	**16 584**	**7 464**
incl. leasing	6 055	2 451
incl. business loan	10 575	5 045
incl. instalment	103	91
incl. small loan	62	0
Loss allowances	-211	-123
Loans to private individuals	**81 349**	**54 490**
incl. instalment	10 581	10 733
incl. credit card	15 193	15 836
incl. small loan	28 864	29 235
incl. home loan	27 976	0
incl. mortgage loan	242	0
Loss allowances	-1 498	-1 314
Total net loan portfolio	**97 943**	**61 954**



Distribution by products 31.12.2022



Distribution by products 31.12.2021

Distribution by countries and components thousands of euros		31.12.2022	31.12.2021
Principal receivables		**97 528**	**61 471**
	Estonia	68 582	44 936
	Latvia	28 946	14 329
	Sweden	0	2 207
Loss allowances related to principal receivables		**-1 703**	**-1 429**
	Estonia	-1 174	-896
	Latvia	-529	-381
	Sweden	0	-151
Interest receivables		**2 124**	**1 919**
	Estonia	1 194	1 242
	Latvia	930	622
	Sweden	0	54
Loss allowances related to interest receivables		**-6**	**-8**
	Estonia	-5	-7
	Latvia	-1	-1
	Sweden	0	0
Gross portfolio in total		**99 652**	**63 390**
Net portfolio in total		**97 943**	**61 954**
	Estonia	68 597	45 276
	Latvia	29 346	14 569
	Sweden	0	2 109
	inc. loss allowances	-1 709	-1 436

Allowance for impairment of loans to customers thousands of euros		Note	2022	2021
Balance at the beginning			**-1 436**	**-2 213**
Arising during the period	stage 1		-487	-362
Arising during the period	stage 2		-246	-276
Arising during the period	stage 3		-2 823	-4 615
Written off	stage 3		2 618	4 973
Sold	stage 2		29	0
Sold	stage 3		346	117
Recoveries	stage 1		48	480
Recoveries	stage 2		243	433
Recoveries	stage 3		0	26
Balance at the end			**-1 709**	**-1 436**
Net impaiment charges in total			**-3 265**	**-4 313**
Received amounts from uncollectible claims among other income		7	899	1 333

Migration between stages
thousands of euros

	1->2	2->1	2->3	3->2	1->3	3->1
						2022
Instalment	1 278	640	499	21	43	2
Credit card	1 508	806	549	16	28	0
Small loan	5 960	2 836	1 816	229	94	5
Business loan	640	368	54	0	0	0
Leasing	672	264	31	2	0	0
Home loan	0	0	0	0	0	0
Mortgage loan	73	0	0	0	0	0

11.5 Credit quality by products
thousands of euros

		31.12.2022	31.12.2021
Instalment		**9 403**	**10 641**
	Stage 1	8 308	9 323
	Stage 2	838	988
	Stage 3	257	330
Credit card		**12 913**	**15 558**
	Stage 1	11 784	13 421
	Stage 2	852	1 387
	Stage 3	277	750
Small loan		**54 847**	**28 382**
	Stage 1	49 871	24 558
	Stage 2	4 185	2 874
	Stage 3	791	950
Home loan		**2 358**	**0**
	Stage 1	2 358	0
	Stage 2	0	0
	Stage 3	0	0
Mortgage loan		**2 252**	**0**
	Stage 1	2 180	0
	Stage 2	73	0
	Stage 3	0	0
Business loan		**10 760**	**4 927**
	Stage 1	9 717	4 204
	Stage 2	920	589
	Stage 3	123	134
Leasing		**5 410**	**2 446**
	Stage 1	4 648	2 004
	Stage 2	726	389
	Stage 3	36	54
In total		**97 943**	**61 954**

Credit quality by components thousands of euros		31.12.2022	31.12.2021
Principal receivables		**97 528**	**61 471**
	Stage 1	87 735	52 206
	Stage 2	7 563	6 240
	Stage 3	2 230	3 024
Interest receivables		**2 124**	**1 919**
	Stage 1	1 690	1 425
	Stage 2	342	294
	Stage 3	93	200
Loss allowances		**-1 709**	**-1 436**
	Stage 1	-560	-121
	Stage 2	-311	-308
	Stage 3	-838	-1 007
In total		**97 943**	**61 954**

Credit quality by stages thousands of euros		31.12.2022	31.12.2021	▲	%
Sum					
	Stage 1	88 865	53 510	35 343	66,1%
	Stage 2	7 593	6 226	1 366	22,0%
	Stage 3	1 485	2 217	-733	-33,0%
In total		**97 943**	**61 954**	**35 976**	58,1%
Proportion					
	Stage 1	90,7%	86,4%		4,4%
	Stage 2	7,8%	10,0%		-2,3%
	Stage 3	1,5%	3,6%		-2,1%
In total		**100,0%**	**100,0%**		0,0%
Gross					
	Stage 1	89 424	53 631	35 784	66,7%
	Stage 2	7 905	6 534	1 370	21,0%
	Stage 3	2 323	3 225	-902	-28,0%
		99 652	**63 390**	**36 252**	57,2%
Expected credit losses					
	Stage 1	-560	-121	-441	363,5%
	Stage 2	-311	-308	-4	1,0%
	Stage 3	-838	-1 007	169	-16,8%
		-1 709	**-1 436**	**-275**	19,0%
Coverage					
	Stage 1	0,6%	0,2%		0,4%
	Stage 2	3,9%	4,7%		-0,8%
	Stage 3	36,1%	31,2%		4,8%
		1,7%	**2,3%**		-0,6%
Coverage of stage 3 without writeoffs		69,9%	73,0%		-3,0%

Credit loss expense thousands of euros thousands of euros		2022	2021
Loans and advances to customers			
	Stage 1	-439	118
	Stage 2	-3	157
	Stage 3	-2 823	-4 588
Net impaiment charges		**-3 265**	**-4 313**

Cession transactions thousands of euros	Note	2022	2021
Total gross value at the moment of sales		2 938	384
Net allowances for credit losses		-375	-117
Total carrying amount		2 563	267
Transaction price in total		2 131	507
Net gains/losses from the cession transactions	**7**	**-432**	**239**

The Group has transferred all risks and rewards and has retained no control over or continuing involvement in the assets sold.

Note 12

Other assets

thousands of euros	31.12.2022	31.12.2021
Financial assets		
Guarantee deposits of credit cards	367	647
Security deposits	201	201
Subtotal	**568**	**848**
Non-financial assets		
Prepayments are expected to be used within 12 months	362	294
Other claims	190	123
Subtotal	**553**	**417**
Total	**1 120**	**1 265**

Prepayments include insurance and periodized prepayments for journalism, but also prepayments to payment intermediation services. Prepayments are expected to be received or used within 12 months of the end of the reporting period.

Note 13

Investment property

thousands of euros	31.12.2022	31.12.2021
Acquisition cost		
At the beginning of the period	**1 177**	**1 177**
Additions	10	0
At the end of the period	**1 187**	**1 177**
Depreciation and impairment		
At the beginning of the period	**-214**	**-169**
Depreciation charge for the period	-45	-45
At the end of the period	**-259**	**-214**
Net book value at the beginning	**963**	**1 008**
Net book value at the end	**928**	**963**

Total lease income amounted to 115 thousand euros the reporting year (2021: 113 thousand euros), any direct expenses related to investment property were immaterial.

The recoverable amount of investment properties are considered to exceed their net book value.

Note 14

Property, plant and equipment

thousands of euros	31.12.2022	31.12.2021
Land and buildings		
Acquisition cost		
At the beginning of the period	**668**	**668**
Additions	31	0
At the end of the period	**699**	**668**
Depreciation and impairment		
At the beginning of the period	**-104**	**-80**
Depreciation charge for the period	-25	-24
At the end of the period	**-129**	**-104**
Net book value at the beginning	**564**	**588**
Net book value at the end	**570**	**564**

thousands of euros	31.12.2022	31.12.2021
Plant and equipment		
Acquisition cost		
At the beginning of the period	**42**	**42**
Additions	0	0
Disposals and write-offs (cost)	0	0
Additions through acquisitions of subsidiary	0	0
At the end of the period	**42**	**42**
Depreciation and impairment		
At the beginning of the period	**-19**	**-13**
Disposals and write-offs (depreciation)	0	0
Depreciation charge for the period	-6	-6
At the end of the period	**-26**	**-19**
Net book value at the beginning	**23**	**29**
Net book value at the end	**16**	**23**

thousands of euros	31.12.2022	31.12.2021
Cars		
Acquisition cost		
At the beginning of the period	**168**	**154**
Additions	0	21
Disposals and write-offs (cost)	0	-7
Reclassifications	0	0
At the end of the period	**168**	**168**
Depreciation and impairment		
At the beginning of the period	**-110**	**-89**
Disposals and write-offs (depreciation)	0	4
Depreciation charge for the period	-22	-25
Reclassifications	0	0
At the end of the period	**-132**	**-110**
Net book value at the beginning	**58**	**65**
Net book value at the end	**35**	**58**
Net book value at the end in total	**621**	**644**

Fair values of properties, plant and equipment may differ from the carrying amount in immaterial part. As of 31.12.2022 were fully amortised tangible assets in use in acquisition cost of 59 thousand euros (31.12.2021: 34 thousand euros).

Note 15

Right of use assets and lease liabilities

thousands of euros	31.12.2022			31.12.2021		
Right of use assets	offices	cars	**In total**	offices	cars	**In total**
Acquisition cost						
At the beginning of the year	**1 230**	**124**	**1 354**	**1 281**	**127**	**1 408**
Additions	0	0	**0**	0	0	**0**
Other changes	0	0	**0**	-51	-3	**-54**
At the end of the year	**1 230**	**124**	**1 354**	**1 230**	**124**	**1 354**
				0		
Depreciation and impairment						
At the beginning of the year	**-339**	**-83**	**-422**	**-153**	**-56**	**-209**
Depreciation charge for the period	-153	-27	**-180**	-126	-27	**-153**
Other changes	0	0	**0**	-60	0	**-60**
At the end of the year	**-492**	**-110**	**-602**	**-339**	**-83**	**-422**
Net book value at the beginning of the year	**891**	**41**	**933**	**1 128**	**72**	**1 200**
Net book value at the end of the year	**738**	**14**	**752**	**891**	**41**	**932**

thousands of euros	31.12.2022			31.12.2021		
Right of use assets	offices	cars	**In total**	offices	cars	**In total**
Current						
At the beginning of the year	**120**	**17**	**137**	**126**	**19**	**145**
Additions	0	0	**0**	0	0	**0**
Accretion of interests	10	2	**12**	11	2	**13**
Repayments	-120	-17	**-137**	-118	-17	**-135**
Reclassifications and periodization	97	46	**143**	221	19	**240**
Other changes	25	-2	**23**	-120	-6	**-126**
At the end of the year	**131**	**46**	**177**	**120**	**17**	**137**
Non-current						
At the beginning of the year	**786**	**53**	**839**	**1 007**	**72**	**1 079**
Reclassifications and periodization	-97	-46	**-143**	-221	-19	**-240**
At the end of the year	**689**	**7**	**696**	**786**	**53**	**839**
Lease liabilities in total at the beginning of the year	**906**	**70**	**976**	**1 133**	**91**	**1 224**
Lease liabilities in total at the end of the year	**820**	**53**	**873**	**906**	**70**	**976**

Note 16

Intangible assets

thousands of euros	31.12.2022	31.12.2021
Acquisition cost		
At the beginning of the period	**6 665**	**2 595**
Additions	4 062	4 070
Write-offs	-356	0
At the end of the period	**10 370**	**6 665**
Depreciation and impairment		
At the beginning of the period	**-522**	**-294**
Depreciation charge for the period	-776	-227
At the end of the period	**-1 298**	**-522**
Net book value at the beginning	**6 143**	**2 300**
Net book value at the end	**9 072**	**6 143**

During 2022, the Group invested in intangible assets of new core system in amount of 3 306 thousand euros (2021: 3 173 thousand euros), including personnel expenses of 1 021 thousand euros (2021: 869 euros, see also Note 8), 509 thousand euros in Latvian core system (2021: 434 euros), 246 thousand euros in data warehouse (2021: 229 euros).

No investments were made in new scoring model (2021: 234 euros). The developments of the new core system are not finished.

Depreciation of assets starts from the moment when the life cycle of the product under development is fully covered in the system and the asset is finally ready for use. Generally, the useful lives of assets are in the range of 5-10 years.

No fully amortized intangible assets were in use.

To take a more conservative approach, the Group decided in 2022 to write off part of the intangible assets related to previous IT developments in amount of 356 thousand euros.

Note 17

Loans and deposits from customers

Distribution by sub-entries thousands of euros	**31.12.2022**	**Individuals**	**Legal entries**	**Total**
Demand deposit		0	0	**0**
Term deposits		99 764	3 433	**103 197**
Bonds		0	3 500	**3 500**
Loans from other institutions		0	136	**136**
Accrued interest liability		1 140	58	**1 198**
Total		**100 904**	**7 128**	**108 032**

Distribution by sub-entries thousands of euros	**31.12.2021**	**Individuals**	**Legal entries**	**Total**
Demand deposit		1 251	0	**1 251**
Term deposits		59 853	2 302	**62 155**
Bonds		0	3 500	**3 500**
Loan liabilities from related parties		0	174	**174**
Accrued interest liability		883	45	**928**
Total		**61 987**	**6 021**	**68 008**

In 2021, 3.500 thousand euros were received from the bond issue. All bonds were issued to one investor.

Loans from other institutions include a special-purpose loan received from the Maaelu Edendamise Sihtasutus (MES) as collateral for a customer loan.

Distribution by countries thousands of euros	**31.12.2022**	**Estonia**	**Germany**	**Austria**	**Total**
Demand deposit		0	0	0	**0**
Term deposits*		29 882	68 783	5 707	**104 372**
Bonds		3 523	0	0	**3 523**
Loans from other institutions		136	0	0	**136**
Total		**33 541**	**68 783**	**5 707**	**108 032**

thousands of euros	**31.12.2021**	**Estonia**	**Germany**	**Austria**	**Total**
Demand deposit		1 251	0	0	**1 251**
Term deposits*		23 805	35 761	3 494	**63 060**
Bonds		3 523	0	0	**3 523**
Loans from other institutions		174	0	0	**174**
Total		**28 753**	**35 761**	**3 494**	**68 008**

*Above is given total amount of term deposits, including principal and accrued interest liabilities.

Note 18

Other liabilities

thousands of euros	**31.12.2022**	**31.12.2021**
Financial liabilities		
Debts to partners	663	574
Other short-term financial liabilities	964	393
Subtotal	**1 627**	**967**
Non-financial liabilities		
Tax liabilities	132	231
Payables to employees	309	368
Other short-term liabilities	278	145
Subtotal	**719**	**744**
Total	**2 346**	**1 711**

Payables to employees consist of vacation pay accrual for the reporting period.

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

Note 19

Equity

thousands of euros	Number of shares, pcs	Share capital	Share premium	Statutory reserve
Share capital and reserves as at 31.12.2022	50 000	50	14 471	5
Share capital and reserves as at 31.12.2021	50 000	50	14 471	5

Share capital is paid in full through cash contributions. The share nominal value is 1 Euro and as at 31.12.2022 the number of shares amounted to 50 thousand (31.12.2021: 50 thousand).

No profit allocations were made during the reporting and the prior period. Holm Bank AS did not pay dividends during the reporting period; in the previous period dividends were not paid as well. As at 31.12.2022, the retained profit of the Group totalled in 2 560 thousand euros (31.12.2021: 3 709 thousand euros).

As of 31.12.2022 it is possible to pay out net dividends in maximum amount of 2 048 thousand euros (31.12.2021: 2 971 thousand euros). The amount of possible payable net dividends has decreased because of the loss in 2022.

Potential dividends would be taxed at a 20/80. The related income tax charge would be 512 thousand euros (31.12.2021: 738 thousand euros).

Note 20

Contingent assets and liabilities

Undrawn loan commitments from non-cancellable agreements thousands of euros	31.12.2022	31.12.2021
Liability in contractual amount	12 571	8 922

Undrawn loan commitments represent off-balance sheet liability of credit cards unused limits. See also Note 3.15.

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 2021-2022.

Note 21

Transactions and balances with related parties

Related parties include the ultimate parent Koduliising OÜ and its sole shareholder (ultimate beneficial 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 ultimate beneficial owner. In 2022, remuneration paid to Group's Management Board and the Supervisory Board totalled 634 thousand euros (2021: 564 thousand euros), including all taxes.

Transactions thousands of euros	**2022**	**2021**
Interest income on given loans	**86**	**99**
Senior management (including the ultimate controlling party)	86	99
Interest expense on loans received	**0**	**2**
Senior management (including the ultimate controlling party)	0	2
Sales	**22**	**23**
Senior management (including the ultimate controlling party)	22	23
Purchases	**201**	**199**
Senior management (including the ultimate controlling party)	189	187
Parent company	12	12
Close family members of the management and undertakings in their dominant or significant influence	0	0
Given loans	**175**	**1 999**
Senior management (including the ultimate controlling party)	175	1 999
Close family members of the management and undertakings in their dominant or significant influence	0	0
Repayments on given loans, inc interests	**104**	**94**
Senior management (including the ultimate controlling party)	104	94
Repayments on received loans, inc interests	**0**	**52**
Senior management (including the ultimate controlling party)	0	52
Non-controlling interest	0	0
Credit loss expense	**-4**	**-1**
Credit loss expense on financial assets	-4	-1

Balances thousands of euros	**31.12.2022**	**31.12.2021**
Receivables	**2 162**	**2 006**
Senior management (including the ultimate controlling party)	2 162	2 006
Close family members of the management and undertakings in their dominant or significant influence	0	0
Loss allowances	**-5**	**-1**
Loss allowances	-5	-1
Loan liabilities	**0**	**0**
Senior management (including the ultimate controlling party)	0	0
Other liabilities	**2**	**6**
Senior management (including the ultimate controlling party)	2	6
Close family members of the management and undertakings in their dominant or significant influence	0	0

Note 22

Unconsolidated financial statements of parent company

Parent company's unconsolidated financial statements have been prepared in accordance with the Accounting Act of the Republic of Estonia, and do not constitute parent company's separate financial statements in the meaning of IAS 27 "Separate financial statements".

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 in subsidiary, which are measured at cost in the parent's primary financial statements.

Statement of comprehensive income thousands of euros	**2022**	**2021**
Interest revenue calculated using the effective interest method	10 687	11 777
Interest expense calculated using the effective interest method	-1 730	-1 277
Net interest income	**8 957**	**10 500**
Fee income	0	0
Fee expense	-720	-1 005
Net fee income (expense)	**-720**	**-1 005**
Other income	950	1 629
Net operating income	**9 187**	**11 124**
Salaries and associated charges	-5 116	-4 118
Administrative and other operating expenses	-959	-1 618
Other expenses	0	0
Depreciation and amortisation expense	-1 361	-457
Credit loss expense on financial assets	-2 276	-3 514
Total operating expenses	**-9 712**	**-9 707**
Profit (loss) before income tax	**-525**	**1 417**
Income tax	-9	-198
Profit (loss) for the year	**-534**	**1 219**
Total other compehensive income (loss) for the year	0	0
Total comprehensive income (loss) for the year	**-534**	**1 219**

Statement of financial position thousands of euros	**Note**	**31.12.2022**	**31.12.2021**
Assets			
Cash and balances with central bank		4 800	3 048
Amounts due from credit institutions		12 141	12 815
Receivables from customers		115	43
Loans and advances to customers		97 101	60 951
Other assets		901	1 031
Investments in subsidiaries	4	5 151	5 151
Investment property		929	964
Property, plant and equipment		596	603
Right-of-use assets		775	921
Intangible assets		9 072	6 143
Total assets		**131 582**	**91 670**
Liabilities			
Deposits from customers		104 372	64 311
Loans received		136	174
Bonds and other securities		3 523	3 523
Right-of-use liabilities		834	963
Other liabilities		2 085	1 534
Total liabilities		**110 950**	**70 504**
Equity			
Share capital	19	50	50
Share premium	19	14 471	14 471
Statutory reserve		5	5
Retained earnings		6 106	6 640
Total equity		**20 631**	**21 166**
Total liabilities and equity		**131 582**	**91 670**

Statement of cash flow thousands of euros	Note	2022	2021
Paid interests		-1 252	-717
Cash payments for the interest portion of the lease liability		-11	-14
Received interests		10 683	12 370
Paid fees		-200	-196
Received fees		727	9
Paid out to customers		-58 134	-44 370
Loan principal repayments		33 827	41 302
Paid out to related parties		-14 927	-8 981
Repayments from related party loans		1	398
Received loans	17	0	187
Principal repayments of received loans	17	-37	-13
Changes in limit account		558	3 450
Received deposits		71 649	22 112
Deposit repayments		-30 943	-13 008
Paid prepayments		-997	-299
Received prepayments		867	289
Paid trade payables		-3 605	-5 219
Received debts from buyers and received other claims		258	865
Received from written off loans		789	1 204
Paid net salaries		-2 676	-2 269
Paid tax liabilities, exc. CIT		-1 816	-1 805
Paid CIT (corporate income tax)		-126	-269
Cash flows from operating activities		**4 634**	**5 026**
Additions of property, plant and equipment and intangible assets		-3 400	-2 050
Cash flows from investing activities		**-3 400**	**-2 050**
Repayment of principal portion of lease liabilities		-113	-126
Redemption of minority shares	4	0	-2 253
Dividends paid		0	0
Received from issuing bonds	17	0	3 500
Cash flows from financing activities		**-113**	**1 121**
Change in cash and cash equivalents		**1 121**	**4 098**
Cash and cash equivalents at the beginning of the period		**15 863**	**11 817**
Net increase/(decrease) in cash and cash equivalents		1 121	4 099
Net foreign exchange differencies		-42	-53
Cash and cash equivalents at the end of the period*		**16 942**	**15 863**

Cash and cash equivalents comprise	31.12.2022	31.12.2021
Cash on hand	0	0
Non-restricted current account	12 141	12 815

Statement of changes in equity thousands of euros	Share capital	Share premium	Statutory reserve	Retained earnings	Total
Balance as at 01.01.2021	**50**	**14 471**	**5**	**5 421**	**19 947**
Profit/loss for the year	0	0	0	1 219	**1 219**
Other comprehensive income/loss	0	0	0	0	**0**
Total comprehensive income/loss	**0**	**0**	**0**	**1 219**	**1 219**
Balance as at 31.12.2021	**50**	**14 471**	**5**	**6 639**	**21 166**
Balance as at 01.01.2022	**50**	**14 471**	**5**	**6 639**	**21 166**
Profit/loss for the year	0	0	0	-534	**-534**
Other comprehensive income/loss	0	0	0	0	**0**
Total comprehensive income/loss	**0**	**0**	**0**	**-534**	**-534**
Balance as at 31.12.2022	**50**	**14 471**	**5**	**6 105**	**20 632**

Unconsolidated equity at the end of the period	Lisa	31.12.2022	31.12.2021
Investments in subsidiaries:	4	-5 151	-5 151
Carrying value under the equity method		2 320	2 320
Adjusted unconsolidated equity at end of period		**18 157**	**18 157**

Adjusted unconsolidated equity differs from consolidated equity owned by the parent due to the application of the adjusted purchase method on subsidiary acquisition.

Profit allocation proposal

The Group has finished the reporting period with consolidated retained profit of 2 560 thousand euros.

The Management Board of Holm Bank has proposed to the General Meeting of Shareholders not to allocate the retained profit.

Kaspar Kalvet
Chairman of the Management Board



Monika Tomberg
Member of the Management Board



Arvi Lipp
Member of the Management Board



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Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Holm Bank AS

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Holm Bank AS and its subsidiary (the Group), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity 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 financial position of the Group as at 31 December 2022, 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 International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

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 the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's 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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Peamine auditi asjaolu	*Kuidas konkreetset asjaolu auditi kontekstis käsitleti*
Klientidele antud laenude väärtuse langus Nagu kirjeldatud konsolideeritud raamatupidamise aastaaruande lisas 11 „Laenud ja ettemaksed klientidele", oli laenunõuete bilansiline väärtus 2022. aasta 31. detsembri seisuga 97 943 tuhat eurot ehk 76% kontserni varadest. Laenude allahindlus on hinnanguline valdkond, kuna krediidikahjude ulatuse kindlakstegemisel toetutakse sedavõrd suures ulatuses juhtkonna hinnangutele, mis sõltuvad kõnealuste laenude ja nõuetega seotud krediidiriskist. Selline hinnang on paratamatult subjektiivne, kuna toetub prognoosidele tulevaste makromajanduslike tingimuste kohta erinevate stsenaariumite korral ning krediidiriski hinnangule, mis põhineb varasemal kogemusel ja eeldustel ning tagatiste realiseerimisväärtuse ja nende realiseerimise ajastuse hindamisel. Erinevate modelleerimismeetodite ja eelduste kasutamine eeldatava krediidikahju leidmisel võib anda tulemuseks väga erineva suurusega hinnangu allahindluse kohta. Kõnealused mudelid nõuavad juhtkonnalt oluliste hinnangute tegemist sobiva segmenteerimise, krediidiriskis oluliste muutuste tuvastamise ja tulevikku vaatavate sisendite kasutamise kohta ning täiendavate muutujate rakendamist, et analüüsida ka neid asjaolusid, mida mudelitega katta ei õnnestu. Kontsern rakendab krediidikahju arvutamiseks IFRS 9 kohast eeldatava krediidikahju mudelit. Kontserni allahindluse kajastamise põhimõtted on avalikustatud konsolideeritud raamatupidamise aastaaruande lisades, osas „Finantsvarade väärtuse langus". Olulisemad raamatupidamislikud hinnangud ja otsused on toodud konsolideeritud raamatupidamise aastaaruande lisas 2 „Olulised raamatupidamislikud hinnangud ja eeldused". Kuna eeldatava krediidikahju leidmine on sedavõrd keerukas ja hinnanguline, peame klientidele antud laenude allahindlust üheks auditi peamiseks asjaoluks.	***Auditiprotseduuride käigus tegime muu hulgas järgmist:*** • Tegime endale selgeks laenude väljastamise, kajastamise, jälgimise ja hindamisega seotud peamised kontrollimehhanismid ning testisime neid. Tutvusime kontserni laenude allahindamise põhimõtetega, mis põhinevad IFRS 9 põhimõtetel, ning kaasasime oma IFRS 9 spetsialistid, hindamaks põhimõtete vastavust IFRS 9 nõuetele. • Hindasime kontsernis võimalikule väärtuse langusele viitavate asjaolude tuvastamiseks rakendatavat metodoloogiat ning juhtkonna poolt eeldatava krediidikahju leidmiseks kasutatavaid meetodeid, sh järelevalvet hinnangute andmise üle. Selle käigus tehti kindlaks tõenäosusega kaalutud makromajanduslikud stsenaariumid, faasidesse klassifitseerimise kriteeriumid ja krediidiriski parameetrite mudelid. • Testisime allahindluse arvutamiseks kasutatavate valemite matemaatilist täpsust. Analüüsisime valitud näidete varal mudelite andmevoogu ning kontrollisime hinnanguliste parameetrite õigsust, viies need kokku algsete lähtedokumentidega, et kontrollida kontserni poolt esitatud elektroonilise informatsiooni paikapidavust. • Kuna iga laen eraldi võetuna on sedavõrd väike, leitakse laenude eeldatav krediidikahju kontserni metodoloogia kohaselt kollektiivselt. Analüüsisime kontserni poolt kasutatud metodoloogiat, sisendeid ja eelduseid. Samuti kontrollisime eeldatava krediidikahju mudelites kasutatud sisendandmete täpsust ja täielikkust, võrreldes andmeid kontserni alussüsteemidega ning tehes eeldatava krediidikahju leidmiseks kasutatud arvutuskäigu uuesti läbi. Peamiste mudelis kasutatud eelduste puhul hindasime juhtkonna esitatud tõendite asjakohasust. • Koostasime valimi laenudest ja mudeli väljundandmetest, mille puhul kordasime krediidikahju arvutusi. Analüüsisime krediidihinnangutega seotud eeldatava krediidikahju korrigeerimisi, arvestades juhtkonna poolt eeldatava krediidikahju korrigeerimisel rakendatud eeldustega. • Viisime läbi analüütilised protseduurid, mille käigus võrdlesime muu hulgas näiteks laenude allahindluse saldosid eelmise aastaga ja liikumist krediidiriski faaside vahel ning tegime allahindluste määra analüüsi. • Samuti hindasime me konsolideeritud raamatupidamise aastaaruande lisades 3 „Riskijuhtimine", 11 „Laenud ja ettemaksed klientidele" ning 2 „Olulised raamatupidamislikud hinnangud ja eeldused" avalikustatud seotud informatsiooni täielikkust.

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Muu informatsioon

Muu informatsioon hõlmab tegevusaruannet, kuid ei hõlma konsolideeritud raamatupidamise aastaaruannet ega meie asjaomast vandeaudiitori aruannet. Juhtkond vastutab muu informatsiooni eest. Meie arvamus konsolideeritud raamatupidamise aastaaruande kohta ei hõlma muud informatsiooni ja me ei tee selle kohta mingis vormis kindlustandvat järeldust, välja arvatud nagu allpool toodud.

Seoses meie konsolideeritud raamatupidamise aastaaruande auditiga on meie kohustus lugeda muud informatsiooni ja kaaluda seda tehes, kas muu informatsioon oluliselt lahkneb konsolideeritud raamatupidamise aastaaruandest või meie poolt auditi käigus saadud teadmistest või tundub muul viisil olevat oluliselt väärkajastatud. Kui me teeme tehtud töö põhjal järelduse, et muu informatsioon on oluliselt väärkajastatud, oleme kohustatud sellest faktist aru andma. Meil ei ole sellega seoses millegi kohta aru anda.

Tegevusaruande osas viisime läbi ka Eesti Vabariigi audiitortegevuse seaduses nõutud protseduurid. Need protseduurid hõlmavad hindamist, kas tegevusaruanne on olulises osas kooskõlas konsolideeritud raamatupidamise aastaaruandega ning koostatud vastavalt Eesti Vabariigi raamatupidamise seaduse nõuetele.

Auditi käigus tehtud töö põhjal oleme jõudnud järgmisele järeldusele:

- tegevusaruanne on olulises osas kooskõlas konsolideeritud raamatupidamise aastaaruandega;
- tegevusaruanne on koostatud vastavalt asjakohastele Eesti Vabariigi raamatupidamise seaduses sätestatud nõuetele.

Juhtkonna ja nende, kelle ülesandeks on valitsemine, ***kohustused konsolideeritud raamatupidamise aastaaruande osas***

Juhtkond vastutab konsolideeritud raamatupidamise aastaaruande koostamise ning õiglase esitamise eest kooskõlas rahvusvaheliste finantsaruandluse standarditega, nagu need on vastu võetud Euroopa Liidu poolt ning sellise sisekontrollisüsteemi eest nagu juhtkond peab vajalikuks, võimaldamaks konsolideeritud raamatupidamise aastaaruande korrektset koostamist ja esitamist ilma pettustest või vigadest tulenevate oluliste väärkajastamisteta.

Konsolideeritud raamatupidamise aastaaruande koostamisel on juhtkond kohustatud hindama kontserni suutlikkust jätkata jätkuvalt tegutsevana, esitama infot, kui see on asjakohane, tegevuse jätkuvusega seotud asjaolude kohta ja kasutama tegevuse jätkuvuse arvestuse alusprintsiipi, välja arvatud juhul, kui juhtkond kavatseb kas kontserni likvideerida või tegevuse lõpetada või tal puudub sellele realistlik alternatiiv.

Need, kelle ülesandeks on valitsemine, vastutavad kontserni raamatupidamise aruandlusprotsessi üle järelevalve teostamise eest.

Vandeaudiitori kohustused seoses konsolideeritud raamatupidamise aastaaruande auditiga

Meie eesmärk on saada põhjendatud kindlus selle kohta, kas konsolideeritud raamatupidamise aastaaruanne tervikuna on kas pettusest või veast tulenevate oluliste väärkajastamisteta, ja anda välja vandeaudiitori aruanne, mis sisaldab meie arvamust. Põhjendatud kindlus on kõrgetasemeline kindlus, kuid see ei taga, et olulise väärkajastamise eksisteerimisel see kooskõlas rahvusvaheliste auditeerimise standarditega (Eesti) läbiviidud auditi käigus alati avastatakse. Väärkajastamised võivad tuleneda pettusest või veast ja neid peetakse oluliseks siis, kui võib põhjendatult eeldada, et need võivad üksikult või koos mõjutada majanduslikke otsuseid, mida kasutajad konsolideeritud raamatupidamise aastaaruande alusel teevad.

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Kasutame auditeerides vastavalt rahvusvaheliste auditeerimise standarditele (Eesti) kutsealast otsustust ja säilitame kutsealase skeptitsismi kogu auditi käigus. Me teeme ka järgmist:

- teeme kindlaks ja hindame konsolideeritud raamatupidamise aastaaruande kas pettusest või veast tuleneva olulise väärkajastamise riskid, kavandame ja teostame auditiprotseduurid vastuseks nendele riskidele ning hangime piisava ja asjakohase auditi tõendusmaterjali, mis on aluseks meie arvamusele. Pettusest tuleneva olulise väärkajastamise mitteavastamise risk on suurem kui veast tuleneva väärkajastamise puhul, sest pettus võib tähendada salakokkulepet, võltsimist, info esitamata jätmist, vääresitiste tegemist või sisekontrolli eiramist;
- omandame arusaamise auditi puhul asjassepuutuvast sisekontrollist, et kavandada nendes tingimustes asjakohaseid auditiprotseduure, kuid mitte arvamuse avaldamiseks kontserni sisekontrolli tulemuslikkuse kohta;
- hindame kasutatud arvestuspõhimõtete asjakohasust ning juhtkonna arvestushinnangute ja nendega seoses avalikustatud info põhjendatust;
- teeme järelduse juhtkonna poolt tegevuse jätkuvuse arvestuse alusprintsiibi kasutamise asjakohasuse kohta ja saadud auditi tõendusmaterjali põhjal selle kohta, kas esineb olulist ebakindlust sündmuste või tingimuste suhtes, mis võivad tekitada märkimisväärset kahtlust kontserni suutlikkuses jätkata jätkuvalt tegutsevana. Kui me teeme järelduse, et eksisteerib oluline ebakindlus, oleme kohustatud juhtima vandeaudiitori aruandes tähelepanu konsolideeritud raamatupidamise aastaaruandes selle kohta avalikustatud infole või kui avalikustatud info on ebapiisav, siis modifitseerima oma arvamust. Meie järeldused põhinevad vandeaudiitori aruande kuupäevani saadud auditi tõendusmaterjalil. Tulevased sündmused või tingimused võivad siiski kahjustada kontserni suutlikkust jätkata jätkuvalt tegutsevana;
- hindame konsolideeritud raamatupidamise aastaaruande üldist esitusviisi, struktuuri ja sisu, sealhulgas avalikustatud informatsiooni, ning seda, kas konsolideeritud raamatupidamise aastaaruanne esitab aluseks olevaid tehinguid ja sündmusi viisil, millega saavutatakse õiglane esitusviis;
- hangime kontserni majandusüksuste või äritegevuste finantsteabe kohta piisava asjakohase tõendusmaterjali, et avaldada arvamus kontserni konsolideeritud finantsaruannete kohta. Me vastutame kontserniauditi juhtimise, järelevalve ja läbiviimise eest. Me oleme ainuvastutavad oma auditiarvamuse eest.

Me vahetame nendega, kelle ülesandeks on valitsemine, infot muu hulgas auditi planeeritud ulatuse ja ajastuse ning märkimisväärsete auditi tähelepanekute kohta, sealhulgas mis tahes sisekontrolli märkimisväärsete puuduste kohta, mille oleme tuvastanud auditi käigus.

Me esitame nendele, kelle ülesandeks on valitsemine, ka avalduse, milles kinnitame, et oleme järginud sõltumatust puudutavaid eetikanõudeid, ning edastame neile info kõikide suhete ja muude asjaolude kohta, mille puhul võib põhjendatult arvata, et need kahjustavad meie sõltumatust, ning nende olemasolul ka ohtude kõrvaldamiseks astutud sammude või rakendatud kaitsemehhanismide kohta.

Me määrame nendele, kelle ülesandeks on valitsemine, esitatud asjaolude seast kindlaks asjaolud, mis olid käesoleva perioodi konsolideeritud raamatupidamise aastaaruande auditis kõige märkimisväärsemad ja on seega peamised auditi asjaolud. Me kirjeldame neid asjaolusid vandeaudiitori aruandes, välja arvatud juhul, kui seaduse või regulatsiooni kohaselt on keelatud avalikustada asjaolu kohta infot või kui me äärmiselt erandlikel juhtudel otsustame, et asjaolu kohta ei tohiks meie aruandes infot esitada, sest põhjendatult võib eeldada, et selle kahjulikud tagajärjed kaaluvad üles sellise info esitamise kasu avalikes huvides.

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Aruanne muude seadusest tulenevate ja regulatiivsete nõuete kohta

Muud vandeaudiitori aruande nõuded vastavalt Euroopa Parlamendi ja nõukogu määrusele (EL) nr 537/2014

Audiitori ametisse nimetamine ja tunnustamine

Esmakordselt nimetati meid Holm Bank AS kui avaliku huvi üksuse audiitoriks 31. detsembril 2017 lõppenud majandusaastaks vastavalt aktsionäride üldkoosoleku otsusele. Aktsionäride üldkoosoleku 30. juuni 2020 otsusega määrati meid läbi viima kontserni 31. detsembril 2022 lõppenud majandusaasta konsolideeritud raamatupidamise aastaaruande auditit. Meie audiitorteenuse katkematu osutamise periood on 6 aastat ja see hõlmab perioode, mis lõppesid 31. detsember 2017 kuni 31. detsember 2022.

Vastavus auditikomiteele esitatavale täiendavale aruandele

Meie käesolevas aruandes toodud aruanne konsolideeritud raamatupidamise aastaaruande kohta on kooskõlas kontserni auditikomiteele esitatava täiendava aruandega, mis on esitatud vastavalt Euroopa Parlamendi ja nõukogu määruse (EL) nr 537/2014 artiklile 11 käesoleva aruandega samal kuupäeval.

Auditivälised teenused

Kinnitame, et meile teadaolevalt on kontsernile osutatud teenused kooskõlas asjakohaste seaduste ja regulatsioonidega ning nende näol ei ole tegemist Euroopa Parlamendi ja nõukogu määruse (EL) nr 537/2014 artikli 5 lõikes 1 nimetatud keelatud auditiväliste teenustega.

Auditi käigus ei ole me osutanud Holm Bank AS-ile ja tema tütarettevõttele muid teenuseid peale konsolideeritud raamatupidamise aastaaruande auditeerimise ja nende teenuste, mis on avalikustatud konsolideeritud majandusaasta aruandes.

Tallinn, 28. aprill 2023

/allkirjastatud digitaalselt/

Olesia Abramova
Vandeaudiitori number 561
Ernst & Young Baltic AS
Audiitorettevõtja tegevusloa number 58

/allkirjastatud digitaalselt/

Kärt Viilup
Vandeaudiitori number 712

Signatures of the Management Board

The annual report as compiled by the Management Board consists of the management report, financial statements, profit allocation proposal and independent auditor's report. Hereby the Management Board of Holm Bank AS approves current consolidated Annual Report 2022.

Kaspar Kalvet
Chairman of the Management Board



Monika Tomberg
Member of the Management Board



Arvi Lipp
Member of the Management Board



Tallinn, 28th April 2023



HOLM

Bank of good plans.