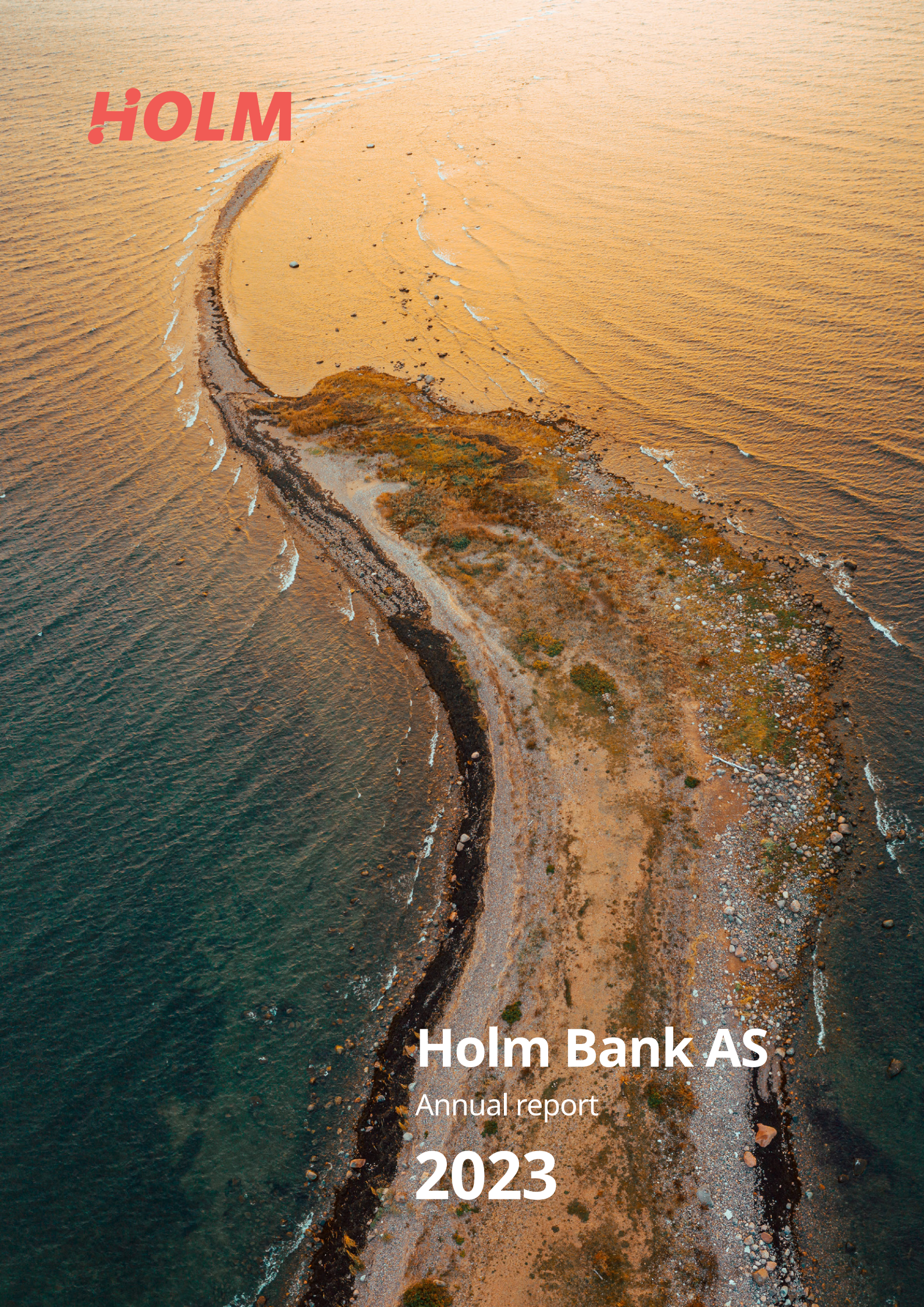


Holm Bank AS

Annual report

2023

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General information

Business name:	Holm Bank AS
Registry code:	14080830
Activity field:	Credit institution (banks)
First entry:	13.07.2016
Holm Bank AS legal address:	Lääne county, Haapsalu city, Posti street 30, 90504
OÜ Koduliising legal address: (100% parent company)	Lääne county, Haapsalu city, Posti street 30, 90504
Holm Bank Latvia SIA (100% subsidiary)	Dzelzavas iela 120G, Riga, LV-1021, the Republic of Latvia
Telephone:	+372 675 5055
E-mail:	info@holmbank.ee
Website:	www.holmbank.ee
Reporting period:	01.01.2023-31.12.2023
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:

BoE	Central Bank of Estonia
IASB	International Accounting Standards Board
Interpretations Committee	IFRS Interpretations Committee formerly International Financial Reporting Interpretations Committee (IFRIC)
EIR	Effective Interest Rate
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
SPPI	Solely payments of principle and interest
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)
NLP	Net loan portfolio (gross loan portfolio minus loan loss reserve)
Loan-to-deposit ratio	Ratio of net loan portfolio divided by total deposits
LCR	Liquidity coverage ratio
SPPI	Solely Payments of Principal and Interest



Holm Bank AS (hereinafter also Holm Bank and the Bank) is a private limited company based on private capital and operating in Estonia. In 2023 the Bank carried out its business through two legal entities: Holm Bank AS and Holm Bank Latvia SIA. Together these companies form a Bank's consolidation group (hereinafter: the Group).

Statement of the CEO

The operating environment in Estonia and Latvia in 2023 was challenging in many ways.

The economy was in a downward trend and in view of uncertainty about the future, many people and companies put their investment decisions on hold. Tragic events unfolded in various parts of the world, although fortunately our home markets were not directly affected.

Indeed, the dynamic economic environments of Estonia and Latvia continue to present favourable opportunities for proactive people and companies to create new ideas and make those plans a reality.

Also for Holm Bank, 2023 was the most successful year in our history. All strategic goals were met – we successfully expanded the loan and deposit portfolios, bringing them both to record high levels. We continued to invest in business development and introduced new innovative products that were positively received by the market. A record amount of new loans was issued, enabling our clients to realise a record number of good plans. Both customer satisfaction and employee satisfaction metrics were at a very strong level. We successfully completed the first-time capital issue of AT1 bonds and expanded our growing investor base. The year ended with the best net profit in our history. The capital and liquidity position is strong, exceeding all internal and regulatory requirements with a margin and providing the necessary buffers for future growth and to cover for possible risks.

We all must be prepared for economic headwinds to last for still some time to come. However, with a strong plan and a good team in place, success can be achieved also in such environment. Holm Bank will do our part and in 2024 we are ready to support our customers' new good plans in record volume in both Estonia and Latvia. We are in strong shape and on the right course, and optimistic about the year 2024.

Kaspar Kalvet
CEO





Management report

Operating environment

The macroeconomic external environment in 2023 continued to be difficult. The most important keywords were the ongoing economic recession, tightening monetary policy with sharply increased interest rates, tax changes and the background of continued negative geopolitical developments.

Adjusted for inflation, the Estonian economy remained in a small but continuous decline throughout 2023, which was a weaker result than expected by the Central Bank of Estonia (BoE). The performance of the economy has been negatively affected by the weakness of our main export markets, as well as by uncertainties among domestic businesses and individuals regarding the future and the resulting weakened demand. Continued economic downturn negatively affects investment confidence and the labour market.

High inflation and a rapid rise in interest rates have played their part in the economic downturn. Key interest rates have been raised to 4% by the decision of the European Central Bank, and although the price increase has significantly slowed down by now, it is unclear when and how quickly interest rates will decrease.

In 2023, regulatory uncertainty was compounded by plans of tax increases. Several new taxes were introduced to reduce the state budget deficit, and it is not fully clear if and which additional taxes the government may still impose in the future. Such an environment makes it difficult for companies and people to make forward-looking investment decisions.

Continued negative geopolitical developments, including the ongoing Russia-Ukrainian war, contribute negatively to risk appetite and the interest of foreign investors in the markets of Estonia and Latvia, increasing the cost of capital.

On the positive side, however, the ongoing recession has not had a substantial negative impact on the labour market. Indeed, in terms of the increase in average wages, the total number of employed people, and the unemployment rate, the labour market remains relatively healthy, although weaker than a year ago. The real estate market, although with reduced activity, has not seen a significant drop in prices.

Looking forward, there is also reason to be cautiously optimistic. According to the latest BoE forecast, the recession will end in 2024 and 2025-2026 will see the economy return to strong growth. Wage growth is already now higher than inflation, and growing purchasing power will support people's livelihoods and economic activity, even if some increase in unemployment is likely in certain sectors. In nominal terms, economic growth will continue to remain positive throughout the entire forecast period as it has been through the last years.

Coping well in a challenging external environment is underpinned by the Group's strategy of offering flexible financing services tailored to the needs of each customer. We believe that our small size enables us to adapt swiftly to changes and emerge from a tough external environment with a stronger market position than when we entered it.

Strategy

The primary focus of the Group is to provide financing to consumers and companies through a range of financial services and products. The Group offers credit facilities in Estonia and Latvia, while also accepting deposits in Estonia, Germany, and Austria.

The Group's history dates to 1995, when the predecessor of the Bank commenced operations in Haapsalu, Estonia. The trademark "Liisi" has been in use since that time.

The Group today continues these activities and uses the trademark Liisi to offer hire purchase until this day.

The second trademark Holm has been used by the Bank since 2019 to provide a variety of retail and business banking products, leasing, and term deposits.

"Holm" refers to a small island in the Swedish language. The name was inspired by 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.



Key values of Holm Bank

At Holm Bank, we work to help individuals and businesses realise their positive plans, offering contemporary, user-friendly, and high-quality financial services with a forward-looking approach.

We value progress

We are constantly in pursuit of improvement and work towards better solutions for tomorrow.

We value time

We consider time a valuable asset and hence refine our services and processes for a time-efficient and seamless experience.

We value individuals

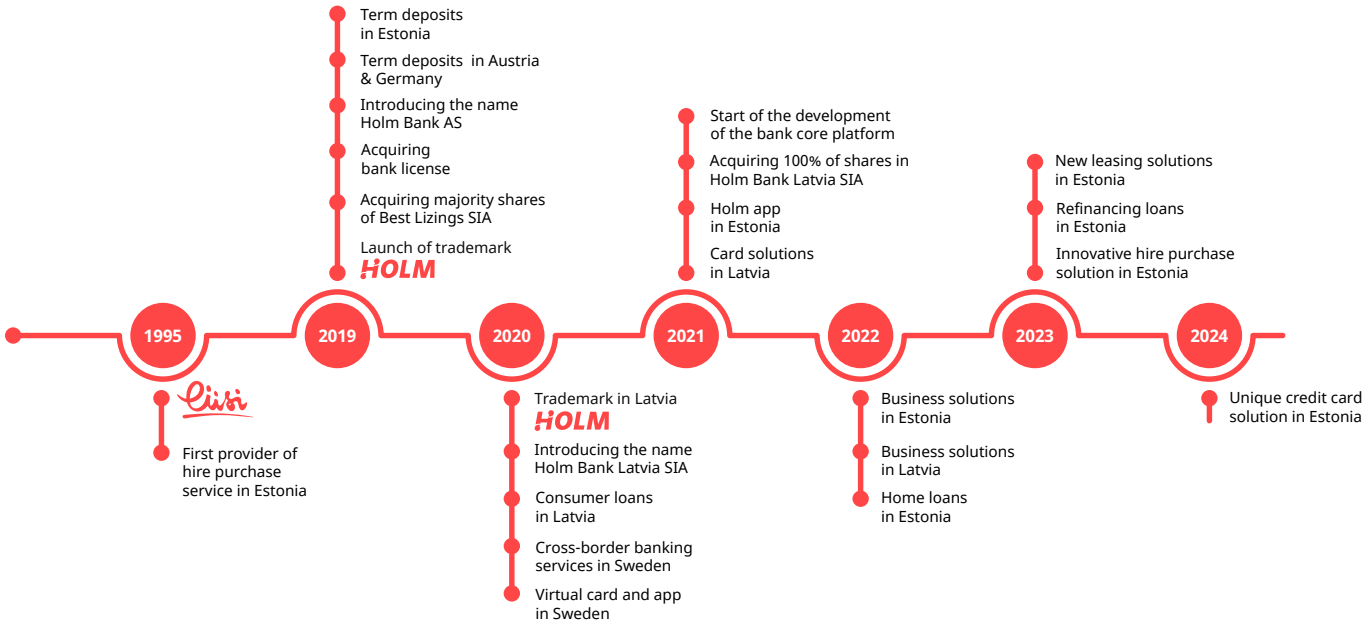
We hold respect for each individual and support them in achieving their goals.

At the end of 2023 the Group updated its multi-year strategy and financial plan, setting forth the updated main objectives for the coming years, taking into account the main developments in the 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, including continuously improving internal processes and offering high quality services to customers
- 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

- Hire Purchase
- Leasing
- Small loans
- Credit cards
- Home loans
- Term deposit
- Business loans

In the reporting period, the Group continued to expand its portfolio of financial services.

Significant developments included the expansion of leasing products for both business and private clients, refinancing loans, and Liisi Plus hire-purchase. Liisi Plus is a unique solution in Estonia, allowing customers to apply for hire purchase using a photo of the product taken with their phone.

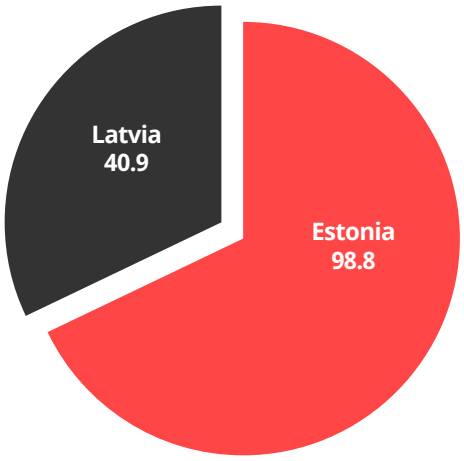
From one side, the new products offer additional options to existing clients and allow for the more complete servicing of their wishes and needs. From another side they open additional opportunities for the Group to grow via new clients.

Financial performance

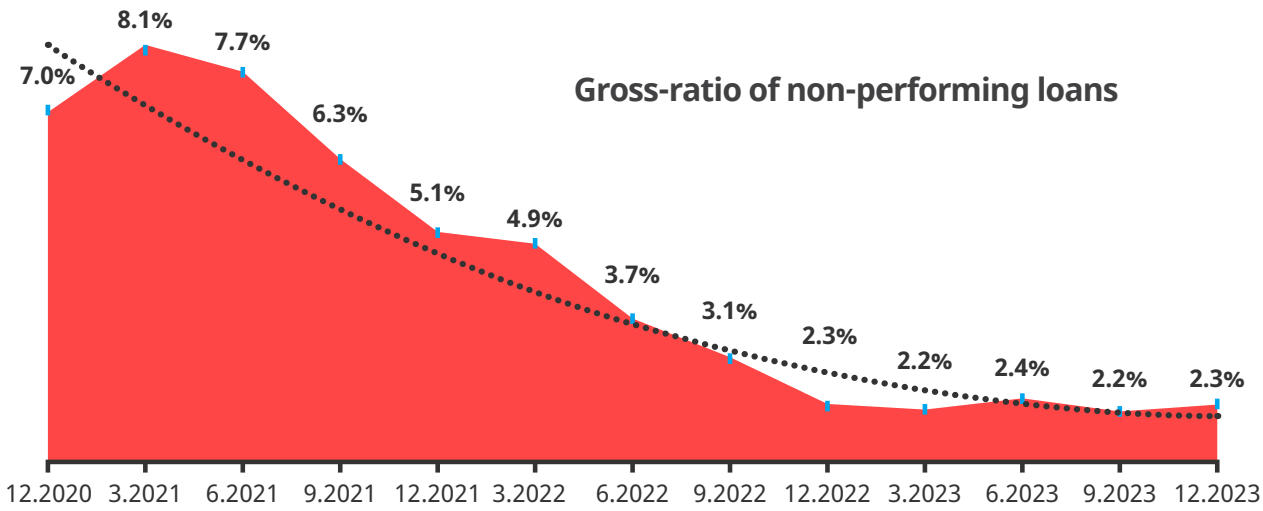
The financial results of 2023 were the strongest in the Group's history.

The group's net loan portfolio grew by 41% in 2023, reaching the highest level in its history. At the end of the year the net loan portfolio was 139.6 million euros (31.12.2022: 99.1 million euros). The growth of the portfolio was broad-based, including all the most important business segments and in both countries where the Group operates. Estonia's net loan portfolio grew by 45% and reached 98.8 million euros (31.12.2022: 68.3 million euros) and Latvia's net loan portfolio grew by 32% and reached 40.9 million euros (31.12.2022: 30.9 million euros).

Portfolio distribution by countries
in millions euros



Despite the rapid growth of the loan portfolio and the difficult economic environment, the Group continued to successfully focus on the credit quality of the loan portfolio. All the most important indicators reflecting the credit risk, including the share of the overdue portfolio and the amount of non-performing loans, remained stable over the year. At the same time the share of secured loans increased to 23%. The share of non-performing loans from the entire loan portfolio was only 2.3% at the end of the year, being at the same level as a year ago (31.12.2022: 2.3%).



** Gross ratio of non-performing loans gross loan portfolio (non-performing loans/gross loan portfolio)*

Although the credit quality remained stable and share of secured loans increased, the Group maintained a conservative line in terms of provisions for credit losses. Due to parameter changes in the internal models used, as well as additional overlay provisions formed on top of the model output, the volume of total credit risk provisions carried increased by 61% and reached the level of 2.8 million euros (31.12.2022: 1.7 million euros). In addition, the Group continues to write off 100% of all receivables that are more than 365 days overdue. The changes to internal models were done in view of the uncertainty in the economic environment and the diligent approach adopted by the Group (see Note 3). In case the credit quality improves and the economic outlook brightens, it is possible these provisions could also be reversed.

The total volume of assets increased significantly together with the loan portfolio, growing by 42% over the year and reaching 183.5 million euros by the end of the year (31.12.2022: 129.5 million euros). In addition to the loan portfolio, the most important asset in terms of share, were liquid assets in the BoE and high-rated credit institutions.

On the liabilities side, no significant structural changes occurred during the reporting period. During the year, the volume of customer deposits increased significantly, growing by 49% over the year and reaching the level of 155.5 million euros (31.12.2022: 104.4 million euros). The growth was broad-based, the total volumes of deposits of both Estonian and foreign depositors increased. It is important to emphasize that the volume of the Group's deposits continues to consist almost entirely of term deposits. This type of financing, on the one hand, increases the income earned by depositors and the financial cost of the Group, but on the other hand, significantly mitigates the Group's liquidity risks, as the maturity dates of deposits and the expected outflow times are significantly more precisely known than in the case of demand deposits.

In the second half of 2023, the Group successfully and for the first time issued AT1 subordinated bonds in the amount of EUR 1 million. A total of 9 investors subscribed to the bonds, and the bonds are registered in the Nasdaq central register. The bond issue, carried out in accordance with the current capital plan, strengthened the Group's liquidity and capital position and supports future growth plans.

The group ended the year with a very strong capital and liquidity position, exceeding all internal and regulatory requirements by a large margin.

In terms of capital, the Group's consolidated total capital adequacy at the parent level at the end of the year was 18.3% of risk-weighted assets (31.12.2022: 20.6%) and the adequacy of Tier 1 capital was 15.5% of risk-weighted assets (12.31.2022: 17.2%). Although both indicators exceed all internal and regulatory target rates by a significant margin, they are lower than at the end of last year, as planned. This is due to the significant increase in the total volume of loans during the reporting period, which also increased the calculated volume of risk-weighted assets.

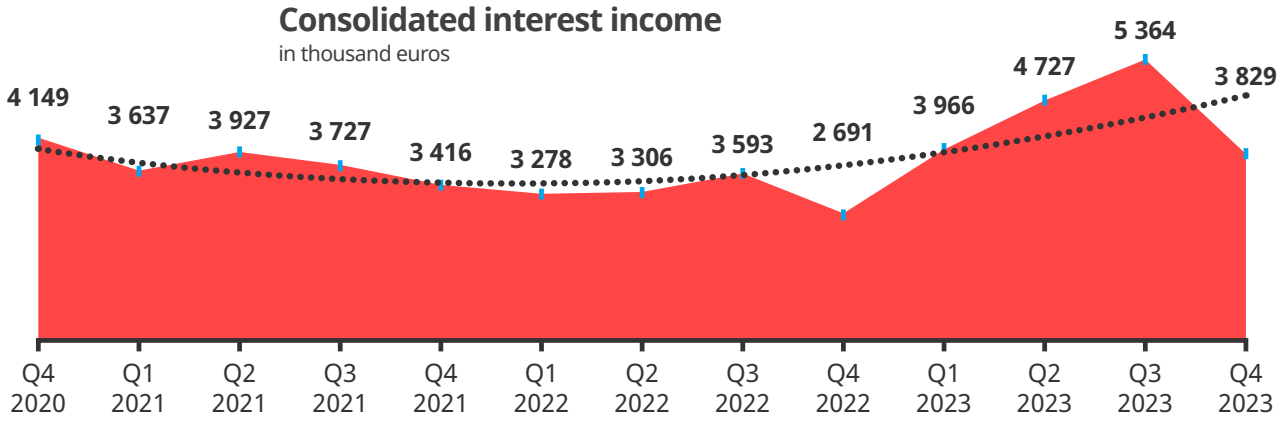
The most important of the liquidity risk metrics is the loan-to-deposit ratio, which at the end of the year had strengthened to the level of 89.8% (31.12.2022: 95.0%), while the regulatory LCR ratio was at the level of 190% (31.12.2022: 237%), continuing to exceed the regulatory minimum level of 100%l by a large margin. Measured in absolute terms, the liquidity buffer increased significantly over the year.

Systematic work on increasing operating volumes has also led to strong positive developments in terms of the profit and loss statement for the reporting period. Net operating income increased by 33% in the period compared to the previous year, to the level of 15.4 million euros (in 2022: 11.6 million euros). The main influence was the net interest income, which increased in the same order as the growth of the loan portfolio.

At the same time, continuously improved internal tools and processes have allowed for increased operating volumes without significantly increasing the internal cost base and headcount, limiting the growth of operating costs, which remained below inflation in 2023. Also, the amount of provisions formed to cover new possible credit losses has grown more slowly than the growth of the portfolio, due to the focus on credit quality and despite the above-described conservative approach to the formation of additional credit risk provisions per portfolio unit.

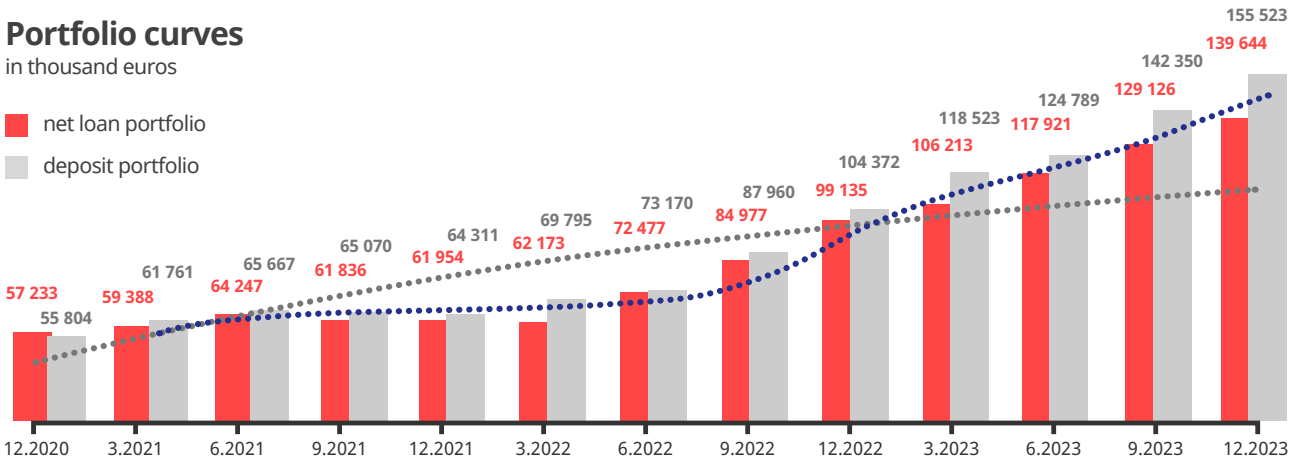
Continued portfolio growth, stable credit quality, and a conservative line in the formation of provisions to cover credit losses allow us to expect growing revenues with continued improvement in profitability and to mitigate vulnerability in terms of unforeseen risks.

At the same time, operating expenses increased by 4%, reaching the level of 9.6 million euros (in 2022: 9.2 million euros). Despite a 22% increase in credit losses to EUR 4.0 million (in 2022: EUR 3.3 million), profit before tax for the reporting period was EUR 1.8 million (in 2022: loss of 0.9 million euros). The net profit of the Group was 1.6 million euros, compared to a loss of 0.9 million euros a year ago.



The main reason for the positive result was the increase in operating volumes. Years of systematic work has led to the continued growth of the loan portfolio, which in turn has increased the net interest income earned from the portfolio. Despite the intense competition and the significantly increased financing costs, we have managed the average pricing of loans in such a way that the net interest income per portfolio unit did not change significantly in 2023.

At the end of 2023, certain accounting related one-off corrections were made in the financial statements that concerned the corrections in the calculation of effective interest rate method across the loan portfolio. As a result, changes occurred both in 2022 as well as the current 2023 financials, including the balance sheet and income statement. These changes are described in detail in Note 22. The net total result of all accounting related corrections for prior period and 2023 changes,as of the end of 2023 was positive 0.4 million euros. I.e. the equity was higher by this amount as of the end of 2023 than before making these one-off accounting corrections.



Governing bodies

The governing bodies of the Bank managing also the activities of the Group are the Supervisory Board and the Management Board of the Bank. 100% shareholder of the Bank is OÜ Koduliising. The shareholder has the right to participate in the management of the Group through the general meeting of shareholders. General meeting of shareholders is the highest governing body of the Group. OÜ Koduliising is 100% owned by Arne Veske, who is also the ultimate beneficiary and controlling party of the companies within the Group. OÜ Koduliising as a parent company and ultimate beneficiary Arne Veske have a significant relationship with the Bank according to the Credit Institution Act.

The Supervisory Board of the Bank consists 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 of the Bank consists of three members who are responsible for the daily management of the Group pursuant to the strategies and general principles approved by the Supervisory Board. There were no changes in the Management Board in the reporting period. Management board members are appointed by the supervisory board for three years. Chairman of the Management Board is Kaspar Kalvet. The other two members are Head of Legal of the Bank Monika Tomberg and Risk Manager Arvi Lipp.

The members of the Supervisory Board of the Bank and Management Boards of the Group companiesk 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. When appointing the members of the governing body the Group ensures that the governing body would be sufficiently diverse in composition through a profile of knowledge, skills, experience, and education.

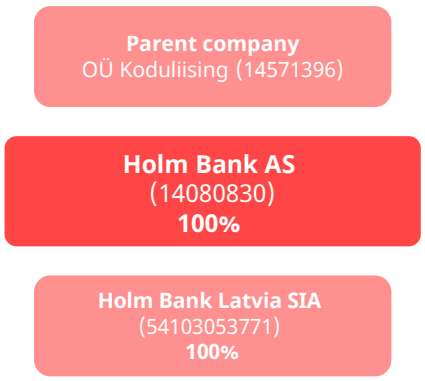
In order to ensure that the members of the governing body act honestly, reliably and independently, and to effectively control and manage the decision-making process of the management body, when deciding on the composition of the management body, it is evaluated that all members of the governing body have the required behavioral skills, including assessing whether the members of the governing body have actual or potential conflicts of interest, which may not allow them to perform their duties independently and objectively.

When deciding on the composition of the governing body the Group strives to ensure its diversity, particularly in terms of gender, professional expertise, education, and age to improve the performance of the governing body and ensure a greater balance in its composition. New appointments will consider the specific skills and experience, independence, and knowledge needed to ensure a complete the governing body, thereat considering the diversity benefits each candidate can bring to the overall composition of the governing body. In order to ensure gender diversity and increase the number of the under-represented gender, the strives to include no less than one member of the under-represented gender on each Group's governing body.

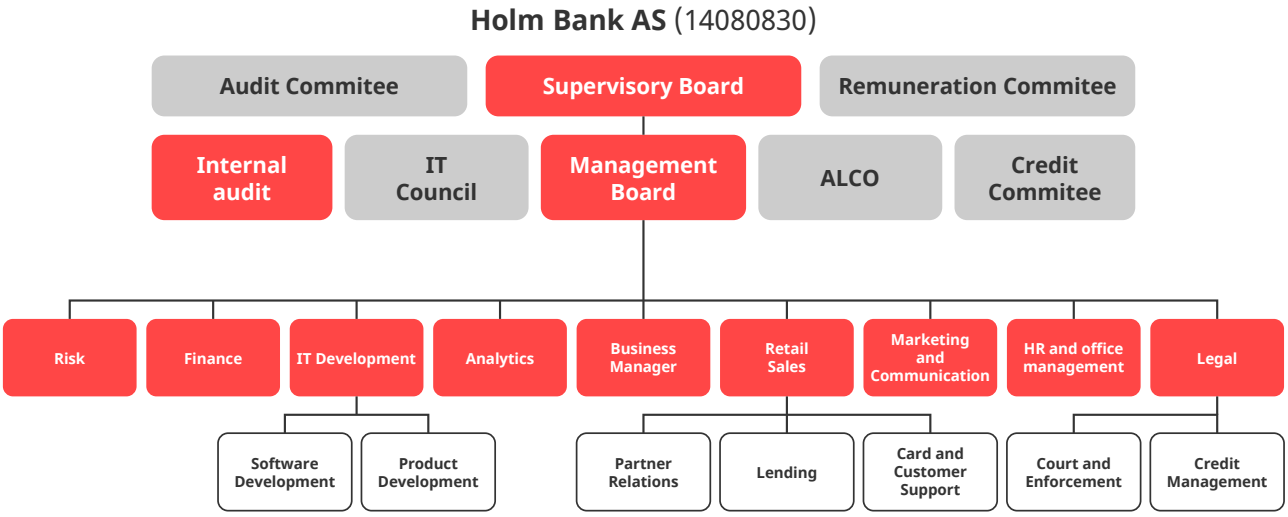
The Group has adopted an internal policy for the suitability assessment of members of the Supervisory Board, Management Board and Key Function Holders in the group: the suitability is evaluated before the individual is appointed as a member of a governing body, before the appointment period is prolonged, and regularly on annual basis.

Group structure

The legal and ownership structure of the Group:



The organisational structure the Group as of 31.12.2023 is the following:



The organisational structure of the Group is designed and approved by the 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 Management Board ensures that the organisational structure of the Group is transparent, the areas of responsibility are clearly defined, and procedures for the identification, measurement, management, constant monitoring, and reporting of risks have been established, and that such procedures are proportionate to the nature, scope, and level of complexity of the operation of the Group.

The Group coordinates its daily activities based on the principle of consolidation, which entails the establishment of collective and coordinated objectives and the implementation of common core values. The governance and control arrangements, processes, and mechanisms of the Group are implemented on a consolidated basis, meaning that the Group uses a centralised approach in the governance arrangements. Group-wide common principles, rules, and regulations are established and integrated through internal regulations and when necessary, by separate decisions of the management. Even though the Group uses a centralised approach in its governance arrangements, sufficient competence is also required at the local level in order to support the everyday activities of the Group.

Local management remains responsible for compliance with local regulations, for enforcing the internal regulations and strategies at the local level, and for the proper reporting at the Group level. The matrix structure is used to coordinate the activities of the subsidiary.

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 Supervisory Board and acting as per guidelines approved by the Supervisory Board, is a competent decision-making body in regard to taking credit decisions.

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.

IT Development Committee (IT Council), formed by the Management Board, evaluates the Group's IT related development needs and coordinates IT development priorities.

Assets and Liabilities Committee (ALCO), formed by the Management Board. The main task of this committee is to ensure that the Group has sufficient capital and liquidity.

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.

General management principles

The Group is governed by the Management Board and Supervisory Board of the Bank, where the Management Board is accountable to the Supervisory Board and makes decisions related to the operational and tactical direction of the Group. The Supervisory Board makes decisions regarding long-term strategic management of the Group and is responsible for controlling and supervising the implementation of the Group's internal management and internal control framework.

Both the Supervisory Board and the Management Board are obliged to act honestly and in good faith in the best interests of the Group and its shareholders, and to perform their duties independently and objectively.

The Supervisory Board is represented by the Chairman of the Supervisory Board and the Management Board is represented by the Chairman of the Management Board. Based on the principle of segregation of duties, the Chairman of the Supervisory Board is focused on representing the Supervisory Board and organising general governance and shareholder issues, while the Chairman of the Management Board represents the Management Board in performing the day-to-day operations of the Group. To assist the Management Board and Supervisory Board in performing their duties, committees with different areas of responsibility are established.

The Group has established internal governance and control principles to ensure the creation of a transparent organisational structure which makes it possible to determine the division of competences and responsibilities for the management and supervision of the business of Group.

The Group applies the principle of proportionality, meaning that internal governance and control principles have been developed considering in particular the Group's size, economic significance, internal organisation and nature, risk profile, and the complexity of its activities. Due to the size of the group, some of the functions could be combined or shared. However, the organisational structure of the Group is built in such a way as to ensure the clear division of competences and the segregation of duties and control to prevent conflicts of interest and ensure an effective control environment. Roles and responsibilities of the governance process, decision-making, and supervision are kept as separated and independent as possible.

The Group applies the 'tone at the top' principle, meaning that the Supervisory Board and Management Board of the Bank are responsible for setting and communicating the core values and expectations of the Group toward the organisation. The members of the Group's management, including key function holders, contribute to the communication of core values and expectations to the employees. The Supervisory Board and the Management Board promote, monitor, and assess the risk culture of the group on an ongoing basis, consider the impact of the risk culture on the financial stability, risk profile, and robust governance, and make changes, where necessary.

The Group has established clear leadership and administrative structure which are fundamental for effective governance and control management of the Group. By applying the principle of disclosure and transparency, the governance framework of the Group ensures timely and accurate disclosure on all material matters regarding the group, including risk-related issues, in the group as a whole and through reporting to the Supervisory Board and Management Board. The strategies and internal regulations of the Group are communicated to all relevant employees in a manner that enables the employees to understand and comply with the requirements pertaining to their duties and responsibility.

Internal control system

The Group applies the 'three lines of defence' principle, meaning that within the governance and control model of the Group, business areas and functions are given clear roles and responsibilities from the 'three lines of defence' perspective. Under this principle, the functions are divided into 'three lines,' and each line of defence has specific roles and responsibilities relating to risk management and control.

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,

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 have appropriate processes and controls in place that aim to ensure that risks are identified, analysed, 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 a risk management and compliance function that operates as an 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, analysing, 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 defence 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 defence where necessary.

3. The third level comprises the internal audit unit. The 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 defence. The internal audit function performs its tasks fully independently of the other lines of defence.



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 Group has established Remuneration Committee that assesses the implementation of remuneration principles in the Group and the impact of decisions related to remuneration on compliance with the requirements for risk management, own funds, and liquidity based on the input given by the management board. Remuneration Committee also monitors the remuneration of managerial staff and employees. At least once a year, assesses the implementation of remuneration principles, and if necessary, proposes updates to the remuneration principles and prepares draft decisions regarding remuneration for the Supervisory Board of the Bank.

The Supervisory Board is responsible for the approval and management of the Remuneration Policy, for approval of the salary scale, the performance criteria, based on which performance pay is calculated and the maximum amount of performance pay based on the proposal of the Remuneration Committee.

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 pay, which is an additional pay that also includes performance-based bonuses.

In addition to basic salary, the Group may offer performance pay to the employees if the economic results of the Group allow it. The prerequisite for paying the performance fee is the fulfilment of the main goals set in the current strategy and financial plan of the Group, and calculated based on the performance criteria.

The quality and work discipline of each employee, as well as the employee's individual work results in combination with the work results of the business unit, are evaluated by the employee's direct manager. The manager monitors the employee's performance and gives feedback to the employee in regular meetings between the manager and the employee during the year. The manager makes a summary of the employee's work results, including the interaction with the work results of the business unit, and gives the employee an overview within the framework of the annual employee development interview.

Performance metrics developed by the Management Board of the Bank to monitor the implementation of the Group's strategy and financial plan are applied to monitor performance criteria. Performance metrics at the level of the Bank's departments, units and each employee are developed by the head of each department or unit based on the principles stated in the Remuneration Policy.

Bonuses are paid on the conditions set in the Remuneration 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 pay are reasonably balanced. The maximum rate of performance pay may not exceed 100% of the basic yearly salary of an employee or, in exceptional cases, up to 200%, if it is previously approved by the general meeting of shareholders.

The sum of performance pay paid out annually to the employees is confirmed by the Remuneration Committee and the Supervisory Board. Performance pay is paid by the end of the month following the approval of audited economic results of the accumulation period at the latest.

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.

Consolidated financial key parameters *thousands of euros*	2023	2022 restated*
Net interest income	14 193	11 138
Net fee expense	-560	-764
Other income	1 796	1 250
Net operating income	**15 427**	**11 625**
Operating Expenses	-9 622	-9 287
Profit before credit losses	**5 806**	**2 337**
Net allowance for credit losses on financial instruments	-3 969	-3 265
Income tax	-201	-17
Profit (loss) for the year	**1 636**	**-945**
Net profit attributable to owners of the parent	1 636	-945
Average assets	156 537	109 723
Average equity attributable to owners of the parent	19 096	18 751
Net loan portfolio as at the end of the period	139 644	99 135
Total assets as at the end of the period	183 546	129 528
Total deposits as at the end of the period	155 523	104 372
ROA %	1,0%	-0,9%
ROE %	8,6%	-5,0%
AU %	12,6%	12,8%
CFROI %	30,5%	12,5%
CIR %	62,4%	79,8%
NIM %	15,2%	16,2%
Loan to asset %	76,1%	76,5%
Loan to deposits %	89,8%	95,0%
Equity to loan portfolio ratio %	14,3%	18,4%
Gross non-performing loan ratio %	2,3%	2,3%
Equity ratio %	10,8%	14,1%
LCR %*	190,2%	237,1%
NSFR %*	159,1%	161,2%
Leverage ratio %*	10,5%	13,5%

Explanations:

**Capital adequacy levels (LCR, NSFR, leverage ratio) are calculated according to COREP report as at the end of the period on consolidated level.*

Average assets = (ending balance of total assets + beginning balance of total assets) / 2

Average equity attributable to owners of the parent = (ending balance of total equity + beginning balance of total equity) / 2

Net loan portfolio = gross loan portfolio – loan loss allowance

*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 net interest income, fee income, operating income) / average assets * 100*

*CFROI = Profit before credit losses / 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/((gross loan portfolio principal part at the end of the period + gross loan portfolio principal part at the beginning of the period)/2) * 100*

*Loan to asset = net loans / total assets * 100*

*Loan to deposits = net loans / deposits * 100*

*Equity to loan portfolio ratio = total equity / net loan portfolio * 100*

*Gross non-performing loan ratio = gross non-performing loan portfolio / total gross loan portfolio * 100*

*Equity Ratio % = Shareholder's Equity / Total Asset * 100*

*LCR % (Liquidity Coverage Ratio) calculated as reported in COREP report. LCR = total high-quality liquid assets / (total outflows – total inflows) * 100*

*NSFR % (Net Stable Financing Ratio) calculated as reported in COREP report. NSFR = total available stable funding / required stable funding * 100*

*Leverage ratio % = total Tier 1 capital / leverage ratio risk exposure amount * 100*

Sustainability goals

The Bank is a bank of good plans. All Group companies adhere to responsible lending policies and contribute to the societal well-being by creating value at both individual and societal levels, generating employment, and enhancing overall quality of life.

We strive to achieve sustainability goals and actively explore opportunities for the benefit of society, working towards this objective.

The Group has established its sustainability objectives, so that we could help even more and give our support to the society in achieving the sustainability goals. We are integrating the goals and principles of sustainable and responsible operations into the Bank's strategy. Constantly improving our work processes we incorporate the aforementioned principles by applying the following environmental, social and management measures:

Environmental measures (E)
Pollution and waste: We work on reducing the impact of the Group's activities on the environment by sorting waste and reducing the amount of paper used in office work.

Innovation of environmentally friendly products and services: We offer customers products that allow them to reduce their environmental impact (home energy loan) and support companies that operate with climate objectives in mind and contribute to the development of a sustainable economy.

Social measures (S)
Access to finance and responsible lending: The Group issues loans only in accordance with the principles of responsible lending based on good banking practice and high ethical standards. The Bank's activities are always in accordance with and do not compromise generally accepted ethical, environmental, and legal principles. The Bank does not issue credit to 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 capacities of the customers to fulfil their obligations, whether they are private individuals orbusiness customers. We do not credit customers when it is likely that they are unable to service their liabilities.

Workforce management: We have set the goal of high employee satisfaction and loyalty, versatility, equality, and inclusion, retaining and motivating talent, valuing employee well-being through very good management

We take care of the our employees by constantly improving the work processes and increasing employee welfare. Wesupport our employees' professional and personal development by offering opportunities for growth within the organization and facilitating training.

Starting in 2023, we use the Moticheck software service for the ongoing evaluation of employee satisfaction. Moticheck provides a modern and innovative solution to support managers and understand the working life and needs of our employees.

In collaboration with our employees the Bank updated its values and mission (goal). At the Bank, we strive to help people and companies realize their good plans by offering modern, convenient, and high-quality financial services with a forward-looking approach. We value development, time, and people.

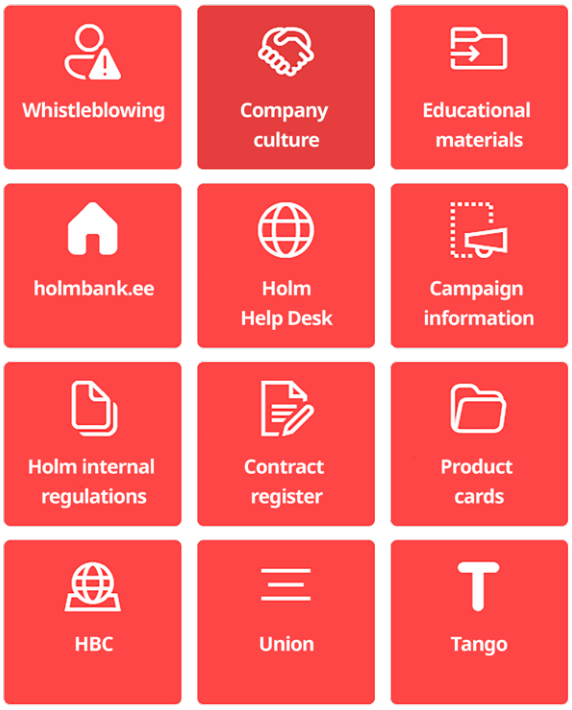
We have set the goal of streamlining the Bank's daily work and reducing administrative activities. To achieve this, we critically evaluate all processes and look for optimal solutions.

We consistently assess whether we have the right people in the appropriate positions and a suitable structure to support the accomplishments of the Bank's goals.

Training and development of employees: We have created a need-based training plan and employees select specific trainings to meet their needs additionally to the regular in-house trainings to keep and develop our employees competence. In 2023, we started a leadership development program aimed at training leaders in modern management techniques (e.g. coaching and value-based management). During the management development program, the Group's unified management principles were agreed upon and described.

Diversity, inclusion, and equal treatment: We prioritise gender equality and adhere to a strict policy of non-discrimination. The Group remuneration policy is transparent and fair.

Employee involvement: In 2023, the Bank launched its intranet to facilitate effective dissemination of information among employees, ensuring everyone stays well-informed and enabling easy and quick access to essential materials and documents that employees need for daily tasks.



Work-life balance: We value the balance between work and personal life. The Group operates on the principles of flexibility in working arrangements, offering flexible working hours and remote work options to all employees, where feasible based on the nature of their work.

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In 2023, the Targa Töö Ühing and Eesti Personalijuhtimise Ühing PARE awarded the Bank the label of Remote Worker. The Remote Worker label is a quality mark that shows that the organization thoughtfully implements modern and flexible work practices.

Occupational health and safety: We provide additional health insurance at the company's expenses and support employees on important family occasions.

We promote employees' mental health by providing bank-wide trainings for all employees, e.g. on coping with stress, sleep, healthy eating, etc. We also provide financial support for professional help if necessary.

Charity, local economic and social impact: The Group has prioritized charity and has been a long-standing supporter of several cultural events, sport associations, and individuals, etc, see more detailed overview in section Social Responsibility and Creation of Economic Value on page.

Management measures (G)

Risk management: The Group's risk management is based on the Group's defined risk appetite. The Group only takes risks that do not exceed its risk capacity and ensures that activities that require risk taking always remain within the risk capacity. Risk metrics are constantly monitored, and the Group's risk appetite statement together with risk assessment procedures is updated at least once a year to ensure that the risk indicators and processes constantly correspond to the needs and capabilities of the growing business.

Remuneration: We pay our employees a competitive salary in line with the market.

Avoiding corruption: An application enabling anonymous reporting has been created to prevent violations and fraud.



Social responsibility and creation of economic value

As an Estonian bank, the Bank is committed to supporting the implementation of good local initiatives. The Bank's motto is "The Bank of Good Plans," expressing the realization of responsible and progress-oriented banking, supporting sustainable plans of businesses and individuals. Our motto equally reflects the Group's social responsibility - we endorse industrious and inspiring individuals, future talents, and those who contribute to improving local community life; we also provide support to the less fortunate.

For the second consecutive year, we supported the Charity Foundation "Minu Unistuste Päev" (My Dream Day), which helps fulfil the dreams of seriously ill children. We are grateful for the opportunity to contribute to bringing joy to these children.





For many years, the Bank has been supporting the Christmas event at Haapsalu Viigi School. This year, we once again gifted the school a Christmas tree and filled the prize wheel with items that brought joy to the children. Holm's employees have consistently contributed items each year, and this time, the amount gathered reached a record high. Caring and helpfulness are inherent qualities of both our company and its employees.

Understanding the importance of an active and mobile lifestyle, we have supported several sports associations promoting physical activity. The longest-standing collaboration has been with the Tartu football club, Welco. The year 2023 was special for both Holm and Welco. With Holm's support, Holm Park was completed in Tartu, featuring a full-sized, high-quality football field, a basketball court, and a stylish grandstand building that meets modern requirements. Holm Park became the home of JK Welco. During the summer opening event, the club's leaders, Edgar Leht and Mart Raamat, shared the story of the park's story with all the guests. The significance of the park for the local community was highlighted in a speech by Tartu Mayor Urmas Klaas. The park represents a confirmation of the values we have deemed important - it takes only a couple of determined individuals to bring about a positive change in the lives of many locals. Thanks to architect Andres Lunge's excellent sense of style and design, Holm Park forms a pleasant neighbourly complex with the Estonian National Museum. The grandstand building of Holm Park was nominated for the "2023 Wooden Building of the Year" competition. Holm Park itself was honoured as the laureate of "2023 Tartu Achievement of the Year." The year ended on a high note for the club with a league victory and promotion to the first league. We take great pride in the club's activities and achievements, and we are pleased to have been able to support them on this journey.





The collaboration with the Haapsalu Basketball Club, Herilased, continued as well. Elite basketball player Siim-Sander Vene has the ability to inspire young people and bring them to the basketball court. Sport provides young people with both physical activity and quality leisure opportunities.



Nelli Differt is a dedicated and talented athlete representing Estonia on the world stage. We have faith in Nelli, an epee fencer from our hometown of Haapsalu, and support her in achieving her goals.



The coaches of the sports club MTÜ Rakvere Korvpall, operating in Virumaa, particularly Tõnis Putko, have energetically continued to train young basketball enthusiasts, providing them with plenty of opportunities to gain competition experience. We stand by them in their efforts.

The collaboration also continued with the children's and youth hobby club Kratila. Coach Mikk Pärt keeps the children engaged in sports on a daily basis and offers enjoyable camps during school breaks, ensuring that children's leisure time is filled with sporting activities.



The crew of Holm's yacht Matilda 4, which included members of Holm's supervisory board Kelly Veske and Arne Veske, successfully participated in several competitions, culminating in a silver medal at the ORC World Championships in offshore sailing held in Kiel, Germany.



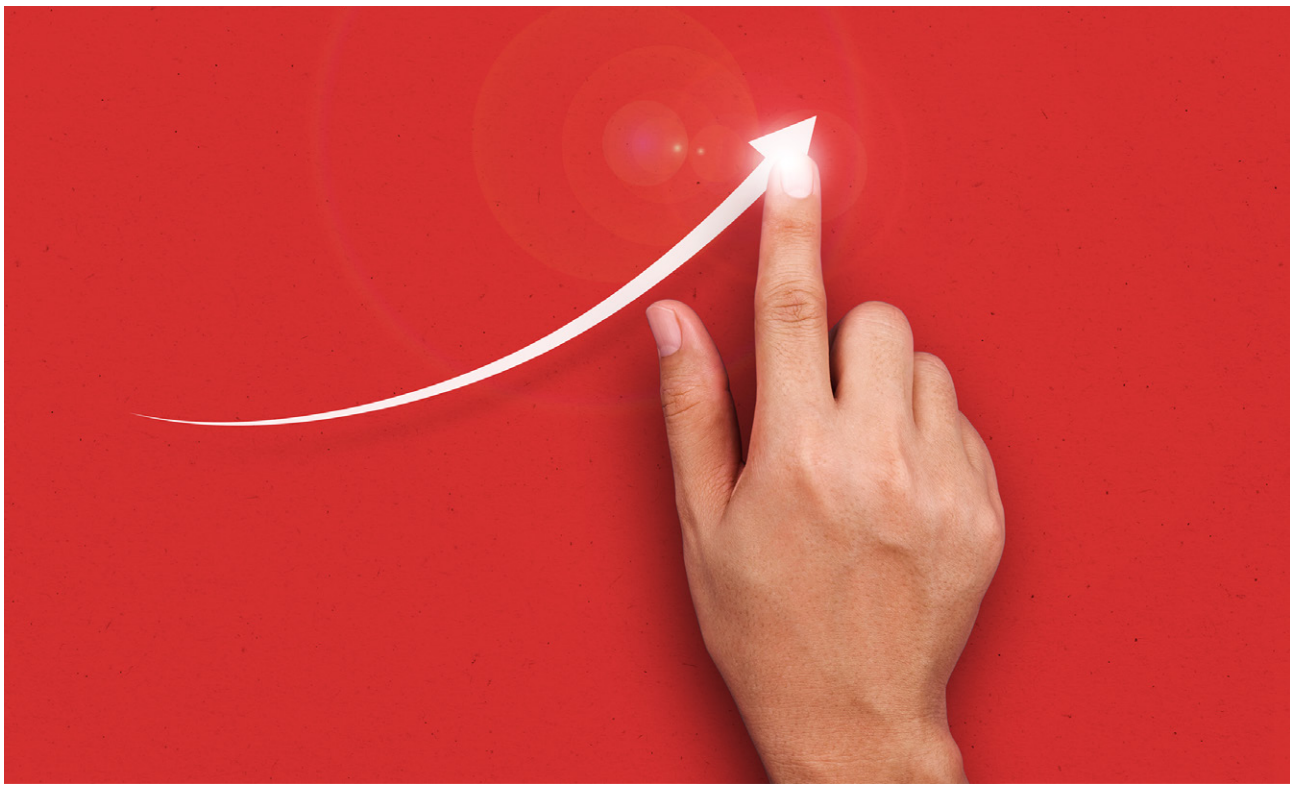
We began collaborating with the young and talented dancer Akreta-Dia Kampe, who despite her young age serves as a role model and imparts her skills to younger dancers. There are plans to make a documentary film about her.



We continued our support for music events. We value the continuation of traditions and take joy in bringing cultural events closer to people. We were sponsors at both the TAFF:fest held in Haapsalu and the Pärnu Harmonica Festival.



Initiative and activity are characteristic of the Holm team. Nearly every employee has a hobby, whether it's a sporting pursuit or a cultural activity. Among us, there are dancers, musicians, singers, and amateur athletes. Balance is important and creates a conducive environment for achieving good results.



Economic value created by the Group *thousands of euros*		2023	2022
Paid CIT		**64**	**135**
	inc. Estonia	58	126
	inc. Latvia	6	9
Paid labor taxes		**1 794**	**1 867**
	inc. Estonia	1 661	1 816
	inc. Latvia	133	51
Paid VAT		**143**	**94**
	inc. Estonia	9	20
	inc. Latvia	134	74
Total taxes paid		**2 001**	**2 096**
Net salaries paid		**2 758**	**3 233**
	inc. Estonia	2 171	2 676
	inc. Latvia	586	557
Jobs created		**3**	**12**
	inc. Estonia	3	11
	inc. Latvia	0	1
Paid to suppliers		**7 778**	**5 228**
	inc. Estonia	6 099	3 329
	inc. Latvia	1 679	1 899
Investments made		**2 839**	**3 400**
	inc. Estonia	2 839	3 400
	inc. Latvia	0	0

Consolidated financial statements

Consolidated statement of comprehensive income *thousands of euros*	Note	2023	2022 restated*
Interest revenue calculated using the effective interest method		17 886	12 870
Interest expense calculated using the effective interest method		-3 693	-1 731
Net interest income	5	**14 193**	**11 138**
Fee income		13	0
Fee expense		-573	-764
Net fee income (expense)	6	**-560**	**-764**
Other income	7	1 796	1 250
Net operating income		**15 428**	**11 625**
Personnel expenses	8	-4 829	-4 626
Administrative and other operating expenses	8	-3 562	-3 187
Other expenses	8	-1	-63
Depreciation and amortisation expense	8,13-16	-1 230	-1 411
Credit loss expense on financial assets	8,11	-3 969	-3 265
Total operating expenses		**-13 591**	**-12 553**
Profit (loss) before income tax		**1 837**	**-928**
Income tax	9	-201	-17
Profit (loss) for the year		**1 636**	**-945**
Equity holders of the parent		*1 636*	*-945*
Total other compehensive income (loss) for the year		**0**	**0**
Total comprehensive income (loss) for the year		**1 636**	**-945**
Equity holders of the parent		*1 636*	*-945*

* Some prior period figures have been restated. For further information, please refer to the note 22 to the consolidated financial statements.

Notes on pages 26 to 87 are an integral part of the consolidated financial statements.

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Consolidated statement of financial position

thousands of euros	Note	31.12.2023	31.12.2022 restated*	01.01.2022 restated*
Assets				
Cash and balances with central bank	10	26 939	4 800	3 048
Amounts due from credit institutions	10	2 981	13 035	13 979
Loans and advances to customers	11	139 644	99 135	62 941
Other assets	12	885	1 120	1 265
Investment property	13	884	929	964
Property, plant and equipment	14	583	621	644
Right-of-use assets	15	687	815	932
Intangible assets	16	10 943	9 072	6 143
Total assets		**183 546**	**129 528**	**89 917**
Liabilities				
Deposits from customers	17	155 523	104 372	64 316
Loans received	17	99	136	174
Lease liabilities	15	717	873	976
Other liabilities	18	2 762	2 345	1 705
Subordinated bonds	17	4 531	3 523	3 523
Total liabilities		**163 632**	**111 250**	**70 694**
Equity				
Share capital	19	50	50	50
Share premium	19	14 471	14 471	14 471
Statutory reserve	19	5	5	5
Retained earnings	19	5 389	3 752	4 697
Total equity attributable to parent		19 915	18 278	19 223
Total equity attributable to non-controlling interest		0	0	0
Total equity		**19 915**	**18 278**	**19 223**
Total liabilities and equity		**183 546**	**129 528**	**89 917**

* Some prior period figures have been restated. For further information, please refer to the note 22 to the consolidated financial statements.

Notes on pages 26 to 87 are an integral part of the consolidated financial statements.

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Consolidated statement of cash flows *thousands of euros*	Note	2023	2022
Received interests	15	17 454	13 533
Paid interests	15	-2 886	-1 263
Operating income and service fees received	6, 7	2	11
Operating expenses and service fees paid	6, 8	-209	-200
Other income received	7	1 743	1 602
Paid net salaries	8	-2 758	-3 233
Paid administrative and other operating expenses	8	-11 442	-7 269
Paid out to customers	11	-97 966	-83 210
Loan principal repayments		59 644	43 829
Received deposits	17	88 449	71 649
Deposit repayments	17	-37 816	-30 943
Paid CIT (corporate income tax)	9	-64	-135
Cash flows from operating activities		**14 152**	**4 372**
Additions of property, plant, equipment and intangible assets	13, 14, 16	-2 839	-3 400
Cash flows from investing activities		**-2 839**	**-3 400**
Repayment of principal portion of lease liabilities	15	-190	-122
Received from issuing bonds	17	1 000	0
Repayments of loans received		-37	0
Cash flows from financing activities		**772**	**-122**
Change in cash and cash equivalents		**12 085**	**850**
Cash and cash equivalents at the beginning of the period		**17 835**	**17 028**
Net increase/(decrease) in cash and cash equivalents		12 085	850
Net foreign exchange differencies		0	-42
Cash and cash equivalents at the end of the period	**10**	**29 920**	**17 835**

Cash and cash equivalents comprise	Note	2023	2022
Cash on hand		0	0
Non-restricted current account	10	2 981	13 035
Cash and balances with central bank	10	26 939	4 800

Notes on pages 26 to 87 are an integral part of the consolidated financial statements.

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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 01.01.2022		**50**	**14 471**	**5**	**3 709**	**18 235**	**0**	**18 235**
Corrections (note 22)		**0**	**0**	**0**	**988**	**988**	**0**	**988**
Restated balance as at 01.01.2022		**50**	**14 471**	**5**	**4 697**	**19 223**	**0**	**19 223**
Profit/loss for the year		0	0	0	-945	**-945**	0	**-945**
Total comprehensive income/loss	**4**	**0**	**0**	**0**	**-945**	**-945**	**0**	**-945**
Balance as at 31.12.2022		**50**	**14 471**	**5**	**3 752**	**18 278**	**0**	**18 278**
Balance as at 01.01.2023		**50**	**14 471**	**5**	**3 752**	**18 278**	**0**	**18 278**
Profit/loss for the year		0	0	0	1 636	**1 636**	0	**1 636**
Total comprehensive income/loss		**0**	**0**	**0**	**1 636**	**1 636**	**0**	**1 636**
Balance as at 31.12.2023		**50**	**14 471**	**5**	**5 389**	**19 915**	**0**	**19 915**

Notes on pages 26 to 87 are an integral part of the consolidated financial statements.

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HOLM

Bank of good plans.

Notes to the consolidated financial statements

Corporate information

Holm Bank AS, along 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 markets. Deposits are raised 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 (Decision No. 4.1-1 / 14 of the Management Board of the Financial Supervision Authority of 06.03.2017).

Since February 2021 the Group has been the owner of 100% shares in Latvian entity Holm Bank Latvia SIA.

The consolidated financial statements for the year ended 31 December 2023 were authorised for issue in accordance with a resolution of Management Board on 28 March 2024.

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.

Basis of preparation

In addition to Holm Bank AS, the consolidated financial results presented in current 2023 report include also financial results of Holm Bank Latvia SIA.

Current consolidated financial statements of 2023 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 2023.

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.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as of 31 December 2023.

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 involve-

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ment 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.

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 23 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.

Material accounting policies

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 payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. Thus, other characteristics of potentially different interest rates and product life cycles are taken into account at different stages.

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Foreign currency transactions, assets and liabilities

The functional currency of the Group and presentation currency of these consolidated financial statements is Euro. All the tables present information in thousands Euros. 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 which include one or more unobservable 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 balances with central banks and amounts due from credit institutions

Cash and balances with central banks and amounts due from credit institutions in the statements of financial position and cash flows comprise non-restricted cash at central banks and amounts due from 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 policies 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 assets at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial assets 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.

Group classifies all of its financial assets based on the asset's contractual terms, the Group's business model and SPPI assessments - measured at either:

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- 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.

The Group does not hold any derivatives.

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 secured and unsecuredprivate and business 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 assets' 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 assets.

Modification of financial assets

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 often close to the terms of original agreement and therefore in many cases the renegotiation or modification does not result in contract derecognition. The Group recalculates the

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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 assets, 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 asset of, or greater than 10%. For financial assets, this assessment is based on qualitative and quantitative 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.

Impairment of financial assets

The Group applies the expected credit loss model for financial assets measured at amortised cost. As a result, all financial assets of the Group generally carry a loss allowance.

ECLs are a probability-weighted estimate of credit losses, that is the present value of future cash shortfalls, over the expected life of a financial asset. A cash shortfall is the difference between the cash flows that are due and the cash flows that the Bank expects to receive. The measurement of expected credit losses must reflect an unbiased and probability-weighted amount that is determined by evaluating the range of possible outcomes as well as incorporating the time value of money.

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.

Loss 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 assets, 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.

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The loss allowance (or reversal) is recognized in the statement of comprehensive income tis the amount required to adjust the loss allowance to the appropriate amount at the reporting date.

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.

ECL measurement methods

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

Bank may use following methods to calculate ECL:

- Individual assessment method;
- Collective assessment method;
- Expert judgement / management overlays

ECLs on individually large exposures are measured individually if the Bank 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. The Bank uses collective basis for ECL measurement.

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

Shared credit risk characteristics considered in segmentation:

- Instrument type;
- Geographical location of the issuer.

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

- Hire-purchases;
- Consumer loans;
- Credit cards;
- Home and mortgage loans;
- Leasings;
- Business 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 assets'.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial asset'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 asset. See note 3.4.

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

Stage 1 - Stage 1 represents exposures, for which the credit risk has not significantly increased since initial recognition. For Stage 1 exposures, 12-month PD is used as a basis to calculate expected credit losses.

Stage 2 - Stage 2 represents exposures, for which the credit risk has significantly increased since initial recognition b ut do not qualify for default or Stage 3 status. The Bank uses DPD, customer or client rating, forbearance, significant changes in the value of collateral, other financial assets of the same borrower, guarantor of exposure, variable info from borrower of difficulties, material breach of loan covenants, deterioration of prognosis or other negative news as SICR parameters for Stage 2 exposures. For Stage 2 exposures, lifetime PD is used as a basis to calculate expected credit losses.

Stage 3 - Stage 3 represents exposures that are in default. Bank uses DPD, payment behaviour assessment, restructuring for payment difficulties, termination, bankruptcy, realization of collateral for Stage 3 exposures. For Stage 3 exposure, PD of 100% is used as a basis to calculate expected credit losses. The lifetime component for such positions is captured via the LGD component, where the LGD is calculated by discounting future cash flows with EIR.

Group didn't have POCI assets as of 31.12.2023 and 31.12.2022.

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 and the corresponding loss allowance of the financial asset are written off. This is considered a (partial) derecognition of the financial asset.

Impairment losses and releases are accounted for in a loss allowance account.

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

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Definition of default

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).

The Group considers a financial asset 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.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial assets subject to the expected credit loss calculation including the unpaid loan principal, accrued interests and fees, incorporating the data on the outstanding exposure as of the reporting date, the scheduled repayments of the exposure over the forecast horizon, the possible increase in exposure in case of undrawn committed credit lines, potential early repayments, and possible accumulated unpaid interest.

To calculate the EAD for a Stage 1 loan, the Bank assesses the probable development of those variables over the 12-month time horizon.

To calculate the EAD for Stage 2 loan, the Bank assesses the probable development of those variables over the loan lifetime time horizon.

The maximum period to consider for EAD estimation for expected credit losses calculation is the maximum contractual period of the loan. Any exception, for example for facilities that are expected to be prolonged at maturity, must be duly motivated and documented and the perimeter for which the exception is applied clearly identified.

To convert undrawn committed credit lines to EAD, the following principles are used:

- For credit cards: In order to find the exposure value of the unused part of the credit limit, the Bank calculates how many credit card contracts defaulted within 12 months and what percentage of the unused part of the limit was taken into use during that period. The resulting coefficient is multiplied by the unused part of the limit and added to the exposure value.
- For all other exposures: due to absence of internal data, caused by short operating history and lack of sizable portfolio of such products, as well as absence of reliable market information, the credit conversion factors defined by Article 166 of the CRR are applied.

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

Loss given default

Loss Given Default (LGD) reflects the economic loss that may occur in the event of default.

It is based on the difference between the contractual cash flows due and those that the Group 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 must account for the time of such cash flows arriving and any debt collection or collateral realization costs. It is expressed as a percentage of the EAD.

The Bank estimates LGDs separately for collateralized and uncollateralized exposures.

Probability of default

The definition of probability of default corresponds 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.

As a basis for probability of default estimates, the Bank determines the respective 12-month default rates for each segment from historical data. In the historical default rate calculation it is considered the number of defaults relative to the total size of performing non defaulted portfolio over a 12 month period. In total 12 this kind of 12-month periods are evaluated and historical 12-month default rate is considered the average of these periods , For Estonian consumer loan product, the Bank uses the average of exposure-based and count-based default rate.

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

Forward looking effects are calculated for the 12-month period for 12-month ECL calculation and for 24-month period for lifetime ECL calculation.

Forward-looking component is calculated separately for three segments:

- Estonian retail customers;
- Estonian corporate customers;
- Latvian customers;

Assessing significant increase in credit risk

For determining whether there has been a significant increase in credit risk since initial recognition, the Group considers a variety of information available. The information available is determined by the structure of the nature of the business and is different by segment and by product - wider for corporate loans and narrower for retail loans for which there is no routine credit risk information provided by the borrower. The Group has considered all available information, as well as the market practice and provisions of section B5.5.17 of IFRS 9 in determining the appropriate information to be used for determining significant increase in credit risk in consideration of its business model (please see Note 3.4-3.15 for more details).

Credit grading system

Information obtained from credit grading system is used in addition to other criteria 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.

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.
- Yellow – contractual payments have been due for 8 – 30 days (customers with known history).
- Red – contractual payments have been due for 31 – 90 days.
- Black – contractual payments have been due for over 90 days or the contract is cancelled.

Developing macro-economic scenarios

Macro-economic scenarios are developed internally, using external sources. Possible sources include (but are not limited to) European Central Bank, BoE, Bank of Latvia, and local Ministries of Finance.

Bank evaluates three possible macro-economic scenarios:

- Baseline scenario is based on neutral forecasts and reflects the expectations of future economic conditions most likely to happen.
- Negative scenario is based on the expectations of economic conditions more negative than average.
- Positive scenario is based on the expectations of economic conditions more positive than average.

Each possible macro-economic scenario receives a probability of occurring. This probability is a management estimate and is based on prevailing market consensus and sentiment, including both all available external and internal forward-looking information

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

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 BoE and Bank of Latvia were used as a proxy of default rates. The following macro indicators were used for statistical analysis:

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- 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 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. Model overlays are documented and reviewed in the Credit Committee. 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.

Financial liabilities

Financial liabilities are initially recognized on the statement of financial position at fair value. 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.

Subordinated bonds which are not publicly traded are measured in the statement of financial position at amortised cost using the effective interest method. A bond is classified as a subordinated bond if on the winding up or bankruptcy of the credit institution the bond is to be satisfied after the justified claims of all other creditors have been satisfied.

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.

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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 reviewed on a yearly basis. If the value of the collateral has decreased, the adjustment is made downwards. If the value has increased, no adjustments are made. Details of the impact of the Group's various credit enhancements are disclosed in Note 3.14.

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 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 because 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. 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 Group 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.

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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) are not depreciated.

The estimated economic useful lives are as follows:

• Buildings	30 years
• Plant and Equipment	5 years
• IT equipment and furniture	5 years
• Cars	5 years
• Land	not amortized

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

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.

During the reporting period a shortening of the useful life of one computer software asset was made. The initial amortization was until December 2025. The Group decided to reevaluate prospectively the useful life in order to shorten it due to planned decommissioning of the computer software asset.

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. After 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.

Rental income of the investment properties is disclosed in consolidated statement of comprehensive income under other income. Expenses related to investment properties are in the same statement under administrative and other operating expenses.

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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 (up to 5 000 euros); 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 statement of comprehensive income over the lease period 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 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 , taking into account extension and termination options. See Note 2 and Note 15.

The Group as lessor

The Group classifies leases as operating leases and finance leases and recognises different types of leases differently.

The Group enters into leases in cooperation with asset leasing companies, but also directly with clients. The Group provides financing to the corporate clients found by asset leasing companies and acquires the assets to be leased on the basis of a lease agreement. Asset leasing companies are paid a commission at the time of acquisition. Receivables arising from finance leases are recognised at the present value of the minimum lease payments less the principal payments received. Financial income is recognised so that the rate of return on the lessor's net investment remains the same over the lease term. The initial service charge received at the entry into the lease is taken into account in the calculation of the rate implicit in the lease and the lessor's net investment. The lessor's direct costs associated with the lease form part of the effective interest rate and are recognised as a reduction of lease income over the lease term.

The write-offs formed for lease receivables are recognised in negative value in the respective line of the statement of financial position. A lease receivable is recognised in the statement of financial position when the leased asset is delivered to the customer for use.

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.

The Group's leasing operations, as a lessor, has entered into operating leases on its investment property portfolio consisting of certain office/retail buildings.

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.

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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.

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.

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.

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.

From 1 January 2024, amendments to the Enterprise Income Tax Law are in place in Latvia, for the introduction of an annual corporate income tax surcharge of 20% that is payable by credit institutions and consumer credit (loan) providers. The tax surcharge takes previous year's (2023) profit as a basis for the new tax.

Consequently, current and deferred tax assets and liabilities are measured at the tax rate applicable. Starting from 1 January 2024, previous year's profit will be subject to the tax rate of 20 per cent of their gross amount, or 20/80 of net expense.

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Corporate income tax 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

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).

Related parties

The following are considered to be the Group's related parties in a context of the consolidated financial statements: persons named in compliance with IAS 24. 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 financial assets and financial liabilities

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

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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 2023:

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. 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.

The Group disclosed only material accounting policies in the annual report.

IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)

The amendments are effective for annual periods beginning on or after January 1, 2023. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

Management has assessed that the amendments will have no significant impact on the Group's consolidated financial statements today. The impact on future statements will be assessed on an ongoing basis, if such situations will arise in the future.

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 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, if they do not result from a correction of prior period error. 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 financial statements.

IFRS 17: Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2023. 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 impact on the Group's financial statements.

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New accounting pronouncements

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.

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, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period.

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

IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosure – Supplier Finance Arrangements (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments supplement requirements already in IFRS and require an entity to disclose the terms and conditions of supplier finance arrangements. Additionally, entities are required to disclose at the beginning and end of reporting period the carrying amounts of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented as well as the carrying amounts of financial liabilities and line items, for which the finance providers have already settled the corresponding trade payables. Entities should also disclose the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable. Furthermore, the amendments require an entity to disclose at the beginning and end of the reporting period the range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements. The amendments have not yet been endorsed by the EU.

IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with earlier application permitted. The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. The amendments note that an entity can use an observable exchange rate without adjustment

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or another estimation technique. The amendments have not yet been endorsed by the EU.

Management has assessed that the amendments will have no significant impact on the Bank'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.

Management has assessed that the amendments will have no significant impact on the Bank's consolidated 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 are based 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 financial assets and other instruments subject to ECL. 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.

In PD calculations, average of 2x12 months period actual data is used. In LGD data, the model uses longer period data as more actual data is now available.

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. For

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LTECL, macroeconomic forecasts take into account 24 months period, and for 12mECL, 12 months period is used.

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.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.

Capitalization of intangible assets

Intangible assets meeting the relevant IAS 38 recognition criteria are initially measured at cost, subsequently measured at cost, or using the revaluation model, and amortized on a systematic basis over their useful lives (unless the asset has an indefinite useful life, in which case it is not amortized).

An asset is a resource that is controlled by the entity as a result of past events (for example, a purchase or self-creation) and from in which future economic benefits (inflows of cash or other assets) are expected.

The critical attributes of an intangible asset are: 1. Intention and ability to complete the intangible asset for own use or sale 2. control (power to obtain benefits from the asset) 3. future economic benefits generation (such as revenues or reduced future costs) 4. technical and commercial feasibility of the asset for sale or use have been established.

Asset will be removed from the balance sheet once it does not fulfill these criteria.

Amortization of intangible assets at Holm Bank AS is done by using a linear amortization method. Amortization is started after an asset is confirmed to be ready to use. An asset will be removed from the balance sheet once it is removed or sold or once there is no expectation of future benefits to be received from an asset.

For capitalization of expenses in process of developing Group's new core system and other IT systems, the 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 from 20% to 100% of their time on developing new functionality. Therefore, from 20% to 100% of salary expenses of involved personnel are capitalized under intangible assets. The Management reviews annually capitalization rates and amounts of intangible assets. Status of intangible assets development is monitored on quarterly basis.

When an asset is ready for its intended use and completed, its useful life is determined and considered whether the asset is impaired (as certain assets will be abandoned soon). The Group uses useful lives of up to 10 years for its intangible assets. The Group has shortened expected useful life of one computer software asset that is expected to be decommissioned, due to planned start of use of a new software asset.

When the asset is considered impaired, 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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Subordinated bonds

The Group has issued subordinated debt instruments to increase long-term capital. Subordinated bonds which are not publicly traded are measured in the statement of financial position at amortised cost using the effective interest method. A bond is classified as a subordinated bond if on the winding up or bankruptcy of the credit institution the bond is to be satisfied after the justified claims of all other creditors have been satisfied. The bonds are classified as liability.

Note 3
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, compliance 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) and behaviour towards policy compliance 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 the 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 (small and medium sized enterprises) 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 and risks can be taken only to support core activities. The risk exposures to any such other risks where 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

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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, analysing, measuring, managing and reporting on risks and forming a holistic view on all risks on an individual and consolidated basis.

The compliance function monitors compliance with legal and regulatory requirements and internal policies, provides advice on compliance to the management body and relevant employees and establishes policies and processes to manage compliance risks and to ensure compliance.

Third line of 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 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 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.

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Capital base *thousands of euros*	31.12.2023	31.12.2022 restated*
Tier 1 Capital	19 364	17 584
Tier 2 Capital	3 500	3 500
Total Capital	**22 864**	**21 084**
Risk-weighted assets		
Credit-risk under standard method	102 334	79 204
Operational risk under standard method	22 464	23 193
Foreign currency under standard method	0	0
Total risk-weighted assets	**124 798**	**102 397**
Tier 1 Capital Ratio (%)	15,5%	17,2%
Total Capital Ratio (%)	**18,3%**	**20,6%**
Tier 1 Capital Ratio Requirement (%)	13,6%	13,6%
Total Capital Ratio Requirement (%)	**16,6%**	**16,6%**

** The capital adequacy ratios are provided for Koduliising OÜ Group.*

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. The value of Credit risk expresses the probable loss, that may result from the non-fulfilment of the counterparty's obligations in respect of claims exposed to credit risk towards the Group. The Group has identified country risk, concentration risk, climate and environmental risk as subtypes of credit 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.

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 targets to hold the credit risk of other assets (investments, fixed assets) at a minimal level 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 situ-

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

The credit risk management strategy includes ongoing assessment and monitoring of climate and environmental risks. Since climate and environmental risks are dynamic and can change, we in the Group are ready to adapt our risk management strategy according to changing environmental and climate factors. This helps ensure that the Group's credit risk assessment reflects potential risks that may arise from climate and environmental factors.

The aim of the Group's concentration risk strategy is to avoid significant impact of from the default of one counterparty by using a well-diversified loan portfolio, where concentrations of one customer or related customers do not exceed 0,1% of the loan portfolio. Large risk positions related to one counterparty must be avoided or properly hedged in the loan portfolio.

The Group's approach to credit risk management is transparent, responsible, and aimed at ensuring long-term sustainability.

Note 3.5 Maximum exposure to credit risk

Note 3.5 Maximum exposure to credit risk *thousands of euros*	Notes	31.12.2023	31.12.2022 restated
Cash and balances with central bank	10	26 939	4 800
Amounts due from credit institutions	10	2 981	13 035
Loans and advances to customers	11	139 644	99 135
Other financial assets	12	352	568
Total financial assets		**169 916**	**117 537**
Exposures related to off-balance sheet items	20	9 470	12 812
Total maximum exposure to credit risk		**179 387**	**130 349**

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 25 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.

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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 1 million euros and maximum lease period up to 84 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 loan 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 of cash and balances with central bank and amounts due from credit institutions

Note 3.7 Rating *thousands of euros*	Notes	Rating agency	31.12.2023
Central bank (The Bank of Estonia)		N/A	26 939
A- to A+		Standard & Poor's	1 071
Baa1		Moody's	1 910
Total	**10**		**29 920**

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

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. As of the reporting date, Estonia's country ratings are the following: A+ from Fitch, AA- from S&P, A1 Moody's.

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Note 3.8 Distribution of financial assets and liabilities by geographic region

Note 3.8 Distribution of assets and liabilities by geographic region 31.12.2023 *thousands of euros*	Notes	Estonia	Latvia	Germany	Austria	Total
Cash and balances with central bank	10	26 939	0	0	0	26 939
Amounts due from credit institutions	10	2 150	831	0	0	2 981
Other financial assets	12	340	12	0	0	352
Loans and advances to customers	11	98 760	40 884	0	0	139 644
Total financial assets		**128 190**	**41 726**	**0**	**0**	**169 916**
Deposits from customers	17	39 701	0	102 428	13 394	155 523
Loans received	17	99	0	0	0	99
Other financial liabilities	18	1 657	142	0	0	1 799
Right-of-use liabilities	15	710	8	0	0	717
Subordinated bonds	17	4 531	0	0	0	4 531
Total financial liabilities		**46 697**	**150**	**102 428**	**13 394**	**162 668**

31.12.2022 restated* *thousands of euros*	Notes	Estonia	Latvia	Germany	Austria	Total
Cash and balances with central bank	10	4 800	0	0	0	4 800
Amounts due from credit institutions	10	12 141	893	0	0	13 035
Other financial assets	12	550	18	0	0	568
Loans and advances to customers	11	68 270	30 865	0	0	99 135
Total financial assets		**85 761**	**31 776**	**0**	**0**	**117 537**
Deposits from customers	17	29 882	0	68 783	5 707	104 372
Loans from other institutions	17	136	0	0	0	136
Other financial liabilities	18	1 544	95	0	0	1 639
Right-of-use liabilities	15	834	39	0	0	873
Subordinated bonds	17	3 523	0	0	0	3 523
Total financial liabilities		**35 919**	**134**	**68 783**	**5 707**	**110 544**

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Note 3.9 Distribution of loans granted by industry

Note 3.9 Distribution of loans granted by industry (gross)					
thousands of euros	Notes	31.12.2023	%	31.12.2022 restated*	%
Individuals		112 873	80,83%	82 644	83,37%
Wholesale and retail		1 749	1,25%	1 353	1,37%
Professional, scientific and technical activities		540	0,39%	300	0,30%
Manufacturing		2 704	1,94%	1 461	1,47%
Transport and logistics		1 810	1,30%	832	0,84%
Administrative activities		650	0,47%	364	0,37%
Accommodation and food service activities		803	0,58%	630	0,64%
Construction		1 946	1,39%	1 391	1,40%
Agriculture		3 854	2,76%	2 090	2,11%
Human health and social work activities		346	0,25%	163	0,16%
Other servicing activities		2 069	1,48%	2 043	2,06%
Activities of households as employers		258	0,18%	338	0,34%
Art and entertainment		150	0,11%	221	0,22%
Information and communication		89	0,06%	93	0,09%
Real estate activities		8 773	6,28%	4 350	4,39%
Other areas at activities		1 030	0,74%	862	0,87%
Total	**11**	**139 644**	**100,00%**	**99 135**	**100,00%**

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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 2023. The scenarios "base", "upside" and "downside" were used for all portfolios. For macro-financial indicators in each scenario and customer group is used actual 2023 third quarter values and forecasted values for 2024. 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.

31.12.2023 General macro-financial indicators	Actual 2023	Base scenario 2024E	Downside scenario 2024E	Upside scenario 2024E
Retail customers in Estonia				
Unemployment rate, %	7,30%	7,50%	8,00%	6,70%
Consumer Price Index (change), %	2,48%	3,50%	4,50%	3,20%
Gross domestic product (change), %	-2,90%	1,00%	0,40%	1,90%
Corporate customers in Estonia				
Unemployment rate, %	7,30%	7,50%	8,00%	6,70%
Wage growth, %	7,60%	6,10%	4,30%	7,40%
Gross domestic product (change), %	-2,90%	1,00%	0,40%	1,90%
Retail customers in Latvia				
Unemployment rate, %	6,30%	6,60%	6,70%	6,20%
Consumer Price Index (change), %	11,10%	2,40%	3,20%	1,80%
Gross domestic product (change), %	0,60%	2,20%	1,00%	3,00%

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%
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%
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%

Weights assigned to each economic scenario at 31.12.2023	Base scenario	Downside scenario	Upside scenario
Weights of economic scenarios in Estonia	75,00%	20,00%	5,00%
Weights of economic scenarios in Latvia	75,00%	20,00%	5,00%

Weights assigned to each economic scenario at 31.12.2022	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%

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Note 3.11 Sensitivity analysis

Set out below are the changes to the ECL as at 31 December 2023 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):

31.12.2023

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

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

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.

2023

thousands of euros	**Impact on ECL**
LGD 1% increase	76
LGD 1% decrease	-76
PD 1% growth	363
PD 1% decrease	-363

2022

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

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 back testing, overlays on portfolio level using expert judgement have been determined. As of 31 December 2023, model overlays made through expert judgement amounted to 9 thousand euros for home- and mortgage loans (2022: 236 thousand). Due to the improvement of the model no additional overlays are needed in 2023. The model overlays are re-evaluated regularly in connection with the assessment of ECL allowances.

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Note 3.13 Distribution of loans to stages by products

Note 3.13 Distribution of loans to stages Private customers *thousands of euros*	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
31.12.2023				
White	10 978	76	32	**11 086**
Green	87 808	593	66	**88 467**
Yellow	8 689	251	69	**9 008**
Red	0	4 210	162	**4 372**
Black	0	75	2 305	**2 380**
Gross carrying amount	**107 474**	**5 205**	**2 633**	**115 312**
Loss allowances	-976	-320	-1 219	**-2 515**
Carrying amount	**106 499**	**4 885**	**1 414**	**112 797**

Corporate customers *thousands of euros*	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
31.12.2023				
White	2 288	0	0	**2 288**
Green	9 232	2 524	0	**11 756**
Yellow	1 300	400	0	**1 701**
Red	0	212	216	**428**
Black	0	16	285	**301**
Gross carrying amount	**12 820**	**3 153**	**501**	**16 474**
Loss allowances	-30	-14	-99	**-144**
Carrying amount	**12 790**	**3 139**	**401**	**16 330**

Leasing *thousands of euros*	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
31.12.2023				
White	1 253	0	0	**1 253**
Green	7 737	0	0	**7 737**
Yellow	787	0	0	**787**
Red	0	686	38	**723**
Black	0	0	114	**114**
Gross carrying amount	**9 777**	**686**	**151**	**10 614**
Loss allowances	-9	-55	-32	**-96**
Carrying amount	**9 768**	**631**	**119**	**10 518**

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Private customers *thousands of euros*	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
31.12.2022 restated				
White	12 566	259	24	**12 849**
Green	58 940	895	30	**59 865**
Yellow	4 450	2 116	65	**6 631**
Red	0	2 865	129	**2 993**
Black	0	41	1 763	**1 803**
Gross carrying amount	**75 955**	**6 176**	**2 010**	**84 142**
Loss allowances	-526	-283	-689	**-1 498**
Carrying amount	**75 430**	**5 893**	**1 321**	**82 644**

Corporate customers *thousands of euros*	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
31.12.2022 restated				
White	1 889	124	0	**2 013**
Green	7 864	531	0	**8 395**
Yellow	304	278	123	**705**
Red	0	50	0	**50**
Black	0	0	147	**147**
Gross carrying amount	**10 057**	**983**	**270**	**11 311**
Loss allowances	-27	-24	-146	**-196**
Carrying amount	**10 031**	**960**	**124**	**11 114**

Leasing *thousands of euros*	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
31.12.2022 restated				
White	1 051	0	0	**1 051**
Green	3 006	224	0	**3 230**
Yellow	572	455	0	**1 026**
Red	0	45	0	**45**
Black	0	0	39	**39**
Gross carrying amount	**4 629**	**724**	**39**	**5 391**
Loss allowances	-7	-5	-3	**-15**
Carrying amount	**4 621**	**719**	**36**	**5 376**

Undrawn commitments of loan limits are included in the private customers segment (2023: total amount of 9.3 million euros of undrawn limits for cards and ca 0.2 million euros of limit loans and ECL of 14 thousand euros).

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Note 3.14 Credit-impaired assets and the collateral held

Note 3.14 Credit-impaired assets and the collateral held Estonia *Thousands of euros*	Note	Gross carrying amount	Credit loss allowances	Carrying amount	Fair value of collateral held
31.12.2023					
Credit-impaired assets					
Private customers		2 037	-865	1 172	0
Corporate customers		419	-81	337	0
Leasing		153	-32	120	159
Total		**2 608**	**-978**	**1 630**	**159**
Latvia					
Private customers		600	-355	245	0
Corporate customers		83	-18	65	0
Leasing		0	0	0	0
Total		**683**	**-373**	**310**	**0**
Credit-impaired assets by country					
Estonia		2 608	-978	1 630	159
Latvia		683	-373	310	0
Total	**11**	**3 291**	**-1 351**	**1 940**	**159**

Estonia *thousands of euros*	Note	Gross carrying amount	Credit loss allowances	Carrying amount	Fair value of collateral held
31.12.2022					
Credit-impaired assets					
Private customers		1 681	-577	1 104	0
Corporate customers		271	-146	125	0
Leasing		39	-3	36	40
Total		**1 990**	**-726**	**1 264**	**40**
Latvia					
Private customers		332	-112	220	0
Corporate customers		0	0	0	0
Leasing		0	0	0	0
Total		**332**	**-112**	**220**	**0**
Credit-impaired assets by country					
Estonia		1 990	-726	1 264	40
Latvia		332	-112	220	0
Total	**11**	**2 323**	**-838**	**1 485**	**40**

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 to increase customer`s credit worthiness, the Group is asking from customers an extra guarantee. The fair value of the collateral held has been considered as a reducing factor in ECL models.

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Loans against collateral as at 31.12.2023 *thousands of euros*	Others	Real estate secured loans	Unsecured loans	Total
Estonia	**10 273**	**22 924**	**67 433**	**100 630**
Private customers	0	9 023	65 308	74 331
Corporate customers	0	13 604	2 125	15 728
Leasing	10 273	297	0	10 570
Latvia	**43**	**0**	**41 726**	**41 770**
Private customers	0	0	40 981	40 981
Corporate customers	0	0	745	745
Leasing	43	0	0	43
Total	**10 317**	**22 924**	**109 159**	**142 400**

Loans against collateral as at 31.12.2022 restated *thousands of euros*	Others	Real estate secured loans	Unsecured loans	Total
Estonia	**5 331**	**13 206**	**50 911**	**69 449**
Private customers	0	4 618	48 602	53 220
Corporate customers	0	8 588	2 309	10 897
Leasing	5 331	0	0	5 331
Latvia	**60**	**0**	**31 335**	**31 395**
Private customers	0	0	30 922	30 922
Corporate customers	0	0	414	414
Leasing	60	0	0	60
Total	**5 391**	**13 206**	**82 246**	**100 844**

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 unfavourable 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).

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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. Since the portfolio that is dependent to EURIBOR rate differences is 14%, the possible effect from interest rate changes is analysed in total portfolio level. As of 31.12.2023 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.

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31.12.2023 *thousands of euros*	Note	Up to 3 months	3-12 months	1-5 years	Over 5 years	Subtotal	Loss allow-ances	Total
Financial assets								
Cash and balances with central banks	10	25 563	0	0	0	**25 563**	0	**25 563**
Amounts due from credit institutions	10	2 981	0	0	0	**2 981**	0	**2 981**
Loans and advances to customers	11	11 485	8 040	0	0	**19 525**	-29	**19 496**
Total		**40 029**	**8 040**	**0**	**0**	48 069	**-29**	48 040
Financial liabilities								
Deposits from customers	17	2 812	0	0	0	**2 812**	0	**2 812**
Lease liabilities	15	7	0	0	0	**7**	0	**7**
Total		**2 819**	**0**	**0**	**0**	2 819	**0**	2 819
Net interest sensitivity gap		**37 210**	**8 040**	**0**	**0**	45 250		
Cumulative net interest sensitivity gap		**37 210**	**45 250**	**45 250**	**45 250**			

31.12.2022 *thousands of euros*	Note	Up to 3 months	3-12 months	1-5 years	Over 5 years	Subtotal	Loss allow-ances	Total
Financial assets								
Cash and balances with central banks	10	3 966	0	0	0	**3 966**	0	**3 966**
Amounts due from credit institutions	10	13 035	0	0	0	**13 035**	0	**13 035**
Loans and advances to customers	11	6 339	4 226	0	0	**10 566**	-24	**10 542**
Total		**23 340**	**4 226**	**0**	**0**	27 566	**-24**	27 542
Financial liabilities								
Deposits from customers	17	0	0	0	0	**0**	0	**0**
Lease liabilities	15	5	42	7	0	**54**	0	**54**
Total		**5**	**42**	**7**	**0**	54	**0**	54
Net interest sensitivity gap		**23 335**	**4 184**	**-7**	**0**	27 513		
Cumulative net interest sensitivity gap		**23 335**	**27 519**	**27 513**	**27 513**			

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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.

Any other risk, that may seriously affect the Group liquidity position, shall be avoided. The Group's appetite for liquidity risk is based on cautiousness - 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.

The Group has well diversified portfolio of deposits with no concentration risk. Most of the deposits are raised with around 12 months maturity and deposit portfolio strategy avoids concentrated maturities. The Group also keeps sufficient short-term liquidity in cash to manage any liquidity risk, with strong LCR and NSFR ratios. Despite most of the loans issued have normally longer maturity than 1 year, the liquidity risk is contained by the structure of diversified deposits portfolio.

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31.12.2023 *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								
Cash and balances with central banks	10	26 939	0	0	0	0	26 939	26 939
Amounts due from credit institutions	10	2 981	0	0	0	0	2 981	2 981
Loans and advances to customers	11	0	30 334	30 494	106 560	40 310	207 699	139 644
Other financial assets	12	0	352	0	0	0	352	352
Total assets held for managing liquidity risk		**29 920**	**30 686**	**30 494**	**106 560**	**40 310**	**237 971**	**169 916**
Liabilities by contractual maturity dates								
Deposits from customers	17	0	34 719	92 939	31 733	0	159 391	155 523
Subordinated bonds	17	0	96	288	1 535	5 731	7 650	4 531
Loans from other institutions	17	0	3	35	62	0	100	99
Lease liabilities	15	0	46	102	540	51	739	717
Other financial liabilities	18	0	1 799	0	0	0	1 799	1 799
Total liabilities		**0**	**36 663**	**93 363**	**33 871**	**5 781**	**169 679**	**162 668**
Undrawn loan commitments	20	9 470	0	0	0	0	9 470	0
Maturity gap from assets and liabilities		**20 450**	**-5 977**	**-62 869**	**72 689**	**34 529**	**58 822**	**7 248**
Cumulative maturity gap from assets and liabilities		**20 450**	**14 473**	**-48 396**	**24 293**	**58 822**		

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								
Cash and balances with central banks	10	4 800	0	0	0	0	4 800	4 800
Amounts due from credit institutions	10	13 035	0	0	0	0	13 035	13 035
Loans and advances to customers	11	0	19 900	24 264	63 648	20 166	127 978	99 135
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**	**117 537**
Liabilities by contractual maturity dates								
Deposits from customers	17	0	7 574	51 771	47 540	0	106 885	104 372
Subordinated 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
Total liabilities		**0**	**9 303**	**52 125**	**49 261**	**4 099**	**114 789**	**110 532**
Undrawn loan commitments	20	12 812	0	0	0	0	12 812	0
Maturity gap from assets and liabilities		**5 023**	**11 165**	**-27 862**	**14 387**	**16 067**	**18 780**	**7 006**
Cumulative maturity gap from assets and liabilities		**5 023**	**16 188**	**-11 674**	**2 713**	**18 780**		

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The Group's AT1 bonds are with perpetual term.

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	31.12.2023	31.12.2022 restated
Current assets			
Cash and balances with central bank	10	26 939	4 800
Amounts due from credit institutions	10	2 981	13 035
Loans and advances to customers	11	60 828	44 164
Other assets	12	885	1 120
Total current assets		**91 634**	**63 119**
Non-current assets			
Loans and advances to customers	11	78 816	54 971
Investment property	13	884	929
Property, plant and equipment	14	583	621
Right-of-use assets	15	687	815
Intangible assets	16	10 943	9 072
Total non-current assets		**91 912**	**66 409**
Total assets		**183 546**	**129 528**
Liabilities			
Current liabilities			
Deposits from customers	17	125 302	59 306
Loans received	17	37	37
Lease liabilities	15	117	165
Other liabilities	18	2 762	2 346
Subordinated bonds	17	31	23
Total current liabilities		**128 250**	**61 878**
Non-current liabilities			
Deposits from customers	17	30 220	45 066
Loans received	17	61	99
Lease liabilities	15	600	672
Subordinated bonds	17	4 500	3 500
Total non-current liabilities		**35 382**	**49 338**
Total liabilities		**163 632**	**111 215**

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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 reasonable 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 31.12.2023 and 31.12.2022 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.

Most loans granted to customers are short-term or use a floating interest rate mechanism and their fair value does not significantly differ from the net book value. Most deposits from customers are short-term and made in the second part of 2023. The difference between fair value and carrying value is not material.

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31.12.2023 *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	26 939	0	0	**26 939**	26 939	0
Amounts due from credit institutions	10	2 981	0	0	**2 981**	2 981	0
Loans and advances to customers	11	0	0	137 192	**137 192**	139 644	-2 452
Other financial assets	12	0	0	352	**352**	352	0
Total financial assets at amortized cost		**29 920**	**0**	**137 544**	**167 464**	**169 916**	**-2 452**
Financial liabilities at amortized cost							
Deposits from customers	17	0	0	153 932	**153 932**	155 523	-1 591
Loans from other institutions	17	0	0	99	**99**	99	0
Subordinated bonds	17	0	0	4 226	**4 226**	4 531	-305
Other financial liabilities	18	0	0	1 799	**1 799**	1 799	0
Total financial liabilities at amortized cost		**0**	**0**	**160 055**	**160 055**	**161 951**	**-1 896**

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	99 135	**99 135**	99 135	0
Other financial assets	12	0	0	367	**367**	367	0
Total financial assets at amortized cost		**17 835**	**0**	**99 502**	**117 336**	**117 336**	**0**
Financial liabilities at amortized cost							
Deposits from customers	17	0	0	104 372	**104 372**	104 372	0
Loans from other institutions	17	0	0	136	**136**	136	0
Subordinated 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**

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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.

The Group has 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.

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 has been determined and the goal is to keep a minimal and reasonable operational risk level to reduce the level of operational risk and potential losses, considering strategic objectives and principle of economic efficiency. The purpose of the operational risk management activity is to move from defensive to preventive risk analysis and loss prevention activities.

The Group objective is to ensure that operational risks are controlled and well managed.

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 arises 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.

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

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. Additionally, the Group follows the requirements for applying financial sanctions.

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.

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 to 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.

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

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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 arises when the business- and competitive environment or impact of regulatory actions to the Group activities and achievement of business goals occur. as Also, it is a 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 analysed 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 Bank 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.

As of 31.12.2023 and 31.12.2022 the Bank is the sole shareholder of Latvian subsidiary.

As at 31.12.2023 and 31.12.2022 the Group had no affiliated companies.

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Note 5

Net interest income

Interest income *thousands of euros*	2023	2022 restated
Estonia		
Interest income using effective interest calculation method		
Private customers	10 719	8 919
Corporate customers	1 109	407
Total interest income using effective interest calculation method	**11 828**	**9 325**
Leasing	812	369
From balances with credit institutions	658	6
TOTAL	**13 298**	**9 700**
Latvia		
Private customers	4 548	3 146
Corporate customers	37	1
Total interest income using effective interest calculation method	**4 585**	**3 147**
Leasing	3	1
TOTAL	**4 588**	**3 147**
Sweden	0	22
Total interest income	**17 886**	**12 869**

Interest expenses using effective interest calculation method *thousands of euros*	2023	2022
Deposits from customers	-3 414	-1 428
Subordinated bonds	-270	-290
Interest expense from lease liabilities	-10	-12
Cash and balances with central banks	0	-2
Total	**-3 693**	**-1 731**
Net interest income	**14 193**	**11 138**

Interest income of loans by customer location *thousands of euros*	2023	2022 restated
Estonia	13 298	9 700
Sweden	0	22
Latvia	4 588	3 147
Total	**17 886**	**12 869**

The Group recognises 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.

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Note 6

Net fee income

Fee income *thousands of euros*	2023	2022
Other fee income	13	0
Total	**13**	**0**

Fee expense *thousands of euros*	2023	2022 restated
Financial intermediation services	-331	-435
Expenses related to cards	-145	-239
Settlement fees	-47	-38
Other fee expense	-51	-52
Total	**-573**	**-764**
Net fee income	**-560**	**-764**

Note 7

Other income

Other income *thousands of euros*	Note	2023	2022
Sales of off-balance sheet loans	11	916	237
Received off-balance Sheet claims	11	762	899
Rental income	13	118	115
Other income in total		**1 795**	**1 251**

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Note 8

Operating expenses

Operating expenses *thousands of euros*	Note	2023	2022
Wages, salaries and bonuses		-3 497	-3 252
Social security and other taxes		-1 053	-1038
Fringe benefits and related taxes		-160	-158
Other staff costs		-119	-178
Personnel expenses		**-4 829**	**-4 626**
IT expenses		-916	-399
Marketing expenses		-785	-982
Consultation and legal expenses		-184	-213
Debt collection services		-193	-250
Audit fees		-182	-190
Supervisory fees from regulators		-123	-112
Office expenses		-138	-146
Expenses relating to low-value assets or short-term leases		-60	-45
Transportation and communication costs		-78	-94
Other administrative expenses		-157	-155
Information inquiry cost		-361	-307
Other operating expenses		-385	-296
Operating expenses		**-3 562**	**-3 187**
Other expenses		-1	-63
Depreciation and amortization		-1 230	-1 411
Other expenses		**-1 231**	**-1 474**
Credit loss expense on financial assets	11	-3 969	-3 265
Total operating expenses		**-13 591**	**-12 553**

Average number of employees working in the Group in 2023 was 123 (2022: 132).

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Note 9

Income tax

Income tax *thousands of euros*	2023	2022
Current tax		
Advance corporate income tax (14%)	-195	-8
Advance corporate income tax (20%)	-6	-9
Income tax paid on dividends	0	0
Total income tax expense	**-201**	**-17**

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

From 1 January 2024, mandatory payment of corporation tax advances to credit institutions and consumer lending service providers at 20% of the previous year's profits was introduced in Latvia.

No temporary differences have been risen relating to origination and reversal in current and prior period.

Note 10

Balances at central banks and amount due to credit institutions

Balances at central banks and credit institutions *thousands of euros*	31.12.2023	31.12.2022
Overnight deposit in central bank	25 530	0
Demand and term deposits with maturity of less than 3 months *	2 981	13 035
Statutory reserve capital at central bank	1 376	834
Demand deposit from central bank	34	3 966
Total cash and cash equivalents	**29 920**	**17 835**

** 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. The Group keeps overnight deposit in central bank.

Mandatory banking reserve as at 31.12.2023 and 31.12.2022 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.

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Note 11

Loans and advances to customers

Distribution by customer type *thousands of euros*	31.12.2023	31.12.2022 restated
Estonia	**98 760**	**68 280**
Private customers	74 331	53 230
Corporate customers	15 728	10 897
Leasing	10 570	5 331
Loss allowances	-1 870	-1 179
Latvia	**40 884**	**30 855**
Private customers	40 981	30 911
Corporate customers	745	414
Leasing	43	60
Loss allowances	-886	-530
Total net loan portfolio	**139 644**	**99 135**

Distribution by countries and components *thousands of euros*		31.12.2023	31.12.2022 restated
Receivables		**142 400**	**100 844**
	Estonia	100 630	69 449
	Latvia	41 770	31 395
Loss allowances related to receivables		**-2 756**	**-1 709**
	Estonia	-1 870	-1 179
	Latvia	-886	-530
Gross portfolio in total		**142 400**	**100 844**
Net portfolio in total		**139 644**	**99 135**
	Estonia	98 760	68 270
	Latvia	40 884	30 865
	inc. loss allowances	-2 756	-1 709

Allowance for impairment of loans to customers *thousands of euros*		Note	2023	2022
Balance at the beginning			**-1 708**	**-1 436**
Arising during the period	Stage 1		-543	-486
Arising during the period	Stage 2		-363	-246
Arising during the period	Stage 3		-3 183	-2 823
Written off	Stage 3		2 080	2 618
Sold	Stage 2		170	29
Sold	Stage 3		297	346
Recoveries	Stage 1		88	48
Recoveries	Stage 2		285	243
Recoveries	Stage 3		122	0
Balance at the end			**-2 756**	**-1 708**
Net impaiment charges in total			**-3 595**	**-3 265**
Received amounts from uncollectible claims among other income		7	762	899

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Credit quality by country *thousands of euros*		31.12.2023	31.12.2022 restated
Estonia			
Private customers		**72 669**	**52 253**
	Stage 1	67 697	47 082
	Stage 2	3 800	4 070
	Stage 3	1 172	1 102
Corporate customers		**15 617**	**10 710**
	Stage 1	12 218	9 691
	Stage 2	3 061	895
	Stage 3	337	124
Leasing		**10 474**	**5 316**
	Stage 1	9 725	4 561
	Stage 2	631	719
	Stage 3	119	36
Latvia			
Private customers		**40 128**	**30 391**
	Stage 1	38 800	28 348
	Stage 2	1 086	1 823
	Stage 3	242	219
Corporate customers		**713**	**405**
	Stage 1	572	340
	Stage 2	77	64
	Stage 3	64	0
Leasing		**43**	**60**
	Stage 1	43	60
	Stage 2	0	0
	Stage 3	0	0
Total		**139 644**	**99 135**
By risk class			
	Stage 1	129 055	90 082
	Stage 2	8 655	7 572
	Stage 3	1 934	1 481
Net portfolio in total		**139 644**	**99 135**

Restaging of loans and SICR identification is done quarterly.

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Credit quality by components *thousands of euros*		31.12.2023	31.12.2022 restated
Receivables		**142 400**	**100 844**
	Stage 1	130 070	90 642
	Stage 2	9 045	7 883
	Stage 3	3 285	2 319
Loss allowances		**-2 756**	**-1 709**
	Stage 1	-1 015	-560
	Stage 2	-390	-311
	Stage 3	-1 351	-838
In total		**139 644**	**99 135**

Credit quality by stages *thousands of euros*		31.12.2023	31.12.2022 restated	Change	%
Sum					
	Stage 1	129 055	90 082	38 973	43,3%
	Stage 2	8 655	7 572	1 083	14,3%
	Stage 3	1 934	1 481	453	30,5%
In total		**139 644**	**99 135**	**40 509**	40,9%
Proportion					
	Stage 1	92,4%	90,9%		1,5%
	Stage 2	6,2%	7,6%		-1,4%
	Stage 3	1,4%	1,5%		-0,1%
In total		**100,0%**	**100,0%**		0,0%
Gross					
	Stage 1	130 070	90 642	39 429	43,5%
	Stage 2	9 045	7 883	1 162	14,7%
	Stage 3	3 285	2 319	966	41,6%
		142 400	**100 844**	**41 556**	41,2%
Expected credit losses					
	Stage 1	-1 015	-560	-455	81,3%
	Stage 2	-390	-311	-79	25,3%
	Stage 3	-1 351	-838	-513	61,3%
		-2 756	**-1 709**	**-1 047**	61,3%
Coverage					
	Stage 1	0,8%	0,6%		0,2%
	Stage 2	4,3%	3,9%		0,4%
	Stage 3	41,1%	36,1%		5,0%
		1,9%	**1,7%**		0,2%
Coverage of Stage 3 with writeoffs		62,8%	70,0%		-7,2%

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Credit loss expense thousands of euros *thousands of euros*		2023	2022
Loans and advances to customers			
	Stage 1	-455	-439
	Stage 2	-79	-3
	Stage 3	-3 435	-2 823
Net impaiment charges		**-3 969**	**-3 265**

Cession transactions *thousands of euros*	Note	2023	2022
Total gross value at the moment of sales		1 051	2 938
Net allowances for credit losses		-467	-375
Total carrying amount		584	2 563
Transaction price in total		435	2 131
Net gains/losses from the cession transactions	**7**	**-149**	**-432**

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

Other assets *thousands of euros*	31.12.2023	31.12.2022
Financial assets		
Guarantee deposits of credit cards	232	367
Security deposits	120	201
Subtotal	**352**	**568**
Non-financial assets		
Prepayments are expected to be used within 12 months	321	362
Other claims	212	190
Subtotal	**533**	**553**
Total	**885**	**1 120**

Prepayments include insurance and periodized prepayments, 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.

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Note 13

Investment property

Investment property *thousands of euros*	31.12.2023	31.12.2022
Acquisition cost		
At the beginning of the period	**1 160**	**1 150**
Additions	0	10
At the end of the period	**1 160**	**1 160**
Depreciation and impairment		
At the beginning of the period	**-231**	**-186**
Depreciation charge for the period	-45	-45
At the end of the period	**-276**	**-231**
Net book value at the beginning	**929**	**964**
Net book value at the end	**885**	**929**

Total lease income amounted to 118 thousand euros the reporting year (2022: 115 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.

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Note 14

Property, plant and equipment

thousands of euros	31.12.2023	31.12.2022
Land and buildings		
Acquisition cost		
At the beginning of the period	**699**	**668**
Additions	0	31
At the end of the period	**699**	**699**
Depreciation and impairment		
At the beginning of the period	**-129**	**-104**
Depreciation charge for the period	-25	-25
At the end of the period	**-154**	**-129**
Net book value at the beginning	**570**	**564**
Net book value at the end	**544**	**570**

thousands of euros	31.12.2023	31.12.2022
Office equipment and other tangible assets		
Acquisition cost		
At the beginning of the period	**42**	**42**
Additions and reclassification	35	0
At the end of the period	**77**	**42**
Depreciation and impairment		
At the beginning of the period	**-26**	**-19**
Disposals and write-offs (depreciation)	25	0
Depreciation charge for the period	-54	-6
At the end of the period	**-55**	**-26**
Net book value at the beginning	**16**	**23**
Net book value at the end	**22**	**16**

thousands of euros	31.12.2023	31.12.2022
Cars		
Acquisition cost		
At the beginning of the period	**168**	**168**
Disposals and write-offs (cost)	-36	0
At the end of the period	**132**	**168**
Depreciation and impairment		
At the beginning of the period	**-132**	**-110**
Disposals and write-offs (depreciation)	21	0
Depreciation charge for the period	-5	-22
At the end of the period	**-117**	**-132**
Net book value at the beginning	**36**	**58**
Net book value at the end	**16**	**36**
Net book value at the end in total	**582**	**622**

Fair values of properties, plant and equipment may differ from the carrying amount in immaterial part. As of 31.12.2023 were fully amortised tangible assets in use in acquisition cost of 152 thousand euros (31.12.2022: 59 thousand euros).

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Note 15

Right of use assets and lease liabilities

thousands of euros			31.12.2023			31.12.2022
Right of use assets	*offices*	*cars*	**In total**	*offices*	*cars*	**In total**
Acquisition cost						
At the beginning of the year	**1 313**	**124**	**1 437**	**1 230**	**124**	**1 354**
Additions	40	0	40	83	0	83
At the end of the year	**1 353**	**124**	**1 477**	**1 313**	**124**	**1 437**
Depreciation and impairment						
At the beginning of the year	**-512**	**-110**	**-622**	**-339**	**-83**	**-422**
Depreciation charge for the period	-154	-14	-168	-173	-27	-200
At the end of the year	**-666**	**-124**	**-790**	**-512**	**-110**	**-622**
Net book value at the beginning of the year	**801**	**14**	**815**	**892**	**41**	**932**
Net book value at the end of the year	**687**	**0**	**687**	**801**	**14**	**815**

thousands of euros			31.12.2023			31.12.2022
Lease liabilities	*offices*	*cars*	**In total**	*offices*	*cars*	**In total**
Current						
At the beginning of the year	**131**	**46**	**177**	**120**	**17**	**137**
Additions	39	0	39	0	0	0
Accrual of interests	9	1	10	10	2	12
Repayments	-148	-46	-194	-120	-17	-137
Reclassifications and periodization	89	7	96	97	46	143
Other changes	-9	-1	-10	25	-2	23
At the end of the year	**110**	**7**	**117**	**131**	**46**	**177**
Non-current						
At the beginning of the year	**689**	**7**	**696**	**786**	**53**	**839**
Reclassifications and periodization	-89	-7	-96	-97	-46	-143
At the end of the year	**600**	**0**	**600**	**689**	**7**	**696**
Lease liabilities in total at the beginning of the year	**820**	**53**	**873**	**906**	**70**	**976**
Lease liabilities in total at the end of the year	**710**	**7**	**717**	**820**	**53**	**873**

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Minimum non-cancellable operating lease rentals receivable in subsequent periods		
At 31 December	2023	2022
Up to 1 year	121	118
1 to 5 years	256	361
Over 5 years	89	105

Finance lease		
Undiscounted lease payments expected after reporting date and within	2023	2022
Up to 3 months	6 408	783
3-12 months	1 364	1 268
1-5 years	3 624	4 097
Over 5 years	35	118
Total	**11 431**	**6 266**

Interest income from leases reached 815 thousand euros in 2023 (2022: 370 thousand euros). Interest expense from lease liability of the financial year was 10 thousand euros (2022: 12 thousand euros) and lease payments paid 194 thousand euros (2022: 137 thousand euros). Rental expenses related to short-term leases are recognised under operating expenses and were 60 thousand euros in 2023 (2022: 45 thousand euros).

Note 16

Intangible assets

thousands of euros	31.12.2023	31.12.2022
Acquisition cost		
At the beginning of the period	**9 902**	**6 664**
Additions	2 836	4 060
Write-offs	0	-822
At the end of the period	**12 738**	**9 902**
Amortisation and impairment		
At the beginning of the period	**-831**	**-520**
Depreciation charge for the period	-964	-310
At the end of the period	**-1 795**	**-831**
Net book value at the beginning	**9 071**	**6 143**
Net book value at the end	**10 943**	**9 071**

During 2023, the Group invested in intangible assets of new core system in amount of 2 546 thousand euros (2022: 3 306 thousand euros), including personnel expenses of 1 135 thousand euros (2022: 1 080 thousand euros, see also Note 8), 150 thousand euros in data warehouse (2022: 246 thousand euros).

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 internally developed assets are in the range of 5-10 years.

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Note 17

Loans and deposits from customers

Distribution by sub-entries *thousands of euros*	Individuals	Legal entities	Total
31.12.2023			
Deposits to customers	147 647	7 876	**155 523**
Subordinated bonds	0	4 531	**4 531**
Loans from other institutions	0	99	**99**
Total	**147 647**	**12 505**	**160 152**

thousands of euros	Individuals	Legal entities	Total
31.12.2022, restated			
Deposits to customers	100 904	3 468	**104 372**
Subordinated bonds	0	3 523	**3 523**
Loans from other institutions	0	136	**136**
Total	**100 904**	**7 127**	**108 031**

In 2023, 1 000 thousand euros were received from the AT1 bond issue. All bonds were issued to 9 investors.

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*	Estonia	Germany	Austria	Total
31.12.2023				
Deposits to customers	39 701	102 428	13 394	155 523
Subordinated bonds	4 531	0	0	4 531
Loans from other institutions	99	0	0	99
Total	**44 330**	**102 428**	**13 394**	**160 152**

thousands of euros	Estonia	Germany	Austria	Total
31.12.2022, restated				
Deposits to customers	29 882	68 783	5 707	104 372
Subordinated bonds	3 523	0	0	3 523
Loans from other institutions	136	0	0	136
Total	**33 541**	**68 783**	**5 707**	**108 032**

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

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Note 18

Other liabilities

thousands of euros	31.12.2023	31.12.2022
Financial liabilities		
Debts to partners	651	663
Other short-term financial liabilities	1 148	964
Subtotal	**1 799**	**1 627**
Non-financial liabilities		
Tax liabilities	255	131
Payables to employees	441	309
Other short-term liabilities	266	278
Subtotal	**963**	**718**
Total	**2 762**	**2 345**

Other short-term financial liabilities consist of mostly of deposit agreements signed but not yet activated.

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

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 31.12.2023	50 000	50	14 471	5
Share capital and reserves as at 31.12.2023	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 31.12.2023 the number of shares amounted to 50 thousand (31.12.2022: 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 31.12.2023, the retained profit of the Group totalled in 5 389 thousand euros (31.12.2022: 3 752 thousand euros).

As of 31.12.2023 it is possible to pay out net dividends in maximum amount of 4 311 thousand euros (31.12.2022: 3 002 thousand euros). The amount of possible payable net dividends has increased because of the profit in 2023.

Potential dividends would be taxed at a 20/80. The related income tax charge would be 1 078 thousand euros (31.12.2022: 750 thousand euros).

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Note 20

Contingent assets and liabilities

Undrawn loan commitments from non-cancellable agreements *thousands of euros*	31.12.2023	31.12.2022
Liability in contractual amount	9 470	12 812

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 2022-2023.

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 2023, remuneration paid to Banks's Management Board and the Supervisory Board totalled 479 thousand euros (2022: 634 thousand euros), including all taxes.

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Transactions *thousands of euros*	2023	2022
Interest income on given loans	**116**	**86**
Senior management (including the ultimate controlling party)	116	86
Interest expense on subordinated bonds received	**13**	**0**
Senior management (including the ultimate controlling party)	13	0
Other income	**22**	**22**
Senior management (including the ultimate controlling party)	22	22
Fee expenses, administrative and other operating expenses	**356**	**201**
Senior management (including the ultimate controlling party)	322	189
Parent company	34	12
Close family members of the management and undertakings in their dominant or significant influence	0	0
Loans and advances to customers	**0**	**175**
Senior management (including the ultimate controlling party)	0	175
Close family members of the management and undertakings in their dominant or significant influence	0	0
Repayments on given loans, inc interests	**188**	**104**
Senior management (including the ultimate controlling party)	188	104
Repayments on received loans, inc interests	**0**	**0**
Senior management (including the ultimate controlling party)	0	0
Non-controlling interest	0	0
Credit loss expense	-4	-4
Credit loss expense on financial assets	-4	-4

Balances *thousands of euros*	31.12.2023	31.12.2022
Loans and advances to customers	**2 089**	**2 162**
Senior management (including the ultimate controlling party)	2 089	2 162
Close family members of the management and undertakings in their dominant or significant influence	0	0
Loss allowances	**-4**	**-5**
Loss allowances	-4	-5
Subordinated bonds	**360**	**0**
Senior management (including the ultimate controlling party)	360	0
Deposits from customers	**1 020**	0
Senior management (including the ultimate controlling party)	1 020	0
Close family members of the management and undertakings in their dominant or significant influence	0	0
Other liabilities	**22**	**2**
Senior management (including the ultimate controlling party)	22	2
Close family members of the management and undertakings in their dominant or significant influence	0	0

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Note 22

Restatements of prior years

In 2023, the Bank analysed the accounting methodology for calculating the effective interest rate used internally. It was decided to make improvements in the methodology used. In addition to that, in accordance with the current accounting standards and unlike the previously used practice, it was decided to reflect the commissions paid to Latvian partners as part of the internal interest rate (EIR) instead of commission fees. Due to this correction, 2022 and 2023 partner commissions have been moved as part of net interest income and they are amortized over the life of the contracts. Additionally, the Group's effective interest rate calculation was reviewed and the calculation formula was corrected. As a result, interest receivables and net interest income have been restated in 2022.

As a result of the restatements, loans and advances to customers as well as retained earnings in the consolidated statement of financial position were 1.0 million euros higher in 2022 opening balance. The restatements increased loans and advances to customers as well as retained earnings and total equity by 1.2 million euros by 31.12.2022. In the consolidated statement of comprehensive income, 1.3 million euros from net commission income was reclassified to net interest income. Due to correction of the calculation formula and reclassification of commission fees, net interest income was impacted by -1.1 million euros. Total profit for the year improved by 0.2 million euros.

Over all periods, the total net impact of all restatements to the bank's financial position was positive in the amount of 0.4 million euros. I.e. by this amount, the bank's total equity as of 31.12.2023 was higher than before the adjustments.

The lines of the financial statements were adjusted for the effect of previous periods as follows:

Statement of financial position as of 31.12.2022 *thousands of euros*	**31.12.2022 Previously reported**	**Correction**	**31.12.2022 Restated**
Assets			
Loans and advances to customers	97 943	1 192	99 135
Total assets	**128 336**	**1 192**	**129 528**
Equity			
Retained earnings	2 560	1 192	3 752
Total equity	**17 086**	**1 192**	**18 278**
Total liabilities and equity	**128 336**	**1 192**	**129 528**

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Statement of financial position as of 01.01.2022 *thousands of euros*	01.01.2022 Previously reported	Correction	01.01.2022 Restated
Assets			
Loans and advances to customers	61 954	988	62 942
Total assets	**88 930**	**988**	**89 918**
Equity			
Retained earnings	3 709	988	4 697
Total equity	**18 235**	**988**	**19 223**
Total liabilities and equity	**88 930**	**988**	**89 918**

Statement of comprehensive income *thousands of euros*	2022 Previously reported	Correction	2022 Restated
Interest revenue calculated using the effective interest method	13 952	-1 082	12 870
Net interest income	**12 220**	**-1 082**	**11 138**
Net fee income (expense)	-2 050	1 286	-764
Profit (loss) for the year	**-1 149**	**204**	**-945**
Total comprehensive income (loss) for the year	**-1 149**	**204**	**-945**

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Note 23

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*	**2023**	**2022 restated**
Interest revenue calculated using the effective interest method	15 340	10 295
Interest expense calculated using the effective interest method	-3 692	-1 730
Net interest income	**11 648**	**8 564**
Fee income	2	0
Fee expense	-538	-720
Net fee income (expense)	**-535**	**-720**
Other income	1 614	1 013
Net operating income	**12 726**	**8 857**
Salaries and associated charges	-4 072	-3 904
Administrative and other operating expenses	-2 506	-2 171
Other expenses	-1	-63
Depreciation and amortisation expense	-1 184	-1 361
Credit loss expense on financial assets	-3 090	-2 276
Total operating expenses	**-10 853**	**-9 775**
Profit (loss) before income tax	**1 874**	**-918**
Income tax	-195	-9
Profit (loss) for the year	**1 679**	**-927**
Total other compehensive income (loss) for the year	0	0
Total comprehensive income (loss) for the year	**1 679**	**-927**

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Statement of financial position *thousands of euros*	Note	31.12.2023	31.12.2022 restated
Assets			
Cash and balances with central bank		26 939	4 800
Amounts due from credit institutions		2 150	12 141
Loans and advances to customers		137 117	96 708
Other assets		754	1 016
Investments in subsidiaries	4	5 151	5 151
Investment property		884	929
Property, plant and equipment		572	596
Right-of-use assets		680	775
Intangible assets		10 943	9 072
Total assets		**185 188**	**131 189**
Liabilities			
Deposits from customers		155 523	104 372
Loans received		99	136
Lease liabilities		710	834
Other liabilities		2 409	2 085
Subordinated bonds		4 531	3 523
Total liabilities		**163 270**	**110 950**
Equity			
Share capital	19	50	50
Share premium	19	14 471	14 471
Statutory reserve		5	5
Retained earnings		7 392	5 713
Total equity		**21 918**	**20 239**
Total liabilities and equity		**185 188**	**131 189**

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Statement of changes in equity *thousands of euros*	Share capital	Share premium	Statutory reserve	Retained earnings (restated)	Total
Balance as at 01.01.2022	**50**	**14 471**	**5**	**6 639**	**21 166**
Profit/loss for the year	0	0	0	-927	**-927**
Other comprehensive income/loss	0	0	0	0	**0**
Total comprehensive income/loss	**0**	**0**	**0**	**-927**	**-927**
Balance as at 31.12.2022	**50**	**14 471**	**5**	**5 713**	**20 239**
Balance as at 01.01.2023	**50**	**14 471**	**5**	**5 713**	**20 239**
Profit/loss for the year	0	0	0	1 679	**1 679**
Other comprehensive income/loss	0	0	0	0	**0**
Total comprehensive income/loss	**0**	**0**	**0**	**1 679**	**1 679**
Balance as at 31.12.2023	**50**	**14 471**	**5**	**7 392**	**21 918**

Unconsolidated equity at the end of the period	Note	31.12.2023	31.12.2022
Investments in subsidiaries:	4	*-5 151*	*-5 151*
Carrying value under the equity method		*3 147*	*3 190*
Adjusted unconsolidated equity at end of period		**19 915**	**18 278**

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

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Statement of cash flow *thousands of euros*	Note	2023	2022
Received interests		13 626	10 683
Paid interests		-2 885	-1 300
Operating income and service fees received		2	11
Operating expenses and service fees paid		-209	-200
Other income received		1 560	1 763
Paid net salaries		-2 171	-2 676
Paid administrative and other operating expenses		-9 648	-5 552
Paid out to customers		-84 334	-73 061
Loan principal repayments		47 666	34 387
Received deposits	17	88 449	71 649
Deposit repayments	17	-37 816	-30 943
Paid CIT (corporate income tax)		-58	-126
Cash flows from operating activities		**14 182**	**4 634**
Additions of property, plant and equipment and intangible assets		-2 839	-3 400
Cash flows from investing activities		**-2 839**	**-3 400**
Repayment of principal portion of lease liabilities		-159	-113
Received from issuing subordinated bonds bonds	17	1 000	0
Repayments of loans received		-37	0
Cash flows from financing activities		**804**	**-113**
Change in cash and cash equivalents		**12 148**	**1 121**
Cash and cash equivalents at the beginning of the period		**16 942**	**15 863**
Net increase/(decrease) in cash and cash equivalents		12 148	1 121
Net foreign exchange differencies		0	-42
Cash and cash equivalents at the end of the period*		**29 089**	**16 942**

Cash and cash equivalents comprise	31.12.2023	31.12.2022
Cash on hand	0	0
Non-restricted current account	2 150	12 141
Cash and balances with central bank	26 939	4 800

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Profit allocation proposal

The Group has finished the reporting period with consolidated retained profit of 5 389 thousand euros.

The Management Board of Holm Bank AS 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



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 2023.

Kaspar Kalvet
Chairman of the Management Board



Monika Tomberg
Member of the Management Board



Arvi Lipp
Member of the Management Board



Tallinn, 28 March 2024

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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 subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2023, 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 material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, 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.

Building a better working world

Key audit matter	*How our audit addressed the key audit matter*
Allowance for impairment of loans to customers	***Our audit procedures included, amongst others:***
As disclosed in Note 11 *Loans and advances to customers* to the consolidated financial statements, the carrying amount of loan receivables as at 31 December 2023 is EUR 139 644 thousand that corresponds to 76% of the Group's total assets. Impairment of loans is a subjective area due to the level of judgement applied by the management in determining the extent of credit losses which are dependent on the credit risk related to such loans and receivables. Such an assessment is inherently uncertain, involving forecasting of future macroeconomic conditions in a number of scenarios as well as an assessment of the credit standing of the exposures by employing models based on a series of historical data, forward-looking assumptions and an assessment of valuation and timing of recovery of collaterals. The use of different modelling techniques and assumptions around the calculation of the expected credit losses could produce significantly different estimates of loss allowance. These models require the significant judgment of management regarding appropriate segmentation, the identification of significant changes in credit risk, the inclusion of forward-looking elements as well as the application of management overlays, to reflect on circumstances beyond the modelling capabilities. The Group is applying the expected credit loss model as required by IFRS 9. The Group's impairment allowance policy is disclosed in the accounting policies section in Notes to the consolidated financial statements sub-section "*Impairment of financial assets*". Critical accounting estimates and judgments are set out also in Note 2 *Significant accounting judgements, estimates and assumptions* to the consolidated financial statements. Given the complexity and judgements related particularly to the calculation of expected credit losses, the impairment allowance for loans to customers is considered a key audit matter.	▶ We updated our understanding and tested the key controls over the loan issuance, booking and monitoring and loan impairment provisioning process. We obtained and read the Group's Impairment provisioning policy that is based on the IFRS 9 and involved our internal IFRS 9 specialists to assess its compliance with the requirements of IFRS 9. ▶ We assessed the Group's methodology regarding the identification of impairment indications and determination by the management of the expected credit losses, including governance over the determination of key judgements. This included the determination of probability weighted macroeconomic scenarios, staging criteria and the credit risk parameters models. ▶ We tested the mathematical accuracy of the impairment allowance calculations. On sample basis we tested the data flow in the models and verified the correctness of parameters subject to estimation by tracing them to the original source documents for the purposes of testing information prepared by the Group (IPE). ▶ In accordance with Group's methodology due to individually small size of each loan, expected credit losses for loans are calculated on a collective basis. We analysed the Group's methodology, inputs and assumptions used. We also tested the completeness and accuracy of the underlying loan information used in the expected credit loss models by agreeing details to the Group's source systems as well as re-performing the calculation of the expected credit loss. For the key assumptions in the model, we evaluated evidence provided by the management. ▶ For a sample of loans and model outputs with the support of valuation specialists, we performed recalculations of ECL (expected credit loss). ECL adjustments related to expert credit judgement such as past payment behaviour, economic sector and payment moratoriums were also analysed. Our analysis considered management's assumption of ECL adjustments. ▶ We performed analytical procedures, such as a comparison of loan loss impairment allowance balances to prior year, movements between stages, provisioning rate analysis etc. ▶ Finally, we assessed the completeness of the related disclosures contained in Note 3 *Risk management*, 11 *Loans and advances to customers* and 2 *Significant accounting judgements, estimates and assumptions*.

Other information

Other information consists of management report, but does not consist of the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as indicated below.

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In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

With respect to the Management report, we also performed the procedures required by the Auditors Activities Act of the Republic of Estonia. Those procedures include considering whether the Management report is consistent, in all material respects, with the consolidated financial statements and is prepared in accordance with the requirements of the Accounting Act of the Republic of Estonia.

Based on the work performed during our audit, in our opinion:

- the Management Report is consistent, in all material respects, with the consolidated financial statements;
- the Management Report has been prepared in accordance with the applicable requirements of the Accounting Act of the Republic of Estonia.

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

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

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

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

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

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

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

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

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- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment and approval of the auditor

We were first appointed as auditors of Holm Bank AS, as public interest entity, for the financial year ended 31 December 2017 in accordance with the decision made by the General Meeting of Shareholders. In accordance with the decision made by the General Meeting of Shareholders on 30 June 2020 we were appointed to carry out the audit of the Group's consolidated financial statements for the year ended 31 December 2023. Our total uninterrupted period of engagement is 7 years, covering the periods ended 31 December 2017 to 31 December 2023.

Consistency with the additional report submitted to the audit committee

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

Non-audit services

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

In addition to statutory audit services and services disclosed in the consolidated financial statements, no other services were provided by us to Holm Bank AS and its controlled undertaking.

Tallinn, 1 April 2024



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



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Bank of good plans.