AS TBB pank

2019 CONSOLIDATED ANNUAL REPORT

*(translation of the Estonian original)**

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1. INTRODUCTION

1.1 General information of Credit institution

Reporting period:	1 January 2019 - 31 December 2019
Balance sheet date:	31 December 2019
Reporting currency:	Euro (EUR)
Reporting units:	EUR thousand
Name of the Entity:	AS TBB pank
Location and address:	7 Vana-Viru Street, 10111 Tallinn
Country of registration:	The Republic of Estonia
Date of registration:	30 December 1991
Registration number:	10237984
Register:	Registration Department of Tartu County Court
Phone:	+372 66 88 000
Fax:	+372 66 88 001
E-mail:	info@tbb.ee

1.2 Auditor

Name of certified auditor:	Lauri Past (license number 567)
Audit firm:	AS PricewaterhouseCoopers
Registration number of the audit firm:	10142876
Location and address of auditor:	Pärnu mnt 15, 10141 Tallinn

2. MANAGEMENT REPORT

2.1 Description of a Credit institution Group

AS TBB pank (hereinafter also “the Bank”) is the oldest functioning commercial bank in Estonia that started its business activities in 1991. AS TBB pank (previously named Tallinna Äripanga AS until 19 June 2019) was registered at 30 December 1991 in the Registration Department of Tartu County Court with the registration number 10237984. Its share capital was EUR 25,500 thousand as at 31 December 2019. The number of the credit institution operating license is EP-08 PO and it is effective from 21 January 1993. As at 31 December 2019, AS TBB pank has not been rated by an international rating agency.

AS TBB pank offers traditional banking services: issuance of loans (regular loans and overdrafts) and leases, depositing, foreign currency transactions and intermediation of precious metals.

The funding for the Bank’s operations comes mostly from owners’ equity and the funds borrowed from the Rural Development Foundation. In addition, the Bank uses funds available as a result of its main operations (deposits, financial obligations related to payment orders and inter-bank transactions, etc.).

The Bank’s head office is located at 7 Vana-Viru, Tallinn. Other bank offices are located at 5a Estonia Avenue and 9 Viru Street, Tallinn and at 4 Kerese Street, Narva.

As at 31.12.2019 AS TBB pank owns 100% of the shares in three entities: TBB Liisingu AS, TBB Invest AS and Morgan Trade AS.

General information about the entities of AS TBB pank (hereinafter also “TBB pank” and “the Bank”) as at 31.12.2019:

Name of entity	**Address**	**Area of activity**	**Reg. Number Reg. date**	**Ownership percentage**
AS TBB pank	Vana -Viru 7, Tallinn	Banking	10237984 30.12.1991	Parent company
AS TBB liising	Vana -Viru 7, Tallinn	Leasing activities	10570483 16.07.1999	100%
AS TBB Invest	Vana -Viru 5, Tallinn	Real estate development	11162243 01.09.2005	100%
AS Morgan Trade	Vana -Viru 7, Tallinn	Real estate development	11169423 03.10.2005	100%

There are no differences between AS TBB pank Group (within the meaning of IFRS) and the consolidation group (within the meaning of the Credit Institutions Act and the Regulation (EU) No 575/2013 of the European Parliament and of the Council). Therefore, the term “the Group” has consistently been used throughout this report.

2.2 General management of TBB pank

Supervisory Board of the Bank

According to the Articles of Association of AS TBB pank the Supervisory Board has at least five members. The members of the Supervisory Board are elected and recalled by the General Meeting of Shareholders. The members of the Supervisory Board elect one of them to be Chairman of the Supervisory Board, who is in charge of the work of the Supervisory Board. The members of the Supervisory Board are elected for a term of three years. The Supervisory Board consists of 5 members: Chairman of the Supervisory Board Madis Kiisa and the Supervisory Board`s members Veiko Veskiväli, Rene Salumäe, Sergei Gornyy and Aleksander Larionov. Supervisory Board`s member Sergey Gornyy owns 2,500,000 (9.8039%) of the shares of The Bank, other members of the Supervisory Board and their related persons did not own any shares of AS TBB pank as at 31 December 2019.

Management Board of the Bank

The Management Board is the Bank's management body that represents and manages the Bank. According to the Articles of Association, the Management Board has at least three members, whose term is up to 3 years. The Chairman of the Management Board is in charge of the work of the Management Board. The Management Board is selected by the Supervisory Board of the Bank.

The Management Board consists of 4 members. The Management Board consists from: Chairman of the Management Board **Igor Novikov** and Members of the Management Board **Aivar Luik, Eduard Kelvet and Sergei Elošvili**. The Member of the Management Board Sergei Elošvili and his related parties own 1,242,424 (4.8723%) of the Bank´s shares as at 31 December 2019. Number of shares at the time of preparation of the Annual Report has not changed. Other members of the Management Board and their related parties do not own the Bank`s shares.

The resolution of the Supervisory Board from 26 August 2019 laid down the duties of the members of the Management Board as follows:

- Chairman of the Management Board **I. Novikov**: general management, organisation of the work of the Management Board, financial management, accounting and reporting, settlements, arranging and development of financial risk management system;
- Member of the Management Board **E. Kelvet**: organisation and development of the customer service system, including sale of products and services, fundraising, financing, automation of services; IT area, incl. implementation of projects and automation of customer servicing, Group's development, development and implementation of the business strategy and the business model, participation in organisation of the risk management system with regard to credit risk management;
- Member of the Management Board **A.Luik**: organisation and development of the system for operational risk management, organisation of AML/CTF/Sanctions and compliance, including provision of tax-related information (FATCA, CRS, DAC2), organisation of ensuring information security;
- Member of the Management Board **S. Elošvili**: organisation and development of human resources, organisation and development of advertising and marketing, office assistance staff, administrative department, legal department.

Credit Committee, Internal Audit Department and Audit Committee

According to the Credit Institutions Act, the Authorised Public Accountants Act and the Articles of Association, the Bank's Supervisory Board has established the following units:

Credit Committee was established at 26 September 2006. The responsibility of the Committee is to assess loan and other financial applications submitted by the loan department and/or credit analysis departement and/or TBB liising, review the appended documents and other information, and take a position on the basis thereof regarding the solvency and financial soundness of loan/lease applicants, and the existence and sufficiency of their collateral pursuant to the Bank's credit policy.

Internal Audit Department was established at 3 July 1996. Its duties involve all levels of management and operations at the Bank in order to ensure the efficiency of the activities of the credit institution, accuracy of financial reporting and compliance with regulatory and other legal acts, internal rules and regulations approved by the Bank's management bodies and good banking practices as well as decision-making on the basis of credible and relevant information.

Audit Committee was established at 15 June 2011. It is an advisory body to the Bank's Supervisory and Management Boards in order to ensure the compliance of economic activities and risk management with the Bank's objectives. The responsibility of the Committee is advising the Supervisory and Management Boards in supervision related issues, including organisation of accounting, conducting of external audit, functioning of the internal control system, management of financial and operational risks, monitoring of the legality of operations as well as preparation of the budget and approval of the annual report.

The Bank's Management Board has established and approved the main principles and competencies of the following Bank's units:

Risk and Capital Management Committee (19 November 2019). The committee's responsibility is to support asset appreciation and profit growth of the Bank's consolidation group through efficient management of risks; ensuring the Bank's required financial position arising from the nature and scope of operations carried out by the Bank; development of proposals to the Management Board of the Bank in respect of the priorities for action at the Bank in the risk area, including identification of key risks, development of risk management measures, upgrading and development of the risk management system.

Prior to 19 November 2019, the functions of risk and capital management were carried out by the committees and groups listed below that were terminated after the establishment of the Risk and Capital Management Committee:
Assets and Liabilities Committee (12 April 2001 to 19 November 2019). The duties of the Committee included managing the Group's assets and liabilities, managing liquidity, financing and investment strategies, financial risk management and determination of capitalisation rates.
Liquidity and Financial Risk Management Group (15 October 2008 to 19 November 2019). The duty of the group was operational management and control over compliance with liquidity requirements that are part of risk management and established by the Bank.
Risk Management Committee (28 November 2018 to 19 November 2019). The key responsibilities of the Committee included ensuring the increase in the value of the Bank's assets and profits through efficient management of risks within the set limits. Identification of key risks, development of risk management measures, improvement and development of the risk management system.

Risk Management Workgroup (25 January 2012 to 19 November 2019). The duty of the group was to create an efficient management system for the Bank's key risks and to ensure its functioning. Regular monitoring, preventive control over the monitoring of the risk level, testing and measurement of financial risks.

Committee on Business Continuity (15 March 2007). The purpose of the committee is to analyse and monitor risks that may either partially or fully impact the Bank's processes as well as assessment of their severity; development of the systems, rules, procedures and preventive measures to ensure the Bank's business continuity, such as in a crisis situation, including training the staff to be prepared for crisis situations.

Development Group (15 October 2003). The Group's main objectives include drafting of the Bank's development plan and monitoring of its implementation; development of new products and services; review and analysis of new projects that may impact the Bank's development, submitting the projects to the Management Board and supporting them.

High-Risk Customer Approval Committee (6 June 2018). The objective of the committee is verification of compliance of both existing as well as potential high-risk customers with the requirements of AML and the Bank's risk appetite

Group responsible for submitting reports to the Financial Supervision Authority (15 October 2003). The purpose of the group is to ensure compliance of reports submitted to the Financial Supervision Authority with legislation; compilation, preparation of new reports and monitoring of submitting the reports to the Financial Supervision Authority.

Auditor:

On 26 April 2019 General Meeting of Shareholders has elected PricewaterhouseCoopers AS as the external auditor of AS TBB pank for the years 2019 and 2020. Lead auditor is Lauri Past. TBB pank complies with the requirement of auditor rotation.

In 2019, the auditor has provided services to the Bank as laid down in the contract, including audits of the annual reports of the companies in the Bank's consolidation group as well as other assurance services that are required under the Credit Institutions Act and Securities Market Act.

2.3 Principles of management procedures of TBB pank

The members of the Management Board of the Bank are members of the supervisory boards of the entities belonging to the consolidation group of the Bank. Igor Novikov and Sergei Elošvili are members of the supervisory boards of AS TBB liising, AS TBB Invest and AS Morgan Trade.

Recruitment policies for selection of members of a management body

For recruitment of the members of the Management and Supervisory Boards, the Bank acts in compliance with the requirements of the Credit Institutions Act, the guidelines of the EBA for assessing the suitability of the members of a management body and key personnel, recommended guidelines of the Financial Supervision Authority and the Bank's internal rules and regulations. When recruiting members of a management body, preference is given to internal candidates of the Bank, while executive recruitment is also used.

Individuals with the required expertise, skills, experience, education, professional qualifications and impeccable business reputation are selected as members of the Management and Supervisory Boards of the Bank. Prior to being selected as a member of the Management or Supervisory Board of the Bank, the candidate shall provide an overview to the Bank of his/her education, work and business experience, and his/her punishments entered in the punishment register as well as confirmation that there are no circumstances preventing him/her from becoming a manager of a credit institution.

Since TBB pank's market share is small and it offers standard banking and lease products, its management structure is small and simple. Upon assessing the suitability of a member of a management body, the nature of the activities, scope and complexity of the Bank as well as the responsibilities of the position will be taken into account. In respect of a candidate of a member of the management body, the Bank assesses his/her reputation, knowledge, skills and experience required for the position, as well as independence and the time to be contributed to fulfilling the duties. Assessment and its results will be documented.

The Bank's managers act with expected prudence and competence, in accordance with the requirements set for their positions and in the interests of the Bank and its customers.

Diversification policy

The Bank provides equal opportunities and rights to everyone, regardless of their gender, nationality, ethnic background, age, sexual orientation, gender identity or religion.

The general diversity policies also apply to selection of members of a management body. The composition of the Bank's Supervisory and Management Boards is sufficiently diverse and complies with the principles of diversity of composition of the management bodies and it ensures that the management body has capacity for work and it consists of persons with a professional background who fit into the composition due to their knowledge, skills and experience. In light of the credit institution's business model and strategy, managers collectively have sufficient knowledge, skills and experience to understand the operations of a credit institution, including key risks.

Risk committee

Considering the nature, extent and stage of complexity of the activities of the Bank, no separate risk committee has been set up. Its duties are carried out by the audit committee as laid down in the Credit Institutions Act. Risk management, including how a management body is informed of risks is disclosed in Note 4.

2.4 Principal shareholders of TBB pank

Leonarda Invest AS has a 48.45% stake in TBB pank, all other shareholders own less than 10% of shares each. The shares are divided as follows:

Shareholder	Country	Number of shares owned as at 31.12.2019	Ownership %	Number of shares at the time of preparation of the Annual Report	Ownership %
Leonarda Invest AS	Estonia	12,354,034	48.45%	12,354,034	48.45%
Other shareholders	Estonia	8,184,414	32.10%	8,184,414	32.10%
Other shareholders	Russia	4,961,552	19.45%	4,961,552	19.45%
Total		**25,500,000**	**100.00%**	**25,500,000**	**100.00%**

2.5 Overview of 2019 results

Key events in the external environment in 2019[1]:

- In the near future, the economic situation in Estonia will be impacted by the weakness of its trading partners and uncertainties caused by the US-China trade dispute. The slowdown in the global growth is also affecting the economies of Estonia's main trade partners;
- Global economic growth continues to slow down, although in recent months there have been signs of stabilisation;
- US and China are nearing an agreement in their trade disputes, the US did not impose import duties on European carmakers in November, and the risk of a hard Brexit has decreased;
- Corporate investments are decreasing in spite of the central banks’ lenient monetary policy and favourable financing conditions;
- In the euro area and Japan, corporate confidence is being eroded particularly by the ongoing trade war but also by fear of a recession;
- In the United Kingdom, investments are affected by the uncertainty surrounding Brexit;
- Optimism in equity markets has been growing in the past few months;
- Prices in commodity markets have mostly been falling;
- The euro area economy is growing, albeit slowly. Quarterly economic growth was 0.2% in the third quarter and annual growth was 1.2% , i.e. the same as in the previous quarter;
- The labour market situation and price pressures have weakened slightly in the euro area. Euro area unemployment remains low at 7.5% and wage growth remains fast at 2.7%.

Key changes in the Estonian economy in 2019[2]:

- Estonia’s economic growth is slowing down. Because of the weak outlook of foreign markets and the ongoing stabilisation in labour markets, economic growth will slow down to around 2% in the coming years;

[1] Estonian Economy and Monetary Policy. 4/2019. Quarterly overview of the Bank of Estonia. http://www.eestipank.ee.
[2] Estonian Economy and Monetary Policy. 4/2019. Quarterly overview of the Bank of Estonia. http://www.eestipank.ee.

- Unemployment is expected to increase in the coming years, partly due to the economic slowdown and to growing labour force participation. People's activity in the labour market is boosted by the gradual increase in the retirement age and overall wage growth that motivates people to work;
- Consumer price growth will remain subdued;
- The growth of the companies' debt has slightly picked up;
- Housing demand and supply remained high in the second quarter of 2019. Household investments increased by 25% year-over-year in constant prices;
- According to preliminary data, the growth in housing prices accelerated and the annual growth rate of new housing loans issued during the quarter was attributable to the increase in the number of loan agreements and the average loan amount.

The key developments in the Group`s operatinons in 2019 were:

- As part of the implementation of the strategic plan adopted in 2018, the Bank changed its name. From 19 June 2019, the Bank's new business name is AS TBB pank;
- At 8 July 2019, AS TBB pank became a direct member of EBA CLEARINGU STEP2 SEPA Credit Transfer (SCT) payments. Direct membership enables the Bank to make payments without intermediaries, so that bank customers can quickly receive and send euro payments. Until then, there were only two direct members of EBA CLEARINGU STEP2 SCT, i.e. AS LHV Pank and AS SEB Pank, and now AS TBB pank also has a direct membership. Following the name change, the attainment of the direct membership status in the STEP2 SCT system is the realisation stage of the development strategy adopted in 2018;
- In August, the Bank upgraded its Internet homepage with the goal of making the current page more convenient for its customers;
- Starting from 13 September 2019, AS TBB pank started to offer its customers an option to use a single application to access their funds in different banks so as to comply with PSD2 requirements;
- In the autumn, the implementation of the CRM system that commenced in 2018 was finished. Additionally, the development of an application environment for loan products was launched. The new application environment allows customers to fill out online loan applications that reach the loan manager via the CRM. This development provides a more effective analysis of loan applications and customers will be informed of the loan decision much faster;
- The main servers were migrated to the virtual platform. These activities ensure the reliability, security and efficiency of IT processes and help reduce future infrastructure investments;
- Connecting the data communications infrastructure to the SWIFT system for enhanced reliability, speed and uninterrupted payments;
- In 2019, the Group also organised various deposit campaigns aimed at local customers.

Other key events and developments in 2019 were:

- Change in the composition of the Bank's Management Board;
- Launch of development of a new online bank and mobile application.
- Launch of the implementation process of the Flash Payment System.

Customer interest in bank services and products was stable in 2019 and almost at the same level as in 2018.

Income statement analysis

The audited loss of AS TBB pank Group for the year 2019 amounted to EUR -821 thousand, in 2018 the profit amounted to EUR 1,448 thousand. The Group`s total revenue decreased by 20.5% as compared to the previos year and amounted to EUR 7,134 thousand.

Interest income growth slowed down in the second half of 2019, resulting in 94.1% of the interest income of the year 2018 (see Note 16). Interest income from bank deposits decreased by 36.1% and amounted to EUR 493 thousand, the average interest rate decreased (31.12.2019: 1.73% and 31.12.2018: 1.87%). As at the end of 2019, the balances of the Bank's term deposits decreased as compared to the year 2018 and there were no overnight deposits (see Note 6). The increase of interest income from loans was 2.1% due to the increase of average loan interest rate (31.12.2019: 4.58%; 31.12.2018: 4.53%) in the background of loan's portfolio decrease (see Note 7). Interest income from leases increased 4.2 %.

Interest expense increased by 1.7% and amounted to EUR 1,046 thousand (see Note 17). Asset related innterest expense, being caused by negative interest rates, decreased by 16.6% and amounted to EUR 306 thousand. Interest expense on deposits increased by 11.7% as compared to the previous year. Average interest rate has increased (31.12.2019: 1.69%; 31.12.2018: 1.59%). Loans received from the Rural Development Foundation as well as from Fund KredEx and average interest rate received on them slightly increased (respectively 31.12.2019: 1.01% and 4.00%; 31.12.2018: 0.97% and 3.96%).

Overall, the Group's net interest income decreased by 8.9% and amounted to EUR 2,393 thousand (2018: EUR 2,627 thousand).

In 2019, a loss incurred due to the changes in the value of receivables in the amount of EUR 770 thousand is the result of higher expected credit losses (ECLs), which caused by increase of individual ECL in Stage 3 (2018: Loss of EUR 12 thousand) (see Notes 2, 3, 7, 18).

Fee and commission income decreased by 30.8% and amounted to EUR 2,071 thousand (2018: EUR 2,993 thousand), which was primarily attributable to the decrease in the service fees on payments (see Note 19). The following accounted for the majority of income from fees and commissions in 2019:

- service fees related to payments 47.9% (2018: 51.4%);
- credit and debit card fees 21.3% (2018: 14.6%);
- account maintenance fees 17.2% (2018: 18.1%);

Fee and commission expenses increased by 3.1% as compared to the previous year and amounted to EUR 1,443 thousand (2018: EUR 1,399 thousand) (see Note 20). The three most significant components in the structure of fee and commission expenses were:

- data processing fees 33.0% (2018: 24.6%);
- service fees related to payments 31.1% (2018: 35.6%);
- service fees related to credit and debit card services 27.2% (2018: 29.7%).

Overall, the Group's net fee and commission income decreased by 60.6% and amounted to EUR 628 thousand.

Due to lower volume of foreign exchange transactions, the net gains from financial transactions of the Group in 2019 amounted to EUR 1,299 thousand, which is 27.3% less than in prior year (2018: EUR 1,788 thousand) (see Note 21).

In 2019, the gain on revaluation of investment property totalled EUR 44 thousand (2018: a loss of EUR 515 thousand) (see Note 10).

Administrative expenses increased by 12.1%, amounting to EUR 3,554 thousand (2018: EUR 3,169 thousand). The largest component in the expense structure was staff costs, which accounted for 85.3% of administrative expenses (2018: 82.5%) (see Notes 22- 23).

In 2019, other operating income decreased by 43.4% as compared to the previous year and amounted to EUR 259 thousand (2018: EUR 458 thousand). The dicrease of other operating income was also caused by the sale of investment property (see Notes 24, 8, 10).

Other operating expenses in 2019 remained on the same level and totalled EUR 677 thousand (2018: 9,686 thousand) (see Note 25).

Balance sheet analysis

As at 31 December 2019, the total assets of TBB pank decreased by 27.0% from the beginning of the year, totalling EUR 156,834 thousand (31.12.2018: EUR 215,090 thousand). The decline was primarily related to the decline in payables to customers, i.e. customer deposits related to the Bank's upgraded AML (money laundering and combating terrorist financing) policy, as a result of which the business relationships with non-resident customers were reviewed.

Lending activities

The gross caryring amount of the Group' loans to customers decreased in 2019 by 2.5%, totallin EUR 54,240 thousand by the end of 2019 (31.12.2018: EUR 55,618 thousand) (see Note 7). The change in receivables by customer sectors was as follows: receivables from legal entities decreased by 4.7% and receivables from individuals increased by 19.4%. As at 31 December 2019, the amount of the allowance set up for credit losses was EUR -1,278 thousand (31.12.2018: EUR -528 thousand) (see Note 7). The reason for the sharp increase of the allowance is increase of individual ECL in Stage 3. According to IFRS9 effective from 1 January 2018 and the application of the new model, a provision for impairment losses is set up on the basis of the expected credit loss model (see Notes 2, 3, 4).

Financing

As at 31 December 2019, the Group does not have any payables to credit institutions.

As at 31 December 2019, payables to customers amounted to EUR 119,096 thousand and decreased by 32.3 % as compared to the beginning of the year that was related to the 44.3% decline in the deposits to legal entities. The reason for the lower volume of deposits is primarily related to the decision of the upgraded AML policy to review business relations with non-resident customers. The deposits of individuals have increased by 0.8% (see Note 11).

Other payables increased by 1.9% and amounted to EUR 6,519 thousand (2018: EUR 6,399 thousand) (see Note 12). The objective of cooperation between the Group and the Rural Development Foundation was to improve the possibilities of small and medium-sized enterprises to raise funds and ensure that these possibilities are implemented in public interest. The objective of cooperation with KredEx is to improve joint financing possibilities of new enterprises. By using the funds received from KredEx, the Bank finances business operations of its enterprises.

The decrease of other payables and accrued expenses by 12.6% was related to the decrease in payments in transit during the ordinary banking operations (2019: EUR 4,806 thousand, 2018: EUR 5,499 thousand) (see Note 13).

2.6 Development goals of TBB pank for 2020

The strategy of the Group of AS TBB pank for the years 2018 to 2021 establishes a framework for the activities to be carried out by AS TBB pank. The strategy is developed on the basis of the analysis of the Estonian current macroeconomic environment and banking market situation, the forecast of future trends, the needs of the Bank's target customers and the Bank's ability to meet these needs.

The Bank's strategy clarifies the Bank's target customers and sets goals for development of its staff, organisation, management and information technology. To ensure faster development, the Bank considers outsourcing purchases of IT solutions from professional providers.

An action plan is applied to implement the strategy of TBB pank that lays down a list of key activities that are necessary for implementation of the strategy, including the schedule for 2020 and 2021. The action plan is updated twice a year. Pursuant to the goals outlined in the business strategy, the Bank approves a marketing strategy in a separate document.

In 2020, the Group will mainly focus on the development of products targeted at individual customers: housing and mortgage loans, consumer loans and credit cards. The main objectives are optimisation of the decision-making process, automation of customer control and data entry and incorporation into the Bank's programmes through API and solvency analysis. An additional solution that is being implemented concerns the issuing of unsecured loans and opening of accounts for residents without face-to-face detection.

In the second half of 2020, the focus will be on the automation of corporate loan application analysis as well as process optimisation and acceleration. Various marketing projects have also been launched in the following platforms and websites: Facebook, Instagram, Google ads and City24.ee. The new website aimed at increasing the website's visibility, security, discoverability, traffic and ease of use for our customers is under development.

An important part of the Bank's development work is related to the automation of various work processes related to the prevention of money laundering and terrorist financing, including the introduction of new software for analysis, scoring and monitoring.

2.7 Internal control system

The internal control system operates in accordance with the "Internal and compliance control system policy" approved by the TBB pank's Supervisory Board at 14 December 2018.

The internal control system is a system of organisation measures, activities and internal rules and regulations implement on the initiative of the Management Board of AS TBB pank, the task of which is to ensure sufficient management of the risks of AS TBB pank Group, the most efficient achievement of objectives, accuracy of reporting, protection of assets and data, and compliance with prevailing legal regulations.

Each management and operational level of the Bank Group performs specific functions in the internal control system.

The Management Board of the Bank is responsible for establishment and efficient functioning of the internal control system. The Management compiles the documents regulating the activities of the Bank Group (incl. structure, action plans, internal rules and regulations and other internal norms) and ensures their compliance and fulfilment.

Important control functions at the Bank Group are carried out by the second line of defence which consists of the risk control, compliance control and internal control functions and the third line of defence represented by the Internal Audit Department. Each control function has sufficient authorities to fulfil their duties, and they present regular reports to the Management and/or Supervisory Board of AS TBB pank.

Heads of departments are responsible for managing and controlling the risks they encounter in their operations. All heads of departments must ensure that their staff is properly instructed, supervised and required to comply with the documents governing their work.

The internal control system also comprises a system of committees. In 2019, in addition to the Credit Committee and Audit Committee set up as required by legislation, the other committees included the Risk and Capital Management Committed (starting from 19 November 2019, it replaced the Assets and Liabilities Committee, Risk Management Committee, Risk Management Workgroup, Liquidity and Financial Risk Management Workgroup), High Risk Customer Approval Committee, Business Continuity Process Management Committee, Operational Risk Management Workgroup, and Compliance Control Committee.

The Supervisory Board of AS TBB pank performs supervision over the Bank and the entire Group, monitoring the work of the Management Board (incl. implementation of the internal control system), approving the Group's strategy and general risk management principles.

The Internal Audit Department evaluates and reviews the functioning of the internal control system and risk management of AS TBB pank (through auditing). The Internal Audit Department reports directly to the Supervisory Board and in performing its tasks, it follows the department's statute, policies and procedures approved by the Supervisory Board, as well the annual work plan. As a result of its work, the Internal Audit Department prepares reports where it gives objective feedback to the Management and Supervisory Boards of the Bank about the deficiencies identified and makes recommendations to eliminate these deficiencies. The Internal Audit Department regularly reviews elimination of deficiencies specified in the reports of the Financial Supervision Authority and internal audit.

2.8 Dividend policy

The assumptions and principles for payment of dividends have been laid down in the Dividend Policy approved by the Bank's shareholders at 25 April 2018.

2.9 Remuneration policy

TBB pank's effective principles of remuneration are approved by the Supervisory Board. The principles are based on the efficient goal-oriented culture which includes quality risk management, while considering capital adequacy and required liquidity. At AS TBB pank, the remuneration of employees primarily consists of basic salaries. In 2018 and 2019, the members of the Management Board and employees did not receive performance rewards. Once a year, the Internal Audit Department reviews and evaluates the compliance of the principles of remuneration of the members of the Management Board and employees of the credit institution with the requirements laid down in the credit Institutions Act.

2.10 Financial ratios and capital adequacy

Below is a list of key **financial ratios** that describe the Group's operations in the financial years 2019 and 2018. Balance sheet ratios are calculated as an arithmetic average of the data from the end of the previous financial year and the ending date of each quarter of the financial year. The actual data for the financial year is used for income statement related ratios.

Ratios	31.12.2019	31.12.2018
1. ROE	-3.04%	5.32%
2. EM	6.12	8.04
3. PM	-11.46%	16.14%
4. AU	4.33%	4.10%
5. ROA	-0.50%	0.66%
6. EPS	-0.03	0.06

The ratios have been calculated using the following formulas:

1. Return on Equity (ROE):	Net profit (loss) / equity (%)
2. Equity Margin (EM):	Assets / equity
3. Profit Margin (PM):	Net profit (loss) / total revenue* (%)
4. Asset Utilisation (AU):	Total revenue / assets (%)
5. Return on Assets (ROA)	Net profit / total assets %
6. Earnings per Share (EPS):	Net profit (loss) / average number of shares (EUR)

*Total revenue is the sum of all revenue presented in the income statement.

The planning of the capital requirement takes place on the basis of calculating regulatory **capital adequacy** plus capital requirements to cover additional risks

Capital adequacy or the total capital ratio = own funds/total risk exposure (%) expresses the adequacy of the Group's own funds to cover credit risk, market risk and operational risk and compliance with the credit institution's economic activities. As at 31.12.2019, capital adequacy was 27.30% (31.12.2018: 25.73%).

Own funds and ratios

(EUR thousand)	31.12.2019	31.12.2018
TIER 1	**25,616**	**25,776**
Common Equity Tier 1 capital (CET 1)	**25,616**	**25,776**
Paid-in share capital	25,500	25,500
Prior period retained earnings/loss	729	-127
Net income/loss for the financial year	-821	1,448
(-) Unacceptable part of the annual profit	-	-1,448
Reserves established from profit	1,005	928
Common equity Tier 1 capital deductions	-797	-525
Total own funds	**25,616**	**25,776**
Total risk-weighted assets (Total risk exposure)	**93,845**	**100,167**
Capital ratios and buffers		
Common equity Tier 1 capital ratio (CET1)	27.30%	25.73%
Tier 1 capital ratio (TIER 1)	27.30%	25.73%
Total own funds ratio	**27.30%**	**25.73%**
Combined buffer requirement	**3,285**	**3,506**
Buffer for capital preservation	2,346	2,504
Buffer for system risk	939	1 002

AS TBB pank Group uses a standardised approach for calculating the capital requirement for credit risk. For calculating the capital requirement for credit risk of the Group as at 31 December 2019 and 2018, both on-balance sheet assets and off-balance sheet liabilities have been taken into consideration.

Risk-weighted assets

(EUR thousand)	31.12.2019	Capital requirements (8%)	31.12.2018	Capital requiremen ts (8%)
TOTAL RISK EXPOSURE	**93,845**	**7,507**	**100,167**	**8,013**
Risk-weighted assets for credit risk and counterparty credit risk	**82,150**	**6,571**	**90,435**	**7,234**
Government	2	-	4	-
Credit institutions and investment companies	6,116	489	11,892	951
Legal entities	7,638	611	8,156	653
of which :VKE	6,932	555	7,500	600
Retail receivables	336	27	381	30
Real estate secured receivables	38,835	3,107	41,030	3,282
of which:VKE	32,811	2,625	39,192	3,135
Overdue receivables	4,140	331	1,758	141
Items with particularly high-risk exposure	9,218	737	9,480	758
Other assets	15,865	1,269	17,734	1,419
Total amount of foreign currency risk	**575**	**46**	**-**	**-**
Total operational risk amount	**11,120**	**890**	**9,732**	**779**

** SMEs – designated as micro, small and medium-sized companies. The category of micro, small and medium-sized companies (SMEs) include such companies that have fewer than 250 employees and whose annual revenue does not exceed EUR 50 million and/or the annual balance sheet total does not exceed EUR 43 million (excerpt from Article 2 of the Annex of the Commission's recommendation 2003/361/EU).*

Capital requirements and buffers 31.12.2019

Own funds	Total own funds	Total risk exposure	Baseline capital requirements		Baseline capital surplus (+) deficit (-)	Capital adequacy	Capital maintenance buffer		Systemic risk buffer		Total capital requirements, incl. buffers		Total capital surplus (+) deficit (-)
	1	2	3	4=2x3	5=1-4	6=1/2	7	8=2x7	9	10=2x9	11=3+7+9	12=2x11	13=1-12
Total capital	**25,616**	**93,845**	**8%**	**7,508**	**18,108**	**27.30%**	**2.5%**	**2,346**	**1%**	**939**	**11.5%**	**10,792**	**14,823**
Tier 1 capital	**25,616**	**93,845**	6%	5,631	19,985	27.30%	2.5%	2,346	1%	939	9.5%	8,915	16,700
CET 1 capital	**25,616**	**93,845**	4.5%	4,223	21,393	27.30%	2.5%	2,346	1%	939	8%	7,508	18,107

The Capital Requirement Regulation requires that credit institutions calculate the financial leverage ratio. The **financial leverage ratio** equals the quotient of Tier 1 capital and risk exposure indicators and is expressed as a percentage. The objective of the financial leverage ratio is to cover the risk of excessive financial leverage (risk that is caused by excessively rapid growth in the liabilities of a credit institution) and act as a safeguard to the requirement of risk-sensitive own funds.

Calculation of the financial leverage ratio (EUR thousand)

	31.12.2019	**31.12.2018**
On-balance sheet risk exposures	156,037	215,090
Other off-balance sheet risk exposures	2,709	1,541
The indicator of total risk exposure of financial leverage ratio	**158,746**	**216,631**
Own funds of Tier 1	**25,616**	**25,776**
Financial leverage ratio (using the fully implemented definition of Tier 1 capital)	**16.14%**	**11.90%**

The management estimates that the Group is in compliance with all external and internal capital management requirements as at 31.12.2019 and 31.12.2018.

In the reporting period, the Group preserved its liquidity level which is sufficient to comply with all the requirements of customers and supervisory bodies. The liquidity coverage ratio (LCR, %) calculated as an arithmetic average of last twelve month end data prior balance sheet date was 365% in 2019 and 442% in 2018 (regulatory minimum requirement 100%). The disclosures on the Group's liquidity coverage ratio as laid down in Regulation (EU) No 575/2013 of the European Parliament and of the Council are presented on the Bank's website in the risk and capital (Pillar 3) report of TBB pank for 2019.

2.12 Consolidated balance sheets of TBB pank Group for 2015-2019

(tuhandetes eurodes)

	31.12.2019	**31.12.2018**	**31.12.2017**	**31.12.2016**	**31.12.2015**
Cash	1,023	1,183	905	1,248	1,497
Receivables	138,037	195,598	212,217	196,006	189,559
Other assets	1,392	1,820	1,627	2,971	3,111
Shares and other securities	37	37	37	37	37
Property, plant and equipment	4,878	4,601	3,930	3,894	1,951
Intangible assets	797	-	-	-	-
Investment property	10,670	11,851	12,596	12,837	9,687
TOTAL ASSETS	**156,834**	**215,090**	**231,312**	**216,993**	**205,842**

Payables	125,615	182,357	198,075	183,341	179,641
Other liabilities and accrued expenses	4,806	5,499	6,936	9,072	2,557
Total liabilities	**130,421**	**187,856**	**205,011**	**192,413**	**182,198**
Total equity	26,413	27,234	26,301	24,580	23,644
TOTAL LIABILITIES AND EQUITY	**156,834**	**215,090**	**231,312**	**216,993**	**205,842**

2.13 Court disputes and tax inspection

In 2019 and as at the date of authorising the annual report for issue, the Bank has two ongoing bankruptcy proceedings, four enforcement and one judicial proceeding concerning its debtors. No new legal cases have been brought against the Bank as at the reporting and the date of authorising the annual report for issue. From earlier periods, there are two ongoing actions, in one of which the co-defendant is AS TBB liising. In both court cases, the court has ruled in favour of the Bank, but the rulings have not been enforced.

The Bank is of opinion that challenging the judicial decisions will not change their substance and it considers a potential loss unlikely.

As at 31 December 2019, Bank and its group companies AS Morgan Trade and AS TBB Invest are not involved in any judicial or arbitration proceedings that could result in significant losses to bank companies in the future.

In 2019, the tax authorities did not carry out a tax audit at the Group. Tax authorities have the right to review the Group’s tax records within 5 years after submitting the tax declaration and upon detecting errors, impose additional taxes, interest and fines. The Group’s management estimates that there are no circumstances that might lead the tax authorities to assign significant additional taxes to the Group.

3. CONSOLIDATED FINANCIAL STATEMENTS

3.1 Consolidated statement of financial position of TBB pank Group

(EUR thousand)

ASSETS	Note	31.12.2019	31.12.2018
Cash		**1,023**	**1,183**
Receivables		**138,037**	**195,598**
Receivables from Central Bank	5	53,786	80,392
Receivables from Credit institutions	6	31,289	60,116
Receivables from customers	7	52,962	55,090
Other assets	8	**989**	**1,490**
Gold		**440**	**367**
Property, plant and equipment	9	**4,878**	**4,601**
Intangible assets	9	**797**	**-**
Investment property	10	**10,670**	**11,851**
TOTAL ASSETS		**156,834**	**215,090**

LIABILITIES AND EQUITY	Note	31.12.2019	31.12.2018
Payables		**126,615**	**182,357**
Payables to customers	11	119,096	175,958
Other payables	12	6,519	6,399
Other payables and accrued expenses	13	**4,806**	**5,499**
TOTAL LIABILITIES		**130,421**	**187,856**
Share capital	14	25,500	25,500
Reserves	14	1,005	928
Accumulated profit/(-loss)		-92	806
TOTAL EQUITY		**26,413**	**27,234**
TOTAL LIABILITIES AND EQUITY		**156,834**	**215,090**

The notes to the financial statements set out on pages 24 to 101 form an integral part of these financial statements.

3.2 Consolidated statment of comprehensive income of TBB pank Group

(EUR thousand)

	Note	2019	2018
Net interest income		**2,393**	**2,627**
Interest income calculated using the effective interest method	16	2,804	3,035
Other similar income	16	635	621
Interest expense	17	-1,046	-1,029
Impairment losses on receivables	7, 18	**-770**	**-12**
Net fee and commission income		**628**	**1,594**
Fee and commission income	19	2,071	2,993
Fee and commission expense	20	-1,443	-1,399
Net gains from financial transactions	21	**1,301**	**1,789**
Administrative expenses		**-3,554**	**-3,169**
Wages and salaries	22	-2,271	-1,960
Wage related taxes	22	-759	-653
Other administrative expenses	23	-524	-556
Depreciation of property, plant and equipment and intangible assets	9	**-617**	**-477**
Revaluation of investment property	10	**44**	**-515**
Other operating income/ expenses		**-418**	**-228**
Other operating income	24	259	458
Other operating expense	25	-677	-686
Profit before tax		**-993**	**1,609**
Income tax expense (-)/gain (+)	2	172	-161
Net income/loss(-) for the financial year		**-821**	**1,448**
Total comprehensive income/loss(-) for the financial year		**-821**	**1,448**

The notes to the financial statements set out on pages 24 to 101 form an integral part of these financial statements.

3.3 Consolidated cash flow statement of TBB pank Group

(EUR thousands)

	Note	2019	2018
Cash flow from operating activities			
Profit before tax		**-993**	**1,609**
Adjustments for:			
Depreciation	9	617	477
Change in the value of investment property	10	-44	515
Net interest income	16,17	-2,393	-2,627
Change in receivables from credit institutions and customers	6, 7, 18	6,815	-1,123
Change in other receivables and prepayments related to operating activities	8, 10	644	-194
Changes in liabilities related to the operating activities	11,12,13	-57,461	-17,231
Interest received	7, 16	3,496	3,642
Interest paid	11,17	-945	-952
Income tax paid		-44	-161
Total cash flow from operating activities		**-50,308**	**-16,045**
Cash flow from investing activities			
Purchase of property, plant and equipment and intangible assets	9	-1,712	-1,148
Write-off of property, plant and equipment and intangible assets	9	21	-
Purchase of investment property	10	-31	-387
Proceeds from sale of investment property	10	1,256	617
Total cash flow from investing activities		**-466**	**-918**
Cash flow from financing activities			
Payments of principal on leases	13	-74	-
Total cash flow from financing activities		**-74**	**-**
Total cash flow		**-50,848**	**-16,963**
Cash and cash equivalents at the beginning of the year		**127,073**	**144,036**
Cash and cash equivalents at the end of the year		**76,225**	**127,073**

Cash and cash equivalents comprise cash, a correspondent account at the Bank of Estonia, demand deposits and overnight loans at other banks.

		2019	2018
Cash		1,023	1,183
Correspondent account at the Bank of Estonia	5	52,827	78,902
Demand deposits and overnight loans at banks	6	22,375	46,988
Total cash and cash equivalents		**76,225**	**127,073**

The notes to the financial statements set out on pages 24 to 101 form an integral part of these financial statements.

3.4 Consolidated statement of changes in equity of TBB pank Group

(EUR thousands)

	Share capital	Reserves	Retained earnings	Total
Balance at 01.01.2018	**25,500**	**842**	**-556**	**25,786**
Increase of required reserves	-	86	-86	-
Comprehensive income for financial year	-	-	1,448	1,448
Balance at 31.12.2018	**25,500**	**928**	**806**	**27,234**
Increase of required reserves	-	77	-77	-
Comprehensive loss for financial year	-	-	-821	-821
Closing balance at 31.12.2019	**25,500**	**1,005**	**-92**	**26,413**

The notes to the financial statements set out on pages 24 to 101 form an integral part of these financial statements.

Notes to the consolidated financial statements

Note 1. General information of the Group and basis of preparation

AS TBB pank (previously named Tallinn Business Bank AS) launched its operations in December 1991. The Bank's head office is located at Vana-Viru Street 7, Tallinn. Other bank offices are located at Estonia Avenue 5a and Viru Street 9, Tallinn and at Kerese Street 4, Narva. The Bank's main areas at activities include depositing, lending to the public and other banks, performance of bank transactions and foreign currency operations for its customers.

General information about the entities in the Group (hereinafter also "Group") of AS TBB pank (hereinafter also as "TBB pank" or "the Bank") as at 31 December 2019:

Name of entity	**Address**	**Area of activity**	**Reg.number Reg. date**	**Ownership percentage**
AS TBB pank	Vana -Viru 7, Tallinn	banking	10237984 30.12.1991	parent company
AS TBB liising	Vana -Viru 7, Tallinn	leasing activities	10570483 16.07.1999	100%
AS TBB Invest	Vana -Viru 5, Tallinn	real estate development	11162243 01.09.2005	100%
AS Morgan Trade	Vana -Viru 7, Tallinn	real estate development	11169423 03.10.2005	100%

These consolidated financial statements of TBB pank Group have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The principal accounting policies used are set out below.

The Consolidated Annual Report of AS TBB pank has been authorised for issue by the Management Board of TBB AS and will be presented for approval by the Supervisory Board and the shareholders.

The Group entities use mostly uniform evaluation bases and accounting methods.

In preparing the financial statements and recognising assets and liabilities, the going concern principle has been applied.

The consolidated financial statements are prepared under the historical cost convention, except for revaluation of certain assets (i.e. investment property at fair value). The consolidated financial statements have been prepared on an accrual basis.

The consolidated financial statements have been prepared in thousands of euros (EUR), unless indicated otherwise.

Note 2. Summary of significant accounting policies

Consolidation

Subsidiaries are all investees that the Group controls. The Group controls the investee if it has exposure, or rights, to variable returns from its involvement with the investees and it has the ability to use its power over the investees to affect the amount of investor's returns.
Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

In the separate balance sheet of the parent company, investments are recognised at cost less any impairment losses.

Transactions eliminated on consolidation
Intra-group transactions, mutual balances and unrealised gains have been eliminated when preparing the consolidated financial statements.

Recognition of foreign currency transactions and balances

Functional and presentation currency
The Bank's functional and presentation currency is the euro.

Foreign currency transactions
Foreign currency transactions are recorded based on the foreign currency exchange rates of the European Central Bank officially valid on the transaction date. Monetary assets and liabilities denominated in foreign currencies, and non-monetary assets and liabilities recognised at fair value have been translated into euros using the official foreign currency exchange rates prevailing on the balance sheet date. Gains and losses from foreign currency transactions are recorded on a net basis in the income statement.

Cash and cash equivalents

For the Group, cash and cash equivalents comprise cash, a correspondent account at the Bank of Estonia, demand deposits and overnight deposits at other banks that can be used without significant restrictions and that have insignificant risk of a change in value.

Cash flows from operating activities are reported under the indirect method. Cash flows from investing and financing activities are reported as gross receipts and disbursements made during the financial year.

Financial assets and financial liabilities

Financial assets
Financial assets include cash, contractual rights to receive cash or other financial assets from other entities, contractual rights to exchange financial instruments with other entities under potentially favourable terms or exchange them for the shares of another entity.

Financial assets are initially measured at fair value including any transaction costs.

Regular way purchases and sales of financial instruments are accounted for at the settlement date. Depending on their type, financial assets and liabilities are subsequently measured at fair value, cost or amortised cost.

Under the amortised cost method, the financial instrument is recognised in the balance sheet at its initial cost discounted with the effective interest rate less any principal payments and possible impairments caused by a loss in value or doubtful collection.

The Group classifies its financial assets in the following measurement categories:
1. Financial assets at amortised cost (AC)
2. Financial assets at fair value through profit or loss (FVTPL)
3. Financial assets at fair value through other comprehensive income (FVOCI).

The classification of financial assets depends on whether they are debt instruments, equity instruments or derivatives.

As at 31.12.2019, the Group did not have any financial assets classified in the category of financial assets at fair value through comprehensive income.

Management determines the classification of financial assets at initial recognition. Financial instruments are classified on the basis of a business model for managing financial assets and the features of the contractual cash flows of financial assets.

(EUR thousand)

Financial assets of the Group	Note	31.12.2019	31.12.2018
Financial assets at amortised cost		**137,720**	**195,464**
Receivables from Central Bank	5	53,786	80,392
Receivables from credit institutions	6	31,289	60,116
Receivables from customers and other receivables (incl. lease receivables)	7	52,502	54,612
Other receivables (cash in transit, other notes receivable)	8	143	344
Financial assets at fair value through profit or loss		**497**	**515**
Receivables from customers and other receivables	7	460	478
Equity instruments (securities)	8	37	37
Total financial assets		**138,217**	**195,979**

Individually significant financial assets are assessed separately for impairment.
If there is any evidence that a financial asset is impaired, an impairment loss is determined as follows:
- financial assets carried at cost are written down to the net present value of their estimated future cash inflows (discounted at the average market rate of return for similar financial assets);
- financial assets carried at amortised cost are written down to their net present value of the estimated future cash inflows (discounted at the financial asset's fixed effective interest rate determined at recognition).

Impairment of a financial asset is recognised as an expense in the income statement for the financial year. The impairment losses of financial assets carried at cost (shares and other equity investments, the fair value of which cannot be reliably measured), except for investments into subsidiaries, are not reversed.

If the value of financial assets carried at amortised cost increases in subsequent periods, the previously recognised impairment loss is reversed up to the amount which is the lower of the following:

- net present value of expected future cash inflows from the financial asset;
- carrying amount measured at amortised cost, had the impairment loss not been previously recognised.

The amount of the reversal of impairment losses is recognised in the income statement for the financial year in the same expense account as a reverse entry.

<u>Financial assets at amortised cost</u>

Cash and receivables from credit institutions

Under IFRS 9, the deposits held in other banks are considered to be debt instruments. Proceeding from the assessment of the business model and SPPI test, these financial assets are recognised at amortised cost, which is the balance of the receivable as at the reporting date.

Loans and receivables to customers

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market or that have not been purchased to trading purposes.

Loans are classified into financial assets measured at amortised cost and the expected credit loss (ECL) model of IFRS 9 is applied to them under the assumptions that the following criterias are met:

• they are held under a business model whose goal is attained through collection of contractual cash flows (business model for holding until collection);
• their contractual cash flows constitute solely payments of principal and interest (SPPI) on any unpaid principal amounts;
• the Group does not designate them as at fair value through profit or loss at initial recognition.

Loans and receivables carried in the financial statements at amortised cost are recognised under the effective interest rate method.

Valuation of loans and receivables

The impairment requirements are based on the expected credit loss (ECL) model. The main principle of the ECL model is to indicate patterns of deterioration or improvement of the credit quality of financial instruments.

The ECLs of financial assets at amortised cost and leasing receivables are recognised as impairment losses, i.e. recognised together with these assets in the statement of financial position. The impairment loss reduces the gross carrying amount in the balance sheet. The ECLs from off-balance sheet positions are recognised as a provision, i.e. as a liability in the statement of financial position. The impairment and provision adjustments related to the change in ECLs are recognised in the income statement as a net change in the expected credit loss. The amount of the loss allowance for the period is recognised in the income statement under “Impairment losses on receivables”.

According to IFRS 9, financial assets are divided into three stages according to the change in the credit quality of financial assets:

Stage 1 - Performing financial assets whose credit quality has not significantly deteriorated as compared to their initial recognition:

• On initial recognition, any losses expected to arise from the asset in the next 12 months are recognised;
• Evaluation on collective basis; based on past experience and future forecasts.

Stage 2 - Underperforming financial assets whose credit quality has significantly deteriorated:

• Recognises the loss that is expected to occur during the entire remaining life of the asset,
• Individual or collective assessment.

Stage 3 - Non-performing financial assets, assets with a credit loss:

• Recognises the loss that is expected to occur during the entire remaining life of the asset,
• Individual assessment of each asset.

At each balance sheet date, the Group assesses whether the credit risk has increased significantly compared to the initial recognition (SICR). The assessment of the significant increase in credit risk is based on quantitative and qualitative indicators. These indicators include a default of more than 30 and up to 90 days and financial assets that have been classified under increased supervision. A significant increase in credit risk is reflected in the change of the lifetime probability of default (PD) by comparing the scenario-weighted lifetime change of PD at the balance sheet date with the scenario-weighted lifetime change of PD at initial recognition. If there has been a significant increase in credit risk as compared to initial recognition, the impairment of lifetime ECLs is recognised and the financial asset is moved to Stage 2.

The loss allowance of financial assets in Stage 1 is the expected 12-month credit loss. Under IFRS 9, the classification of a financial asset from Stage 1 to Stage 2 significantly impacts the loss allowance. For financial assets with significant credit deterioration (Stages 2 and 3), the expected credit loss is calculated for the entire life of the asset.

Insolvency or default is a situation where the receivable meets one or more of the following criteria:

- The receivable has been overdue for more than 90 days;
- Forborne exposures;
- Contract has been terminated or expired;
- Bankruptcy proceedings have been initiated against the counterparty to the contract;
- In case of inter-bank receivables – if no intraday payments were made at the end of the banking day in accordance with the agreement;
- Other qualitative factors that are considered relevant.

Loans to and receivables from banks

The Bank takes into account the international credit rating of banks (Standard & Poor's) when placing deposits. In the expected credit loss estimation model, the PD rate is based on the respective rating. Deposits with credit institutions are divided into stages according to the bank's rating. If, at the time of the subsequent assessment of the credit loss, the last published rating of the respective bank has deteriorated, the deposit will be reclassified into that stage. If during the period between subsequent credit assessments, circumstances occur that may affect the financial position of the respective bank, the stage of the deposit placed in that bank may be lowered regardless of the last published rating. If, by the date of the subsequent credit loss assessment, the rating of the bank in which the respective deposit is placed has improved, the deposit in Stage 2 will be returned to Stage 1 according to the changed rating. If the deposit is in Stage 3, it will not be returned to Stage 2, regardless of the rating. If the bank in which the deposit is placed does not have an international rating, the financial position of such a bank will be assessed separately using the latest published financial information at the time of valuation and the deposit will be classified in accordance with the results of that assessment.

The expected credit loss assessment reserve for deposits placed with internationally rated banks (both for groups and individual deposits) is calculated according to the following formula:

ECL = PD * LGD * EAD where

ECL (Expected Credit Loss) – the expected credit loss.
PD (Probability of Default) – the probability of the occurrence of credit risk, i.e. the default that in case of Stage 1 deposits is express as the probability of a loss in the next 12 months (12M EAD) and in case of Stage 2 and 3 deposits – the probability of a loss until the term expiry (lifetime EAD, including if the deposit term exceeds 12 months).
LGD (Loss Given Default) – the share of a potential credit loss from the deposit balance (%) in case of the occurrence of the credit risk. For unsecured claims, LGD is assumed to be 100%.
EAD – deposit amount plus accrued interest.

The management estimates that the items **"Cash"** and **"receivables from the Central Bank"** hava essentially low credit risk and its expected credit loss (ECL) is equal to zero.

The data are regularly reviewed and updated according to the Standard & Poor's and Fitch's report.

Receivables from customers
Loans to customers are divided into three stages according to the credit quality of the financial assets:

Stage 1
Stage 1 consists of loans performing according to the contract:
• Loans from the time of initial recognition
• Loans with low credit risk (credit class not below 2.49)*
• Risk has not significantly increased - loans without any significant signs of credit deterioration (loans not overdue or overdue up to 30 days).
Expected loss is calculated by asset set.
** The credit class of the loan is calculated in accordance with the formulas and principles provided in Note 4 "Risk Management. 4.1. Credit risk".*

Stage 2
Stage 2 consists of underperforming loans:
• Credit risk has significantly increased since initial recognition (decrease in credit class of at least 1.5 points)
• Loan repayment disorders with a duration of over 30 days and up to 90 days
• Bullet loans with maturities of over 1 year.

If the receivable (or group of receivables) from the customer is in Stage 2 (but other receivables are in Stage 1) and the amount of the receivable(s) exceeds 20% of all receivables of the given customer, then all the remaining receivables of the given customer are automatically in Stage 2.

The expected loss is calculated by the sets of similar assets or individually for each asset

Stage 3

Stage 3 consists of non-performing loans:

- Contracts terminated by the Bank and 14 calendar days passed,
- Contract has been expired and 14 calendar days passed,
- Loans overdue for more than 90 days,
- Forborne exposures*,
- Other receivables (not a loan, leasing, factoring or other credit receivable).

If the receivable (or group of receivables) from the customer is in Stage 3 (but other receivables are in other stages) and the amount of the receivable(s) exceeds 20% of all receivables of the given customer, then all the remaining receivables of the given customer are automatically in Stage 3.

Asset impairment is calculated individually for each asset. If the individual impairment loss calculated in accordance with the loan provisioning procedure equals zero (it equals the LCG value of 0%) or less that then provision in Stage 2, the amount of a provision in Stage 2 will be maintained during the transfer from Stage 2 to Stage 3 that is necessary for a minimum individual impairment in Stage 3.

*As at 31.12.2018, forborne exposures have been classified under Stage 2. The management has analysed the trends of the respective population and decided to change the estimate (classification of loans into Stages 1, 2 or 3), More detailed information is disclosed in Note 3 "*Significant accounting decisions and estimates*".

A loan that is in Stage 3 may be upgraded to Stage 1 or 2 only if it meets the exit criteria of a non-performing loan or a forborne exposure, including a qualifying period has passed in accordance with Annex V to Commission Implementing Regulation (EU) No 680/2014. The loan is moved from Stage 2 into Stage 1 automatically without a trial period if it meets the Stage 1 criteria again.

The loan portfolio is divided into the following groups:
1. Individuals and legal entities;
2. By product
    - Loans and leasing
    - Credit cards
    - Factoring
    - Express leasing.

Since the loan portfolio of the bank and leasing mostly have similar criteria and the volume of receivables is rather small, the division of the portfolio into other subcategories is not practical.

Formula for calculating impairment of loans and receivables:

ECL = PIT PD * LGD * EAD, where

ECL (Expected Credit Loss) – the expected credit loss.

PD (Probability of Default) - the likelihood of credit risk realisation. According to the Bank's methodology, this is the level of regulatory PD or cycle average **TTC PD** (through the cycle). **PIT PD** (point-in-time) is calculated by multiplying TTC PD by the macro coefficient.

12-month PD – the probability of the occurrence of credit risk, which reflects the probability of loss within the next 12 months.
Lifetime PD – the probability of the occurrence of credit risk, which reflects the possibility of a loss of a given asset throughout its lifetime.

Credit liabilities PD is determined on the basis of the Bank's management estimate based on the PD rates published by Standard & Poor's (S&P), the Bank's historical statistics and they are combined with the customer's credit rating.

Regulatory 12-month TTC PD is determined on the basis of PDs published by S&P and is calibrated according to the Bank's historical behaviour.

Regulatory Lifetime TTC PD is determined on the basis of the weighted average remaining time to maturity of product contracts. Lifetime PDs are calculated separately for groups of corporate receivables, express leasing receivables and receivables of private customers. (Note 3 "Significant accounting decisions and estimates").

LGD (Loss Given Default) – the share of the potential credit loss in the loan balance (%) in case of the occurrence of credit risk. In Stage 1, the LGD is determined on the basis of the collateral rating, except for receivables in excess of EUR 1 million, in which case the LGD is calculated for each loan receivable individually. The assignment of the LGD is based on the percentage of the collateral rating, as evidenced by the analysis of the Bank's historical statistics. In State 2, the LGD is also determined on the basis of the collateral rating, except for receivables in excess of EUR 100,000 and express leases in which case LGD is calculated individually for each loan receivable.

EAD – for balance sheet positions is the loan or lease balance, overdraft, used portions of credit cards or factoring limits.

EAD – for off-balance sheet items is the unused portion of overdraft, credit card or factoring limits and other off-balance sheet items (e.g. signed loan agreements that have not yet been paid) and adjusted for the likelihood of realisation of off-balance sheet liabilities.

EAD for off-balance sheet items is calculated as follows:

EAD = CCF x (Limit – on-balance exposure),

where **CCF** (Credit Conversion Factor) is a credit conversion factor that indicates the probability of using a portion of an unused limit.

Rates of credit conversion factors are based on regulatory norms and historical data for different types of off-balance sheet liabilities.

The calculated PD, LGD and CCF rates and average maturities are subject to regular reviews and updating, and thereafter they are approved by the Risk and Capital Management Committee.

For the first and second stages, ECLs are calculated for each customer group. Within each set, ECLs are calculated separately for each loan, after which the resulting amounts are summed up. This is not reflected on the customer card as an individual impairment. The individual impairment is calculated according to the Group's rules of procedure. In the methodology for calculating the expected loss, these rules were further specified for the calculation of the Stage 3 impairment.

Individual impairment of the value of loans and customer receivables is assessed in accordance with Note 4 “Risk Management. Credit risk”.

Calculation of the current value of estimated cash flows of collateralised financial assets less the costs related to the redemption indicate the cash flows that can be generated in the realisation of such assets, regardless of whether the redemption of the collateral is likely or not.

Derecognition of receivables

As a rule, loans are derecognised when all reasonable options for loan restructuring or repayment have been exhausted and a subsequent recovery is assessed as unlikely. Loans are derecognised in the income statement under “Impairment losses on receivables”. In the event that the circumstances used as the basis for the valuation of receivables change and it can be objectively linked to an event occurring after the impairment of the asset, the previously recognised impairment loss is reversed by reducing the allowance account.

Using forward-looking information, scenarios, and estimates to recognise impairment losses

The purpose of the valuation methodology is to map factors that influence the local economy and business environment, and to consider their impact on the ECLs of the credit portfolio. Macro indicators must be related to the credit risk factors of the exposure group and best reflect the dynamics of the Bank’s impairments.

The following indicators were taken into account in the sample of macro indicators in 2018: GDP change, change in export volume, change in the share of four major export partners, change in the industrial output volume index, change in the consumer price index, change in the long-term financing rate of non-financial corporations.

In 2019, the selection of macro indicators was revised. Macro indicators were selected using statistical and correlation analysis of defaults and impairments and the Estonian banking market benchmark analysis. Economic forecasts prepared by the Ministry of Finance are applied to obtain projected macro indicators.

The performed analysis showed strong correlation between impairments and changes in the GDP. The use of other indicators was not justified in 2019. Historical analysis of the impairment of the retail portfolio showed that the Bank’s portfolio had no correlation between impairments and the unemployment rate and consequently, it is not appropriate to distinguish between private persons. In the end, a common indicator of the GDP change was selected from macro indicators to the groups of entire portfolios. (Note 3 “Significant management decisions and estimates“).

The Group's portfolio is homogenously linked to the selected macroeconomic indicator. The management has considered taking into account different sector-specific impacts and, as a result of the specific features of the portfolio, has estimated that forecasting such a detail would not have a significant impact on the final result of the ECL. The portfolio does not include products related to economic sectors where the selected macroeconomic indicator would have a reverse or disproportionate impact on the financial capacity of the customers, or would significantly be impacted by other macroeconomic factors that are not used as inputs in the Group’s model. The relevance of macro indicators is also subject to regular reviews.

The projected macro indicator is weighted by three scenarios: base, positive, and negative. The projected figures for the GDP changes corresponding to the scenarios and the weights of the scenarios (probabilities) are found in a statistical analysis and revised by the Risk and Capital

Management Committee that also confirms these figures. This is a significant management judgement (Note 3 "Significant management decisions and estimates").

Scenario-weighted projections of the GDP change provide a further input for the calculation of the final macro factor for the calculation of the cycle average PD and for the adjustment of the portfolio ECL. Changes in the macro coefficient resulting from the GDP change have also been linked to the maximum fixed GDP change during the economic crisis. On the impact of the macro factor, cycle average PDs change both upwards and downwards, depending on whether the economy is contracting or growing.

Repossessed assets

Repossessed assets are assets that have been repossessed after the termination of loan and lease transactions. Assets held as collateral are measured in the balance sheet at the lower of cost and net realisable value of the assets. Assets repossessed from customers are inspected and they are assigned market value by taking into consideration the technical condition of assets. The difference between the residual value receivable from the customer as per the contract and the net realisable value of the repossessed assets is recognised in item "Impairment losses on receivables" in the income statement. The gain or loss from the disposal of assets repossessed from customers is recognised as a gain or loss in item "Gain on sale of assets" in the income statement and it constitutes the difference between the carrying amount of the assets being the subject of the contract and the asset sale price.

Financial assets at fair value through profit or loss

The assets that do not meet the criteria of cost or at fair value through comprehensive income, are recognised at fair value through profit of loss. A gain or loss on debt instruments through profit or loss is recognised in the income statement line "Net profit/-loss on financial assets and liabilities recognised at fair value through profit or loss" of the period in which the change in fair value occurred. Such gains and losses on fair value include also contractual interest earned on the respective instruments.

As at 31 December 2018 and 31 December 2019, the following financial assets of the Company were classified in this category (see page 25 "Classification and measurement of financial instruments"):

1. Other receivables (Note 7)
2. Equity instruments (Note 8)

Upon classification, the business model valuations for management of financial assets and valuations of cash flows of financial assets have been taken into account to determine whether they are in compliance with the SPPI requirements.

Gold

Gold is recognised as an asset in the balance sheet according to IAS 2. Gold is initially recognised in the balance sheet at cost and subsequently measured at fair value (Level 1) at each balance sheet date according to the afternoon price quotation at the London bullion market (The London Bullion Market Association). The fair value adjustments are included in the accounts "Other operating income" and "Other operating expenses".

Investment property

Land or buildings acquired for the purpose of earning rental income or for capital appreciation, and that are not used in the Group's own operations or for sale in the ordinary course of business, are reported as investment property.

Investment properties are initially recognised at cost, consisting of the purchase price and any directly attributable expenditure. Investment properties are subsequently measured at fair value, based on the management's estimates arising from the market price determined annually by independent appraisers, which take into account comparable transactions with real estate properties in the same region or the expected discounted future cash flows of the investment (see Note 10). Investment property carried at fair value is not subject to depreciation. Lease income from investment properties and administrative expenses are carried in the respective accounts „Other operating income" and „Other operating expense". The gains and losses from revaluation of investment properties are reported in the income statement item "Revaluation of investment property".

Financial liabilities

Financial liabilities include customer deposits, a loan assumed from another bank, subordinated liabilities and other liabilities. The Group classifies all financial liabilities in the category of "Financial liabilities at amortised cost".

Payables to customers

Deposits are initially recognised at fair value at the settlement date, less transaction costs, and they are subsequently measured at amortised cost using the effective interest rate method and are included in the line "Payables to customers". Interest calculated on an accrual basis is reported in the respective liability item. The associated interest costs are included in the income statement line "Interest expense".

Payables to credit institutions, resources intended for specific purposes and subordinated debt

Borrowings are initially recognised at fair value less transaction costs (at cash proceeds less transaction costs). The loans assumed are subsequently measured at amortised cost using the effective interest rate method; the difference between the amounts collected (less transaction costs) and the redemption value is recognised in the income statement over the duration of the instrument, using the effective interest rate. The effective interest rate is the rate which exactly discounts the expected future cash flows to the carrying amount at the maturity. The related interest expenses are included in the income statement line "Interest expense". Funds received as resources intended for specific purposes from governmental loan funds (Maaelu Edendamise SA, KredEx SA) are included in the liabilities item "Other payables". Subordinated debt is included in the liability item "Subordinated debt" in the balance sheet (liabilities with original maturities of at least five years and in the event of bankruptcy of the bank, such liabilities will be settled after payables to all other creditors have been settled).

Accounting for leases

Group as a lessor

Finance leases

Group leasing activities mainly consist of finance lease activities. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. The Group shall recognise assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease. The lease payments included in the measurement of the net investment in the lease comprise the following payments for the right to use the underlying asset during the lease term that are not

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received at the commencement date:

a) fixed payments (including in-substance fixed payments), less any lease incentives payable;
b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
c) any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee;
d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The Group shall recognise finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.

Accounting for leases by the Group as a lessor prior to 1 January 2019

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

<u>Group as a lessee</u>

Accounting for leases by the Group as a lessee from 1 January 2019

The Group rents mainly buildings and office facilities. From 1 January 2019, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 „Leases" and Group recognized leases as a right-ofuse 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 profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:
a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;
b) variable lease payment that are based on an index or a rate;
c) amounts expected to be payable by the lessee under residual value guarantees;
d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

After the commencement date, the Bank measured the lease liability by:
(a) increasing the carrying amount to reflect interest on the lease liability;

(b) reducing the carrying amount to reflect the lease payments made; and
(c) remeasuring the carrying amount to reflect any reassessment or lease modifications (like changes in lease term, in the assessment of an option to purchase the underlying asset, in the amounts expected to be payable under a residual value guarantee, in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review and in floating interest rates, or to reflect revised in-substance fixed lease payments (payments are structured as variable lease payments, but there is no genuine variability in those payments and those payments contain variable clauses that do not have real economic substance).

At the commencement date, the right-of-use asset is measured at cost. The cost of the right-of-use asset comprises:
(a) the amount of the initial measurement of the lease liability at the present value of the lease payments that are not paid at that date;
(b) any lease payments made at or before the commencement date, less any lease incentives received;
(c) any initial direct costs incurred by the lessee; and
(d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

After the commencement date, the right-of-use asset is measured at cost:
(a) less any accumulated depreciation and any accumulated impairment losses; and
(b) adjusted for any remeasurement of the lease liability carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

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. In determining the lease term, management of the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture below 5 thousand EUR.

Accounting for leases by the Group as a lessor prior to 1 January 2019

Operating leases
Lease payments are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the Group's use of the asset.

Property, plant and equipment
In the statement of financial position, items of property, plant and equipment include buildings, vehicles, office equipment, improvements to rental premises and other assets with long-term use. Property, plant and equipment include assets with a useful life over 1 year.

An item of property, plant and equipment is initially recognised at cost which consists of the purchase price (incl. import duties and other non-refundable taxes) and other costs directly attributable the acquisition that are necessary for bringing the asset to its operating condition and location. Subsequent expenditure is capitalised only when it meets the definition of property, plant and equipment and the criteria for recognition of assets in the statement of financial position (incl. when it is probable that future economic benefits associated with the asset will flow to the Group). Other maintenance and repair costs are expensed when incurred.

Items of property, plant and equipment are stated at historical cost less any accumulated depreciation and any impairment losses.

Depreciation is calculated using the straight-line method based on the estimated useful lives of property, plant and equipment as follows:

Buildings	50 years
Vehicles	6 years
Office equipment	3-10 years
Improvement of leased premises	depending on term of the lease agreement

Gains and losses on disposal of items of property, plant and equipment are recognised at the time of disposal.

Intangible assets
Intangible assets comprise of:
- start-up costs,
- software,
- development costs,
- purchased concessions, patents, licenses, trademarks, etc. goodwill.

Start-up expenses are capitalized expenses related to the establishment of an entity, including legal expertise and auditor fees, state fees, etc. expenses directly related to the establishment. Depreciated for up to 5 years.

Development costs are capitalized only when the necessary resources are available to carry out the development project and it is probable that the costs will result in revenue. Depreciated over 5 years, exceptionally according to the useful life.

Acquisitions of purchased concessions, franchises, patents, licenses and trademarks are generally amortized over a period of up to 5 years. In exceptional cases, the amortization period may be up to 20 years, but may not exceed the legal duration of the acquired right.

Goodwill is the excess of the cost of an acquisition over the fair value of the net assets acquired. Goodwill is amortized over up to 5 years.

Intangible assets are initially recognized at cost and amortized on a straight-line basis.

Impairment of assets
On each balance sheet date, financial assets, items of property, plant and equipment, and intangible assets recorded at cost or amortised cost are tested for any indication of impairment. If the Bank's management suspects that the value of an asset may have fallen below its carrying amount, an impairment test is carried out.

Property, plant and equipment
In the course of an impairment test, a recoverable amount is estimated for property, plant and equipment. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the smallest group of assets (i.e. a cash-generating unit) to which the asset belongs, is determined.

Intangible assets
Assets that have indefinite useful lives (including goodwill) are not subject to amortization but they are tested annually for impairment, by comparing their carrying amounts with their recoverable amounts.

The recoverable amount is the higher of the asset's fair value less costs to sell or its value in use. The value in use is the present value of estimated cash flows from its subsequent disposal, where the expected return on similar investments is used as the discount rate.

If the recoverable amount of an asset is lower than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The impairment loss is recognised in the income statement at the time it is incurred. The Group assesses at each balance sheet date whether there are any indications that the recoverable amount of an asset has increased and for this purpose, an impairment test is performed. If it appears, as a result of the impairment test, that the recoverable amount has increased and the previously recognised impairment loss is no longer justified, the carrying amount is increased. The reversal should not result in a carrying amount that exceeds the amortised cost which would have been had the impairment loss not been recognised on the date the impairment loss is reversed.

The amount of the reversal of an impairment loss is recognised as a reduction of the expense in the income statement.

Income tax

Corporate income tax
Starting from 1 April 2018, the quarterly accounting profits of credit institutions are subject to corporate income tax at the rate of 14%. The tax is payable by the 10th day of the third month of the following quarter. Once the profits are distributed, an additional income tax of up to 6% is further payable, which adds up to the total tax rate of up to 20%. The rate of the additional tax depends on the regularity of the dividend payments. If no dividends are paid, the advance tax payments are not refunded. Corporate income tax payable on the quarterly profits is recognised as a current income tax expense. Deferred tax asset (and deferred tax income) on quarterly losses is recognised only if it is probable that future taxable profits will be available during 19 subsequent quarters to utilise those losses.

As at 31 December 2019, the Bank's balance sheet included deferred income tax assets on tax losses in the amount EUR 215 thousand.

As at 31.12.2019, a contingent income tax liability is not recognised for the Group's available equity, which would accompany the payment of dividends out of available equity or capital reduction. The income tax on dividend distribution is expensed in the income statement when dividends are declared or other equity distributions are made.

The tax due on dividend distribution may be reduced by 20/80 calculated on dividends received from subsidiaries.

From 2019, tax rate of 14/86 can be applied to dividend payments. The reduced tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80.

When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account.

Financial and other guarantees

Financial guarantees are contracts that require the issuer to make required payments to reimburse the holder for a loss it incurs because a particular debtor fails to make payments by the due date in accordance with the terms of a debt instrument. Financial guarantees are initially recognised in the financial statements at fair value on the date of granting a guarantee. Subsequent to initial recognition, the liabilities under such guarantees are recognised at the outstanding value of the guarantee stated at the higher of unamortised fees or a provision under IAS 37, based on experience with similar transactions and judgement of the management. In the statement of comprehensive income, the fee income earned on a guarantee is recognised on a straight-line basis over the life of the guarantee. The amounts to be disbursed to settle the guarantee obligation are recognised in the balance sheet as a provision on the date when it becomes probable that the guarantee will be disbursed.

Operating guarantees are contracts that offer compensation in case the other party is unable to fulfil its contractual obligations. In addition to credit risk, such contracts also carry non-financial operational risk. Operating guarantees are initially recognised at fair value which normally equals the commission fees received. The amount of fees is amortised on the straight-line basis over the contract term. At the end of each reporting period, operating guarantees are assessed to the extent of the unamortised balance of the fees initially recognised. If the Group has a contractual right to demand payment of amounts due under the guarantee contract, such amounts are recognised at the time of reimbursement of monetary losses to the holder as loan receivables.

Provisions and contingent liabilities

Liabilities arising from an obligating event before the balance sheet date that have either a legal or contractual basis or that have arisen from the Company's current operating practice (legal or constructive obligation) that require the giving up of assets, whose realisation is probable (it is more likely than not that an outflow of resources will be required to settle the obligation) and whose amount can reliably be estimated but whose timing or amount are not definitely known are recognised as provisions in the balance sheet. The provisions are recognised based on the management's estimates regarding the amount and timing of the expected outflows. A provision is recognised in the balance sheet in the amount which according to the management is necessary as at the balance sheet date for the meeting of the obligation arising from the provision or transfer to the third party. The provision expense and the expense from a change in the carrying amount of provisions is included within expenses in the accounting period. Provisions are not set up to cover future losses. ECLs on off-balance sheet items are recognised as a provision, i.e. as a liability in the statement of financial position.

When it is a probable that the provision is expected to be realised later than 12 months after the balance sheet date it is recorded at discounted value (present value of expected outflows), unless the discounting effect is immaterial.

Other contingent liabilities whose realisation is less probable than non-realisation or whose accompanying costs cannot be determined reliably, that in certain circumstances may become obligations, are disclosed in the notes to the financial statements as contingent liabilities. Where an entity is jointly or severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in extremely rare circumstances where no reliable estimate can be made) (see Note 13).

Employee benefits

The Group does not operate separate pension schemes and does not provide post-retirement benefits to their retirees. The Group has a legal obligation to pay contributions to the state pension fund, which form part to the expense related to the social security tax.

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to enable voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Recognition of revenue and expenses

Revenue is recognised under the accrual basis. Revenue is recognised when there is a reasonable assumption that the benefits attributable to the transaction will flow to the Group and the amount of revenue can be determined reliably. Revenue from services provided in the Group's ordinary course of business is recognised at the fair value of the consideration received or receivable. Expenses are recognised when the Group is an obligation related to the respective cost and/or the Group has received goods or services, and the latter has occurred earlier.

In the statement of comprehensive income, **interest income and expenses** are recognised for all instruments reported at amortised cost, using the effective interest rate method.

The effective interest rate method is the method for calculating the amortised cost of a financial asset or a financial liability, and for allocating interest income or interest expense to the respective period. The effective interest rate is a rate which exactly discounts the expected future cash flows through the expected life of a financial instrument to the carrying amount of a financial asset or a

liability. For calculating the effective interest rate, the Company evaluates all contractual conditions of a financial instrument but does not take into account future credit losses. All significant contractual service fees paid or received are included in the calculation, which are an integral part of the effective interest rate, as well as transaction costs and all other additional payments or deductions.
Finance income from leases (“Other similar income”, see Note 17) is allocated over the lease period so that the rate of return of the lessor is the same in relation to the balance of the net investment of the finance lease at any given time.

Fee and commission income includes the revenue received or receivable for services provided in the Group’s ordinary course of business. This does not apply to revenue from lease agreements and financial instruments or other contractual obligations within the scope of IFRS 9 “Financial Instruments”.

Fees that are included in the calculation of the effective interest rate of financial instruments measured at amortised cost are allocated over the expected tenor of the instrument applying the effective interest method and presented in net interest income.

Fee and commission income is recognised on a straight-line basis over the period of provision of the entire service when the customer simultaneously receives and consumes the advantages arising from the Group’s activities. Variable fees are recognised to the extent that is probable that no reversal occurs.

Other commission and fee income is recognised at the time when the Group complies with its performance obligation which normally occurs upon completion of the underlying transaction. The consideration received or receivable is the transaction price for specific services related to fulfilment obligation. The principal types of services are described below (see also Notes 19, 21):
- Transfers: recognised at a specific point in time
- Account maintenance fee: recognised during the period when the service is provided (over time)
- Bank cards: contractual and maintenance fees are recognised during the period when the service is provided (over time), other - recognised at a specific point in time
- Revenue from foreign currency transactions: recognised at a specific point in time.

The expenses that are directly related to the generation of commission and fee income, are recognised as commission and fee expenses.

Service charges and other expenses are charged to expenses at the time they are incurred.

Net gains/losses from currency exchange transactions are reported in the line item “Net gains/ losses from financial transactions” at the fair value of the consideration received or receivable, they occur as exchange rate differences involving exchange transactions of the functional currency and other currencies.

Statutory reserve capital
The statutory reserve comprises the capital reserve prescribed by the Estonian Commercial Code. Subject to the decision by the Annual Meeting of Shareholders, the statutory reserve can be used for covering losses if the latter cannot be covered from unregistered equity as well as for increasing equity. The statutory reserve capital is formed from annual net profit allocations and it cannot be distributed to shareholders.

New International Financial Reporting Standards and interpretations of the International Financial Interpretation Committee (IFRIC)

Adoption of new or amended standards and interpretations

The following new or amended standards and interpretations became mandatory for the Group from 1 January 2019:

IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019)
The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as was required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees are required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) using depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases and account for those two types of leases differently.

The Group has elected to use the recognition exemptions for lease contracts that, at the commencement date, has a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Adjustments recognised on adoption of IFRS 16

The Group decided that it will apply the standard using the modified retrospective method and has not restated comparatives for the 2018 reporting period. The Group recognized a right of use asset and lease liabilitiy in amount of EUR 281 thousand, increasing its balance.

The lease liabilities as at 1 January 2019 are reconciled to the operating lease commitments as at 31 December 2018 as follows:

(EUR thousand)

Operating lease commitments disclosed as at 31 December 2018	**313**
Weighted average incremental borrowing rate as at 1 January 2019	2.26%
Discounted operating lease commitments as at 1 January 2019	**287**
Deductions	**-6**
Commitments relating short-term leases	-6
Total lease liability recognized as at 1 January 2019	**281**
Of which are:	
Current lease liabilities	32
Non-current lease liabilities	249
Total	**281**

The recognised right-of-use assets relate to the following types of assets:

(EUR thousand)

	31 December 2018	1 January 2019	31 December 2019
Properties	-	281	293
Total right-of-use assets	**-**	**281**	**293**

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding initial direct costs from the measurement of the right-of-use asset; and
- using hindsight, eg in determining the lease term where the contract includes extension or termination options

Additional information on the right-of-use assets is presented in *Note 9 „Property, plant and equipment“* and information about rent liabilities in *Note 13 „Other liabilities and accrued expenses“.* Accounting policy is disclosed in the *Note 2 „ Summary of significant Accounting policies“.*

The other new or amended standards or interpretations which became effective for the first time for the financial year beginning at or after 1 January 2019 are not expected to have a material impact on the Group.

New accounting pronouncements

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

Amendments to the conceptual framework for financial reporting (effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Group is assessing the impact of the amendments on its financial statements.

Amendments to IAS 1 and IAS 8 „Definition of materiality“ (effective for annual periods beginning on or after 1 January 2020).
The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group is assessing the impact of the amendments on its financial statements.

The other new or amended standards or interpretations which are not yet effective are not expected to have a material impact on the Group.

Note 3. Significant accounting decisions and estimates

Preparation of consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union requires management to make estimates and assumptions that affect the assets and liabilities as well as related income and expenses reported as at the date of the annual report, as well as disclosure of contingent assets and liabilities. Although several financial figures reported in the financial statements are based on the management's best knowledge and estimates, actual results may differ from these estimates. A more detailed overview of estimates in shown in the respective accounting policies or notes.

These estimates are constantly reviewed using historical experience and other factors, including future expectations considered reasonable under current circumstance as the basis. Changes in these estimates may have a significant effect on the financial statements of the period in which the estimates were changed. The management believes that the underlying assumptions are appropriate and the Group's annual reports prepared on the basis thereof present an accurate and fair overview of the Group's financial position and results of operations.

Significant estimates have been primarily used in the following areas:

- Impairment of loans and receivables, incl. estimation of fair value of collateral (Notes 2,3, 4, 7)
- Fair value of investment property (Notes 4, 10)
- Fair value of financial assets and liabilities (Notes 4, 8, 13)

Impairment losses of loans and receivables

The key areas that require significant management estimates for calculation of expected credit losses (ECL) include:

- Evaluating the criteria for assessment of significant increase in credit risk and allocation of loans to stage 1, 2 or 3
- assessing accounting interpretations and simplified assumptions used to build the methods that calculate ECL. Main simplified assumptions were made in the next areas:
    - determination of common (weighted) lifetime PD coefficients for different groups of receivables taking into account the different lifetime of the products in the groups. Lifetime PDs are calculated separately for the groups of receivables related to legal persons, express leasing and private persons;
    - using of scenarios while predicting ECL;
- the calculation of key parameters of ECL model, including probability of default (PD), loss given default (LGD) and exposure at default (EAD);
- determining the macro-economic indicators and incorporating forward-looking information into the ECL model; including estimating the above mentioned indicators for reliable future period and assigning weighted impact to those scenarios;
- estimating ECL for Stage 3 individual assessments.

In several aspects, the model for calculation and assessment of expected credit losses (ECL) requires use of management estimates (see above, and references in Notes). The models, estimates and inputs are regularly reviewed by the employees appointed by the Group and approved by the management. The sensitivity analysis of the effect of key estimates is shown below.

Definition of default:

As a result of clarifying of the concept of default, forborne exposures got classified to Stage 3.

As at 31 December 2018, forborne exposures have been classified in Stage 2 but the management has analysed trends of the respective population and decided to change the estimate and to reclassify forborne exposures to Stage 3. The effect of the reclassification of such receivables under Stage 3 resulted in increase of allowance by 33.5% or EUR 43.5 thousand in this receivable group (additional allowance made 3.4% of the total loan allowance as at 31 December 2019).

SICR:
An important term in IFRS 9 is a significant increase of credit risk (SICR) and its assessment also requires significant estimates. At each balance sheet date, the Group assesses whether credit risk has significantly increased as compared to initial recognition, taking into consideration a change in the probability of default of the lifetime of the financial instrument, using criteria that are also used in the Group's risk management processes (credit risk management principles and criteria are shown in Note 2 "Summary of significant accounting policies" and Note 4 "Risk management. 4.1. Credit risk").

A significant increase of credit risk is expressed in the change of the lifetime probability of default (PD) by comparing at the balance sheet the change in the scenario-weighted lifetime PD against the scenario-weighted lifetime PD at initial recognition. According to the internal methodology it means reducing the credit class of the receivable by at least 1.5 points.

The Group has carried out sensitivity analysis with regard to the effect on the ECL (as at 31 December 2019), if upon applying SICR criteria, the credit class would decrease by 1) 1 point; 2) 2 points. As a result, the impairment loss would 1) increase by EUR 21 thousand; 2) decrease by EUR 1 thousand.

PD:
The basis for PD is the credit class assigned to the customer. The weighted average 12-month and lifetime PD rates are approved for risk classes of legal persons and individuals and they take into account different lifetimes of products in groups as estimated by the management.

The sensitivity analysis of the effect on the ECL upon changes in PD rates by +/-10% yielded changes in impairment losses in the same direction by EUR +15/-15 thousand, whereby the effect on the 12-month and lifetime ECL is EUR +/-4 thousand and EUR +/-11 thousand.

LGD:
The basis for LGD is the respective rating of the collateral.

If LGD rates were 10% higher/lower (relative changes), the ECLs would be EUR 14 thousand higher/ EUR 14 thousand lower, respectively.

Selection of macro-economic indicators:
In implementing IFRS 9, the management has determined that the following macroeconomic variables will be included in the ECL estimate: change in the GDP, change in export volumes, change in the weight of four major export partners, the TMI rate, the CPI rate, change in long-term financing rate of non-financial corporations. Estimates of these variables were included in the calculation of expected credit losses at 1 January 2018 and 31 December 2018.

In 2019, the selection of macro indicators was revised. Macro indicators were selected using statistical and correlation analysis of defaults and impairments and the Estonian banking market benchmark analysis. The analysis carried out showed strong correlation between impairments and changes in the GDP. The use of other indicators was not justified in 2019.

As a result of the implementation of the new macroeconomic variable, the allowance balance decreased by 173 thousand as at 31 December 2019.

The management estimates that the portfolio is homogeneously tied with the macro-economic indicators. The management has considered of various sector-specific effects but detailed forecasts would not have a significant impact on the ECL's end result, depending on the portfolio's specificity.

The macro-economic coefficient found as a result of weighing different scenarios is used to adjust the ECLs of a portfolio. The management estimates that the application of a joint coefficient to the entire portfolio is appropriate because due to the specificity, the probability of realisation of scenarios is greatly the same for various groups of receivables.

The sensitivity analysis applied to the change in the macroeconomic coefficient showed that if this coefficient was changed by +/-10%, the effect on the ECL would be EUR +51/-51 thousand, respectively.

Other estimates:

Management evaluated the direct impact of sanctions imposed against Russia when it deposited assets with other banks in 2019. As a result of that, as at 31 December 2019, exposures to all Russian banks are subject to 100% risk weighting (Note 6).

According to IAS 40, the fair value of investment property reported at fair value is assessed on each balance sheet date, to reflect the market conditions prevailing on the balance sheet date. The fair value of investment property is the amount for which it is possible to exchange assets between knowledgeable, willing parties in an arm's length transaction. A willing seller is not a forced seller, prepared to sell at any price.

The best indication of fair value is the price in an active market for similar properties in a similar location and condition (Notes 4, 10).

Note 4. Risk management

General principles of risk management
The activities of the Bank are exposed to risks and thus risk management is one of the core activities of AS TBB pank. The risk is the potential negative deviation of the credit institution's business from the expected financial result due to both internal and external events. The consistency of all types of risk and consideration of their profiles and the capital adequacy assessment based on them is ensured within the processes designed to manage them. The process as a whole enables the Group to assess the aggregate level of all risks within the Group and to determine the capital requirement, its efficient and cost-effective use, and to ensure compliance with minimum capital requirements.

Risk management using the strategies, policies, methods and other regulations approved by the Management and Supervisory Boards is an integral part of the management system of credit institutions, and is based on the requirements of Estonian legislation (incl. Credit Institutions Act), the Regulation (EU) No 575/2013 of the European Parliament and of the Council (CRR), directive (CRD IV), the Bank of Estonia, Financial Supervision Authority and other supervision authorities. The risk management process involved all activities in prevention, identification, measurement, analysis, hedging measures, risk control and follow-up of risks. These activities are part of regular reporting. The risk management process as a whole and its various parts are subject to regular reviews.

To account for the general risk appetite that AS TBB pank is willing to accept, the methods used in risk management enable to measure the actual level of risks in comparison with the allowed thresholds. The thresholds for various risks that have been specified for the units have additional subcategories, the purpose of which is to maintain an acceptable risk level within the framework of the established risk appetite and to ensure early identification of a risk situation and a reaction to it. The risk appetite and tolerance framework are reviewed once a year together with the planning of the business activities and setting of goals.
The types of risk include credit, market, liquidity and operational risk. Each type of risk additionally consists of separate measurable subgroups, depending on the size of the credit institution, its business strategy and scope of business.

Risk management is performed on three management levels:
- Supervisory Board of the Bank
- Management Board of the Bank
- Various risk committees, groups and accountable employees:
  - High Risk Customer Approval Committee
  - Credit Committee
  - Risk and Capital Management Committee
  - Business Continuity Process Management Committee
  - Internal Audit Department
  - Risk managers
  - Risk control manager

The risk management system is based on the principle of three lines of defence, as a result of which risk-taking, its management and internal audit are strictly separated.

1st line of defence – risk-taking. The goal of business units is attainment of the optimal balance between the rate of return and risk as well as specified business objectives, monitoring of risks assumed, participation in risk identification and assessment, compliance with standards and regulatory documents, including those on risk management, during the entire life of the transaction. Business units need to ensure that their operations are in compliance with the prevailing rules.

2nd line of defence – risk management independent of business activities. The risk management function foresees development of the principles, limits and restrictions of risk management standards, monitoring of risk levels, preparation of reports and verification of compliance of the actual risk level with the risk appetite. The tasks of the second line units also includes organisation of training sessions, consultations, modelling and aggregation of the overall risk profile and compliance control;

3rd line of business – audit / internal audit of the risk management system. The function of internal and external audit is evaluation of the compliance of the risk management system with internal and external requirements, informing the Supervisory and Management Boards of the deficiencies identified in the risk management system and overseeing the elimination of the deficiencies identified in the risk management system.

Risk testing

The risk management system includes conducting of stress tests which are necessary for evaluation of the level of risks and adoption of optimal decisions in the conditions of a changing economic situation (various stages of the economic cycle, foreign economic and policy factors, increase or decrease of interest rates, etc.). Key financial risks are regularly tested in accordance with the testing plan. Credit institution carries out unscheduled tests upon adoption of its strategic decisions or evaluation of major investment projects. Stress tests encompass the main types of risk: credit risk, market risk, liquidity risk, interest risk and risk of revaluation of investment property.

The scenario method is used for the purpose of testing. The risk level assesses implementation of established standards and compliance with the acceptable capitalisation level within the framework of Pillar 2 and Pillar 1.

Each scenario involves assessment of the effect of events from at least the following aspects:
a) current capital;
b) current liquidity;
c) own funds and minimum capital adequacy ratio;
d) profitability;
e) risk strategy limits;
f) risk appetite and risk tolerance rates.

4.1 Credit risk

Credit risk results from probable losses which may arise from non-performance of the obligations of customers arising from contracts under laws of obligations as well as the insufficient value of the collateral when its disposal does not cover the receivable. Credit concentration risk that which may arise in relation to a region, customer group or market sector is also taken into account.

Credit risk makes up the largest share of the total risk of the Group and it is related both to the credit products targeted at customers as well as the funds deposited in other banks.

By origin and allocation, credit risk can be divided into two groups:

1. Risk of customer loan portfolio, when the customer is unable or refuses to meet its contractual obligations.

2. Interbank credit risk caused by the likelihood that the correspondent bank does not meet its obligations.

Financial assets exposed to credit risk comprise receivables from customers and receivables from credit institutions as well as other receivables. The maximum position exposed to credit risk equals the carrying amount of these financial assets.

(EUR thousand)

Maximum credit risk exposure	Note	31.12.2019	31.12.2018
Receivables from Central Bank	5	53,786	80,392
Receivables from credit institutions	6	31,289	60,116
Receivables from customers (AC)	7	52,502	54,612
Receivables from customers (FVTPL)	7	460	478
Other financial assets	8	143	344
Total financial assets		**138,180**	**195,942**
Off-balance sheet liabilities, excl. guarantees	16	4,217	2,500
Maximum credit risk exposure		**142,397**	**198,442**

Based on the results of the analysis performed by the management, expected credit losses on the balances of demand and term deposits held at correspondent banks is an insignificant amount as at 31 December 2019 and 31 December 2018; therefore, the Group has not recognised expected credit losses on deposits.

Risk management

The most important criteria for assessing credit risk are the creditworthiness of the counterparty, i.e. ability to fulfil the financial commitments assumed on time, and collateral that reduces credit risk in case the counterparty fails to fulfil the commitments assumed. Lending needs to be in proportion to the cash flows of the borrower and its ability to pay back the loan.

The underlying principle of a credit policy is that business units are fully responsible for credit risks that are in compliance with the credit strategy as well as various guidelines and procedures of the credit process and the current legislation. Assumption of credit risk is decided by the Credit Committee or the persons with decision-making authority according to the decision limits approved by the Management Board of the Bank. The decision of the Credit Committee regarding a loan project of a client or a group related to it (other than subsidiaries), equalling or exceeding 10% of the Bank's or the Group's own funds, is approved by the Supervisory Board of the Bank in writing.

The risk-taking principles are as follows:

1. risk must be assessable and measurable;
2. risk must be appropriately collateralised;
3. collateral must be appropriately insured;
4. risk must be spread between different economic sectors and regions, maturities and collaterals;
5. the detection of possible problems must be ensured at the earliest stage possible with a system of supervision.

The optimum size of the credit portfolio and the structure of various indicators are monitored regularly, so that they would comply with the standards. A responsible and balanced approach in each transaction is of great importance to the Bank and its customers. From the point of view of the credit portfolio as a whole, all parameters impacting credit risk are assessed regularly to identify the potential increase in credit risk as early as possible, but also to manage the credit portfolio in a such a way that the potential risk can be prevented and minimised.

Measurement of risks

Credit risk of both the customers as well as the credit portfolio is measured and assessed before and after the loan is issued by means of regular monitoring. The rating system provides, among other things, a measure of risk assessment and hence additional support in making a credit decision, credit risk analysis, forecasting and management, assessment of capital requirements and provisions, and provisioning for possible impairments, credit strategy and various credit policies.

Measurement of the credit risk includes following activities:

- evaluation of the clients' business activities so far;
- assessment of the risk level of customer’s management and owners;
- valuation of collaterals;
- assessment of insurance of collaterals;
- analysis and assessment of the business plan and cash flow forecasts presented;
- reliability and reputation of a customer;
- credit history;
- assessment of loan applicant’s country risk.

Loans that have been granted or will be granted are fully covered from the Group's own funds and funds raised (incl. loans intended for specific purposes and demand deposits). The Bank follows the regulatory standards for concentration of exposures, according to which the amount of loans issued to and other loan receivables from one borrower or a group of related persons shall not exceed 25% of own funds of the Bank

Monitoring of the loan portfolio is performed twice a year (four times a year in case of high-risk loans), during which each loan and customer is reviewed individually. In performing assessments, the Bank pays attention to the compliance with the conditions of the loan contract, including timely loan repayments, the financial position of the customer, the condition of the collateral, and submission of the required information and documentation.

Credit grades and measurement of expected credit loss

The group follows IFRS 9 standard since 01.01.2018, according to which the credit portfolio shows provisions for possible loan losses on the basis of expected credit losses.
The amount of expected credit loss arises from the credit loss model approved by the Bank, where the assets are divided into three stages according to the change in the credit quality of financial assets:

Stage 1 - Performing financial assets whose credit quality has not significantly deteriorated as compared to their initial recognition: loans without or with delay up to 30 days and where, on intial recognition, loss is recognized which is expected to arise from the asset in the next 12 months and evaluation is performed on collective basis and based on past experience and future forecasts.

Stage 2 - Underperforming financial assets whose credit quality has significantly deteriorated (eg credit rating deterioration or 31-90 day payment delays) and where losses that are expected to occur over the remaining life of asset are recognized and assessed individually or in a similar manner. by batches.

Stage 3 - Non-performing financial assets, assets that are not collected as intended (eg payment delays longer than 90 days) and that reflect losses that are expected to arise from a given financial asset over its remaining life and are assessed individually on an asset-by-asset basis.

In accordance with IFRS 9, the expected credit loss for Stage 1 is calculated over the year; for Stages 2 and 3 until the end of the loan period. These measurements are made on the basis of models developed by the Bank, and the expected credit loss is based on both historical results and scenarios based on future forecasts.

From 1 January 2018, the expected credit loss (ECL) model was adopted at the Group. The key principles of the ECL model are described in Note 2 "Summary of significant accounting policies", Valuation of loans and receivables. The key inputs of the ECL model (PD, LGD) are based on the results of the monitoring of the loan portfolio described below, which are expressed upon determination of the loan's credit class and collateral.

Credit class is used as the basis for assessing the probability of realisation of credit risk in the expected credit loss valuation and calculation methodology, described in Note 2 "Summary of significant accounting policies". The credit class is also an important indicator to determine potential change in credit risk.

For determining the credit class of business customers, the following two key criteria are used:
Criterion 1: payment discipline where accuracy of payments or amounts overdue according to the ranges of due dates are used as the basis for the analysis
Criterion 2: solvency, where the customer's financial position and the additional indicators related to owners are used as the basis.

For private persons, the criteria only include the payment discipline rating and the solvency rating.

In addition to the determination of the credit class and rating of the collateral, it is also necessary to evaluate the loan collateral coverage to determine the amount of a potential loss in the case of a forced sale of collateral assets. For non-performing loans, revaluation of the collateral value is additionally performed to determine its cost in the case of falling prices in the real estate market. The price of collaterals before and after revaluation is used for assessment of problematic receivables and calculation of internal requirements for capital adequacy (ICAAP, Pillar III).

Assessment of timely contractual payments by the customer, as well as the customer's financial position, is based on a 5-point system, where 1 describes the strongest and 5 the weakest customer. The collateral of the customer is evaluated separately based on the type of collateral, its value, change in value, liquidity of the collateral and its insurance. The determination of the risk classes of off-balance sheet positions of customers are carried out in the same way as the calculation of risk classes of off-balance sheet positions.

During regular reviews of the credit portfolio, the Credit Committee also assesses, among other things, the extent of doubtful loans and the probability of collection of receivables on a quarterly basis. A separate loan allowance is established for each loan receivable with an impairment loss for which an impairment of the receivable has been identified. In addition, the Internal Audit

Department exercises control over the Bank's activities regarding the monitoring and write-down of loans.

The analysis “Group’s receivables from customers” is split by the following classes and subclasses (see Note 7):

1. loans to legal entities:
   -investment loans
   -overdraft facilities
   -leases
   -other loans
2. loans to individuals:
   -housing loans
   -other loans and leases.

Overdue receivables, impaired receivables from customers and collaterals of securities are disclosed in Note 7.

Probability of default (PD) and loss given default (LGD)

12-month PD - the probability of the occurrence of credit risk, which represents the probability of a loss within the next 12 months and the lifetime PD - the probability of the occurrence of credit risk, which represents the probability of a loss on a given asset over its lifetime. Credit PDs are based on PD rates disclosed by S&P and the Bank’s historical statistics, being calibrated with the customer’s credit class.

The loss given default (LGD) is the ratio of a potential credit loss to the outstanding credit exposure if the credit risk occurs. In Stage 1, the LGD for all exposure classes is determined by the collateral rating, except for exposures exceeding EUR 1 million and subsidiaries. The LGD assignment is based on the percentage of the collateral rating, as evidenced by the analysis of Bank’s historical statistics. If the amount of the receivable exceeds EUR 1 million or the receivable is due from the subsidiary, the LGD of each loan receivable is calculated individually. In Stage 2 for legal entities (excluding express leasing) and private individuals, the LGD is determined on the basis of the collateral rating (same calculation as in Stage 1), with the exception of receivables over EUR 100,000 and subsidiaries. If the amount of the receivable exceeds EUR 100,000 or the receivable is due from the subsidiary, the LGD of each loan receivable is calculated individually. If a receivable with an individually assessed LGD rate in Stage 2 is transferred back to Stage 1, the individually calculated LGD rate for that receivable will remain for Stage 1 until the next estimate of the individual LGD rate.

Forborne exposures and loan write-offs

The Bank defines forborne exposures as the loans whose contractual terms have been changed due to the borrower’s payment difficulties and the purpose of which is to restore the borrower’s proper performance of contractual obligation, avoiding loss of assets. Changes to the terms and conditions of the loan contract may include, but are not limited to, granting a new loan to honour an existing obligation, a grace period, cutting of interest rate, partial or total cancellation of the loan, etc.

A loan is written off when the final amount of the loss is established or upon disposal of the loan. The final amount of the loss is determined after the distribution of the bankruptcy estate or the realisation of the entire collateral. Past losses on write-offs of loans are amortised. Where applicable, a statement of claim against the borrower or guarantor following the write-off of the loan is filed unless the bankruptcy proceedings have resulted in the termination of the legal entity of the debtor or where the bankruptcy dispute has been resolved or the loan balance has been extinguished in full.

Risk concentration

(EUR thousands)

		31 December 2019		31 December 2018	
		number/ amount	% of eligible capital	number/ amount	% of own funds
1.	Number of customers with high risk concentration	6	-	6	-
2.	Receivables from high risk concentration customers	30,719	116,3%	29,560	114,7%
3.	Receivables from individuals related to the Group	949	3,6%	994	3,9%

High-risk loans are loans granted to a single person or group of related parties that exceed 10% of the credit institution’s equity.

Receivables of the Group as at 31 December 2019 and 2018, divided by economic sectors, are presented below. Receivables include receivables from the Bank of Estonia, receivables from customers (including lease receivables) and credit institutions, and other receivables and financial assets.

The definition of impairment of receivables is provided in Note 2 “Significant accounting decisions and estimates".

Division of receivables as of 31 December 2019

(EUR thousand)

	On-balance sheet receivables (gross)							
Economic sector	receivables	securities	interest receivables	Incl. overdue	Allowance for receivables	Off-balance sheet items	Provisions of off-balance sheet items	Share of sectors
Agriculture, hunting and forestry	2,641	-	2	210	-24	12	-	1.8%
Manufacturing	7,897	-	14	2,750	-738	317	-	5.7%
Supply of electricity, gas, steam and air conditioning	3,315	-	4	335	-3	0	-	2.3%
Construction	3,486	-	13	271	-59	3,453	1	4.8%
Retail and wholesale, maintenance of motor vehicles, motorbikes, commodities and repair of home appliances	6,231	-	16	2,332	-261	738	-	4.8%
Transportation, storage and communication	1,620	-	4	446	-24	659	-	1.6%
Financial intermediation	38,700	-	24	52	-15	54	-	26.7%
Central Bank	53,786	-	-	0	0	0	-	37.1%
Real estate	6,005	-	11	16	-7	246	-	4.3%
Administration and support activities	5,060	-	2	97	-23	0	-	3.5%
Other sectors	4,431	37	10	506	-109	38	-	3.0%
Individuals	6,143	-	14	793	-15	265	-	4.4%
Total	**139,315**	**37**	**114**	**7,808**	**-1,278**	**5,782**	**1**	**100.0%**

31 December 2018 (EUR thousand)

Economic sector	On-balance sheet receivables (gross) receivables	securities	interest receivables	Incl. overdue	Allowance for receivables	Off-balance sheet items	Share of sectors	Economic sector
Agriculture, hunting and forestry	2,748	-	2	236	-41	30	-	1.4%
Manufacturing	8,393	-	37	2,459	-99	188	-	4.3%
Supply of electricity, gas, steam and air conditioning	3,295	-	2	-	-9	60	-	1.7%
Construction	3,265	-	10	37	-60	530	-	1.9%
Retail and wholesale, maintenance of motor vehicles, motorbikes, commodities and repair of home appliances	4,942	-	35	1,180	-49	497	1	2.7%
Transportation, storage and communication	4,502	-	9	49	-28	1,568	14	3.0%
Financial intermediation	66,858	-	44	935	-58	-	-	33.4%
Central Bank	80,392	-	-	0	-	-	-	40.2%
Real estate	7,348	-	13	28	-19	568	1	4.0%
Administration and support activities	5,414	-	2	82	-62	5	-	2.7%
Other sectors	3,822	37	9	558	-82	121	-	2.0%
Individuals	5,147	-	9	321	-21	394	6	2.8%
Total	**196,126**	**37**	**172**	**5,885**	**-528**	**3,961**	**22**	**100.0%**

See also Notes 6 and 7.

4.2 Country risk

Definition

For credit institutions with international operations, including AS TBB pank, it is essential to adequately assess country risk. Country risk consists of two components: economic and political risk.

Country risk comprises the overall economic and financial management level in the country (on macroeconomic as well as company level), the competitive position of the country in the world market, the situation with the balance of payments, the stability of the national currency, etc.

The extent of political risk is determined by the stability of the political system, relations with neighbouring countries and security guarantees. In assessing the political risk, it is considered how the aforementioned factors may influence the proprietary rights.

Real economic and political risks are intertwined and they must be assessed as a whole.

The sub-types of country risk are:

- conversion risk (devaluation of a foreign currency);
- risks of transfers of monetary resources;
- foreign policy risks (sanctions, restrictions and other);
- risk of insolvency of the country (default risk).

Risk management

To mitigate country risk, the Group uses following measures:

- In case of Conversion risk the Group does not perform operations with currencies in countries with limited national currency conversion possibilities;
- In case of Transfer risks of monetary resources all purchase and sales transactions of currencies are performed through Bloomberg dealer system and Bank does not open correspondent accounts in countries with high political and/or economic risks.
- Foreign policy risks are assessed by monitoring the impact of the application of possible international sanctions and restrictions and mitigated to the size and execution time of financial operations.
- In the case of sovereign default risk, the risk is mitigated through rigorous selection of correspondent banks, use of data from international rating agencies are in assessing country risk, and monitoring of the mass media and reports of media agencies of counterparties.

All of the above risks are analysed, managed and reviewed by the Risk and Capital Management Committee and the Management Board of the Bank.

The concentration of the receivables of the Group by geographic regions as at 31 December 2019 and 31 December 2018 is presented below. The column "Receivables" includes receivables from the Bank of Estonia, receivables from customers and credit institutions, and other receivables and other financial assets.

The definition of impairment of receivables is provided in Note 3 "Summary of significant accounting policies".

Receivables by region

31 December 2019 (EUR thousand)

	On-balance sheet receivables (gross)							
Region	**receivables**	**securities**	**incl. interest receivables**	**Incl. overdue**	**Allowance for receivables**	**Off-balance sheet items**	**Provisions of offbalance sheet items**	**Share of the region (%)**
Estonia	107,443	-	101	7,808	-1,278	5,719	1	78.0%
Austria	30,583	-	12	-	-	-	-	21.1%
Russia	729	-	-	-	-	33	-	0.5%
Other countries	560	37	1	-	-	30	-	0.4%
Total	**139,315**	**37**	**114**	**7,808**	**-1,278**	**5,782**	**1**	**100.0%**

31 December 2018 (EUR thousand)

	On-balance sheet receivables (gross)							
Region	**receivables**	**securities**	**incl. interest receivables**	**Incl. overdue**	**Allowance for receivables**	**Off-balance sheet items**	**Provisions of offbalance sheet items**	**Share of the region (%)**
Estonia	145,400	-	143	5,885	-527	3,853	20	74.5%
Austria	29,980	-	3	-	-	-	-	15.0%
Lithuania	18,015	-	25	-	-	-	-	9.0%
France	670	-	-	-	-	51	1	0.4%
Russia	1,502	-	-	-	-	2	-	0.8%
Other countries	559	37	1	-	-1	55	1	0.3%
Total	**196,126**	**37**	**172**	**5,885**	**-528**	**3,961**	**22**	**100.0%**

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4.3 Market risk

Definition
Market risk is described as the possibility of a loss resulting from unfavourable movements in financial markets - changes in exchange rates, interest rates and the values of securities and precious metals. Market risk has macroeconomic nature. Most of the banking services, including loans and deposits, are influenced by market risk. The Bank does not carry out speculative transactions on fund and currency markets.

Risk management
The Bank has specified limits for the nature and scope of allowed risks, for the purpose of which it has established limits and other indicators which, if reaching a certain level, indicate higher risk accompanying a specific activity. The Finance Department is primarily responsible for managing risks.

To manage market risk, the Group adheres to the following principles:
- Risk avoidance;
- Risk limitation;
- Stress testing where the purpose of stress tests and their accompanying scenarios is to identify important changes in risk factors or losses attributable to extraordinary market disturbances.

The Group has 2 main subcategories of market risk:
- foreign currency risk;
- interest risk.

Foreign currency risk
For foreign currency risk, the value of the Group's assets and liabilities may change due to the changes in foreign exchange rates or risk factors related to other currencies.

To manage market risk, the Group adheres to the following principles:
- assets are denominated in the same currency to cover existing currency resources;
- net open currency position (NOCP) shall not exceed 10% of the amount of owners' equity, incl. the norm set for Russian roubles, i.e. 5% from NOCP;
- constant observation of internal regulations according to the Risk Management Methodology and Liquidity Management Strategy;
- Neither opens nor hold speculative positions in any foreign currency;

Starting from 2015, market risk stress tests are conducted regularly by various crisis and shock scenarios. Stress tests are carried out at least twice a year according to the stress test plan.

The tables below show assets and liabilities denominated in foreign currencies in euro equivalent of thousand euros.

Assets and liabilities by currency
31 December 2019 (EUR thousand)

	EUR	USD	SEK	RUB	CHF	MUU	Total
Assets							
Cash and receivables from Central Bank	54,688	115	6	-	-	-	54,809
Receivables from credit institutions	4,982	24,844	932	247	46	238	31,289
Receivables from customers - net and other receivables	52,411	551	-	-	-	-	52,962

Securities	37	-	-	-	-	-	37
Other assets (Note 8)	143	-	-	-	-	-	143
Total assets	**112,261**	**25,510**	**938**	**247**	**46**	**238**	**139,240**
Liabilities							
Payables to customers and other payables	101,394	22,849	937	211	51	173	125,615
Other liabilities (Note 14)	1,812	2,590	2	53	0	8	4 465
Total liabilities	**103,206**	**25,439**	**939**	**264**	**51**	**181**	**130,080**
Net position in balance sheet	9,055	71	-1	-17	-5	57	9,160

31 December 2018 (tuhandetes eurodes)

	EUR	USD	GBP	RUB	CHF	MUU	Total
Assets							
Cash and receivables from Central Bank	81,382	170	22	-	-	1	81,575
Receivables from credit institutions	20,280	38,345	670	393	40	388	60,116
Receivables from customers - net and other receivables	54,560	530	-	-	-	-	55,090
Securities	37	-	-	-	-	-	37
Other assets (Note 8)	344	-	-	-	-	-	344
Total assets	**156,603**	**39,045**	**692**	**393**	**40**	**389**	**197,162**
Liabilities	-	-	-	-	-	-	-
Payables to credit institutions	144,703	36,092	695	456	63	348	182,357
Payables to customers and other payables	2,164	2,943	34	0	9	3	5,153
Total liabilities	**146,867**	**39,035**	**729**	**456**	**72**	**351**	**187,510**
Net position in balance sheet	9,736	10	-37	-63	-32	38	9,652

As at 31 December 2019 and 31 December 2018 the Group did not have a fixed net exposures that would exceed the level of 1% of own funds. The level of the Group's foreign currency net position as at the balance sheet date reflects the level of foreign currency positions during the year. The euro is not taken into account when calculating net positions.

The table below presents a sensitivity analysis to potential reasonable changes in foreign exchange rates as at the balance sheet date.

	31.12.2019	**31.12.2018**
EUR thousand	**Effect on profit or loss**	**Effect on profit or loss**
Appreciation of currencies by 10% (2018: 5%)		
USD appreciation by 10% (2018: 10%)	7	1
CHF appreciation by 10% (2018: 5%)	-1	-2
RUB appreciation by 10% (2018: 10%)	-2	-
NOK appreciation by 10% (2018: 5%)	4	-
CAD appreciation by 10% (2018: 10%)	2	2
JPY appreciation by 10% (2018: 5%)	-1	-
Other (excluding EUR) appreciation by 10% (2018: 5%)	-	-3
Total	**9**	**-2**
Depreciation of currencies by 10% (2018: 5%)		
USD depreciation by 10% (2018: 10%)	-7	-1
CHF depreciation by 10% (2018: 5%)	1	2
RUB depreciation by 10% (2018: 10%)	2	-

NOK depreciation by 10% (2018: 5%)	-4	-
CAD depreciation by 10% (2018: 10%)	-2	-2
JPY depreciation by 10% (2018: 5%)	1	-
Other (excluding EUR) depreciation by 10% (2018: 5%)	-	3
Total	**-9**	**2**

4.4 Cash flow interest risk

Cash flow interest risk is the risk of fluctuations in future cash flows due to the changes in market interest rates. Net interest income is impacted by external factors, such as changes in the rate of Euribor, changes in the yield curve and competitive pressure. The Group measures net interest income risk as a potential change in income.

The basis of interest risk management is based on the Interest Risk Management Policy approved by the Supervisory Board. This policy lays down key control forms and methods for monitoring interest risk. The Interest Rate Risk Management Policy provides an algorithm for calculating the inclusion of nominal and base interest rate; requirements for calculating the base rate on credit; minimum requirements for the interest margin. The requirements are based on the guidelines of the EBA "Management of interest rate risk arising from non-portfolio activities".

Stress tests are performed for assessing the impact of interest rate risk in the performance of credit institutions. In the reporting period, two planned stress tests were performed according the scenarios of interest rate changes by time periods. The principles of Basel Committee on Banking Supervision include shock scenarios in stress testing where interest rates change by +/- 200 basis points.

GAP analysis is used for analysing interest rate risk, i.e. the analysis of a difference between long and short positions of financial instruments used at the Group for time periods of 1 to 12 months. Interest risk was analysed for the absolute value of GAP on the basis of annual results.

The following table presents an analysis of the Group's interest risk. The Group's financial assets and liabilities are reported at carrying amounts, classified by interest fixing or maturity dates, whichever occurs earlier.

Assets and liabilities exposed to interest risk by interest fixing period

31 December 2019 (EUR thousand)

	On demand	Up to 3 months	3-12 months	1-2 years	2-5 years	After 5 years	Total
Assets							
Receivables from Central Bank	53,786	-	-	-	-	-	53,786
Receivables from credit institutions, gross	22,374	8,902	-	-	-	-	31,276
Receivables from customers, gross	82	38,224	1,999	670	1,607	6,580	49,162
Securities	-	-	-	-	-	37	37
Total assets	**76,242**	**47,126**	**1,999**	**670**	**1,607**	**6,617**	**134,261**
Liabilities							
Payables to customers and other payables	77,072	10,668	17,671	10,596	6,757	2,413	125,177
Lease liabilities	-	18	56	41	106	75	296

Total liabilities	**77,072**	**10,686**	**17,727**	**10,637**	**6,863**	**2,488**	**125,473**
Net interest sensitivity gap	-830	36 440	-15 728	-9 967	-5 256	4 129	8 788

31 December 2018 (EUR thousand)

	On demand	Up to 3 months	3-12 months	1-2 years	2-5 years	After 5 years	Total
Assets							
Receivables from Central Bank	80,392	-	-	-	-	-	80,392
Receivables from credit institutions, gross	46,988	13,100	-	-	-	-	60,088
Receivables from customers, gross	529	39,418	3,959	234	3,210	6,870	54,220
Securities	-	-	-	-	-	37	37
Total assets	**127,909**	**52,518**	**3,959**	**234**	**3,210**	**6,907**	**194,737**
Liabilities							
Payables to customers and other payables	140,039	6,665	16,896	10,537	5,724	2,159	182,020
Total liabilities	**140,039**	**6,665**	**16,896**	**10,537**	**5,724**	**2,159**	**182,020**
Net interest sensitivity gap	-12,130	45,853	-12,937	-10,303	-2,514	4,748	12,717

As at 31 December 2019 and 31 December 2018 and during the respective periods, the Group was not exposed to fair value interest risk, as the Group did not have financial liabilities measured at fair value and the financial assets measured at fair value are not sensitive to fair value interest rates.

4.5 Liquidity risk

Definition

Liquidity risk is defined as the Group's ability not to fulfil its liabilities at any specific time, as well as the ability not to change an unfavourable liquidity level within a certain period or at least to hold the existing level constant by changing the structure of its assets and liabilities and by raising additional debt capital and increasing financial stability in the form of revenue growth.

Liquidity risk arises from the differences in the maturities of assets and liabilities, speed of disposal of the resources included within assets to cover liabilities, the overall asset structure and the interest sensitivity of the liabilities.

Risk management

The Group has established the requirements for managing liquidity risk, laid down in the Risk Strategy as well as the Risk Management Methodology. The Bank has established liquidity risk standards; the structure of a liquidity buffer and review of its size; procedures for liquidity planning in case of different scenarios involving event developments; liquidity continuity plan, etc.

Various regulatory risk evaluation methods are used for liquidity risk calculation and monitoring, the key ones of which are the liquidity coverage ratio (LCR) as well as the net stable funding ratio (NSFR).

In addition to the respective ratios, liquidity risk stress tests are regularly performed.

In managing liquidity risk, the Group is guided by, among other things, the following:

- liquidity strategy;
- recommended guideline of the Financial Supervision Authority, i.e. “Requirements for Liquidity Risk Management”,
- the basis for the liquidity risk regulation of the Group is the European Central Bank regulation on application of mandatory reserves;
- monitoring of compliance with coefficients and limits (both regulatory and internal Group coefficients and limits)
- analysis of the results of liquidity stress-tests;
- observance of the Bank’s cash limit;
- monitoring and balancing the open currency positions;
- stability of the resource base of the Group is guaranteed by offering competitive interest rates for term deposits;
- conditions for terminating term deposits;
- implementation of new bank standards to supervise and monitor liquidity risk.

Assets are monitored regularly in order to achieve the best possible balance sheet structure to maintain an acceptable level of liquidity, ie to maintain a liquidity reserve that meets unscheduled financial needs (ensuring profitable investment and lending transactions, compensating for unforeseen and seasonal loan demand fluctuations, unexpected deposit fluctuations).

Liquidity risk management is the responsibility of the Risk and Capital Management Committee. The liquidity level is reviewed on an ongoing basis (daily) and it is reported to the Management Board of the Bank.

Liquidity risk

31 December 2019 (EUR thousand)

	On demand	Up to 3 months	3-12 months	1-2 years	2-5 years	After 5 years	Total
Financial liabilities							
Payables to customers and other payables	77,510	10,708	17,974	10,978	7,089	2,464	126,723
Finance lease payables	-	20	60	46	115	77	318
Other payables*	4,169	-	-	-	-	-	4,169
Guarantees and off-balance sheet liabilities related to loans**	5,746	-	-	-	-	-	5,746
Unused factoring limit	36	-	-	-	-	-	36
Total financial liabilities	**87,461**	**10,728**	**18,034**	**11,024**	**7,204**	**2,541**	**136,992**
Financial assets							
Cash and receivables from Central Bank	54,809	-	-	-	-	-	**54,809**
Receivables from credit institutions	22,374	8,915	-	-	-	-	**31,289**
Receivables from customers, net	5,376	3,297	6,051	7,062	12,206	18,970	**52,962**
Other assets***	143	-	-	-	-	37	**180**
Total financial assets	**82,702**	**12,212**	**6,051**	**7,062**	**12,206**	**19,007**	**139,240**
Net gap between remaining maturities	**-4,759**	**1,484**	**-11,983**	**-3,962**	**5,002**	**16,466**	**2,248**

31 December 2018 (EUR thousand)

	On demand	Up to 3 months	3-12 months	1-2 years	2-5 years	After 5 years	Total
Financial liabilities							
Payables to customers and other payables	140,375	6,698	17,183	10,898	5,997	2,206	183,357
Other payables*	5,153	-	-	-	-	-	5,153
Guarantees and off-balance sheet liabilities related to loans**	3,658	-	-	-	-	-	3,658
Unused factoring limit	303	-	-	-	-	-	303
Total financial liabilities	**149,489**	**6,698**	**17,183**	**10,898**	**5,997**	**2,206**	**192,471**
Financial assets							
Cash and receivables from Central Bank	81,575	-	-	-	-	-	**81,575**
Receivables from credit institutions	46,988	13,128	-	-	-	-	**60,116**
Receivables from customers, net	1,754	4,354	9,056	4,903	15,343	19,680	**55,090**
Other assets***	344	-	-	-	-	37	**381**
Total financial assets	**130,661**	**17,482**	**9,056**	**4,903**	**15,343**	**19,717**	**197,162**
Net gap between remaining maturities	**-18,828**	**10,784**	**-8,127**	**-5,995**	**9,346**	**17,511**	**4,691**

* Other payables include payments in transit and other payables (Note 14).
** Guarantees and off-balance sheet liabilities, related to loans include mainly loan limits not used by customers as at the balance sheet date (Note 16).
***Other assets include other financial assets, receivables include interest receivables (Note 8).

The table above shows undiscounted future cash flows of financial liabilities and the discounted values of financial assets. The Group has the following assets to cover its liabilities: cash, account balance at the Central Bank, deposits at other banks and loans to and receivables from customers. The table shows assets and liabilities which are denominated in foreign currencies in their euro equivalents.

In the reporting period, the Group preserved its liquidity level which is sufficient to comply with all the requirements of customers and supervisory bodies (the liquidity coverage ratio (LCR) regulatory minimum requirement 100% was fulfilled). The disclosures on the Group's liquidity coverage ratio as laid down in Regulation (EU) No 575/2013 of the European Parliament and of the Council are presented on the Bank's website in the risk and capital (Pillar 3) report of AS TBB pank for 2019.

4.6 Operational risk

Definition

Operational risk means a risk, where the failures in the Group's internal or external factors, processes, human errors, system disruptions, etc. may negatively impact the Group's activities or lead to losses. The factors causing operational risk include:

- system risk;
- process risk;
- staff risk;
- external risk.

Risk management

For mitigating operational risk, the Group has created a control system for managing transactions, which guarantees multiple supervision of the transactions performed. The Group has established procedures and systems for responding to incidents as well as for implementation of further measures. The reports on incidents related to operational risk are entered in the respective database for further analysis.

Monthly monitoring of operational risk is performed in the Group according to the Operational Risk Management Policy, which specifies identification and processing of all operational risk loss events and incidents. During the reporting period, time criteria for recording operational risk incidents were also determined.

On the basis of the results of monitoring, an operational risk index (OR) is calculated, which expresses the weighted average of system, process, staff and external risks. Both the operational risk measure as well as quarterly operational risk reports are submitted to the Management Board and Supervisory Board of the Bank, as well as the internal audit.

System risk

For minimising system risk, internal information security and other protective systems as well as the respective rules of procedure limiting access to internal information have been established.

Process risk

For mitigating potential process risk, the rules of procedure have been laid down at the Group, the adherence to which needs to ensure that services are fully covered by contracts, control procedures and proper accounting.

For mitigating potential process risk, the rules of procedure have been laid down at the Group, the adherence to which needs to ensure that services are fully covered by contracts, control procedures and proper accounting. For every activity and product, procedural rules and product cards are prepared at the Bank.

Staff risk

Staff risk is regulated by the selection of employees, and their scope of activities and authorities. The principle of personnel selection is to assess the candidate's professional suitability and qualification in advance. The limits of competence have also been established for the employees, beyond which the employee bears personal property liability to the extent of the damage caused.

External risk
External risks associated with burglaries on the Group premises and in its information systems are mitigated by an IT security system, internal rules and regulations for guaranteeing security, video surveillance system and other respective technical devices. External risk cases are identified and processed with the objective of immediately removing the consequences of incidents and in such a manner that their occurrence in the future is prevented on the basis of sufficient analysis and respective mitigating measures.

All operational risks are managed and controlled by the Operational Risk Manager. Internal audits over the functioning of the operational risk management are carried out by the Internal Audit Department of the Bank.

For calculating the capital requirement for operational risks, the Group uses the Basic Indicator Approach using the adequacy rules of Basel II and Basel III as the basis. Under the Basic Indicator Approach, the capital requirement is 15% of the net income from the main activities of the Group.

4.7 Prevention of money laundering and terrorist financing

The Bank continues paying special attention to ensure that its organisational structure and measures comply with the requirements for the prevention of money laundering and terrorism financing (AML/CTF). The Bank has gone beyond ensuring compliance with the requirements of legislation and the instructions and guidelines relating to AML/CTF, and it continuously monitors the events and trends in the banking markets of both Estonia, the neighbouring countries and EU Member States in order to pro-actively adjust the Bank's existing solutions and applicable measures with the aim of reducing the accompanying operational, compliance and reputation risks

The Bank's organisational solution is based on the principle of three lines of defence (see note 4, p 47 “General Principles of Risk Management”). In addition, the Bank has set up a High-Risk Customer Acceptance Committee that reviews both new customer applications and business relationships with existing customers to ensure that the Bank's requirements for risk appetite and risk tolerance are met.

In the course of implementing the updated business strategy in 2018, the Bank decided at the end of the year to refrain from servicing legal entities registered in tax-free and low-tax countries / territories, and the Bank currently has no business relations with such legal entities. In addition, the Bank has significantly reduced business relations with non-residents who have no connection with Estonia. Compliance with the AML / CTF requirements is ensured by risk management measures. In doing so, the Bank applies a risk-based approach to the implementation and day-to-day management of its products and services. In addition, the Bank has defined risk appetite and tolerance for its customers and applies measures to adhere to them.

The Bank considers it important that the Estonian banking system is not misused for the purposes of money laundering and terrorist financing, and that the organisational solution, technical capabilities and resources of the Bank/Group are at all times adequate and appropriate to ensure compliance with the AML/CTF requirements. In addition to the above, the Bank regularly co-operates with the Financial Supervision Authority to ensure compliance with the AML/CTF Regulation.

4.8 Fair value of financial assets and financial liabilities

The Group recognises the following financial assets at fair value through profit or loss:

31 December 2019 **(EUR thousand)**

Financial assets at fair value through profit or loss	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Receivables from customers*	7	-		460	460
Equity instruments (securities)	8	37	-	-	37
Total financial assets at fair value through profit or loss		**37**	**-**	**460**	**497**

**reclassification from category "Loans and receivables", SPPI test not passed*

31 December 2018 **(EUR thousand)**

Financial assets at fair value through profit or loss	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Receivables from customers	7	-		478	478
Equity instruments (securities)	8	37	-	-	37
Total financial assets at fair value through profit or loss		**37**	**-**	**478**	**515**

**reclassification from category "Loans and receivables", SPPI test not passed*

IFRS 13 determines the hierarchy of fair value valuation techniques, based on whether the valuation technique inputs are observable or not.
Levels used in the hierarchy:

- Level 1 – price quoted in an active market (unadjusted), quoted market prices of identical assets and liabilities in an active market;
- Level 2 – valuation techniques for which the lowest level inputs that are important from the point of view of fair value assessment are directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level inputs that are important from the point of view of fair value assessment are not observable. Receivables from customers shown in the table above were assessed on the basis of discounted future cash flows using the market interest rate.

Assets/ liabilities not measured at fair value but whose fair value has been disclosed:
The Management Board of AS TBB pank has estimated the fair value of assets and liabilities reported at amortised cost in the balance sheet. For determining fair value, future cash flows are discounted using the market yield curve (Level 3) (see page 25 "Financial assets and liabilities").

For loans to customers, each client is viewed individually and interest rates vary according to the client's risk level. Therefore, in order to discount the future cash flows of these loans, it is not possible to use a homogeneous and comparable interest rate based on similar transactions. The majority of loans carry floating interest rates, which means that they correspond to changes in market interest rates. No substantial changes occurred in customer risk margins as compared to initial recognition. Therefore, the fair value of loans does not differ significantly from their carrying amounts as at 31 December 2019 and 31 December 2018.

Cash and receivables from the Central Bank – fair value equals the carrying amount because the assets can be disposed at the same price in a regular transaction.

Receivables from credit institutions – fair value equals the carrying amount because the assets can be disposed at the same price in a regular transaction. The receivables from other credit institutions are demand deposits.
Other receivables, accrued expenses and other payables have been incurred in the normal course of business and are payable in the short term, therefore the management estimates that their fair values do not significantly differ from their carrying amounts. These receivables and payables are interest-free.

Customer deposits with fixed interest rates are short-term and their pricing is based on market conditions. In 2019, the market yield curve did not change materially. Therefore, the fair value of deposits determined using discounted future cash flows does not differ significantly from their carrying amount.

See also the term structure of financial assets and financial liabilities under liquidity risk in this note.

4.9 Capital management and capital adequacy

The Group uses risk-based capital planning, assuring that all risks have been covered with sufficient own funds at any moment in time. Capital planning is based on a risk strategy, risk policy and regulations (the Credit Institutions Act and (EU) No 575/2013 of the European Parliament and of the Council, also known the Capital Requirements Regulation).

The Group uses regulatory **capital adequacy** assessment calculations together with capital requirements for additional risks to plan the need for capital. Such decisions are made on the basis of capital adequacy stress testing on the basis of Pillar I and Pillar II adequacy criteria. Capital adequacy indicates the adequacy of the bank's own funds for the covering of credit risk, market risk and operational risk and meeting the requirements arising from the business activities of credit institutions.

Effective from the beginning of the year 2014, the banks in the European Union are subject to a common minimum capital adequacy requirement (baseline requirement of 8%). However, Estonia has established additional capital buffer requirements in addition to that:

- capital conservation buffer 2.5%;
- systemic risk buffer 1.0% (until 31 July 2016: 2%);
- countercyclical capital buffer 0-2.5% (effective from 01 January 2016).

Effective from 2016, all European Union credit institutions must maintain own funds in accordance with the countercyclical capital buffer requirement. The countercyclical capital buffer requirement is equivalent to a credit institution's total risk exposure multiplied by the weighted average of the countercyclical buffer rates. The countercyclical buffer rate is established on the basis of the geographical location principle on a country-by-country basis by the agency designated by the respective country. The countercyclical capital buffer rate applicable in Estonia from 2016 is 0%.

Own funds

In accordance with the Capital Requirements Regulation, own funds of a credit institution or a consolidation group consist of Tier 1 and Tier 2 capital.

Tier 1 capital consists of Common Equity Tier 1 (CET 1) capital and additional Tier 1 capital. CET 1 capital of AS TBB pank includes:
a) paid-in capital instruments, i.e. share capital;
b) retained earnings;
c) other reserves.

The items referred to in sections a) through c) are recognised as CET 1 capital only if a credit institution is able to use them without restrictions and immediately cover losses or mitigate risks as soon as they occur.

When applying section b), a credit institution may not include interim or year-end profits in CET 1 capital before it has made an official resolution regarding the approval of the year-end profit, only with the prior consent of a competent authority

AS TBB does not have additional Tier 1 either Tier 2 capital.

According to regulatory requirements, the own funds of a credit institution must be at least 5 million euros and the ratio of total own funds expressed as a percentage of the total risk exposure amount (total capital ratio) must be at least 11.5% (until 31 July 2016: 12.5%). The Group is also subject to the additional requirements of Pillar 1 risks and Pillar 2 risks that take into account the specific characteristics and risk profiles of the Group. The capital or own funds of the Group are Tier 1 and Tier 2 capital as set forth in the Capital Requirements Regulation (31 December 2019: EUR 25,616 thousand, 31 December 2018: EUR 25,776 thousand). The deduction from Common Equity Tier 1 capital is part of the profit not included in own funds and it includes impairment, i.e. expected losses in accordance with IFRS 9 (Commission delegated regulation (EU) No. 183/2014) (see Chapter 2.10).

According to the management's opinion, the Group complies with all requirements for the management of foreign and domestic capital as at 31.12.2019 and 31.12.2018.

In order to estimate the need for capital, balance sheet positions are projected on the basis of possible changes in various risk-weighted assets and equity items, and preservation of the targeted capital levels. In planning capital and preparing a business plan over the medium- and long-term perspective, account is taken of such indicators as capitalisation rate, minimum rate and recommended rate of owners' equity, leverage of owners' equity, level of recovery of term deposits from the Group's own funds, the total of highly liquid assets and adopted risk and liquidity strategies.

Compliance with own funds and capital adequacy requirements set out in European Parliament and Council Regulation (EU) No 575/2013 by the Group is presented on the Bank's website www.tbb.ee and in the risk and capital (Pillar 3) report of AS TBB pank for 2019.

Note 5. Receivables from the Central Bank

In accordance with the requirements of the European Central Bank, credit institutions in Estonia are required to hold statutory reserves. The components of the calculation of the reserve comprise all liabilities of credit institutions acquired through raising debt and contingent liabilities, financial guarantees issued to cover the liabilities of resident financial institutions which are part to the consolidation group. The calculation of the statutory reserve requirement is based on the previous month's balance sheet and it has to be complied with as a monthly average. In 2019 and 2018, the Bank was in compliance with this requirement. As at 31 December 2019, the receivables from the Central Bank amounted to EUR 53,786 thousand (31 December 2018: EUR 80,392 thousand). As at 31 December 2019, the reserve requirement was EUR 959 thousand (31 December 2018: EUR 1,490 thousand), therefore, the available funds in the Bank of Estonia as at 31 December 2019 totalled EUR 52,827 thousand (31 December 2018: EUR 78,902 thousand), which is included in cash equivalents.

(EUR thousand)

	31.12.2019	31.12.2018
End-of-day balance of current account as a monthly average	51,912	64,228
Minimum reserve requirement as a monthly average	1,022	1,563
Exceeding of the minimum reserve requirement as a monthly average	50,794	62,356

In 2019 and 2018, the Group received no interest income from the funds held with the central bank for settlement.

Since 2014, the European Central Bank established a negative interest rate for deposit facilities. The negative interest rate is also valid on average reserve deposits that exceed the requirements for compulsory reserve and other deposits held in the euro system. The amendment entered into force at 11 June 2014. In 2019, the negative interest rate expenses of the Group amounted to EUR 253 thousand (2018: EUR 256 thousand).

Note 6. Receivables from credit institutions

Receivables from credit institutions are as follows:

(EUR thousand)

	Note	31.12.2019	31.12.2018
Demand deposits:			
in OECD banks		21,669	20,645
in Estonian banks		-	9,966
in CIS countries' banks		706	656
Total demand deposits		**22,375**	**31,267**
Overnight loans:			
in OECD banks		-	15,721
Total overnight loans		**-**	**15,721**
Term deposits:			
in OECD banks		8,914	13,128
Total term deposits		**8,914**	**13,128**
Total receivables from credit institutions		**31,289**	**60,116**

The due dates of term deposits are in 2019. As at 31 December 2019 and 2018, the average interest rates on term deposits were 1.73% and 1.98%, respectively.

Below is the analysis of receivables from credit institutions by credit quality on the basis of Standard and Poor's and Fitch's ratings as at 31 December 2019 and 31 December 2018 (receivables that are neither overdue nor impaired).

31 December 2019 (EUR thousand)

	Total demand deposits	Term deposits	Total
Receivables from credit institutions			
- rating A-2	22,375	8,914	31,289
Total	**22,375**	**8,914**	**31,289**

31 December 2018 (EUR thousand)

	Total demand deposits	Term deposits	Total
Receivables from credit institutions			
- rating A-1+ to A-l	20,721	8,759	29,480
- rating A-2	25,611	4,369	29,980
- rating BBB- to B	656	-	656
Total	**46,988**	**13,128**	**60,116**

When depositing funds in other credit institutions, the Group first of all takes into account its experience from previous cooperation. The financial statements of these credit institutions are consistently reviewed and the quality of the receivables is monitored.

Note 7. Receivables from customers

(EUR thousand)

Type of receivable	31.12.2019	31.12.2018
Loans to customers (AC), net	**52,502**	**54,612**
Loans to legal entities	**47,637**	**49,993**
- Investment loans	38,775	40,253
- Overdraft facilities	4,469	4,859
- Leases	3,624	4,054
- Other loans	769	827
Loans to individuals	**6,143**	**5,147**
- Housing loans and leases	4,928	4,407
- Other loans and leases	1,215	740
Allowance for receivables	**-1,278**	**-528**
Receivables from customers (FVTPL)*	**460**	**478**
- Other receivables	460	478
Total receivables from customers	**52,962**	**55,090**

**see Note 2 "Summary of significant accounting policies" and 4 "Risk management. Fair value of financial assets and liabilities" (4.8 Fair value of financial assets and liabilities)*

Other loans granted to legal entities include:
- Bank: receivables from financing institutions, credit card debt, assigned receivables;
- Leasing: factoring, debt scheduling contracts and contracts terminated by leasing.

Other loans granted and leasing granted to individuals include:
- Bank: all loans to private customers except housing loans (overdraft facilities, planned loan, credit card debt);
- Leasing: all other leasing that is not related to housing (e.g. car leases).

Credit quality of financial assets by types of loans and credit classes

31 December 2019 (EUR thousand)

Investment loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	21,971	-	89	22,060
Credit class 2	10,940	1,195	270	12,405
Credit class 3	-	357	801	1,158
Credit class 4	-	196	1,870	2,066
Credit class 5	-	-	1,086	1,086
Gross carrying amount	**32,911**	**1,748**	**4,116**	**38,775**
Loss allowance	-28	-10	-459	-497
Carrying amount	**32,883**	**1,738**	**3,657**	**38,278**

31 December 2018 (EUR thousand)

Investment loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	22,298	-	-	22,298
Credit class 2	12,834	4,738	-	17,572
Credit class 3	-	65	94	159
Credit class 4	-	222	-	222
Credit class 5	-	-	2	2
Gross carrying amount	**35,132**	**5,025**	**96**	**40,253**
Loss allowance	-102	-133	-2	-237
Carrying amount	**35,030**	**4,892**	**94**	**40,016**

31 December 2019 (EUR thousand)

Overdraft facilities	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	933	-	-	933
Credit class 2	641	-	-	641
Credit class 3	-	-	-	-
Credit class 4	-	-	995	995
Credit class 5	-		1,900	1,900
Gross carrying amount	**1,574**	**-**	**2,895**	**4,469**
Loss allowance	-2	-	-463	-465
Carrying amount	**1,572**	**-**	**2,432**	**4,004**

31 December 2018 (EUR thousand)

Overdraft facilities	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	972	-	-	972
Credit class 2	1,844	914	-	2,758
Credit class 3	-	-	100	100
Credit class 4	-	-	-	-
Credit class 5	-	-	1,029	1,029
Gross carrying amount	**2,816**	**914**	**1,129**	**4,859**
Loss allowance	-6	-19	-	-25
Carrying amount	**2,810**	**895**	**1,129**	**4,834**

31 December 2019 (EUR thousand)

Leases	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	1,630	-	22	1,652
Credit class 2	590	6	20	616
Credit class 3	-	727	14	741
Credit class 4	-	-	417	417
Credit class 5	-	29	169	198
Gross carrying amount	**2,220**	**762**	**642**	**3,624**
Loss allowance	-6	-94	-163	-263
Carrying amount	**2,214**	**668**	**479**	**3,361**

31 December 2019 (EUR thousand)

Leases	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	1,826	84	-	1,910
Credit class 2	636	459	1	1,096
Credit class 3	-	884	54	938
Credit class 4	-	56	12	68
Credit class 5	-	7	35	42
Gross carrying amount	**2,462**	**1,490**	**102**	**4,054**
Loss allowance	-17	-192	-36	-245
Bi Carrying amount	**2,445**	**1,298**	**66**	**3,809**

31 December 2019 (EUR thousand)

Other loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	731	-	-	731
Credit class 2	-	-	-	-
Credit class 3	-	-	-	-
Credit class 4	-	-	-	-
Credit class 5	-	-	38	38
Gross carrying amount	**731**	**-**	**38**	**769**
Loss allowance	-	-	-38	-38
Carrying amount	**731**	**-**	**-**	**731**

31 December 2019 (EUR thousand)

Other loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	827	-	-	827
Credit class 2	-	-	-	-
Credit class 3	-	-	-	-
Credit class 4	-	-	-	-
Credit class 5	-	-	-	-
Gross carrying amount	**827**	**-**	**-**	**827**
Loss allowance	-	-	-	-
Carrying amount	**827**	**-**	**-**	**827**

31 December 2019 (EUR thousand)

Housing loans and leases	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	4,292	-	-	4,292
Credit class 2	323	-	229	552
Credit class 3	-	-	-	-
Credit class 4	-	-	84	84
Credit class 5	-	-	-	-
Gross carrying amount	**4,615**	**-**	**313**	**4,928**
Loss allowance	-1	-	-3	-4
Carrying amount	**4,614**	**-**	**310**	**4,924**

31 December 2018 (EUR thousand)

Housing loans and leases	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	3,755	-	-	3,755
Credit class 2	517	-	-	517
Credit class 3	-	-	-	-
Credit class 4	-	135	-	135
Credit class 5	-	-	-	-
Gross carrying amount	**4,272**	**135**	**-**	**4,407**
Loss allowance	-3	-5	-	-8
Carrying amount	**4,269**	**130**	**-**	**4,399**

31 December 2019 (EUR thousand)

Other loans and leases	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	650	-	9	659
Credit class 2	79	3	2	84
Credit class 3	-	6	241	247
Credit class 4	-	-	225	225
Credit class 5	-	-	-	-
Gross carrying amount	**729**	**9**	**477**	**1,215**
Loss allowance	-	-2	-9	-11
Carrying amount	**729**	**7**	**468**	**1,204**

31 December 2018 (EUR thousand)

Other loans and leases	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	383	265	29	677
Credit class 2	60	-	-	60
Credit class 3	-	-	-	-
Credit class 4	3	-	-	3
Credit class 5	-	-	-	-
Gross carrying amount	**446**	**265**	**29**	**740**
Loss allowance	-3	-10	-	-13
Carrying amount	**443**	**255**	**29**	**727**

Receivables by type of collateral

31 December 2019 (EUR thousand)

Type of loan	Mortgage	Commer-cial pledge	Surety	Leased assets	Unsecured	Other*	Total
Loans to legal entities	**42,113**	**-**	**1,325**	**3,433**	**657**	**109**	**47,637**
Investment loans	37,992	-	580	-	100	103	38,775
Overdraft facilities	4,075	-	394	-	-	-	4,469
Leases	46	-	183	3,395	-	-	3,624
Other loans	-	-	168	38	557	6	769
Loans to individuals	**5,741**	**-**	**244**	**48**	**74**	**36**	**6,143**
Housing loans and leases	4,928	-	-	-	-	-	4,928
Other loans and leases	813	-	244	48	74	36	1,215
Total loans to customers (gross carrying amount)	**47,854**	**-**	**1,569**	**3,481**	**731**	**145**	**53,780**

31 December 2018 (EUR thousand)

Type of loan	Mortgage	Commer-cial pledge	Surety	Leased assets	Unsecured	Other*	Total
Loans to legal entities	**45,093**	**-**	**554**	**3,731**	**536**	**79**	**49,993**
Investment loans	40,174	-	17	-	-	62	40,253
Overdraft facilities	4,859	-	-	-	-	-	4,859
Leases	60	-	263	3,731	-	-	4,054
Other loans	-	-	274	-	536	17	827
Loans to individuals	**4,689**	**-**	**267**	**55**	**101**	**35**	**5,147**
Housing loans and leases	4,407	-	-	-	-	-	4,407
Other loans and leases	282	-	267	55	101	35	740
Total loans to customers (gross carrying amount)	**49 782**	**-**	**821**	**3,786**	**637**	**114**	**55,140**

* Other loan collateral includes collections in bank accounts, security deposits..

Sufficiency of collateral

31 December 2019 (EUR thousand)

	Receivables with sufficient collateral		Receivables with insufficient collateral	
Type of loan	**Carrying amount of receivables**	**Fair value of collateral**	**Type of loan**	**Carrying amount of receivables**
Investment loans	38,205	83,433	570	460
Overdraft facilities	4,469	7,047	-	-
Leases	3,624	3,624	-	-
Other loans	212	1,601	557	-
Housing loans and leases to individuals	4,928	7,499	-	-
Other loans and leases to individuals	1,136	2,548	79	5
Total receivables from customers	**52,574**	**105,752**	**1,206**	**465**

31 December 2018 (EUR thousand)

Type of loan	Receivables with sufficient collateral		Receivables with insufficient collateral	
	Carrying amount of receivables	Fair value of collateral	Type of loan	Carrying amount of receivables
Investment loans	40,253	83,279	-	-
Overdraft facilities	4,725	8,235	134	130
Leases	4,054	4,054	-	-
Other loans	817	886	10	1
Housing loans and leases to individuals	4,407	6,862	-	-
Other loans and leases to individuals	639	1,472	101	-
Total receivables from customers	**54,895**	**104,788**	**245**	**131**

Collateral for impaired and overdue loans

31 December 2019 (EUR thousand)

Type of loan	Receivables with sufficient collateral		Receivables with insufficient collateral	
	Carrying amount of receivables	Fair value of collateral	Type of loan	Carrying amount of receivables
Past due collectively impaired	**2,022**	**3,781**	**3**	**-**
Investment loans	708	1,777	-	-
Overdraft facilities	569	948	-	-
Leases	199	199	-	-
Other loans	-	-	-	-
Housing loans and leases to individuals	499	704	-	-
Other loans and leases to individuals	47	153	3	-
Past due and individually impaired	**5,211**	**7,743**	**572**	**460**
Investment loans	1,821	2,681	570	460
Overdraft facilities	2,895	4,308	-	-
Lieases	215	216	-	-
Other loans	38	38	-	-
Housing loans and leases to individuals	-	-	-	-
Other loans and leases to individuals	242	500	2	-
Total loans to customers	**7,233**	**11,524**	**575**	**460**

31 December 2018 (EUR thousand)

Type of loan	Receivables with sufficient collateral		Receivables with insufficient collateral	
	Carrying amount of receivables	Fair value of collateral	Type of loan	Carrying amount of receivables
Past due collectively impaired	**4,306**	**8,999**	**253**	**-**
Investment loans	2,632	6,154	-	-
Overdraft facilities	1,326	2,373	-	-
Leases	32	42	249	-
Other loans	-	-	-	-
Housing loans and leases to individuals	316	430	-	-
Other loans and leases to individuals	-	-	4	-
Past due and individually impaired	**1,278**	**2,187**	**48**	-
Investment loans	96	253	-	-
Overdraft facilities	1,129	1,825	-	-
Leases	53	109	48	-
Total loans to customers	**5,584**	**11,186**	**301**	**-**

Most of Stage 3 receivables have sufficient and high-quality collateral (mortgages of the 1st ranking), due to which the ECLs of Stage 3 receivables is zero for these contracts.

Analysis of the changes in credit loss allowances

(EUR thousand)

Total credit loss allowance for receivables from customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at 01.01.2018	**323**	**154**	**25**	**502**
Movements:	-28	6	22	-
From Stage 1 to Stage 2	-29	29	NA	-
From Stage 1 to Stage 3	-6	NA	6	-
From Stage 2 to Stage 1	7	-7	-NA	-
From Stage 2 to Stage 3	NA	-16	16	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired*	25	102	-	127
Changes related to credit risk changes	-146	119	-4	-31
Financial assets terminated/matured during the period	-43	-22	-4	-69
Write-offs	-	-	-1	-1
Loss allowance as at 31.12.2018	**131**	**359**	**38**	**528**
Movements:	-20	-126	146	-
From Stage 1 to Stage 2	-10	10	NA	-
From Stage 1 to Stage 3	-14	NA	14	-
From Stage 2 to Stage 1	4	-4	NA	-
From Stage 2 to Stage 3	NA	-132	132	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired*	5	5	-	10
Changes related to credit risk changes	-71	-64	953	818
Financial assets terminated/matured during the period	-8	-68	-	-76
Write-offs	-	-	-2	-2
Loss allowance as at 31.12.2019	**37**	**106**	**1,135**	**1,278**

** Long-term bullet-loans at initial recognition are in Stage 2 in accordance with "Methodology for calculation of expected losses of financial instruments".*

(EUR thousand)

Investment loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12 kuu ECL	Eluea ECL	Eluea ECL	
Loss allowance as at 01.01.2018	**232**	**8**	**3**	**243**
Movements:	-24	18	6	-
From Stage 1 to Stage 2	-24	24	NA	-
From Stage 1 to Stage 3	-	NA	-	-
From Stage 2 to Stage 1	-	-	NA	-
From Stage 2 to Stage 3	NA	-6	6	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired*	17	2	-	19
Changes related to credit risk changes	-108	106	-6	-8
Financial assets terminated/matured during the period	-15	-1	-	-16
Write-offs	-	-	-1	-1

Loss allowance as at 31.12.2018	**102**	**133**	**2**	**237**
Movements:	-17	-61	78	0
From Stage 1 to Stage 2	-9	9	NA	-
From Stage 1 to Stage 3	-12	NA	12	-
From Stage 2 to Stage 1	4	-4	NA	-
From Stage 2 to Stage 3	NA	-66	66	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired*	5	-	-	5
Changes related to credit risk changes	-54	-7	381	320
Financial assets terminated/matured during the period	-8	-55	-	-63
Write-offs	-	-	-2	-2
Loss allowance as at 31.12.2019	**28**	**10**	**459**	**497**

** Long-term bullet-loans at initial recognition are in Stage 2 in accordance with "Methodology for calculation of expected losses of financial instruments".*

(EUR thousand)

Overdraft facilities	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at 01.01.2018	**46**	**5**	**-**	**51**
Movements:	-	-4	4	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-	NA	-	-
From Stage 2 to Stage 1	-	-	NA	-
From Stage 2 to Stage 3	NA	-4	4	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired*	2	-	-	2
Changes related to credit risk changes	-22	19	-4	-7
Financial assets terminated/matured during the period	-20	-1	-	-21
Write-offs	-	-	-	-
Loss allowance 31.12.2018	**6**	**19**	**-**	**25**
Movements:	-1	-19	20	25
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-1	NA	1	-
From Stage 2 to Stage 1	-	-	NA	-
From Stage 2 to Stage 3	NA	-19	19	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired*	-	-	-	-
Changes related to credit risk changes	-3	-	443	440
Financial assets terminated/matured during the period	-	-	-	-
Write-offs	-	-	-	-
Loss allowance 31.12.2019	**2**	**-**	**463**	**465**

(EUR thousand)

Leases	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at 01.01.2018	**34**	**121**	**22**	**177**
Movements:	-2	-6	8	-
From Stage 1 to Stage 2	-5	5	NA	-
From Stage 1 to Stage 3	-2	NA	2	-
From Stage 2 to Stage 1	5	-5	NA	-

From Stage 2 to Stage 3	NA	-6	6	-
From Stage 3 to Stage 2	NA			-
New financial assets issued or acquired*	5	99	-	104
Changes related to credit risk changes	-13	-21	10	-24
Financial assets terminated/matured during the period	-7	-2	-4	-12
Write-offs	-	-	-	-
Loss allowance as at 31.12.2018	**17**	**192**	**36**	**245**
Movements:	-1	-36	37	-
From Stage 1 to Stage 2	-1	1	NA	-
From Stage 1 to Stage 3	-	NA	-	-
From Stage 2 to Stage 1	-	-	NA	-
From Stage 2 to Stage 3	NA	-37	37	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired*	-	5	-	5
Changes related to credit risk changes	-10	-59	90	21
Financial assets terminated/matured during the period	-	-8	-	-8
Write-offs	-	-	-	-
Loss allowance as at 31.12.2019	**6**	**94**	**163**	**263**

** Long-term bullet-loans at initial recognition are in Stage 2 in accordance with "Methodology for calculation of expected losses of financial instruments".*

(EUR thousand)

Other loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
		12-month ECL	Lifetime ECL	
Loss allowance as at 01.01.2018	**1**	-	-	**1**
Movements:	-	-	-	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-	NA	-	-
From Stage 2 to Stage 1	-	-	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired	-	-	-	-
Changes related to credit risk changes	-	-	-	-
Financial assets derecognised during the period	-1	-	-	-1
Write-offs	-	-	-	-
Loss allowance as at 31.12.2018	**-**	**-**	**-**	**-**
Movements:	-	-	-	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-	NA	-	-
From Stage 2 to Stage 1	-	-	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired	-	-	-	-
Changes related to credit risk changes	-	-	38	38
Financial assets derecognised during the period	-	-	-	-
Write-offs	-	-	-	-
Loss allowance as at 31.12.2019	**-**	**-**	**38**	**38**

(EUR thousand)

Housing loans and leases	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at 01.01.2018	3	-	-	3
Movements:	-	-	-	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-	NA	-	-
From Stage 2 to Stage 1	-	-	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired	1	-	-	1
Changes related to credit risk changes	-1	5	-	4
Financial assets derecognised during the period	-	-	-	-
Write-offs	-	-	-	-
Loss allowance as at 31.12.2018	**3**	**5**	**-**	**8**
Movements:	-1	-	1	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-1	NA	1	-
From Stage 2 to Stage 1	-	-	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired	-	-	-	-
Changes related to credit risk changes	-1	-	2	1
Financial assets derecognised during the period	-	-5	-	-5
Write-offs	-	-	-	-
Loss allowance as at 31.12.2019	**1**	**-**	**3**	**4**

(EUR thousand)

Other loans and leases	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at 01.01.2018	**7**	**20**	-	**27**
Movements:	-2	-2	4	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-4	NA	4	-
From Stage 2 to Stage 1	2	-2	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired*	-	1	-	1
Changes related to credit risk changes	-2	10	-4	4
Financial assets derecognised during the period	-	-19	-	-19
Write-offs	-	-	-	-
Loss allowance as at 31.12.2018	**3**	**10**	**-**	**13**
Movements:	-	-10	10	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-	NA	-	-
From Stage 2 to Stage 1	-	-	NA	-
From Stage 2 to Stage 3	NA	-10	10	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired*	-	-	-	-
Changes related to credit risk changes	-3	2	-1	-2

Financial assets derecognised during the period	-	-	-	-
Write-offs	-	-	-	-
Loss allowance as at 31.12.2019	**-**	**2**	**9**	**11**

** Long-term bullet-loans at initial recognition are in Stage 2 in accordance with "Methodology for calculation of expected losses of financial instruments".*

Changes in gross carrying amount of receivables

(EUR thousand)

Total receivables from customers	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at 01.01.2018	**44,844**	**733**	**1,057**	**46,634**
Movements:	-6,153	5,847	306	-
From Stage 1 to Stage 2	-6,018	6,018	NA	-
From Stage 1 to Stage 3	-172	NA	172	-
From Stage 2 to Stage 1	37	-37	NA	-
From Stage 2 to Stage 3	NA	-134	134	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired*	19,566	1,500	-	21,066
Changes in balances of financial assets**	-2,875	77	1	-2,797
Financial assets terminated/matured during the period	-9,428	-327	-4	-9,759
Write-offs	-	-	-4	-4
Gross carrying amount as at 31.12.2018	**45,954**	**7,830**	**1,356**	**55,140**
Movements:	-4,189	-3,088	7,277	-
From Stage 1 to Stage 2	-1,524	1524	NA	-
From Stage 1 to Stage 3	-3,377	NA	3,377	-
From Stage 2 to Stage 1	712	-712	NA	-
From Stage 2 to Stage 3	NA	-3,900	3,900	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired*	9,685	181	232	10,098
Changes in balances of financial assets**	-3,831	-287	-250	-4,368
Financial assets terminated/matured during the period	-4,839	-2,117	-132	-7,088
Write-offs	-	-	-2	-2
Gross carrying amount as at 31.12.2019	**42,780**	**2,519**	**8,481**	**53,780**

** Long-term bullet-loans at initial recognition are in Stage 2 in accordance with "Methodology for calculation of expected losses of financial instruments".*
*** Repayments and balances in fluctuation balances (overdraft facilities and credit card loans)*

Due to the clarification of the definition of default, the forborne exposures were reclassified to Stage 3. As at 31 December 2018, the forborne exposures have been classified in Stage 2, but the management has analysed the trends of the respective population and decided to change its assessment and reclassify the forborne exposures to Stage 3. The effect of the reclassification of receivables to Stage 3 is increase in impairments in this group of receivables by 33.5% or EUR 43.5 thousand (an additional impairment loss made up 3.4% of the impairment losses of loans as at 31 December 2019).

(EUR thousand)

Investment loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at 01.01.2018	**31,506**	**172**	**6**	**31,684**
Movements:	-4,405	4,277	128	-
From Stage 1 to Stage 2	-4,423	4,423	NA	-
From Stage 1 to Stage 3	-	NA	-	-
From Stage 2 to Stage 1	18	-18	NA	-
From Stage 2 to Stage 3	NA	-128	128	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired	16,620	892	-	17,512
Changes in balances of financial assets	-1,874	-297	-34	-2,205
Financial assets terminated/matured during the period	-6,715	-19	-	-6,734
Write-offs	-	-	-4	-4
Gross carrying amount as at 31.12.2018	**35,132**	**5,025**	**96**	**40,253**
Movements:	-2,801	-1,442	4 243	-
From Stage 1 to Stage 2	-1,421	1 421	NA	-
From Stage 1 to Stage 3	-2,092	NA	2 092	-
From Stage 2 to Stage 1	712	-712	NA	-
From Stage 2 to Stage 3	NA	-2,151	2 151	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired*	7,640	157	-	7,797
Changes in balances of financial assets	-2,928	-49	-221	-3,198
Financial assets terminated/matured during the period	-4,132	-1,943	-	-6,075
Write-offs	-	-	-2	-2
Gross carrying amount as at 31.12.2019	**32,911**	**1,748**	**4,116**	**38,775**

** Long-term bullet-loans at initial recognition are in Stage 2 in accordance with "Methodology for calculation of expected losses of financial instruments".*

(EUR thousand)

Overdraft facilities	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at 01.01.2018	**4,138**	**17**	**1,029**	**5,184**
Movements:	-361	361	-	-
From Stage 1 to Stage 2	-361	361	NA	-
From Stage 1 to Stage 3	-	NA	-	-
From Stage 2 to Stage 1	-	-	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired	1,007	-	-	1,007
Changes in balances of financial assets	-192	553	100	461
Financial assets terminated/matured during the period	-1,776	-17	-	-1,793
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2018	**2,816**	**914**	**1,129**	**4,859**
Liikumised:	-877	-914	1,791	-
Movements:	-	-	NA	-
From Stage 1 to Stage 2	-877	NA	877	-
From Stage 1 to Stage 3	-	-	NA	-

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From Stage 2 to Stage 1	NA	-914	914	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	127	-	-	127
New financial assets issued or acquired	-34	-	76	42
Changes in balances of financial assets	-458	-	-101	-559
Mahakandmised	-	-	-	-
Gross carrying amount as at 31.12.2019	**1,574**	**-**	**2,895**	**4,469**

(EUR thousand)

Leases	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at 01.01.2018	**2,667**	**520**	**22**	**3,209**
Movements:	-579	515	64	-
From Stage 1 to Stage 2	-536	536	NA	-
From Stage 1 to Stage 3	-58	NA	58	-
From Stage 2 to Stage 1	15	-15	NA	-
From Stage 2 to Stage 3	NA	-6	6	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired*	979	608	-	1,587
Changes in balances of financial assets	-448	-147	20	-575
Financial assets terminated/matured during the period	-157	-6	-4	-167
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2018	**2,462**	**1,490**	**102**	**4,054**
Movements:	-151	-470	621	-
From Stage 1 to Stage 2	-99	99	NA	-
From Stage 1 to Stage 3	-52	NA	52	-
From Stage 2 to Stage 1	-	-	NA	-
From Stage 2 to Stage 3	NA	-569	569	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired*	651	24	-	675
Changes in balances of financial assets	-656	-243	-79	-978
Financial assets terminated/matured during the period	-86	-39	-2	-127
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2019	**2,220**	**762**	**642**	**3,624**

* *Long-term bullet-loans at initial recognition are in Stage 2 in accordance with "Methodology for calculation of expected losses of financial instruments".*

(EUR thousand)

Other loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at 01.01.2018	**1,873**	-	-	**1,873**
Movements:	-335	278	57	-
From Stage 1 to Stage 2	-280	280	NA	-
From Stage 1 to Stage 3	-57	NA	57	-
From Stage 2 to Stage 1	2	-2	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired	31	-	-	31
Changes in balances of financial assets	-58	-15	-57	-130

Financial assets terminated/matured during the period	-684	-263	-	-947
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2018	**827**	**-**	**-**	**827**
Movements:	-	-	57	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-	NA	57	-
From Stage 2 to Stage 1		-	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired	1	-	-	1
Changes in balances of financial assets	-87	-	38	-49
Financial assets terminated/matured during the period	-10	-	-	-10
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2019	**731**	**-**	**38**	**769**

(EUR thousand)

Housing loans and leases	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at 01.01.2018	**3,834**	**-**	**-**	**3,834**
Movements:	-138	138	-	-
From Stage 1 to Stage 2	-138	138	NA	-
From Stage 1 to Stage 3	-	NA	-	-
From Stage 2 to Stage 1	-	-	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired	857	-	-	857
Changes in balances of financial assets	-241	-3	-	-244
Financial assets terminated/matured during the period	-40	-	-	-40
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2018	**4,272**	**135**	**0**	**4,407**
Movements:	-354	-	354	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-354	NA	354	-
From Stage 2 to Stage 1	-	-	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired	1,050	-	-	1,050
Changes in balances of financial assets	-234	-	-41	-275
Financial assets terminated/matured during the period	-119	-135	-	-254
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2019	**4,615**	**-**	**313**	**4,928**

(EUR thousand)

Other loans and leases	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at 01.01.2018	**826**	**24**	**-**	**850**
Movements:	-335	278	57	-
From Stage 1 to Stage 2	-280	280	NA	-
From Stage 1 to Stage 3	-57	NA	57	-

From Stage 2 to Stage 1	2	-2	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired	72	-	-	72
Changes in balances of financial assets	-62	-14	-28	-104
Financial assets terminated/matured during the period	-56	-22	-	-78
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2018	**445**	**266**	**29**	**740**
Movements:	-6	-262	268	-
From Stage 1 to Stage 2	-4	4	NA	-
From Stage 1 to Stage 3	-2	NA	2	-
From Stage 2 to Stage 1	-	-	NA	-
From Stage 2 to Stage 3	NA	-266	266	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired	216	-	232	448
Changes in balances of financial assets	108	5	-23	90
Financial assets terminated/matured during the period	-34	-	-29	-63
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2019	**729**	**9**	**477**	**1,215**

Changes in off-balance sheet risk exposures at gross carrying amount (other than performance guarantees)

Total receivables	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at 01.01.2018	**4,491**	**3**	-	**4,494**
Movements:	-255	239	16	-
From Stage 1 to Stage 2	-242	242	NA	-
From Stage 1 to Stage 3	-16	NA	16	-
From Stage 2 to Stage 1	3	-3	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired	1,136	0	0	1,136
Changes in balances of financial assets	-1,024	-242	18	-1,248
Financial assets terminated/matured during the period	-1,882	0	0	-1,882
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2018	**2,466**	**-**	**34**	**2,500**
Movements:	-1	-	1	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-1	NA	1	-
From Stage 2 to Stage 1	-	-	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired	3,568	-	4	3,572
Changes in balances of financial assets	-1,253	-	-1	-1,254
Financial assets terminated/matured during the period	-567	-	-34	-601
Write-offs	3,568	-	4	3,572
Gross carrying amount as at 31.12.2019	**2,466**	**-**	**34**	**2,500**

Analysis of changes in provisions in off-balance sheet risk exposure

(EUR thousand)

Total impairment of receivables	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Provision as at 01.01.2018	**35**	**-**	**-**	**35**
Movements:	-3	-	3	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-3	NA	3	-
From Stage 2 to Stage 1	-	-	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired	2	-	-	2
Changes in balances of financial assets	-	-	-3	-3
Financial assets terminated/matured during the period	-12	-	-	-12
Write-offs	-	-	-	-
Provision as at 31.12.2018	**22**	**-**	**-**	**22**
Movements:	-	-	-	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-	NA	-	-
From Stage 2 to Stage 1	-	-	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired	1	-	-	1
Changes in balances of financial assets	-21	-	-	-21
Financial assets terminated/matured during the period	-1	-	-	-1
Write-offs	-	-	-	-
Provision as at 31.12.2019	**1**	**-**	**-**	**1**

Distribution of off-balance sheet risk exposures by types of liabilities and loan classes 2019

(EUR thousand)

	Contingent assets and liabilities			
Type of liability	**Performance guarantees**	**Loan limits**	**Unused factoring**	**Total**
Collectively impaired	**1,565**	**4,177**	**36**	**5,778**
Credit class 1	1,565	781	36	2,382
Credit class 2		3,396		3,396
Provision	**-**	**1**	**-**	**1**
Individually impaired	**-**	**4**	**-**	**4**
Credit class 1	-	4	-	4
Provision	**-**	**-**	**-**	**-**

2018 (EUR thousand)

	Contingent assets and liabilities			
Type of liability	**Performance guarantees**	**Loan limits**	**Unused factoring**	**Total**
Collectively impaired	**1,461**	**2,164**	**303**	**3,927**
Credit class 1	1,461	1,988	303	3,751
Credit class 2	-	176	-	176
Provision	**-**	**22**	**-**	**22**
Individually impaired	**-**	**34**	**-**	**34**
Credit class 1	-	34	-	34
Provision	**-**	**-**	**-**	**-**

The Group's loans granted to customers as at 31 December 2019 and 31 December 2018 by the due date are presented below.

(EUR thousand)

	2019	2018
On demand	647	530
Overdue	4,699	5,885
Up to 3 months	870	5,352
Between 3-12 months	3,678	8,047
Between 1-2 years	4,099	1,005
Between 2-5 years	5,067	12,194
Over 5 years	34,720	22,127
Total loans to customers	**53,780**	**55,140**

In the above table, the overdue loan is a loan that has not been repaid by the maturity date.

Net and-gross investments of lease receivables

Analysis of net and gross lease investments and future rental income as at 31 December 2019 and 31 December 2018:

	Present value of receivables	
(EUR thousand)	**31.12.2019**	**31.12.2018**
Total gross investment	**4,354**	**5,157**
Up to 1 year	1,711	1,659
Between 1 and 2 years	1,533	1,349
Between 2 and 3 years	756	1,025
Between 3 and 4 years	289	614
Between 4 and 5 years	40	211
After 5 years	25	240
Less: Future interest income	-677	-1,085
Total present value of receivables	**3,677**	**4,072**
Up to l year	1,362	1,195
Between 1 and 2 years	2,006	1,858
Between 2 and 3 years	267	552
Between 3 and 4 years	30	191
Between 4 and 5 years	12	51
After 5 years	-	225

Receivables by economic sector are disclosed in Note 4 “Risk management”, page 53.
Receivables by currency are disclosed in Note 4 “Risk management”, page 56.
Receivables by region are disclosed in Note 4 “Risk management”, page 55.

Note 8. Other Assets

Other assets are splitted follows:

(Eur thousand)

	31.12.2019	31.12.2018
Other financial assets, incl.	**180**	**381**
-cash in transit	83	150
-other accounts receivable	60	194
-securities	37	37
Other assets, incl.	**809**	**1,109**
-prepaid expenses	459	570
-prepaid taxes	215	251
-repossessed assets	98	204
-other assets	18	62
-collector’s coins	19	22
Total	**989**	**1,490**

As at 31 December 2019, the Bank’s balance sheet included deferred income tax assets on tax losses in the amount of EUR 215 thousand. The Group’s management considers it virtually certain that it will be realised through taxable profit in the future.

Repossessed assets

(EUR thousand)

	Real estate	Totalu
Balance 31.12.2018	204	204
Balance 31.12.2019	98	98

During 2019, sold other repossessed assets in the amount of 106 thousand euros. The funds raised from the liquidation of repossessed assets are used to reduce the due amounts. During 2018, the Group did not sell assets held as collateral for loan agreements.Real estate has been revalued to fair value on the date of preparation of the statement of financial position by an independent expert based upon comparable market transactions. Repossessed assets are included in the item “Other assets” in the statement of financial position of the Group. Losses from revaluation are recognised in the income statement.

Note 9. Property, plant and equipment

Property, plant and equipment are as follows:

(EUR thousand)

	Tangible Assets						Intangible Assets		Total PP&E
	Improve-ments of rented PP&E	**Buildings**	**Righ-of-use assets**	**Vehicles**	**Office equipment**	**Pre-payments**	**Software**	**Pre-payments**	
Cost									
As at 31 December 2017	**1,335**	**2,901**	**-**	**120**	**2,053**	**-**	**-**	**-**	**6,409**
Acquisitions	-	-	-	-	7	1 141	-	-	1,148
Fully amortised property, plant and equipment written off balance sheet	-	-	-	-	-108	-	-	-	-108
Disposals	-	-	-	-104	-	-	-	-	-104
Reclassification from prepayment for PP&E	-	750	-	23	368	-1 141	-	-	-
As at 31 December 2018	**1,335**	**3,651**	**-**	**39**	**2,320**	**-**	**-**	**-**	**7,345**
Effects from adoption of IFRS16 on 01 January 2019	-	-	281	-	-	-	-	-	281
As at 1 January 2019	**1,335**	**3,651**	**281**	**39**	**2,320**	**-**	**-**	**-**	**7,626**
Acquisitions	-	-	81	-	-	420	-	930	1,431
Fully amortised property equipment written off balance sheet	-	-	-	-	-340	-	-29	-	-369
Disposals	-	-	-	-	-86	-	-	-	-86
Reclassification from prepayment for PP&E	-	-	-	-	420	-420	246	-246	-
As at 31 December 2019	**1,335**	**3,651**	**362**	**39**	**2,314**	**-**	**217**	**684**	**8,602**
Accumulated depreciation									
As at 31 December 2017	**-833**	**-273**	**-**	**-118**	**-1,255**	**-**	**-**	**-**	**-2,479**
Depreciation	-37	-70	-	-4	-366	-	-	-	-477
Fully amortised property, plant and equipment written off balance sheet	-	-	-	-	108	-	-	-	108
Disposals	-	-	-	104	-	-	-	-	104
As at 31 December 2018	**-870**	**-343**	**-**	**-18**	**-1,513**	**-**	**-**	**-**	**-2,744**
Depreciation	-37	-72	-69	-4	-302	-	-133	-	-617
Fully amortised property, plant and equipment written off balance sheet	-	-	-	-	332	-	29	-	361
Disposals	-	-	-	-	73	-	-	-	73
As at 31 December 2019	**-907**	**-415**	**-69**	**-22**	**-1,410**	**-**	**-104**	**-**	**-2,927**
Carrying amount									
As at 31 December 2017	**502**	**2,628**	**-**	**2**	**798**	**-**	-	-	**3,930**
As at 31 December 2018	**465**	**3,308**	**-**	**21**	**807**	**-**	-	-	**4,601**
As at 31 December 2019	**428**	**3,236**	**293**	**17**	**904**	**-**	**113**	**684**	**5,675**

The abovementioned assets have not been pledged to third parties.
The carrying amount of right-of-use assets and the changes therein during the year have been disclosed in Notes 2 and 13. Intangible assets include software and development costs.

Note 10. Investment property

Investment property includes properties acquired for the purpose of capital appreciation by AS TBB Invest and AS Morgan Trade, presented at fair value (see Note 25).

Analysis of changes in the balance of investment property:

(EUR thousand)

	31.12.2019	31.12.2018
Balance at the beginning of the year	**11,851**	**12,596**
Additions	31	387
Disposals	-1,256	-617
Gain from revaluation of fair value	64	78
Loss from revaluation of fair value	-20	-593
Balance at the end of the year	**10,670**	**11,851**

In 2019, the Group earned rental income from investment property in the amount of EUR 69 thousand, direct expenses related to administration of investment property amounted to EUR 49 thousand, incl. expenses on investment property earning rental income in the amount of EUR 21 thousand. In 2018, income was earned in the amount of EUR 244 thousand and direct expenses related to investment property management amounted to EUR 57 thousand, incl. expenditure in the amount of EUR 22 thousand on investment property earning rental income.

Rental income from investment properties and administrative expenses are reported in the income statement items "Other operating income" and "Other operating expenses". Gains and losses from revaluation are reported in separate accounts in the income statement.

As at 31 December 2019 (as well as 31 December 2018), investment properties have been appraised partly by the Group's management and partly by independent real estate appraisers. External real estate appraisers have the required qualification and prior experience in appraising similar locations and market segments to perform the valuation. All estimates made by independent experts have been reviewed by the Group's management. The management has evaluated all material inputs, which the independent expert has used in its report and in case of major changes in value, has revalued the properties in comparison with the previous year.

The basis for valuation of investment property carried out by the Group's management are appraisal reports issued by professional valuation specialists in previous years, data reported to the Land Board regarding real estate transactions concluded in various regions of Estonia and data published on City24 regarding similar properties that are for sale.

The level of the market value of investment properties depends on the overall macroeconomic situation, the demand to supply ratio for the particular type of investment property, interest rates, amount of available capital and liquidity in the financial markets. In addition, the fair value of a specific real estate property depends on its location, its servitude, possible alternatives in this region and the concept of a development project designed for the specific investment property. The estimate of the fair value of investment properties is based on estimates, assumptions and historical experience adjusted for prevailing market conditions and other factors, which the management constantly re-estimates according to its best knowledge while considering available information. Therefore, arising from the definition and considering that the estimates have been made on the basis of a number of assumptions, all of which may not be realised in the manner estimated, it represents a key risk. This may lead to major changes in the carrying amount of investment properties in future periods.

For determining the fair value of the Group's investment properties, the comparable transactions method has been used. Due to the low liquidity of the Estonian real estate market, the appraisers have needed to use non-observable inputs to a lesser or greater extent for all valuations. Therefore, the fair value of all investment properties has been determined on level 3 of the fair value hierarchy. During 2019, investment properties have not been classified to other levels of the fair value hierarchy.

For determining the input of the price per square meter used in the comparable transactions method, the transactions concluded with similar properties under market conditions have been used as the basis

2019 (EUR thousand)

Region	Intended use	Carrying amount	Value (per m^2)	Potential change	Impact on value
Viimsi parish	Residential land, commercial land, industrial land, public	5,951	33.75	+10% -10%	609 -609
Tallinn	Residential land, commercial land, public buildings land	3,785	118.36-1,087.24	+10% -10%	379 -379
Harjumaa	Profit-yielding land, residential land, industrial land, transportation land	529	0.20-357.14	+10% -10%	39 -39
Saaremaa	Residential land, profit-yielding land	140	0.15-1.64	+10% -10%	14 -14
Raplamaa	Profit-yielding land	145	0.31-0.80	+10% -10%	15 -15
Other	Residential land, commercial land, industrial land, profityielding land	120	1.00-212.59	+10% -10%	12 -12
	Total	**10,670**			

2018 (EUR thousand)

Region	Intended use	Carrying amount	Value (per m^2)	Potential change	Impact on value
Viimsi parish	Residential land, commercial land, industrial land, public	7,100	34.01	+10% -10%	710 -710
Tallinn	Residential land, commercial land, public buildings land	3,833	118.36-1,087.24	+10% -10%	35 -35
Harjumaa	Profit-yielding land, residential land, industrial land, transportation land	521	0.20-357.14	+10% -10%	52 -52
Saaremaa	Residential land, profit-yielding land	140	0.15-1.64	+10% -10%	14 -14
Raplamaa	Profit-yielding land	133	0.31-0.80	+10% -10%	13 -13
Other	Residential land, commercial land, industrial land, profityielding land	124	1.00-212.59	+10% -10%	12 -12
	Total	**11,851**			

Note 11. Payables to credit institutions

Payables to customers are divided by segments as follows:

(EUR thousand)

	31.12.2019	31.12.2018
Legal entities	71,884	129,134
Individuals	47,212	46,824
Total	**119,096**	**175,958**

Analysis by maturity of deposits is as follows:

(EUR htousand)

	31.12.2019	31.12.2018
Demand deposits	77,510	140,375
Deposits with maturities of less than 3 months	10,344	6,337
Deposits with maturities between 3 months - 1 year	16,967	16,034
Deposits with maturities between 1 - 5 years	14,275	13,212
Total	**119,096**	**175,958**

Note 12. Other payables

(EUR thousand)

	31.12.2019	31.12.2018
KredEX	61	15
MES	6,458	6,384
Total	**6,519**	**6,399**

Other payables include loans from the Rural Development Foundation *(Maaelu Edendamise Sihtasutus, MES)* for targeted financing of agricultural entities via the Bank.

In 2019, the bank continues to carry out cooperation started in 2014 with KredEx for issuing start-up loans. The objective of cooperation is to jointly improve financing possibilities of new enterprises. By using funds received from KredEx, the bank finances business operations of enterprises.

Analysis by maturity of loans is as follows: (EUR thousand)

	31.12.2019	31.12.2018
Due in 3 months	-	1
Due between 3 months to 1 year	74	379
Due between 1 year to 5 year	854	1,093
Due after 5 years	5,591	4,926
Total	**6 ,519**	**6,399**

As at 31 December 2019 and 2018, the average weighted effective interest rate of borrowings from the Rural Development Foundation was 1.01% and 0.97%, respectively, As at 31 December 2019 and 2018, the average weighted effective interest rate of borrowings from KredEx was 4.00% and 3.96%, respectively.

Note 13. Other liabilities and accrued expenses

Other liabilities and accrued expenses are as follows:

(EUR thousand)

	31.12.2019	31.12.2018
Financial liabilities, incl.	**4,465**	**5,153**
-payments in transit	3,884	4,843
-other liabilities	284	288
-lease liabilities	296	-
-provisions	1	22
Other liabilities (accrued expenses)	**341**	**346**
Total	**4,806**	**5,499**

In addition, see Note 4.

The Group leases office premises. Until 31 December 2018, leases of office premises were recognised as operating leases. Starting from 1 January 2019, the Group recognises lease agreements as right-of-use assets and respective liabilities at a date when the leased asset is available for use. All lease agreements are cancellable if the parties agree to it. As at 1 January 2019, the future non-cancellable lease payments were discounted by EUR 307 thousand, using the Group's alternative rate of interest of 2.26%. As a consequence, total assets increased in the Group's statement of financial position by EUR 281 thousand and total liabilities increased by EUR 281 thousand. During 2019, the right-of-use assets and lease liabilities related to new rental premises were additionally recognised in the amount of EUR 81 thousand. As at 31 December 2019, the balance of right-of-use assets is disclosed in Note 9. The balance of lease liabilities as at 31 December 2019 is disclosed in Note 13. The interest expenses on rental premises amounted to EUR 8 thousand and depreciation of right-of-use assets was EUR 69 thousand (Note 9). In 2019, the principal payments of lease liabilities totalled EUR 74 thousand. The amount of future lease payments under unilaterally non-cancellable lease payments in the following periods as at 31 December 2018 are shown in the table below.

Right - of - use assets and lease liabilities

(EUR thousand)

31.12.2019	Up to 1 year	1 to 8 years	Total
Non-cancellable lease payments	73	317	390

Note 14. Share capital

As at 31 December 2019, the share capital of AS TBB pank consisted of 25,500,000 ordinary shares with the nominal value of 1 EUR per share (31 December 2018: 25,500,000 ordinary shares).

In accordance with the Credit Institutions Act, credit institutions must have at least EUR 5 million in own funds. The share capital of AS TBB pank complies with this requirement.

Pursuant to the Commercial Code of Estonia, on the basis of a decision of the general meeting of shareholders, statutory reserve capital (EUR 1,005 thousand as at 31 December 2019 and EUR 928 thousand as at 31 December 2018) may be used to cover losses, if such losses cannot be covered from the available equity of the company, as well as to increase share capital. Statutory reserve capital is formed from annual net profit allocations and cannot be used to make distributions to shareholders.

Note 15. Contingent assets and liabilities

(EUR thousand)

	31.12.2019		31.12.2018	
	Receivables	**Liabilities**	**Receivables**	**Liabilities**
Irrevocable and revocable transactions, incl.	**-**	**5,782**	**-**	**3,961**
Performance guarantees and other similar irrevocable transactions	-	1,565	-	1,461
Undrawn portion of credit and overdraft facilities	-	3,964	-	1,923
Other irrevocable transactions*	-	217	-	274
Unused factoring limit	-	36	-	303

*Other irrevocable transactions include the undrawn portions of the credit limits of credit cards.

Court cases

As of 31 December 2019, Veli Kraavi, the trustee in bankruptcy of OÜ Johnny HW (bankrupt), was in civil proceedings No. 2-16-8552 at the Supreme Court against AS TBB pank and AS TBB liising to cancel transactions or return the proceeds and, alternatively, to receive EUR 6,641 thousand and interest on arrears. By a court judgment of the Tallinn Circuit Court of 21 January 2020, the court dismissed the lawsuit of Veli Kraavi's action (trustee of OÜ Johnny HW, bankrupt) against the Bank and Leasing. The judgment has not entered into force as an appeal in cassation has been lodged against it. Considering the previous course of proceedings, the management considers it unlikely that possible losses will be incurred and therefore the Group has not formed provisions for covering possible damages.

As at 31 December 2019 first instance proceedings were pending against the Bank in the court's civil case No. 2-17-13128 of OOO Resistes for collecting the debt in the amount of EUR 4,174 thousand, interest in the amount of EUR 206 thousand and an additional interest. At 10 January 2020, Harju County Court terminated the proceedings in this civil case. The court ruling has enforced on 24 March 2020.

Potential liabilities arising from the tax audit

The tax authority did not conduct any tax audits with regard to the Bank Group in 2019. Tax authorities have the right to review the Group's tax records within 5 years after submitting the tax declaration and upon detecting errors, impose additional taxes, interest and fines. The Group's management estimates that there are no circumstances that might lead the tax authorities to assign additional taxes for the Group.

Potential income tax liability on distribution of dividends

The Group's accumulated loss at 31 December 2019 totalled EUR -92 thousand EUR. Dividends will not be paid.

Note 16. Interest income

Interest income is divided as follows:

(EUR thousand)

	31.12.2019	31.12.2018
Interest income calculated using the effective interest method	**2,804**	**3,035**
Loans	2,311	2,264
Deposits	493	771
Other similar income	**635**	**621**
Leases	497	477
Other	138	144
Total	**3,439**	**3,656**

As at 31 December 2019 and 2018, the weighted average effective interest rate on loans granted was 4.58% and 4.53%, respectively.

As at 31 December 2019 and 2018, the weighted average effective interest rate on term deposits was 1.73% and 1.87%, respectively.

As at 31 December 2019 and 2018, the weighted average effective interest rate on finance lease agreements was 9.15% and 10.49%, respectively.

Note 17. Interest expense

Interest expense is divided as follows:

(EUR thousand)

	31.12.2019	31.12.2018
Loans	-65	-64
Negative deposit interest rate for banks	-306	-367
Deposits	-668	-598
Interest expence on lease liabilities	-7	-
Kokku	**-1,046**	**-1,029**

As at 31 December 2019 and 2018, the weighted average effective interest rate on customers' term deposits was 1.69% and 1.59%.

As at 31 December 2019 and 2087, the weighted average effective interest rate of borrowings from the Rural Development Foundation was 1.01% and 0.97%, respectively.

As at 31 December 2019 and 2018, the weighted average effective interest rate of the loans received from KredEx was 4.00% and 3.96%, respectively.

Note 18. Impairment losses on receivables

(EUR thousand)

	31.12.2019	31.12.2018
Gain	1,025	154
Loss (Note 3, 4, 7)	-1,795	-166
Total	**-770**	**-12**

Note 19. Fee and commission income

(EUR thousand)

	31.12.2019	31.12.2018
Transfers	993	1,538
Bank cards	442	437
Account maintenance fees	356	541
Servicing loans and leases, guarantees	151	242
Cash transactions	19	34
Securities transaction and administration fees	15	15
Others	95	186
Total	**2,071**	**2,993**

Note 20. Fee and commission expenses

(EUR thousand)

	31.12.2019	31.12.2018
Data processing fees	-476	-344
Execution of transfers	-449	-498
Card services	-393	-416
Loan servicing fees and guarantee fees	-69	-66
Cash collecting and cash transaction fees	-1	-5
Others	-55	-70
Total	**-1,443**	**-1,399**

Note 21. Net gains/losses from financial transactions

(EUR thousand)

	31.12.2019	31.12.2018
Net gains from currency exchange transactions	1,299	1,788
Dividend income	2	1
Kokku	**1,301**	**1,789**

Note 22. Wages and salaries, and social security taxes

Wages and salaries, and social security taxes are as follows:

(tuhandetes eurodes)

	31.12.2019	31.12.2018
Management remuneration	-592	-491
Employee wages and salaries	-1 679	-1 469
Social security taxes	-759	-653
Total	**-3 030**	**-2 613**

In 2019 and 2018, the average number of employees in the Group was 69 and 75, respectively.

Note 23. Other administrative expenses

Other administrative expenses are as follows:

(EUR thousand)

	31.12.2019	31.12.2018
Security services	-105	-107
Rent	-12	-44
Utilities	-54	-55
Maintenance and repairs	-102	-114
Transportation	-18	-34
Expenses related to business trips	-8	-12
Communication and postal expenses	-18	-21
Office supplies	-38	-25
Marketing	-13	-6
Representational expenses	-6	-8
Training expenses	-31	-17
Other expenses	-119	-113
Total	**-524**	**-556**

Note 24. Other operating income

(EUR thousand)

	31.12.2019	31.12.2018
Other income and rental income on investment properties (Note 10)	69	244
Fines and penalty interests	54	108
Gain from revaluation of gold	123	58
Other operating income	13	48
Total	**259**	**458**

Note 25. Other operating expenses

(tuhandetes eurodes)

	31.12.2019	31.12.2018
Guarantee Fund payments	-84	-91
Financial Supervision Authority supervision fees	-94	-94
Expenses related to management of investment properties (Note 10)	-49	-57
Loss from repossessed assets (Note 8)	-14	-
Loss from revaluation of gold	-49	-45
Other operating expenses	-387	-399
Total	**-677**	**-686**

Note 26. Related parties

In preparing the financial statements of the Group, the following entities have been considered related parties:

- Shareholders of significant influence and entities related to them;
- Members of the Management Board and Supervisory Board and companies controlled by them;
- Close relatives of the persons mentioned above and the entities related to them.

As at 31 December 2019, the ownership interest of AS Leonarda Invest amounted to 48.45% of the Bank's shares outstanding (31.12.2018: 48.45%). The individual ownership interest of other shareholders as at 31 December 2019 and 31 December 2018 was below 10%. No shareholder exercises control over the Group.

Transactions with related parties are carried out at market value. As at 31 December 2019 and 31 December 2018 and during both fiscal periods, no write-downs on receivables from related parties have been recognised.

Upon the removal of a member of the management board before the end of their term, the scheduled expiry of their term or upon contract cancellation at the Management Board member's initiative, the Bank must pay to the member of the management board an amount equal to their eight months' salary. The Supervisory Board retains the right to reduce the amount to be paid out or to pay such amount in instalments in consideration of the Bank's current economic condition, including the effect of such distribution to the Bank's level of own funds and liquidity and is guided by the principle of reasonableness. Upon cancellation of the service contracts of members of the Management Board of other companies in the Bank's group by AS TBB or upon cancellation of the contract by the Management Board member, AS TBB will pay a one-time benefit of 2 (two) month's pay to the member of the Management Board. The benefit amounts are not significant and have no effect on the financial performance indicators of the Group.

Transactions and balances made in 2019 and 2018 with related parties are recognised as follows

2019 (EUR thousand)

	Shareholders and related companies with significant influence	**Members of the management and Supervisory Board and companies controlled by them, the head of internal audit department**	**Close relatives of the persons mentioned above and their related entities**	**Total**
Balance of loan receivables as at 31.12.2019	232	163	405	800
Loans granted	558	368	4,146	5,072
Repayments of loans	326	553	3,947	4,826
Interest income received	-	-	21	21
Balance of deposits as at 31.12.2019	3	102	3,251	3,356
Interest expenses paid	-	-	21	21
Services provided	4	2	65	71
Services purchased	-	-	36	36
Other off-balance sheet liabilities	63	133	95	291
Remuneration during the period	-	638	-	638

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2018 (EUR thousand

	Shareholders and related companies with significant influence	Members of the management and Supervisory Board and companies controlled by them, the head of internal audit department	Close relatives of the persons mentioned above and their related entities	Total
Balance of loan receivables as at 31.12.2018	-	348	206	554
Loans granted	-	788	5,060	5,848
Repayments of loans	-	895	5,592	6,487
Interest income received	-	4	29	33
Balance of deposits as at 31.12.2018	168	102	1,201	1,471
Interest expenses paid	-	-	26	26
Services provided	3	4	73	80
Services purchased	-	-	37	37
Other off-balance sheet liabilities	-	239	549	788
Remuneration during the period	-	491	-	491
Purchase of real estate and other assets	750	-	-	750

Note 27. Events after the balance sheet date

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and by now it has spread across the world, including Estonia, causing disruptions to businesses and economic activity. The Group considers this outbreak to be a non-adjusting post balance sheet event.

The Group will proceed with its business as usual, and its management is ensured and executed through regular governance. Employees are able to telework which will not hinder them from fulfilling any of the functions, including activities throughout credit operations. Some of the bank branches are open, and all online services are available and ready-to-use. Loan management and interaction with customers has neither deteriorated nor been restricted due to the state of emergency caused by the Covid-19 pandemic. For those customers who have taken a loan but are in financial difficulties, the Bank offers flexible terms (incl. a 6-month grace period).

Since the situation is uncertain and rapidly evolving, the Management Board does not consider it possible to provide a detailed quantitative estimate of the potential impact of the outbreak of the disease on the Group at the time of preparing the annual report. At the time of authorization of the annual report for issue, the Group's liquidity and capital positions are solid and do not materially differ from those as at 31 December 2019. The Management Board is not aware of any indications that the Group may violate regulatory requirements: its capital and liquidity buffers are adequate and the Group is in compliance with all requirements. At 25 March 2020, Eesti Pank confirmed that it will reduce the systemic risk buffer applicable to commercial banks from 1% to 0%, i.e. it will relax capital requirements. The reduction of the systemic risk buffer is expected to take force at 1 May.

The impact of macroeconomic forecasts will be taken into account in 2020 when evaluating the Group's expected credit losses under IFRS 9. The Group has analyzed a potential change in the LTV level under the scenario involving the Covid-19 virus and is of opinion that the collateral position is solid and will not be significantly impacted by it. The LTV level used at the Bank is adequate to meet its credit obligations in the market that has been negatively impacted by the Covid-19 pandemic.

Note 28. Parent's unconsolidated statement of financial position, statement of comprehensive income, statement of changes in equity and cash flow statement

STATEMENT OF FINANCIAL POSITION OF AS TBB pank

(EUR thousand)

ASSETS	31.12.2019	31.12.2018
Cash	**1,023**	**1,183**
Receivables	**145,584**	**205,652**
Receivables from Central Bank	53,786	80,392
Receivables from credit institutions	31,289	60,116
Receivables from customers	61,509	65,144
Other assets	**677**	**684**
Gold	**440**	**367**
Shares and other securities	**2,102**	**2,582**
Property, plant and equipment	**4,803**	**4,438**
Intangible assets	**797**	**-**
TOTAL ASSETS	**156,426**	**214,906**

LIABILITIES AND EQUITY		
Debt obligations	**125,615**	**182,356**
Payables to customers	119,096	175,957
Other payables	6,519	6,399
Other liabilities and accrued expenses	**4,529**	**5,212**
TOTAL LIABILITIES	**130,144**	**187,568**
Share capital	25,500	25,500
Reserves	992	915
Accumulated profit/ (-loss)	-210	923
TOTAL EQUITY	**26,282**	**27,338**
TOTAL LIABILITIES AND EQUITY	**156,426**	**214,906**

STATEMENT OF COMPREHENSIVE INCOME OF AS TBB pank

(EUR thousand)

	2019	2018
Net interest income	**2,278**	**2,388**
Interest income calculated using the effective interest method	3,197	3,321
Other similar income	127	95
Interest expense	-1,046	-1,028
Gain/loss from revaluation of investments into subsidiaries	**-480**	**-470**
Net fee and commission income	**622**	**1,576**
Fee and commission income	2,065	2,976
Fee and commission expense	-1,443	-1,400
Net gains from financial transactions	**1,301**	**1,789**
Administrative expenses	**-3,414**	**-3,003**
Wages and salaries	-2,192	-1,856
Wage related taxes	-733	-618
Other administrative expenses	-489	-529
Depreciation	**-550**	**-397**
Impairment losses on receivables	**-696**	**80**
Gain	880	176
Loss	-1,576	-96
Other operating income and expenses	**-289**	**-272**
Other operating income	166	163
Other operating expense	-455	-435
Profit before tax	**-1,228**	**1,691**
Income tax expense (-)/gain (+)	172	-161
Net profit/ (-loss) for the financial year	**-1,056**	**1,530**
Total comprehensive income/ (-loss) for the financial year	**-1,056**	**1,530**

CASH FLOW STATEMENT OF AS TBB pank

(EUR thousand)

	2019	2018
Cash flows from operating activities		
Profit before tax for the financial year	**-1,228**	**1,691**
Adjustments for:		
Depreciation	550	397
Unrealised gain/loss from revaluation of investment in subsidiaries	480	470
Net interest income	-2,278	-2,388
Change in receivables from credit institutions and customers	8,324	-680
Change in other receivables and prepayments related to operating activities	150	-129
Changes in liabilities related to the operating activities	-57,451	-17,494
Interest received	3,380	3,424
Interest paid	-945	-952
Corporate income tax paid	-44	-161
Total cash flows from operating activities	**-49,062**	**-15,822**
Cash flows from investing activities		
Purchase of property, plant and equipment	-1,712	-1,141
Total cash flows from investing activities	**-1,712**	**-1,141**
Cash flow from financing activities		
Payments of principal on leases	-74	-
Total cash flow from financing activities	**-74**	**-**
Total cash flows	**-50,848**	**-16,963**
Cash and cash equivalents at the beginning of the year	**127,073**	**144,036**
Cash and cash equivalents at the end of the year	**76,225**	**127,073**

Cash and cash equivalents comprise cash, a correspondent account at the Bank of Estonia, demand deposits and overnight loans at other banks.

	2019	2018
Cash	1,023	1,183
Correspondent account at Bank of Estonia	52,827	78,902
Demand deposits and overnight loans at banks	22,375	46,988
Total cash and cash equivalents	**76,225**	**127,073**

STATEMENT OF CHANGES IN EQUITY OF AS TBB PANK FOR 2019 AND 2018

(EUR thousand)

	Share capital	Reserves	Retained earnings	Total
Closing balance 31.12.2017	**25,500**	**829**	**-36**	**26,293**
Effect of the change in accounting policies*	-	-	-485	-485
(changes related to initial application of IFRS 9, Note 2)				
Adjusted opening balance at 01.01.2018	**25,500**	**829**	**-521**	**25,808**
Increase of statutory reserve	-	86	-86	-
Comprehensive income	-	-	1,530	1,530
Closing balance 31.12.2019	**25,500**	**915**	**923**	**27,338**
Increase of statutory reserve	-	77	-77	-
Comprehensive income	-	-	-1,056	-1,056
Closing balance 31.12.2019	**25,500**	**992**	**-210**	**26,282**
Carrying amount of ownership interests under control and significant influence				-2,065
Value of ownership interests under control and significant influence under equity method				2,196
Adjusted unconsolidated equity at 31.12.2018				**26,413**

**IFRS 9 "Financial Instruments" has been applied since 1 January 2018*

Independent auditor's report

To the Shareholders of AS TBB pank

Report on the audit of the consolidated financial statements

Our opinion

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

Our opinion is consistent with our additional report to the Audit Committee dated 1 April 2020.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated cash flow statement for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

[To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59[1] of the Auditors Activities Act of the Republic of Estonia. The non-audit services that we have provided to the Group in 2019 are disclosed in the management report.

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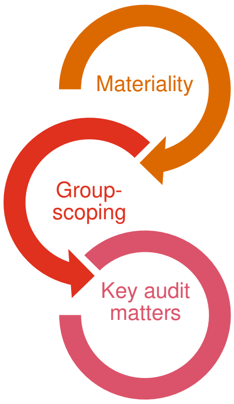
Our audit approach

Overview



Overall group audit materiality is EUR 264 thousand, which represents 1% of Group's net assets.

The audit team performed full scope audit procedures for the Company and for its subsidiaries.

- Impairment of loans to customers

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Group audit materiality	EUR 264 thousand
How we determined it	1% of Group's net assets
Rationale for the materiality benchmark applied	We have applied this benchmark, as net assets is the key performance indicator for Management and Shareholders in evaluating the Group's value.

Translation note:

This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter

Impairment of loans to customers
 	
(refer to Note 2 "Summary of significant accounting policies", Note 3 "Critical accounting estimates and judgements", Note 4 "Risk management", Note 7 "Receivables from customers" and Note 18 "Impairment losses on receivables" for further details).
 	
As at 31 December 2019 net carrying amount of loans to customers amounted to EUR 52,962 thousand that included related impairment allowance in the amount of EUR 1,278 thousand.
 	
We focused on this area because management uses complex models with subjective inputs to assess the timing and the amount of expected credit losses. Key areas requiring significant management judgements and modelling in calculating ECL include:
 	
• evaluating the criteria for assessment of significant increase in credit risk and allocation of loans to stage 1, 2 or 3;
 	
• assessing accounting interpretations and simplified assumptions used to build the methods that calculate ECL. Main simplified assumptions were made in the next areas:
  - determination of common (weighted) lifetime PD coefficients for different groups of receivables taking into account the different lifetime of the products in the groups;
  - using of scenarios while predicting ECL;
 	
• the calculation of key parameters of ECL model, including probability of default (PD), loss given default (LGD) and exposure at default (EAD);
 	
• determining the macro-economic indicators and incorporating forward-looking information into the ECL model; including
	We assessed whether the Group's accounting policies and methodology applied for the calculation of impairment of loans to customers are in compliance with IFRS 9.
	
	We assessed the design and operating effectiveness of key controls over ECL data and respective calculations, including:
	
	• IT general controls over relevant systems;
	
	• IT application controls over exposure balances;
	
	• review and approval of customer risk classes.
	
	We performed detailed testing over:
	
	• the completeness and accuracy of data used in the ECL calculation system;
	
	• the compliance of key inputs used in ECL calculation system with IFRS 9 methodology;
	
	• the accuracy and compliance of 12-month and lifetime ECL calculations with IFRS 9 methodology;
	
	• the accuracy and completeness of data used for staging of loans (including applying the criteria for determining significant increase in credit risk and definition of default);
	
	• the internal assignment of risk classes for loan customers, which serve as inputs into the ECL model;
	
	• the correctness of information on collaterals and their values in the loan systems, which serve as an input into the ECL model;
	
	• the internal assignment of risk classes for collaterals, which serve as inputs into the ECL model; and
	
	• the completeness of loans subject to stage 3 assessment and related ECL calculations.
	
	We have assessed the reasonableness of key assumptions made by management, which serve

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estimating the above mentioned indicators for reliable future period and assigning weighted impact to those scenarios;

- estimating ECL for Stage 3 individual assessments.

as critical inputs in the ECL model, such as weights of different scenarios, corporate portfolio point in time PD estimate, key forecasts of macroeconomic information and multipliers used for different scenarios.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group comprises AS TBB pank and its subsidiaries TBB Liisingu AS, AS TBB Invest and AS Morgan Trade, which are operating in Estonia. The audit team performed full scope audit procedures for all Group entities covering substantially all of the Group's consolidated statements of financial position and comprehensive income.

Other information

The Management Board is responsible for the other information. The other information comprises Introduction and the Management report (but does not include the consolidated financial statements and our auditor's report thereon).

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

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

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

The Management Board 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 the Management Board 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, the Management Board 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 the Management Board 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

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not a guarantee that an audit conducted in accordance with ISAs 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 ISAs, we exercise professional judgment and maintain professional scepticism 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 the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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Report on other legal and regulatory requirements

Appointment and period of our audit engagement

We were first appointed as auditors of AS TBB pank for the financial year ended 31 December 2009. Our appointment has been renewed by tenders and shareholder resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment for AS TBB pank of 11 years. In accordance with the Auditors Activities Act of the Republic of Estonia and the Regulation (EU) No 537/2014, our appointment as the auditor of AS TBB pank can be extended for up to the financial year ending 31 December 2028.

AS PricewaterhouseCoopers

/signed/

Lauri Past
Certified auditor in charge, auditor’s certificate no.567

1 April 2020
Tallinn, Estonia

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5. Managment Board` s proposal for loss covering

In 2019, the audited loss of AS TBB pank Group is EUR -821 thousand, and the Bank's loss is EUR -1,056 thousand.

Proposal of the Management Board:

1. To approve the 2019 annual report of AS TBB pank.
2. To include the bank's 2019 loss in the 'Accumulated loss' line.
3. To submit this resolution to the Supervisory Board of AS TBB pank Group for re-view.

Signature	Date
Igor Novikov Chairman of the Management Board	/signed/ 31 March 2020
Sergei Elošvili Member of the Management Board	/signed/ 31 March 2020
Aivar Luik Member of the Management Board	/signed/ 31 March 2020
Eduard Kelvet Member of the Management Board	/signed/ 31 March 2020

6. DECLARATION OF THE SUPERVISORY BOARD TO THE 2019 ANNUAL REPORT

The Management Board has prepared the management report and the consolidated financial statements of AS TBB pank for the financial year ended at 31 December 2019.

The Supervisory Board of AS TBB pank has reviewed the annual report, prepared by the Management Board, consisting of the management report, the financial statements, the Management Board's proposal for the distribution of profit and the independent auditor's report, and has approved the annual report for presentation at the General Meeting of Shareholders.

Madis Kiisa
Chairman of the Supervisory Board

Veiko Veskiväli
Member of the Supervisory Board

Rene Salumäe
Member of the Supervisory Board

Sergei Gorny
Member of the Supervisory Board

Aleksander Larionov
Member of the Supervisory Board