AS TBB pank

2020 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 2020 - 31 December 2020
Balance sheet date:	31 December 2020
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 2020. The number of the credit institution operating license is EP-08 PO and it is effective from 21 January 1993. As at 31 December 2020, 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 December 2020 AS TBB pank owns 100% of the shares in three entities: AS TBB liising, AS TBB Invest and AS Morgan Trade.

General information about the entities of AS TBB pank consolidation group (hereinafter also "TBB pank" and "the Bank") as at 31 December 2020:

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, Sergey 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 2020.

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, with term of office of 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 3 members. By the time of approval of the annual report the Management Board consists of: Chairman of the Management Board **Igor Novikov** and Members of the Management Board **Sergei Elošvili** and **Evi Tänak-Aruksaar**. The Member of the Management Board Sergei Elošvili and his related persons own 1,242,424 (4.8723%) of the Bank´s shares as at 31 December 2020. Number of shares at the time of preparation of the Annual Report has not changed. Other members of the Management Board and their related persons do not own the Bank`s shares.

Prior to the change in the composition of the Management Board on 18 January 2021 by the decision of the Supervisory Board from 18 May 2020, the areas of responsibility of the Management Board were divided 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 **S. Elošvili**: organisation and development of human resources, organisation and development of advertising and marketing, office assistance staff, administrative department, legal department;
- 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 **E.Tänak-Aruksaar**: 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.

Due to the change in the composition of the Management Board by the decision of the Supervisory Board from 18 January 2021, the areas of responsibility of the Management Board are divided 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 **S. Elošvili**: organization and development of personnel management, organization and development of advertising and marketing, secretariat, administrative department, legal department, organization and development of a customer service system, including sales of products and services, financing, automation of services; IT division, incl. project implementation and customer service automation, Group's development, development and implementation of business strategy and business model, participation in the organization of the risk management system in terms of credit risk management;
- Member of the Management Board **E.Tänak-Aruksaar**: 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.

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:

<u>Credit Committee was established at 26 September 2006.</u> 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.

<u>Internal Audit Department was established at 3 July 1996.</u> 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.

<u>Audit Committee was established at 15 June 2011</u>. 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.

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 AS PricewaterhouseCoopers as the external auditor of AS TBB pank for the years 2019 and 2020. Responsible auditor is Lauri Past. TBB pank complies with the requirement of auditor rotation.

In 2020, 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. Evi Tänak-Aruksaar is the Chairman of the Supervisory Board of AS TBB liising.

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 owns 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 31.12.2020	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 2020 results

Key events in the external environment in 2020:

- In 2020, the development of the world economy was primarily affected by the COVID-19 crisis that culminated in the spring.
- Economic growth quickly turned into a decline that was uneven across countries. In Southern Europe, the GDP fell significantly more than in Northern Europe and Baltic countries.
- The closure of borders had a negative impact on international trade volumes. Among Estonia's main trading partners, the economic downturn was the largest in Germany, Latvia and the United Kingdom.
- During the year, China has been and will remain the main driver of the world economy for the near future. According to the IMF forecasts, the average annual GDP growth in China may exceed 2.0%.
- UK's final exit from the EU made it somewhat more difficult for Estonian companies to establish foreign partnerships with companies in the UK, but provided an opportunity to develop new cooperation.
- During the crisis, the European Central Bank stepped up its monetary policy, which further supported liquidity in the financial sector of the eurozone countries. This was also one of the important reasons why the COVID-19 crisis that started in 2020 has not taken on the dimensions of the 2008 economic crisis.
- During the year, the European Central Bank kept key interest rates at the same level as in previous years, including a base interest rate of 0% and a deposit facility rate of -0.50%.
- In 2020, the average 6-month EURIBOR remained in the same range: -0.367% in 2020 vs. -0.303% in 2019.

The main changes in the Estonian economy in 2020:

- The COVID-19 pandemic had a significant impact on the Estonian economy in 2020. The lockdown announced at the beginning of the year caused a decrease in production, a decline in domestic consumption and an increase in the employment rate. As a result, GDP growth slowed. By the end of the year, this indicator reached 2.9% and the unemployment rate was 8%.
- The coronavirus crisis has hampered labour migration and exacerbated the problem of labour shortages inherent in the economy.
- The decline in tourism has led to an increase in unemployment, especially in the following sectors: trade, hotels, catering, services and tourism itself.
- Financial assistance provided by the government, an increase in public spending and borrowing from the European sources enabled the Estonian economy to overcome the economic downturn better than other EU countries.

- The financial sector has been more resilient and adaptable to the negative developments caused by the coronavirus than during the 2008-2009 financial crisis.
- During the year, the Estonian economy has been exposed to such a non-typical phenomenon as deflation, which led to a decrease in household consumption.
- Overcoming the crisis and stabilizing the financial sector was positively affected by 11% growth in household deposits with banks and ongoing wage growth.
- In 2020, Eesti Pank pursued an active policy of supporting commercial banks. In the middle of the crisis, banks' capital buffer requirements that have to be complied with in order to ensure capital adequacy and liquidity were reduced. This allowed banks to be more open to customers when granting grace periods.
- State support measures, the European Union subsidies and methods applied to reduce credit risks made it possible to maintain the quality of Estonian commercial banks' assets. The share of non-performing loans due more than 60 days was about 0.6% of their loan portfolio[1].
- In some branches of the Estonian economy, however, it has also been possible to see economic growth. For example, in the IT sector, sales volumes increased during the COVID-19 crisis. There had also been a rapid increase in turnover in the areas at health care and social security.
- The real estate market has experienced a real economic boom, with prices reaching record high levels by the end of the year. This contributed to an increase in loans in the relatively risk-free segment. In 2020, the Estonian banks' loan portfolio increased by 0.3 billion euros or 1.0%[2] compared to the previous period.

In 2020, the main developments in the Group's activities were as follows:

- Continuous upgrading of the Bank's website.
- In 2020, a housing, mortgage (housing) and consumer loan platform was launched, which allows for a detailed and comprehensive preliminary analysis and determination of the customer's risk assessment. The customer is identified by an ID card, mobile ID or Smart-ID.
- In accordance with PSD2 requirements, the transition to the second version of the strong authentication method for e-commerce transactions (MCC/3D Secure 2.1) was completed.
- From 2020, in addition to the ID card and Mobile ID, customers will be able to use the Smart-ID identification and payment verification option.
- A new partner - TietoEVRY Card Services Baltic branch - was involved in the process of personalising bank cards.
- In 2020, the Bank organised various deposit campaigns aimed at local customers.
- The sale of properties in the balance sheet has been active, as a result of which the volume of the property portfolio has decreased. The same trend is expected to continue.
- In the framework of the SWIFT GPI (Global Payment Innovation) programme, the GPI Basic Tracker was implemented that allows online tracking of the current status of incoming and outgoing payments.

[1] Estonian Banking Association „Overview of the economic situation in 2020"
[2] Estonian Banking Association „Overview of the economic situation in 2020"

- New management structure was introduced to improve the quality of management and optimise operations.
- The Bank has actively invested in the development of the CRM software, which enables the Bank's employees to serve customers faster and with better quality.

Income statement analysis
The audited loss of AS TBB pank Group for the year 2020 amounted to EUR -3,636 thousand, in 2019 the loss amounted to EUR -821 thousand. The Group`s total revenue decreased by 17.3% as compared to the previos year and amounted to EUR 5,897 thousand.

Compared to 2019, interest income for 2020 has decreased 17.9% and amounted to EUR 2,824 thousand (see Note 16). Interest income from bank deposits decreased by 79.3% and amounted to EUR 102 thousand, the average interest rate decreased (31.12.2020: 0.13% and 31.12.2019: 1.73%). As of the end of 2020, the Bank's term deposit balances decreased by 8.6% compared to the end of 2019 (see Note 6). Interest income from loans increased by 1.7% against the background of a shrinking loan portfolio. The average interest rate on loans remained at the same level (31.12.2020: 4.58%; 31.12.2019: 4.58%) (see Note 7). The decrease in interest income from leasing activities was 36.8%.

Interest expense increased by 5.4% and amounted to EUR 1,102 thousand (see Note 17). Asset related interest expense, being caused by negative interest rates, decreased by 17.6% and amounted to EUR 252 thousand. Interest expense on deposits increased by 16.9% as compared to the previous year. Average interest rate has increased (31.12.2020: 1.77%; 31.12.2019: 1.69%). The average interest rates on the funds and loans received from the Rural Development Foundation and KredEx Foundation remained at almost the same level (accordingly 31.12.2020: 0.91% and 4.00%; 31.12.2019: 1.01% and 4.00%).

Overall, the Group's net interest income decreased by 28.0% and amounted to EUR 1,722 thousand (2019: EUR 2,393 thousand).

In 2020, loss incurred due to the changes in the value of receivables in the amount of EUR 1,088 thousand is the result of higher expected credit losses (ECLs), caused by increase of individual ECL in Stage 3 (2019: loss of EUR 770 thousand) (see Notes 2, 3, 7, 18).

Fee and commission income decreased by 34.2% and totalled EUR 1,363 thousand (2019: EUR 2,071 thousand) which was primarily attributable to the decrease in the service fees on payments and card services (see Note 19).
The following accounted for the majority of income from fees and commissions in 2020:

- service fees related to payments 51.9% (2019: 47.9%);
- account maintenance fees 16.1% (2019: 17.2%);
- service fees related to loan management 13.8% (2019: 7.3%).

Fee and commission expenses decreased by 19.0% as compared to the previous year and amounted to EUR 1,169 thousand (2019: EUR 1,443 thousand) (see Note 20). The three most significant components in the structure of fee and commission expenses were:

- data processing fees 40.5% (2019: 33.0%);
- service fees related to card services 24.3% (2019: 27.2%);
- service fees related to payments 19.6% (2019: 31.1%).

In overall, the Group's net fee and commission income decreased by 69.1% and amounted to EUR 194 thousand.

Due to lower volume of foreign exchange transactions, the net gains from financial transactions of the Group in 2020 amounted to EUR 806 thousand, which is 38.0% less than in prior year (2019: EUR 1,301 thousand) (see Note 21).

The loss from the revaluation of investment property totalled EUR 1,120 thousand (profit for 2019: EUR 44 thousand) (see Note 10).

Administrative expenses increased by 2.4%, amounting to EUR 3,641 thousand (2019: EUR 3,554 thousand). The largest component in the expense structure was staff costs, which accounted for 87.5% of administrative expenses (2019: 85.3%) (see Notes 22- 23).

In 2020, other operating income increased by 237.5% as compared to the previous year and amounted to EUR 874 thousand (2019: EUR 259 thousand). The key reasons included received penalties and appreciation of investment-grade gold on stock exchanges (see Notes 24, 8, 10).

Other operating expenses in 2020 increased by 13.9% and accounted for EUR 771 thousand (2019: EUR 677 thousand) (see Note 25).

Analysis of statement of financial position

As at 31 December 2020, the total volume of TBB pank's statement of financial position decreased by 6.5% from the beginning of the year, totalling EUR 146,684 thousand (31.12.2019: EUR 156,834 thousand). The main reason for the decline is the decrease in customer demand deposits.

Lending activities

Compared to 2019, the Group's gross carrying amount of loan receivables from customers decreased by 4.2% in 2020 and amounted to EUR 51,969 thousand (31 December 2019: EUR 54,240 thousand) (see Note 7). By customer sectors, receivables changed as follows: loan receivables from legal entities decreased by 7.3% and receivables from private individuals increased by 20.2%. The balance of the provision for expected loan losses as at 31 December 2020 is EUR -2,312 thousand (31.12.2019: EUR -1,278 thousand) (see Note 7). The reason for the sharp increase in the reserve is the increase in individual provisions in Stage 3.

Financing

As at 31 December 2020, the Group does not have any liabilities to credit institutions.

As at 31 December 2020, payables to customers amounted to EUR 115,909 thousand and decreased by 2.7 %, due to a 5.1% decrease in the volume of corporate deposits. The võlume of deposits of individuals increased by 1.1% (see Note 11).

As at 31 December 2020 other payables increased by 6.9% and amounted to EUR 6,067 thousand (2019: EUR 6,519 thousand) (see Note 12). The objective of the co-operation between the Group and the Rural Development Foundation is to improve the opportunities for small and medium-sized enterprises to attract financial resources, to ensure the application of these opportunities in the general interest. The objective of cooperation with the KredEx Foundation is to jointly improve the financing opportunities of start-up entrepreneurs. The Bank finances the business activities of enterprises at the expense of funds received from the Foundation.

The decrease of other payables and accrued expenses by 59.8% was related to the decrease in payments in transit during the ordinary banking operations (2020: EUR 1,931 thousand, 2019: EUR 4,806 thousand) (see Note 13).

2.6 Development goals of TBB pank for 2021

The updated strategy of AS TBB Pank Group for 2021 sets a framework for the activities to be implemented 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.

For ensuring stable development, the Bank continues to invest in IT solutions, incl. CRM and online bank development.

The Bank's developments focus primarily on the automatization of the various work processes related to prevention of anti-money laundering and terrorist financing, including analysis, scoring and monitoring software development.

The Bank wishes to increase the volumes of its credit products, incl. primarily the volumes of home, mortgage and consumer loans as well as the volumes of loans granted to small and medium-sized businesses. Together with the growth in the loan portfolio, the Bank also focuses on the quality of new and existing loans.

The Bank prioritises more widespread sale of various services.

In 2021, the Bank will continue organisation of various campaigns.

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 The review of the performance is carried out by the chief specialist of internal control on the basis of the work plan approved by the Management Board and regularly reports to the Management Board about the results of the review.

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 2020, 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, High Risk Customer Approval Committee and Business Continuity Process Management 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 Group has a uniform remuneration policy in place that is approved by the Supervisory Board. The goal of the remuneration policy is to align the remuneration of all employees with the Bank's business and risk strategy, culture and values, long-term interests of the Bank and its shareholders and the measures adopted to prevent conflicts of interest. The policy is rooted in effective work culture geared towards results, including high-quality risk management, considering capital adequacy and necessary liquidity.

The Supervisory Board with the Audit Committee oversees the compliance with the application of the remuneration principles laid down in the policy. The Internal Audit Department annually 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.

The remuneration structure of AS TBB pank consists of:

- basic salary – fixed remuneration determined on the basis of the duties of the position and employee's knowledge, skills and experience and which the Bank and the employee have agreed on;
- variable salary – irregular portion of remuneration that can be paid out as bonuses and additional pay for fulfilling additional responsibilities, as well as the termination benefits payable to the members of the Management Board.

The Bank's employees are generally remunerated in the form of the basic salary. The Bank has not adopted remuneration based on performance pay.

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 2020 and 2019. 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	**31.12.2020**	**31.12.2019**
1. ROE	-14.67%	-3.04%
2. EM	5.90	6.12
3. PM	-61.66%	-11.46%
4. AU	4.03%	4.33%
5. ROA	-2.49%	-0.50%
6. EPS	-0.14	-0.03

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 31.12.2020, capital adequacy was 26.40% (31.12.2019: 27.30%).

Own funds and ratios

(EUR thousand)	31.12.2020	31.12.2019
TIER 1	**21,756**	**25,616**
Common Equity Tier 1 capital (CET 1)	**21,756**	**25,616**
Paid-in share capital	25,500	25,500
Prior period retained earnings/accumulated loss	-92	729
Net profit/loss (-)for the financial year	-3,636	-821
(-) Unacceptable part of the annual profit	-	-
Reserves established from profit	1,005	1,005
Common equity Tier 1 capital deductions	-1,021	-797
Total own funds	**21,756**	**25,616**
Total risk-weighted assets (Total risk exposure)	**82,401**	**93,845**
Capital ratios and buffers		
Common equity Tier 1 capital ratio (CET1)	26.40%	27.30%
Tier 1 capital ratio (TIER 1)	26.40%	27.30%
Total own funds ratio	**26.40%**	**27.30%**
Combined buffer requirement	**2,060**	**3,285**
Buffer for capital preservation	2,060	2,346
Buffer for system risk	-	939

Considering the latest applicable SREP[3] capital requirements, the Group's minimum regulatory capital ratio is **20.34%**, which ensures the coverage of both Pillar 1 and Pillar 2 risks as well as the combined buffer requirement. The capital requirement consists of 8% of Pillar 1 total capital requirement, 9.84% of Pillar 2 requirement and 2.5% of the combined buffer requirement.

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 2020 and 2019, both on-balance sheet assets and off-balance sheet liabilities have been taken into consideration.

Risk-weighted assets

(EUR thousand)	31.12.2020	Capital requirements (8%)	31.12.2019	Capital requirements (8%)
TOTAL RISK EXPOSURE	**82,401**	**6,591**	**93,845**	**7,507**
Risk-weighted assets for credit risk and counterparty credit risk	**70,917**	**5,673**	**82,150**	**6,571**
Government	1	-	2	-
Credit institutions and investment companies	4,386	351	6,116	489
Legal entities	5,508	441	7,638	611
of which: SME	5,100	408	6,932	555
Retail receivables	350	28	336	27
Real estate secured receivables	39,080	3,126	38,835	3,107
of which: SME	36,004	2,880	32,811	2,625
Overdue receivables	2,754	220	4,140	331
Items with particularly high-risk exposure	4,688	375	9,218	737
Other assets	14,150	1,132	15,865	1,269

[3] SREP Guidelines, i.e., "Guidelines on common procedures and methodologies for the supervisory review and evaluation process" for the supervisory evaluation of the Financial Supervision and Resolution Authority.

Total amount of foreign currency risk	**578**	**46**	**575**	**46**
Total operational risk amount	**10,906**	**872**	**11,120**	**890**

**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

31.12.2020

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	**21,756**	**82,401**	**8%**	**6,591**	**15,165**	**26.40%**	**2.5%**	**2,060**	**0%**	**-**	**10.5%**	**8,651**	**13,104**
Tier 1 capital	**21,756**	**82,401**	6%	4,944	16,812	26.40%	2.5%	2,060	0%	-	8.5%	7,004	14,752
CET 1 capital	**21,756**	**82,401**	4.5%	3,708	18,048	26.40%	2.5%	2,060	0%	-	7%	5,768	15,988

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)

	31.12.2020	**31.12.2019**
On-balance sheet risk exposures	145,663	156,037
Other off-balance sheet risk exposures	863	2,709
The indicator of total risk exposure of financial leverage ratio	**146,526**	**158,746**
Own funds of Tier 1	**21,756**	**25,616**
Financial leverage ratio (using the fully implemented definition of Tier 1 capital)	**14.85%**	**16.14%**

The management estimates that the Group is in compliance with all external and internal capital management requirements as at 31.12.2020 and 31.12.2019.

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 480% in 2020 and 365% in 2019 (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 2020.

2.11 Consolidated statements of financial position of TBB pank Group for 2016-2020

(EUR thousand)

	31.12.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016
Cash	466	1,023	1,183	905	1,248
Receivables	129,658	138,037	195,598	212,217	196,006
Other assets	1,735	1,392	1,820	1,627	2,971
Shares and other securities	37	37	37	37	37
Property, plant and equipment	4,361	4,878	4,601	3,930	3,894
Intangible assets	1,021	797	-	-	-
Investment property	9,406	10,670	11,851	12,596	12,837
TOTAL ASSETS	**146,684**	**156,834**	**215,090**	**231,312**	**216,993**
Payables	121,976	125,615	182,357	198,075	183,341
Other liabilities and accrued expenses	1,931	4,806	5,499	6,936	9,072
Total liabilities	**123,907**	**130,421**	**187,856**	**205,011**	**192,413**
Total equity	22,777	26,413	27,234	26,301	24,580
TOTAL LIABILITIES AND EQUITY	**146,684**	**156,834**	**215,090**	**231,312**	**216,993**

2.12 Court disputes and tax inspection

During its normal course of business, the Bank's and the Group's companies have participated in a number of court disputes with the aim to claim outstanding receivables from the contractual parties and to maintain collaterals (see also Note 15). The Bank's management is of the opinion that as a result of pending legal disputes as of 31 December 2020 and the date of submission of the report, the Bank and the Group companies will not incur significant losses.

In 2020 and as of the date of submission of the report, the following are ongoing:

- AS TBB pank has 1 (one) bankruptcy proceeding, 7 (seven) enforcement proceedings, 1 (one) express payment order proceeding and 3 (three) court proceedings (incl. one joint court proceeding with AS TBB liising has been initiated). Of the above figures, 2 (two) court proceedings have been initiated against the Bank, one of which is a procedure initiated by a former member of the Management Board for claiming the remuneration of the Member of the Management Board and the other fees (see also Note 15);

- AS TBB liising has 3 (three) bankruptcy proceedings, 2 (two) enforcement proceedings, 4 (four) court proceedings (incl. one jointly initiated court proceeding with AS TBB pank). One of the above court proceedings has been initiated against AS TBB liising;

- AS Morgan Trade has initiated one court proceeding, in respect of which the court has rendered a default judgment in the first instance in favor of AS Morgan Trade;

- AS TBB Invest does not have any matters in court or arbitration proceedings.

In 2020, 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	31.12.2020	31.12.2019
Cash		**466**	**1,023**
Receivables		**129,658**	**138,037**
Receivables from Central Bank	5	57,662	53,786
Receivables from Credit institutions	6	22,339	31,289
Receivables from customers	7	49,657	52,962
Other assets	8	**1,268**	**989**
Gold		**504**	**440**
Property, plant and equipment	9	**4,361**	**4,878**
Intangible assets	9	**1,021**	**797**
Investment property	10	**9,406**	**10,670**
TOTAL ASSETS		**146,684**	**156,834**

LIABILITIES AND EQUITY	Note	31.12.2020	31.12.2019
Payables		**121,976**	**126,615**
Payables to customers	11	115,909	119,096
Other payables	12	6,067	6,519
Other payables and accrued expenses	13	**1,931**	**4,806**
TOTAL LIABILITIES		**123,907**	**130,421**
Share capital	14	25,500	25,500
Reserves	14	1,005	1,005
Accumulated loss		-3,728	-92
TOTAL EQUITY		**22,777**	**26,413**
TOTAL LIABILITIES AND EQUITY		**146,684**	**156,834**

The notes to the financial statements set out on pages 24 to 102 form an integral part of these financial statements.

3.2 Consolidated statement of comprehensive income of TBB pank Group

(EUR thousands)

	Note	2020	2019
Net interest income		**1,722**	**2,393**
Interest income calculated using the effective interest method	16	2,452	2,804
Other similar income	16	372	635
Interest expense	17	-1,102	-1,046
Impairment losses on receivables	7, 18	**-1,088**	**-770**
Net fee and commission income		**194**	**628**
Fee and commission income	19	1,363	2,071
Fee and commission expense	20	-1,169	-1,443
Net gains from financial transactions	21	**806**	**1,301**
Administrative expenses		**-3,641**	**-3,554**
Wages and salaries	22	-2,384	-2,271
Wage related taxes	22	-801	-759
Other administrative expenses	23	-456	-524
Depreciation of property, plant and equipment and intangible assets	9	**-612**	**-617**
Revaluation of investment property	10	**-1,120**	**44**
Other operating income/ expenses		**103**	**-418**
Other operating income	24	874	259
Other operating expense	25	-771	-677
Loss before tax		**-3,636**	**-993**
Income tax expense (-)/gain (+)	2	-	172
Net loss for the financial year		**-3,636**	**-821**
Total comprehensive loss for the financial year		**-3,636**	**-821**

The notes to the financial statements set out on pages 24 to 102 form an integral part of these financial statements.

3.3 Consolidated cash flow statement of TBB pank Group

(EUR thousands)

	Note	2020	2019
Cash flow from operating activities			
Loss before tax		**-3,636**	**-993**
Adjustments for:			
Depreciation	9	612	617
Change in the value of investment properties	10	1,120	-44
Net interest income	16,17	-1,722	-2,393
Change in receivables from credit institutions and customers	6, 7, 18	3,992	6,815
Change in other receivables and prepayments related to operating activities	8, 10	-306	644
Changes in liabilities related to the operating activities	11,12,13	-6,483	-57,461
Interest received	7, 16	2,812	3,496
Interest paid	11,17	-1,059	-945
Income tax paid		-	-44
Total cash flow from operating activities		**-4,670**	**-50,308**
Cash flow from investing activities			
Purchase of property, plant and equipment and intangible assets	9	-323	-1,712
Write-off of property, plant and equipment and intangible assets	9	4	21
Purchase of investment property	10	-	-31
Proceeds from sale of investment property	10	144	1,256
Total cash flow from investing activities		**-175**	**-466**
Cash flow from financing activities			
Payments of principal on leases	13	-74	-74
Total cash flow from financing activities		**-74**	**-74**
Total cash flow		**-4,919**	**-50,848**
Cash and cash equivalents at the beginning of the year		**76,225**	**127,073**
Cash and cash equivalents at the end of the year		**71,306**	**76,225**

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

		2020	2019
Cash		466	1,023
Correspondent account at the Bank of Estonia (available funding)	5	56,651	52,827
Demand deposits and overnight loans at banks	6	14,189	22,375
Total cash and cash equivalents		**71,306**	**76,225**

The notes to the financial statements set out on pages 24 to 102 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/ Accumulated loss	Total
Balance at 01.01.2019	**25,500**	**928**	**806**	**27,234**
Increase of statutory reserves	-	77	-77	-
Comprehensive loss for financial year	-	-	-821	-821
Balance at 31.12.2019	**25,500**	**1,005**	**-92**	**26,413**
Increase of statutory reserves	-	-	-	-
Comprehensive loss for financial year	-	-	-3,636	-3 636
Closing balance at 31.12.2020	**25,500**	**1,005**	**-3,728**	**22,777**

The notes to the financial statements set out on pages 24 to 102 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 Tallinna Äripanga 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 consolidation group (hereinafter also "Group") of AS TBB pank (hereinafter also as "TBB pank" or "the Bank") as at 31 December 2020:

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 AS TBB pank 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 statement of financial position 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 and the Group'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 instruments

Classification and measurement

Financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at amortised cost (AC).

The subsequent measurement of financial assets depends on the classification performed by the Group at initial recognition.

At initial recognition, financial assets can be classified into one of the following categories:

- Financial assets measured at fair value through profit or loss;
- Financial assets measured at fair value through other comprehensive income (OCI);
- Financial assets at amortised cost.

Classification is performed based on both the Group's business model for managing financial assets and the characteristics of contractual cash flows of the financial assets. However, financial assets that meet the amortised cost or fair value through other comprehensive income measurement criteria, may be designated on initial recognition by the Group to fair value through profit or loss measurement option, provided that particular qualifying criteria are met. Additionally, the Group may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

On initial recognition, financial liabilities are classified into one of the following categories:

- Financial liabilities measured at amortised cost, or
- Financial liabilities measured at fair value through profit or loss.

Financial liability is classified as measured at fair value through profit or loss if:

- It meets the definition of held for trading, or
- It is designated upon initial recognition to the fair value through profit or loss measurement option.

All other financial liabilities are classified as measured at amortised cost.

Purchases and sales of financial assets under normal market conditions are recognized on the value date.

As at 31.12.2020 (and 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.

(EUR thousand)

Financial assets of the Group	Note	31.12.2020	31.12.2019
Financial assets at amortised cost		**129,821**	**137,720**
Receivables from Central Bank	5	57,662	53,786
Receivables from credit institutions	6	22,339	31,289
Receivables from customers and other receivables (incl. lease receivables)	7	49,197	52,502
Other receivables (cash in transit, other notes receivable)	8	623	143
Financial assets at fair value through profit or loss		**497**	**497**
Receivables from customers and other receivables	7	460	460
Equity instruments (securities)	8	37	37
Total financial assets		**130,318**	**138,217**

Financial assets at amortised cost

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 (which is only the principal amount and the interest payments calculated from the unpaid principal amount), these financial assets are recognised at amortised cost.

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 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 (Significant increase in credit risk - SICR). The assessment of the significant increase in credit risk is based on quantitative and qualitative indicators. One indicator of the SICR is default of more than 30 days. 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 impairment 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 (moving to the 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:
Quantitative criterion
- The receivable has been overdue for more than 90 days**;**
Qualitative criterion
- Forborne exposures that are non-performing until the end of the recovery period;
- 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 financial assets under the line items **"Cash"** and **"receivables from the Central Bank"** have essentially low credit risk and their expected credit loss (ECL) is equal to zero.

The data is 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 (on the watch list) 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
• Forborne exposures that are performing in the probation period*.

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 the on-balance sheet receivables of the given customer, then all the remaining receivables (on-balance sheet and off-balance sheet) 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 that are non-performing until the end of the recovery period*

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 the on-balance sheet receivables of the given customer, then all the remaining receivables (on-balance sheet and off-balance sheet) 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 (over-collateralized loan) or less that then provision in Stage 1 or 2, the amount of a provision in Stage 1 or 2 will be maintained during the transfer from Stage 1 or 2 to Stage 3 that is necessary for a minimum individual impairment in Stage 3.

* As of 31.12.2019, all forborne exposures have been classified under Stage 3. The management has analyzed the trends of the respective population and decided to change the estimate (classification of loans in phase 1, 2 or 3). As at 31 December 2020, forborne exposures initially classified as Stage 3 may be re-classified to Stage 2 or Stage 1 after the recovery period, depending on the results of the analysis of the customer's payment discipline, financial situation and other relevant circumstances. Further information is provided in Note 3 "Significant accounting estimates and judgments".

A loan in Stage 3 may only be re-classified to Stage 1 or 2 if it complies with the exit criteria for non-performing receivables or forborne exposures, including the completion of the relevant recovery and probation period. A Stage 2 to Stage 1 loan will move automatically without a trial period if it again meets the Stage 1 criteria.

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.

<u>Credit liabilities PD</u> 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.

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.

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 estimates and judgements").

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 in which case LGD is calculated individually for each loan receivable. For quick leases in Stage 2, the percentage corresponding to the LGD collateral rating is calculated on the basis of the analysis of historical quick lease statistics and the percentage of repayments of calibrated provisioned receivables.

EAD – for on-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 Bank's 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 are 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.

Write-off of receivables
As a rule, loans are written off when all reasonable options for loan restructuring or repayment have been exhausted and a subsequent recovery is assessed as unlikely. Loans are written off 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 selection of macro indicators used statistical and correlation analysis of defaults and write-downs and benchmarking analysis of the Estonian banking market. The analysis showed a strong link between discounts and changes in GDP. A historical analysis of the write-downs of the retail portfolio showed that there is no correlation between the write-downs and the unemployment rate in the bank's portfolio and, consequently, it is not practical to differentiate between individuals. As a result, the groups of the total portfolio selected from the macro indicators have a common indicator of the change in GDP. The use of other indicators was not justified in 2020. Thus, in 2020, the selection remained unchanged. Further information is provided in Note 3 "Significant accounting estimates and judgments".

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. In 2020, the selection of macro indicators was reviewed from the point of view of their relevance and no changes were introduced. According to the management's analysis, this also applies in the Covid-19 situation.

IFRS 9 does not provide specific rules for calculating ECL, but allows to have more flexibility in forward-looking information and not to automatically apply existing measures. It is possible to use more qualitative assessments and expert opinions. As the current economic situation is not in its normal state of change but is highly dependent on the effects of the Covid-19 coronavirus pandemic, we use more expert-based source platformwhich is closer to reality than the mathematical model alone. For forecasting GDP changes, the Group used the forecasts published by Eesti Pank as well as internal estimates when allocating weights to the scenarios. In addition, the background of potential effect of the second wave of the Covid-19 coronavirus pandemic was used for determining the indicators.

The forecasted macro parameter is weighted by three scenarios: base, positive, and negative. The forecasted values for the GDP changes corresponding to the scenarios and the weights of the scenarios (probabilities) are determined based on a statistical analysis and revised by the Risk and Capital Management Committee that also confirms these values. This is a significant management judgement (Note 3 "*Significant management estimates and assumptions*").

Scenario-weighted forecasts of the GDP change provide a further input for the calculation of the final macro parameter 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

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 2019 and 31 December 2020, the following financial assets of the Company were classified in this category (see page 25 "Financial instruments. Classification and measurement"):
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 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). For determining the fair value, all factors affecting the value of the investment are taken into account, including the location of the property, physical condition, existing leases, general market activity and other factors affecting the value. The fair value of an investment property is determined based on the best possible use of the property. 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 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.

Group as a lessee

Accounting for leases by the Group as a lessee

The Group rents mainly buildings and office facilities. From 1 January 2019, IFRS 16 eliminated 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.

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 2020 (same 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 31.12.2020, 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 performance 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.

Performance 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. Performance 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 Revised Standards and Interpretations
The following new or revised standards and interpretations became effective for the Group from 01 January 2020:

Amendments to the Conceptual Framework for Financial Reporting
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. Management has assessed that the amendments to the standard does not affect the Group's financial statements.

Amendments to IAS 1 and IAS 8 „Definition of materiality"
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. Management has assessed that the amendments to the standard does not affect the Group's financial statements.

Amendments to IFRS 16 „Covid-19-Related Rent Concessions "
The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease. If a lessee chooses to apply the practical expedient to a lease, it would apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances. The amendment is to be applied retrospectively in accordance with IAS 8, but lessees are not required to restate prior period figures or to provide the disclosure under paragraph 28(f) of IAS 8. Management has assessed that the amendments to the standard does not affect the Group's financial statements.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2020 that would be expected to have a material impact to the Group.

New Accounting Pronouncements
Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 01 January 2021, and which the Group has not early adopted.

Amendments to IAS 1 „Classification of liabilities as current or non-current"
(effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU)*
These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for

convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The Group is currently assessing the impact of the amendments on its financial statements.

**The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.*

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 estimates and judgements

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 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.

The applied model was not changed as compared to 2019. The inputs and parameters of the model were reviewed and, if necessary, changed during the regular update process (forecasts of macroeconomic parameters). The effects of COVID-19 have been taken into account both in assessing the criteria for a significant increase in credit risk and in forecasting the probability of default and loss rates (incl. through the incorporation of macroeconomic forecasts).
By its nature, the model for calculating and estimating expected credit losses (ECL) requires the use of management estimates in a number of respects (see above and the appendices cited). Models, estimates and inputs are reviewed regularly by employees designated by the Group and approved by management. A sensitivity analysis of the impact of the main assessments is provided below.

Definition of default:
As a result of the clarification of the concept of default, the handling of forborne exposures was changed.
As at 31 December 2019, all forborne exposures were classified as Stage 3, but the management has analysed the trends of the respective population and decided to change the estimate. As at 31 December 2020, forborne exposures initially classified in Stage 3 may be reclassified to Stage 2 or Stage 1 after the recovery period, depending on the results of the analysis of the customer's payment discipline, financial situation and other relevant circumstances. The clarification of the described approach did not affect the result of the allowance of receivables as at 31 December 2020, as there were no receivables with the characteristics described above.

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 2020), 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 70 thousand; 2) decrease by EUR 4 thousand.

As at 31 December 2020, the Group's receivables from customers include a receivable from a customer in a significant amount (EUR 2,978 thousand) that is classified as a Stage 1 receivable according to the Group's internal methodology. The management sees that with applyingalternative interpretations, the receivable can also be classified as a Stage 2 or even Stage 3 receivable. The management has performed a sensitivity analysis and assessed the receivable individually as if it were in Stage 3 - in this case, as at 31 December 2020, the Group's ECL would be higher by EUR 55 thousand (weighted average impairment loss from applying different scenarios).

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 +/-6 thousand and EUR +/-9 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 15 thousand higher/ EUR 15 thousand lower, respectively.

Selection of macro-economic indicators:
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 has not been justified. In 2020, the selection of macro indicators was revised for relevance and remained unchanged.

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 +15/-15 thousand, respectively.

<u>Other estimates:</u>

Management evaluated the direct impact of sanctions imposed against Russia when it deposited assets with other banks in 2020. As a result of that, as at 31 December 2020 (and 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).

In assessing the fair value of investment properties, the management took into account, among other things, sales contracts entered into after the balance sheet date. For one of the Group's properties located in Viimsi (see Note 10), a sales contract under the law of obligations was entered into - the management estimates that it is probable that the transaction will realize in accordance with the terms of the contract under the law of obligations. As this is a multi-stage agreement, the time value of money was taken into account when determining the fair value of the investment property as at 31 December 2020 and future cash flows were discounted to the present value. The discount rate used (2.1%) represents an important management assessment and is determined based on the specific features of the real estate property and the details of the transaction. If the discount rate changes by +/- 0.5%, the fair value of the investment property would be lower/higher by EUR -104/+108 thousand, respectively.

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 at the following 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
  - Risk managers
  - Risk control manager
- Internal Audit Department

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**	**31.12.2020**	**31.12.2019**
Receivables from Central Bank	5	57,662	53,786
Receivables from credit institutions	6	22,339	31,289
Receivables from customers (AC), net	7	49,197	52,502
Receivables from customers (FVTPL)	7	460	460
Other financial assets	8	623	143
Total financial assets		**130,281**	**138,180**
Off-balance sheet liabilities, excl. performance guarantees	16	2,308	4,217
Maximum credit risk exposure		**132,589**	**142,397**

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 2020 and 31 December 2019, 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 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.

Due to the coronavirus COVID-19, the Group monitors daily its financial position, including the effect of potential higher risks arising from the coronavirus on its loan portfolio and on the Bank's overall results. Evaluation of the potential effects of the COVID-19 pandemic has been included in various analyses and discussion throughout the entire period.

There has been no need for the Group to implement COVID-19 pandemic mitigation measures, and as the structure of the loan portfolio and the customers themselves have not been directly impacted by the economic effects of the coronavirus, regular monitoring of customers, risk assessment as well as direct communication with customers have been our daily activities for preventing possible payment difficulties in servicing loan contracts. The risks taken have been managed and the loan portfolio has not been allowed to deteriorate during the COVID-19 pandemic. Deterioration is also not expected.

As at 31 December 2020, the portfolio volume of the companies in high-risk economic sectors, including in particular, trade, accommodation, catering, tourism, entertainment and other services was 3.6% of the total corporate loan portfolio. In addition, not all customers were significantly dependent on the effects of the coronavirus restrictions for their business, so they could not directly suffer from the effects of the restrictions during the period. The number of grace periods granted to the legal persons that were affected by the coronavirus COVID-19 was low during the entire year 2020, i.e. 11 grace periods were granted to the Bank's corporate customers and 2 grace periods to leasing customers. The grace periods were for the period of up to 6 months and they have not been extended to these customers at their own request. Impact from granting grace periods on the Group's financial reporting is clearly immaterial.

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, 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 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. According to the Bank's internal regulations, the volume of loans issued to one economic or industrial sector (excluding loans granted to subsidiaries) cannot exceed 25% of the loan portfolio.

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 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.

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 individuals, 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 Standard&Poor's 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 2020		31 December 2019	
		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	23,855	109.6%	30,719	116.3%
3.	Receivables from individuals related to the Group	1,302	6.0%	949	3.6%

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 2020 and 2019, 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 3 "Significant accounting estimates and judgements".

Division of receivables by economic sectors

31 December 2020 (EUR thousand)

Economic sector	On-balance sheet receivables (gross) 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	2,289	-	2	221	-19	96	-	1.8%
Manufacturing	7,721	-	13	2,279	-922	862	2	6.4%
Supply of electricity, gas, steam and air conditioning	3,306	-	2	327	-6	0	-	2.5%
Construction	2,607	-	1	2,301	-626	18	-	2.0%
Retail and wholesale, maintenance of motor vehicles, motorbikes, commodities and repair of home appliances	6,792	-	12	1,188	-501	609	-	5.5%
Transportation, storage and communication	1,115	-	2	42	-24	400	-	1.1%
Financial intermediation	29,853	-	1	54	0	102	-	22.3%
Central Bank	57,662	-	-	-	0	0	-	42.9%
Real estate	8,044	-	15	16	-12	0	-	6.0%
Administration and support activities	859	-	-	51	-16	0	-	0.6%
Other sectors	4,337	37	25	459	-134	85	-	3.3%
Individuals	7,385	-	15	451	-52	275	-	5.7%
Total	**131,970**	**37**	**88**	**7,389**	**-2,312**	**2,447**	**2**	**100.0%**

31 December 2019 (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	2,641	-	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%**

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 2020 and 31 December 2019 is presented separately. The eceivable include 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”.

Division of receivables by region

31 December 2020 (EUR thousand)

	On-balance sheet receivables (gross)							
Region	**receivables**	**securities**	**incl. interest receivables**	**Incl. overdue**	**Impairment of receivables**	**Off-balance sheet items**	**Provisions for off-balance sheet items**	**Share of the region (%)**
Estonia	109,109	-	87	7,389	-2,312	2,422	2	83.0%
Austria	21,931	-	1	-	-	-	-	16.3%
Russia	421	-	-	-	-	11	-	0.3%
Other countries	509	37	-	-	-	14	-	0.4%
Total	**131,970**	**37**	**88**	**7,389**	**-2,312**	**2,447**	**2**	**100.0%**

31 December 2019 (EUR thousand)

	On-balance sheet receivables (gross)							
Region	**receivables**	**securities**	**incl. interest receivables**	**Incl. overdue**	**Impairment of receivables**	**Off-balance sheet items**	**Provisions for off-balance 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%**

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;
- 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.

Division of assets and liabilities by currency

31 December 2020 (EUR thousand)

	EUR	USD	SEK	RUB	JPY	OTHER	Total
Assets							
Cash and receivables from Central Bank	58,120	3	-	5	-	-	58,128
Receivables from credit institutions	1,299	19,891	837	164	39	109	22,339
Receivables from customers (net) and other receivables	49,151	506	-	-	-	-	49,657
Securities	37	-	-	-	-	-	37
Other assets (Note 8)	623	-	-	-	-	-	623
Total assets	**109,230**	**20,400**	**837**	**169**	**39**	**109**	**130,784**
Liabilities							
Payables to customers and other payables	101,181	19,627	822	187	39	120	121,976
Other liabilities (Note 13)	799	818	1	-	-	-	1,618
Total liabilities	**101,980**	**20,445**	**823**	**187**	**39**	**120**	**123,594**
Net position	7,250	-45	14	-18	-	-11	7,190

31 December 2019 (EUR thousand)

	EUR	USD	SEK	RUB	CHF	OTHER	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 13)	1,812	2,590	2	53	-	8	4,465
Total liabilities	**103,206**	**25,439**	**939**	**264**	**51**	**181**	**130,080**
Net position	9,055	71	-1	-17	-5	57	9,160

As at 31 December 2020 and 31 December 2019 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.

	31.12.2020	**31.12.2019**
EUR thousand	**Effect on profit or loss**	**Effect on profit or loss**
Appreciation of currencies by 10% (2019: 10%)		
USD appreciation by 10% (2019: 10%)	-5	7
CHF appreciation by 10% (2019: 10%)	-1	-1
RUB appreciation by 10% (2019: 10%)	-2	-2
NOK appreciation by 10% (2019: 10%)	-	4
CAD appreciation by 10% (2019: 10%)	-	2
PLN appreciation by 10% (2019: 10%)	-1	-
Other (excluding EUR) appreciation by 10% (2019: 10%)	1	-1
Total	**-8**	**9**
Depreciation of currencies by 10% (2019: 10%)		
USD depreciation by 10% (2019: 10%)	5	-7
CHF depreciation by 10% (2019: 10%)	1	1
RUB depreciation by 10% (2019: 10%)	2	2
NOK depreciation by 10% (2019: 10%)	-	-4
CAD depreciation by 10% (2019: 10%)	-	-2
PLN depreciation by 10% (2019: 10%)	1	-
Other (excluding EUR) depreciation by 10% (2019: 10%)	-1	1
Total	**8**	**-9**

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, four 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 shows the Group's interest rate risk analysis. The Group's financial assets and liabilities are stated at cost, classified as contractual interest rate fixation or maturity, whichever is earlier. If the position has a fixed interest rate, cash flows are generated according to the remaining term until the end of the contract. If the position has a floating interest rate, the remaining time to determine the cash flows is until the next interest rate is reviewed (or until the end of the contract, whichever is earlier).

Assets and liabilities exposed to interest risk by interest fixing period

31 December 2020 (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	57,662	-	-	-	-	-	57,662
Receivables from credit institutions, gross	14,189	8,149	-	-	-	-	22,338
Receivables from customers, gross	46	36,900	1,856	538	919	6,035	46,294
incl.with a floating interest rate	-	*35,874*	-	-	-	-	*35,874*
Securities	-	-	-	-	-	37	37
Off - balance sheet liabilities	198	993	397	-	-	720	2,308
incl.with a floating interest rate	-	*191*	-	-	-	-	*191*
Total assets and off-balance sheet liabilities	**72,095**	**46,042**	**2,253**	**538**	**919**	**6,792**	**128,639**
Liabilities							
Payables to customers and other payables	72,580	10,519	14,814	10,882	7,492	5,208	121,495
incl.with a floating interest rate	*15,155*	*55*	-	-	-	-	*15,210*
Lease liabilities	-	15	25	35	108	39	222
Total liabilities	**72,580**	**10,534**	**14,839**	**10,917**	**7,600**	**5,247**	**121,717**
Total difference by interest fixation periods	-485	35,508	-12,586	-10,379	-6,681	1,545	6,922

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
incl.with a floating interest rate	-	*37,365*	-	-	-	-	*37,365*
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
s.h.with a floating interest rate	*7,711*	*61*	*-*	*-*	*-*	*-*	*7,772*
Lease liabilities	-	18	56	41	106	75	296
Total liabilities	**77,072**	**10,686**	**17,727**	**10,637**	**6,863**	**2,488**	**125,473**
Total difference by interest fixation periods	-830	36,440	-15,728	-9,967	-5,256	4,129	8,788

The table does not contain terminated receivables and payments in transit, accrued expenses, prepaid revenues.

As at 31 December 2020 and 31 December 2019 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 2020 (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	73,060	10,792	15,704	11,729	9,714	2,208	**123,207**
Finance lease payables	-	15	28	39	116	38	**236**
Other payables*	1,396	-	-	-	-	-	**1,396**
Guarantees and off-balance sheet liabilities related to loans**	2,278	-	-	-	-	-	**2,278**
Unused factoring limit	169	-	-	-	-	-	**169**
Total financial liabilities	**76,903**	**10,807**	**15,732**	**11,768**	**9,830**	**2,246**	**127,286**
Financial assets							
Cash and receivables from Central Bank	58,128	-	-	-	-	-	**58,128**
Receivables from credit institutions	14,189	8,150	-	-	-	-	**22,339**
Receivables from customers, net	3,962	2,024	4,880	5,133	14,148	19,510	**49,657**
Other assets***	623	-	-	-	-	37	**660**
Total financial assets	**76,902**	**10,174**	**4,880**	**5,133**	**14,148**	**19,547**	**130,784**
Liquidity gap from financial instruments	**-1**	**-633**	**-10,852**	**-6,635**	**4,318**	**17,301**	**3,498**

The measure for management of liquidity risk is the analysis of estimated future cash flows, taking into account the growth of deposits and loan portfolios and possible sources of refinancing.

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**
Liquidity gap from financial instruments	**-4,759**	**1,484**	**-11,983**	**-3,962**	**5,002**	**16,466**	**2,248**

* other payables include payments in transit and other payables (Note 13).
** loans related off-balance sheet liabilities which are loan limits not utilised by customers as at the balance sheet date (Note 15).
***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 2020.

4.6 Operational risk

Definition

The Bank's Management and Supervisory Boards are committed to the management of operational risks and mitigation of the impact of their realisation. Operational risks is a risk of losses due to inadequacy of internal processes, human action or systems, or their failure to function as expected, or external events. The term includes all non-financial risks, including legal, procedural, money laundering, data protection, information security, IT, physical, project-related and other risks.
The factors causing operational risk include:

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

Operational risk management

Operational risk is mitigated by the processes implemented under the management of the control systems, which must ensure that daily operations and other operations across multiple controls.
An electronic notification system for operational risk has been introduced, in which the Group can be notified of an incident, loss case or operational risk by filling out a report. A system for monitoring and review of reported operational risk has also been implemented.

In accordance with internal regulations, the Bank continuously monitors operational risk in order to identify and process all operational risk loss events and incidents. Time criteria for recording operational risk incidents have been 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. Reports on operational risk loss events and incidents, key operational risk indicators and actions are submitted to the Financial Supervision Authority on a quarterly basis.

System risk
The risks related to the use of information technology include the Bank's daily activities and as well as the misuse of the Bank's IT systems. Procedures have been created for handling IT risks that separately deal with granting employees access to the information systems, granting of rights, security and development. For protection IT systems from uncontrollable access and misuse, only the Bank's employees are involved in system management and implementation of new technological solutions, and if needed, the services of selected cooperation partners

Process risk
The Group is committed to high-level compliance, regulatory legal acts, regulations, guidelines and corporate governance principles. Deviations and infringements that have been detected will be eliminated as soon as possible. It has also been ensured with internal procedures that the entire information concerning customers and customer communication has been preserved as required and used in accordance with regulatory and business requirements.

Staff risk
Staff risk represents a situation that reflects the threat of unplanned developments on the Bank's continuity of operations, arising from inefficiency of the human resources system, staff behaviour or inactivity. Staff risk is mitigated by selection of employees, and by determining the scope of activities and authorisation. The principle for selecting staff members is evaluation of the applicant's professional suitability and qualification. For management of daily risks, limits of competence have been set for employees and transaction limits, and in case they are exceeded, the employee shall be help personally financially responsible up to the extent of the losses incurred.

External risk
External risks associated with burglaries on the Bank's information systems are mitigated by an IT security system, internal rules and regulations for guaranteeing security, video surveillance system and other respective technical devices. Credit card fraud risk to customers is mitigated by the chargeback system. External risk cases will be documented and they will be processed with the goal of immediately eliminating the consequences of the cases and in a manner so that they will not reoccur in the future based on the results of sufficient analysis and the respective mitigation measures.

Physical risk
Physical threats and risks related to the Bank's buildings and equipment, such as structural (e.g. bars, fences), mechanical (e.g. locks, sprinklers), electronic (signalling, video surveillance), procedural (e.g. human surveillance) are mitigated by the respective IT defence systems, application of the internal rules for ensuring security, management of video recording systems and other technical means and access.

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 (RPT/TRT). The Bank has gone beyond ensuring compliance with the requirements of legislation and the instructions and guidelines relating to RPT/TRT, 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 will apply measures to minimise the chance that the Bank's services could be used for money laundering or terrorist financing or violation of restrictions established by financial sanctions. For this, the Management Board of the Bank oversees that the risks related to this area are constantly assessed and compared with the limits set by risk appetite. Within the framework of risk assessment it will be identified which are the key threats and related risk factors, how big is the risk of their realisation or how big is the probability of their occurrence and to which extent should the Bank apply due diligence measures to mitigate them. Following risk assessment, the measures will be applied that help mitigate the effect of risks.

The key means for expressing risks is the risk level determined for the customer, as well as the number of customers with different risk levels, their deposits and proportion of turnover at the Bank as well as the amount of profit earned from servicing them. To ensure maximum effectiveness of the prevention of money laundering and terrorist financing activities and through oversight of their activities, the Bank has development a risk management system based on three lines of defence (*see Note 4 p.46 " Risk management*").

The responsibility of the first line of defence is application of due diligence procedures when establishing business relationships, incl. identification of the customer's identity and application of the Know-Your-Customer principle in such a way that it would be possible to determine the customer's risk level on the basis of the information received and perform subsequent monitoring of the business relationship.

The responsibility of the second line of defence is to ensure identification, management, assessment of the risks related to the Bank's processes/products/services and application of the respective monitoring measures on the basis of legislation, international norms, the Bank's strategy and economic goals.

The third line of defence is made up of the Bank's independent internal audit which directly reports to the Supervisory Council. The internal audit function oversees and evaluates the activities of the entire Bank and consolidation group at least once year based on risk assessments, including compliance with the law on prevention of money laundering and terrorist financing and fulfilment of the Bank's internal rules and regulations.

In addition to the implementation of these lines of defence, there is a High-Risk Customer Approval Committee that reviews both new customer applications and business relationships with existing customers to ensure compliance with the Bank's requirements for risk appetite and risk tolerance.

The Bank identifies, assesses and analyses the risks associated with its activities related to money laundering and terrorist financing and, as a result, determines the Bank's risk appetite. The risk appetite document addresses those levels and types of risks that are primarily related to higher-than-normal risks, including transactions of persons operating in a pre-defined high-risk field of activity or transactions without reasonable or understandable purpose.

Due to the Bank's strategy, the Bank has abandoned the service of legal persons registered in tax-free and low-tax countries/territories, and at present the Bank has no business relations with such these legal entities. In addition, the Bank has significantly reduced its business relationships with non-residents and persons who have no connections with Estonia. Compliance with the RPT/TRT 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, according to which all customers are assigned a risk level. The extent of customer due diligence measures depends on the level of risk assigned to the customer.

The Bank regularly updates its AML/CTF policies, procedures and guidelines. The Bank's Management and Supervisory Boards are committed to managing AML/CTF risks and implementation and development of the Know-Your-Customer (KYC) system throughout the Group. A significant event in 2020 is the deployment of the new customer relationship management software CRM and the customer transaction monitoring software SALV. With the introduction of these applications, the efficiency of identifying the risks associated with the customer's activities will significantly increase, including the ability to identify the subjects of international sanctions. The Bank has improved the structure and composition of the first and second lines of defence, investing not only in IT but also in human resources.

The Group regularly conducts employee training, including in the field of anti-money laundering. In 2020, the Group implemented guidelines on notifying breaches of the RPT/TRT procedures, which encourages employees to report violations or illegal behaviour.

The Group considers it important that the Estonian banking system is not misused for the purposes of money laundering and terrorist financing, and monitors that the organizational 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 constantly co-operates with the Financial Supervision Authority to ensure compliance with the relevant regulations and risk management.

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 2020 **(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**

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**

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 instruments”).

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 2020 and 31 December 2019.

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 2020, 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 0% (until 30 April 2020: 1%);
- 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 pank Group does not have additional Tier 1 either Tier 2 capital.

According to regulatory requirements, a credit institution's own funds must be at least 5 million euros and the ratio of total own funds to total risk position (total own funds ratio) must be at least 10.5% (11.5% until 30 April 2020). The Group is also subject to additional requirements for Pillar

1 risks and Pillar 2 risks, which take into account the Group's specific characteristics and risk profile (see page 16 2.10 Financial ratios and capital adequacy). The Group's capital or own funds are Tier 1 and Tier 2 own funds as specified in the Capital Requirements Regulation (31 December 2020: 22,235 thousand euros, 31 December 2019: EUR 25,616 thousand). As regulatory adjustments to Tier 1 capital, the total amount of intangible assets and the loss for the current financial year, which reflects the impairment of assets and expected loss, is calculated 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 31.12.2020 and 31.12.2019.

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 2020.

Note 5. Receivables from 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 2020 and 2019, TBB pank was in compliance with this requirement. As at 31 December 2020, the receivables from the Central Bank amounted to EUR 57,662 thousand (31 December 2019: EUR 53,786 thousand). As at 31 December 2020, the reserve requirement was EUR 1,011 thousand (31 December 2019: EUR 959 thousand), therefore, the available funds in the Bank of Estonia as at 31 December 2020 EUR totalled EUR 56,651 thousand (31 December 2019: EUR 52,827 thousand), which is included in cash equivalents.

(EUR thousand)

	31.12.2020	**31.12.2019**
End-of-day balance of current account as a monthly average	54,106	51,912
Minimum reserve requirement as a monthly average	992	1,022
Exceeding of the minimum reserve requirement as a monthly average	51,940	50,794

In 2020 and 2019, 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 2020, the negative interest rate expenses of the Group amounted to EUR 224 thousand (2019: EUR 253 thousand).

Note 6. Receivables from credit institutions

Receivables from credit institutions are as follows:

(EUR thousand)

	Note	31.12.2020	31.12.2019
Demand deposits:			
in OECD banks		13,781	21,669
in CIS countries' banks		408	706
Total demand deposits		**14,189**	**22,375**
Term deposits:			
in OECD banks		8,150	8,914
Total term deposits		**8,150**	**8,914**
Total receivables from credit institutions		**22,339**	**31,289**

The due dates of term deposits are in 2021. As at 31 December 2020 and 31 December 2019, the average interest rates on term deposits were 0.13% and 1.73%, respectively.

Below is the analysis of receivables from credit institutions by credit quality on the basis of Standard and Poor's and Moody's ratings as at 31 December 2020 and 31 December 2019 (receivables that are neither overdue nor impaired).

31 December 2020 (EUR thousand)

	Total demand deposits	Term deposits	Total
Receivables from credit institutions			
- rating A-2	14,189	8,150	22,339
Total	**14,189**	**8,150**	**22,339**

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**

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	31.12.2020	31.12.2019
Loans to customers (AC), net	**49,197**	**52,502**
Loans to legal entities	**44,124**	**47,637**
- Investment loans	37,641	38,775
- Overdraft facilities	3,263	4,469
- Leases	2,513	3,624

- Other loans	707	769
Loans to individuals	**7,385**	**6,143**
- Housing loans and leases	5,975	4,928
- Other loans and leases	1,410	1,215
Allowance for receivables	**-2,312**	**-1,278**
Receivables from customers (FVTPL)*	**460**	**460**
- Other receivables	460	460
Total receivables from customers	**49,657**	**52,962**

** 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 2020 **(EUR thousand)**

Investment loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	22,101	-	-	22,101
Credit class 2	8,243	151	270	8,664
Credit class 3	-	549	535	1,084
Credit class 4	-	171	2,307	2,478
Credit class 5	-	-	3,314	3,314
Gross carrying amount	**30,344**	**871**	**6,426**	**37,641**
Loss allowance	-36	-16	-1,157	-1,209
Carrying amount	**30,308**	**855**	**5,269**	**36,432**

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 2020 (EUR thousand)

Overdraft facilities	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	410	-	-	410
Credit class 2	953	-	-	953
Credit class 3	-	-	-	-
Credit class 4	-	-	-	-
Credit class 5	-	-	1,900	1,900
Gross carrying amount	**1,363**	**-**	**1,900**	**3,263**
Loss allowance	-4	-	-722	-726
Carrying amount	**1,359**	**-**	**1,178**	**2,537**

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 2020 (EUR thousand)

Leases	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	1,335	-	-	1,335
Credit class 2	356	46	15	417
Credit class 3	-	466	19	485
Credit class 4	-	-	37	37
Credit class 5	-	-	239	239
Gross carrying amount	1,691	512	310	2,513
Loss allowance	-13	-79	-195	-287
Carrying amount	**1,678**	**433**	**115**	**2,226**

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 2020 **(EUR thousand)**

Other loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	669	-	-	669
Credit class 2	-	-	-	-
Credit class 3	-	-	-	-
Credit class 4	-	-	-	-
Credit class 5	-	-	38	38
Gross carrying amount	**669**	**-**	**38**	**707**
Loss allowance	-	-	-38	-38
Carrying amount	**669**	**-**	**-**	**669**

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 2020 **(EUR thousand)**

Housing loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	4,846	-	-	4,846
Credit class 2	1,059	-	-	1,059
Credit class 3	-	-	70,	70
Credit class 4	-	-	-	-
Credit class 5	-	-	-	-
Gross carrying amount	**5,905**	**-**	**70**	**5,975**
Loss allowance	-2	-	-3	-5
Carrying amount	**5,903**	**-**	**67**	**5,970**

31 December 2019 **(EUR thousand)**

Housing loans	**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 2020 **(EUR thousand)**

Other loans and leases	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	925	-	-	925
Credit class 2	231	2	-	233
Credit class 3	-	9	-	9
Credit class 4	-	3	240	243
Credit class 5	-	-	-	-
Gross carrying amount	**1,156**	**14**	**240**	**1,410**
Loss allowance	-1	-14	-32	-47
Carrying amount	**1,155**	**-**	**208**	**1,363**

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**

Receivables by type of collateral

If a loan has several collaterals, the collateral that the Bank considers most important for the assessment of the risks related to the loan is disclosed in the table below. There are 3 levels for collateral significance used. The intra-group allocation of collateral levels is based on regulatory requirements. Mortgages, security deposits and state and bank guarantees are included in Level 1 collaterals. In the case of loans secured by real estate, the real estate collateral is always provided first, regardless of its quality compared to other collaterals. If several loan receivables are secured by one collateral, the value of the collateral is divided proportionally between the claims depending on the balance of the receivables.

31 December 2020 **(EUR thousand)**

Type of loan	**Mortgage**	**Surety**	**Leased assets**	**Unsecured**	**Other***	**Total**
Loans to legal entities	**40,819**	**609**	**2,132**	**507**	**57**	**44,124**
Investment loans	37,585	3	-	-	53	37,641
Overdraft facilities	3,200	63	-	-	-	3,263
Leases	34	385	2,094	-	-	2,513
Other loans	-	158	38	507	4	707
Loans to individuals	**6,956**	**238**	**64**	**102**	**25**	**7,385**

Housing loans and leases	5,975	-	-	-	-	5,975
Other loans and leases	981	238	64	102	25	1,410
Total loans to customers (gross carrying amount)	**47,775**	**847**	**2,196**	**609**	**82**	**51,509**

31 December 2019 (EUR thousand)

Type of loan	Mortgage	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**

* Other guarantees for receivables include receipts to the account, security deposits.

Sufficiency of collateral

In the tables below, the actual collateral coverage of the loans in provided. The value of the collateral is the total amount of collateral rights legally owned by the Group under collateral agreements. The fair value of collateral is disclosed for individually assessed (i.e. Stage 3) receivables, see the tables "Fair value of collaterals of individually assessed impaired loans".

31 December 2020 (EUR thousand)

Type of loan	Receivables with sufficient collateral coverage			Receivables with insufficient collateral coverage		
	Carrying amount of receivables	Actual collateral coverage		Carrying amount of receivables	Actual collateral coverage	
		collaterals total	incl. sureties and guarantees		collaterals total	incl. sureties and guarantees
Receivables from customers, gross carrying amount	**50,780**	**104,620**	**836**	**729**	**49**	**11**
Investment loans	37,641	79,834	3	-	-	-
Overdraft facilities	3,263	6,166	64	-	-	-
Leases	2,449	7,075	385	64	33	-
Other loans	150	224	147	557	11	11
Housing loans and leases to individuals	5,975	9,029	-	-	-	-
Other loans and leases to individuals	1,302	2,292	237	108	5	-
Loss allowance	-2,207			-105		
Receivables from customers, net carrying amount	**48,573**			**624**		

31 December 2019 (EUR thousand)

Type of loan	Receivables with sufficient collateral coverage			Receivables with insufficient collateral coverage		
	Carrying amount of receivables	Actual collateral coverage		Carrying amount of receivables collaterals total	Actual collateral coverage	
		collaterals total	incl. sureties and guarantees		Collateral total	collaterals total

Receivables from customers, gross carrying amount	**52,574**	**104,386**	**998**	**1,206**	**465**	**460**
Investment loans	38,205	83,433	9	-	460	460
Overdraft facilities	4,469	7,047	394	-	-	-
Leases	3,624	3,624	183	-	-	-
Other loans	212	235	168	570	-	-
Housing loans and leases to individuals	4,928	7,499	-	-	-	-
Other loans and leases to individuals	1,136	2,548	244	79	5	-
Loss allowance	-1,276			-2		
Receivables from customers, net carrying amount	**51,298**			**1,204**		

Fair value of collaterals of individually assessed impaired loans

31 December 2020 **(EUR thousand)**

Type of loan	Receivables with sufficient collateral			Receivables with insufficient collateral		
	Carrying amount of receivables	Fair value of collateral: Collateral total	Fair value of collateral: incl. sureties and guarantees	Carrying amount of receivables	Fair value of collateral: Collateral total	Fair value of collateral: incl. sureties and guarantees
Individually impaired loans, gross carrying amount	**3,155**	**4,173**	**9**	**5,829**	**4,137**	**189**
Investment loans	2,839	3,414	-	3,587	2,697	-
Overdraft facilities	-	-	-	1,900	1,218	-
Leases	246	545	9	64	33	-
Other loans	-	-	-	38	-	-
Housing loans and leases to individuals	70	214	-	-	-	-
Other loans and leases to individuals	-	-	-	240	189	189
Loss allowance	-160			-1,987		
Individually impaired loans, net carrying amount	**2,995**			**3,842**		

31 December 2019 **(EUR thousand)**

Type of loan	Receivables with sufficient collateral			Receivables with insufficient collateral		
	Carrying amount of receivables	Fair value of collateral: Collateral total	Fair value of collateral: incl. sureties and guarantees	Carrying amount of receivables	Fair value of collateral: Collateral total	Fair value of collateral: incl. sureties and guarantees
Individually impaired loans, gross carrying amount	**7,908**	**12,372**	**243**	**573**	**460**	**460**
Investment loans	3,546	5,843	-	570	460	460
Overdraft facilities	2,895	4,308	-	-	-	-
Leases	642	642	9	-	-	-
Other loans	38	38	-	-	-	-
Housing loans and leases to individuals	313	539	-	-	-	-
Other loans and leases to individuals	474	1,002	-	3	-	-
Loss allowance	-1,135			-		
Individually impaired loans, net carrying amount	**6,773**			**573**		

The fair value of collateral is the lower of the market value of the collateral and the value of the mortgage (pledge value). The calculation of the individual allowance is mainly based on the value of the quick sale, and depending on the liquidity of the asset, it is only between 50% and 90% of the market value.

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 01.01.2019	**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*	10		-	10
Changes related to credit risk changes	-76	-59	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**
Movements:	-	-12	12	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-1	NA	1	-
From Stage 2 to Stage 1	1	-1	NA	-
From Stage 2 to Stage 3	NA	-11	11	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired*	19	-	5	24
Changes related to credit risk changes	13	23	1,031	1,067
Financial assets terminated/matured during the period	-13	-8	-36	-57
Write-offs	-	-	-	-
Loss allowance as at 31.12.2020	**56**	**109**	**2,147**	**2,312**

** 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-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at 01.01.2019	**102**	**133**	**2**	**237**
Movements:	-17	-61	78	-
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**
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	1	-1	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired*	9	-	-	9
Changes related to credit risk changes	10	10	697	717
Financial assets terminated/matured during the period	-11	-3	-	-14
Write-offs	-	-	-	-
Loss allowance as at 31.12.2020	**36**	**16**	**1,157**	**1,209**

** 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 01.01.2019	**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 as at 31.12.2019	**2**	**-**	**463**	**465**
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	2	-	259	261
Financial assets terminated/matured during the period	-1	-	-	-1
Write-offs	-	-	-	-
Loss allowance as at 31.12.2020	**4**	**-**	**722**	**726**

(EUR thousand)

Leases	**Stage 1**	**Stage 2**	**Stage 3**	**Total**

	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at 01.01.2019	**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	-15	-54	90	21
Financial assets terminated/matured during the period	-	-8	-	-8
Write-offs	-	-	-	-
Loss allowance as at 31.12.2019	**6**	**94**	**163**	**263**
Movements:	-	-11	11	-
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	-11	11	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired*	7	-	3	10
Changes related to credit risk changes	1	-	54	55
Financial assets terminated/matured during the period	-1	-4	-11	-16
Write-offs	-	-	25	-25
Loss allowance as at 31.12.2020	**13**	**79**	**195**	**287**

** 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	
Loss allowance as at 01.01.2019	**-**	**-**	**-**	**-**
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 terminated/matured during the period	-	-	-	-
Write-offs	-	-	-	-
Loss allowance as at 31.12.2019	**-**	**-**	**38**	**38**
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 terminated/matured during the period	-	-	-	-
Write-offs	-	-	-	-
Loss allowance as at 31.12.2020	**-**	**-**	**38**	**38**

(EUR thousand)

Housing loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at 01.01.2019	**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 terminated/matured during the period	-	-5	-	-5
Write-offs	-	-	-	-
Loss allowance as at 31.12.2019	**1**	**-**	**3**	**4**
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	1	-	-	1
Financial assets terminated/matured during the period	-	-	-	-
Write-offs	-	-	-	-
Loss allowance as at 31.12.2020	**2**	**-**	**3**	**5**

(EUR thousand)

Other loans and leases	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at 01.01.2019	**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 terminated/matured during the period	-	-	-	-
Write-offs	-	-	-	-
Loss allowance as at 31.12.2019	**-**	**2**	**9**	**11**
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*	2	-	2	4
Changes related to credit risk changes	-1	13	21	33
Financial assets terminated/matured during the period	-	-1	-	-1
Write-offs	-	-	-	-
Loss allowance as at 31.12.2020	**1**	**14**	**32**	**47**

** 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 01.01.2019	**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	3377	-
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**
Movements:	-2,379	-192	2,571	-
From Stage 1 to Stage 2	-236	236	NA	-
From Stage 1 to Stage 3	-2,467	NA	2,467	-
From Stage 2 to Stage 1	324	-324	NA	-
From Stage 2 to Stage 3	NA	-104	104	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired*	11,206	4	1,033	12,243
Changes in balances of financial assets**	-2,374	-141	-257	-2,772
Financial assets terminated/matured during the period	-8,105	-793	-2,806	-11,704
Write-offs	-	-	-38	-38
Gross carrying amount as at 31.12.2020	**41,128**	**1,397**	**8,984**	**51,509**

** 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)*

As a result of the clarification of the concept of default, the handling of forborne exposures was changed.
As at 31 December 2019, all forborne exposures were classified as Stage 3, but the management has analysed the trends of the respective population and decided to change the estimate. As at 31 December 2020, forborne exposures initially classified in Stage 3 may be reclassified to Stage 2 or Stage 1 after the recovery period, depending on the results of the analysis of the customer's

payment discipline, financial situation and other relevant circumstances. The impact of reclassifying such receivables is 0.

(EUR thousand)

Investment loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at 01.01.2019	**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**
Movements:	-2,259	-156	2,415	-
From Stage 1 to Stage 2	-164	164	NA	-
From Stage 1 to Stage 3	-2,414	NA	2,414	-
From Stage 2 to Stage 1	319	-319	NA	-
From Stage 2 to Stage 3	NA	-1	1	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired*	7,486	-	1,012	8,498
Changes in balances of financial assets	-1,197	19	56	-1,122
Financial assets terminated/matured during the period	-6,597	-740	-1,135	-8,472
Write-offs	-	-	-38	-38
Gross carrying amount as at 31.12.2020	**30,344**	**871**	**6,426**	**37,641**

** 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 01.01.2019	**2,816**	**914**	**1,129**	**4,859**
Movements:	-877	-914	1 791	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-877	NA	877	-
From Stage 2 to Stage 1	-	-	NA	-
From Stage 2 to Stage 3	NA	-914	914	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired	127	-	-	127
Changes in balances of financial assets	-34	-	76	42
Financial assets terminated/matured during the period	-458	-	-101	-559
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2019	**1,574**	**-**	**2,895**	**4,469**
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	320	-	-	320
Changes in balances of financial assets	171	-	-	171
Financial assets terminated/matured during the period	-702	-	-995	-1,697
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2020	**1,363**	**-**	**1,900**	**3,263**

(EUR thousand)

Leases	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at 01.01.2019	**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**
Movements:	-114	-42	156	-
From Stage 1 to Stage 2	-66	66	NA	-
From Stage 1 to Stage 3	-53	NA	53	-
From Stage 2 to Stage 1	5	-5	NA	-
From Stage 2 to Stage 3	NA	-103	103	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired*	405	**-**	15	420
Changes in balances of financial assets	-560	-166	-51	-777
Financial assets terminated/matured during the period	-260	-42	-452	-754
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2020	**1,691**	**512**	**310**	**2,513**

* *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 01.01.2019	**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**
Movements:	-6	6	-	-
From Stage 1 to Stage 2	-6	6	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	559	2	3	564
Changes in balances of financial assets	-781	3	-4	-782
Financial assets terminated/matured during the period	160	-5	1	156
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2020	**669**	**-**	**38**	**707**

(EUR thousand)

Housing loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at 01.01.2019	**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**
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	1,877	-	-	1,877
Changes in balances of financial assets	52	-	-243	-191
Financial assets terminated/matured during the period	-639	-	-	-639
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2020	**5,905**	**-**	**70**	**5,975**

(EUR thousand)

Other loans and leases	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12 kuu ECL	Eluea ECL	Eluea ECL	
Gross carrying amount as at 01.01.2019	**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**
Movements:	-6	6	-	-
From Stage 1 to Stage 2	-6	6	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	559	2	3	564
Changes in balances of financial assets	-59	3	-15	-71
Financial assets terminated/matured during the period	-67	-6	-225	-298
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2020	**1,156**	**14**	**240**	**1,410**

Changes in off-balance sheet exposures in gross residual values (excluding performance guarantees)

(EUR thousand)

Total receivables	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at 01.01.2019	**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	-	-	-	-
Gross carrying amount as at 31.12.2019	**4,213**	**0**	**4**	**4,217**
Movements:	-2	2	-	-
From Stage 1 to Stage 2	-2	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	1,471	-	-	1,471
Changes in balances of financial assets	174	2	-	176

Financial assets terminated/matured during the period	-3,556	-	-	-3,556
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2020	**2,300**	**4**	**4**	**2,308**

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 01.01.2019	**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**
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	2	-	-	2
Changes in balances of financial assets	-	-	-	-
Financial assets terminated/matured during the period	-1	-	-	-1
Write-offs	-	-	-	-
Provision as at 31.12.2020	**2**	**-**	**-**	**2**

Distribution of off-balance sheet risk exposures by types of liabilities and loan classes 2020

(EUR thousand)

	Contingent assets and liabilities			
Type of liability	**Performance guarantees**	**Loan limits**	**Unused factoring**	**Total**
Collectively impaired	**139**	**2,139**	**169**	**2,447**
Credit class 1	139	986	169	1,294
Credit class 2	-	1,148	-	1,148
Credit class 3	-	4	-	4
Provision	**-**	**2**	**-**	**2**
Individually impaired	**-**	**-**	**-**	**-**
Provision	**-**	**-**	**-**	**-**

2019 (EUR thousand)

Type of liability	Contingent assets and liabilities: 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	**-**	**-**	**-**	**-**

The Group's loans granted to customers as at 31 December 2020 and 31 December 2019 by the due date are presented below.

(EUR thousand)

	2020	**2019**
On demand	542	647
Overdue	7,389	4,699
Up to 3 months	827	870
Between 3-12 months	1,871	3,678
Between 1-2 years	1,172	4,099
Between 2-5 years	4,951	5,067
Over 5 years	35,217	34,720
Total loans to customers	**51,969**	**53,780**

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 2020 and 31 December 2019:

(EUR thousand)	Present value of receivables: 31.12.2020	31.12.2019
Total gross investment	**2,872**	**4,354**
Up to 1 year	1,417	1,711
Between 1 and 2 years	876	1,533
Between 2 and 3 years	403	756
Between 3 and 4 years	110	289
Between 4 and 5 years	66	40
After 5 years	-	25
Less: Future interest income	-320	-677
Total present value of receivables	**2,552**	**3,677**
Up to l year	1,210	1,362
Between 1 and 2 years	795	2,006
Between 2 and 3 years	379	267
Between 3 and 4 years	103	30
Between 4 and 5 years	65	12
After 5 years	-	-

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 as follows:

(EUR thousand)

	31.12.2020	31.12.2019
Other financial assets, incl.	**660**	**180**
-cash in transit	577	83
-other accounts receivable	46	60
-securities	37	37
Other assets, incl.	**608**	**809**
-prepaid expenses	270	459
-prepaid taxes	215	215
-repossessed assets	98	98
-other assets	15	18
-collector’s coins	10	19
Total	**1,268**	**989**

As at 31 December 2020 and 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	Total
Balance 31.12.2019	98	98
Balance 31.12.2020	98	98

During 2020, the Group has not sold assets held as collateral under loan agreements. During 2019, the Group has sold other acquired assets in the amount of 106 thousand euros. Proceeds from the sale of foreclosed assets reduce the amount owed. 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 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**
Acquisitions	-	-	-	-	-	28	-	295	323
Fully amortised property equipment written off balance sheet	-	-	-	-	-197	-	-43	-	-240
Disposals	-	-	-	-17	-64	-	-	-	-81
Reclassification from prepayment for PP&E	-	-	-	-	28	-28	179	-179	-
As at 31 December 2020	**1,335**	**3,651**	**362**	**22**	**2,081**	**-**	**353**	**800**	**8,604**
Accumulated depreciation									
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**
Depreciation	-36	-72	-76	-3	-354	-	-71	-	-612
Fully amortised property, plant and equipment written off balance sheet	-	-	-	-	197	-	43	-	240
Disposals	-	-	-	17	60	-	-	-	77
As at 31 December 2020	**-943**	**-487**	**-145**	**-8**	**-1,507**	**-**	**-132**	**-**	**-3,222**
Carrying amount									
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**
As at 31 December 2020	**392**	**3,164**	**217**	**14**	**574**	**-**	**221**	**800**	**5,382**

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 liising, 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)

	31.12.2020	**31.12.2019**
Balance at the beginning of the year	**10,670**	**11,851**
Additions	-	31
Disposals	-144	-1,256
Gain from revaluation of fair value	16	64
Loss from revaluation of fair value	-1,136	-20
Balance at the end of the year	**9,406**	**10,670**

In 2020, the Group earned income from investment property in the amount of EUR 62 thousand, direct expenses related to administration of investment property amounted to EUR 37 thousand, incl. expenses on investment property earning rental income in the amount of EUR 17 thousand. In 2019, income was earned in the amount of EUR 69 thousand, and 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.

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.

Investment properties as at 31 December 2020 and 31 December 2019 have been appraised partly by the Group's management and partly by independent real estate appraisers. The valuation of investment properties made by the Group's management has been based on valuation reports made by professional appraisers in previous years, data held by the Land Board on real estate transactions in various regions of Estonia and data published by City24 on similar real estate properties for sale.

All estimates made by independent experts in previous years 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. External real estate appraisers have the required qualification and prior experience in appraising similar locations and market segments to perform the valuation.

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 2020, investment properties have not been classified to other levels of the fair value hierarchy.

After the balance sheet date, a sales contract under the law of obligations was entered into for the Group's investment property in the Viimsi municipality and the sale price was taken into account in determining the fair value of the property as at 31 December 2020. When concluding the contract for the sale of the property, the management relied primarily on the specific features of the property and its best possible use in determining the fair value of the investment property. In accordance with the sales contract, it is a multi-stage agreement, therefore the time value of money was taken into account when derermining the fair value of the investment property as at 31 December 2020 and the cash flows of the contract have been discounted to present value using a discount rate of 2.1%.

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.

2020 (EUR thousand)

Region	Intended use	Carrying amount	Value (per m²)	Potential change	Impact on value
Viimsi parish and Lääne-Harju parish (Laulasmaa village)	Residential land, commercial land, industrial land, social land, transportation land, public land	4,957	15.77	+10%	496
				-10%	-496
Tallinn	Residential land, commercial land	3,786	2,161.00	+10%	379
				-10%	-379
Harjumaa (Harku and Rae vald)	Profit-yielding land	330	0.74	+10%	33
				-10%	-33
Saaremaa	Residential land, profit-yielding land	73	0.26	+10%	7
				-10%	-7
Raplamaa	Profit-yielding land	145	0.62	+10%	15
				-10%	-15
Pärnumaa, Võrumaa	Residential land, profit-yielding land	115	0.22	+10%	12
				-10%	-12
	Total	**9,406**			

2019 (EUR thousand)

Region	Intended use	Carrying amount	Value (per m²)	Potential change	Impact on value
Viimsi parish and Lääne-Harju parish (Laulasmaa village)	Residential land, commercial land, industrial land, public land	5,951	19.39	+10%	609
				-10%	-609
Tallinn	Residential land, commercial	3,785	118.36-1,087.24	+10%	379

	land, public buildings land			-10%	-379
Harjumaa	Profit-yielding land, residential land, industrial land, transportation land	529	0.20-357.14	+10%	39
				-10%	-39
Saaremaa	Residential land, profit-yielding land	140	0.15-1.64	+10%	14
				-10%	-14
Raplamaa	Profit-yielding land	145	0.31-0.80	+10%	15
				-10%	-15
Other	Residential land, commercial land, industrial land, profityielding land	120	1.00-212.59	+10%	12
				-10%	-12
	Total	**10,670**			

Note 11. Payables to customers

Payables to customers are divided by segments as follows:

(EUR thousand)

	31.12.2020	31.12.2019
Legal entities	68,194	71,884
Individuals	47,715	47,212
Total	**115,909**	**119,096**

Analysis by maturity of deposits is as follows:

(EUR thousand)

	31.12.2020	31.12.2019
Demand deposits	73,060	77,510
Deposits with maturities of less than 3 months	10,464	10,344
Deposits with maturities between 3 months - 1 year	14,731	16,967
Deposits with maturities between 1 - 5 years	17,654	14,275
Total	**115,909**	**119,096**

Note 12. Other payables

(EUR thousand)

	31.12.2020	31.12.2019
KredEX	55	61
MES	6,012	6,458
Total	**6,067**	**6,519**

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

In 2020, 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)

	31.12.2020	31.12.2019
Due in 3 months	-	-
Due between 3 months to 1 year	86	74
Due between 1 year to 5 year	773	854
Due after 5 years	5,208	5,591
Total	**6,067**	**6,519**

As at 31 December 2020 and 2019, the average weighted effective interest rate of borrowings from the Rural Development Foundation was 0,91% ja 1,01%, respectively. As at 31 December 2020 and 2019, the average weighted effective interest rate of borrowings from KredEx was 4,00% ja 4,00%, respectively.

Note 13. Other payables and accrued expenses

Other liabilities and accrued expenses are as follows:

(EUR thousand)

	31.12.2020	31.12.2019
Financial liabilities, incl.	**1,618**	**4,465**
-payments in transit	1,359	3,884
-other liabilities	35	284
-lease liabilities	222	296
-provisions	2	1
Other liabilities (accrued expenses)	**313**	**341**
Total	**1,931**	**4,806**

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. The management has applied its best knowledge and judgment in determining the duration of contracts (including consideration of termination and extension options) and the discount rate. 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 2020, the balance of right-of-use assets is disclosed in Note 9. The balance of the lease obligation as of 31.12.2020 is disclosed in Note 13. The interest expense on lease obligations was 6 thousand euros (Note 17) and the depreciation of right-of-use assets was EUR 76 thousand (Note 9). Repayments of the principal of the lease obligation in 2020 amounted to EUR 80 thousand. The amount of future lease payments under unilaterally non-cancellable lease payments in the following periods as at 31 December 2020 are shown in the table below.

Right - of - use assets and lease liabilities

(EUR thousand)

31.12.2020	**Up to 1 year**	**1 to 6 years**	**Total**
Non-cancellable lease payments	45	192	237

31.12.2019	**Up to 1 year**	**1 to 7 years**	**Total**

Non-cancellable lease payments	80	237	317

Note 14. Share capital

As at 31 December 2020, 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 2019: 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 2020 and as at 31 December 2019) 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)

	31.12.2020		31.12.2019	
	Receivables	**Liabilities**	**Receivables**	**Liabilities**
Irrevocable and revocable transactions, incl.	**-**	**2,447**	**-**	**5,782**
Performance guarantees and other similar irrevocable transactions	-	139	-	1,565
Undrawn portion of credit and overdraft facilities	-	1,941	-	3,964
Other irrevocable transactions*	-	198	-	217
Unused factoring limit	-	169	-	36

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

Court cases

A former member of the Management Board filed a lawsuit against the Bank ordering the Bank to pay the fee of the member of the Management Board, compensation for a shorter notice of termination of the contract of the member of the Management Board and severance pay. The total amount of the claim is EUR 22.6 thousand. The case is pending at the first instance at Harju County Court. According to the management estimate, the probability of realization of the lawsuit is less than 50%.

Regarding the property located in France that is the collateral of the Bank’s debtor in bankruptcy, a legal dispute with the owner of the collateral continues at the second instance. The lawyer representing the Bank shall take all necessary steps and shall represent the Bank in court and, where appropriate, in other institutions. At present the management does not see any legal basis as to why the dispute could be satisfied not in favour of the Bank.

Other litigations are related to the Group's ordinary activities, the purpose of which is to collect outstanding receivables from the counterparty and to maintain collateral. As a result of these lawsuits, the Group will not suffer significant losses.

Potential liabilities arising from the tax audit
The tax authority did not conduct any tax audits with regard to the Bank Group in 2020. 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 2020 totalled EUR -3,728 thousand. Dividends will not be paid.

Note 16. Interest income

Interest income is divided as follows:

(EUR thousand)

	31.12.2020	31.12.2019
Interest income calculated using the effective interest method	**2,452**	**2,804**
Loans	2,350	2,311
Deposits	102	493
Other similar income	**372**	**635**
Leases	314	497
Other	58	138
Total	**2,824**	**3,439**

As at 31 December 2020 and 2019, the weighted average effective interest rate on loans granted was 4.58% and 4.58%, respectively.

As at 31 December 2020 and 2019, the weighted average effective interest rate on term deposits was 0,13% and 1.73%, respectively.

As at 31 December 2020 and 2019, the weighted average effective interest rate on finance lease agreements was 8,95% and 9.15%, respectively.

Note 17. Interest expense

Interest expense is divided as follows:

(EUR thousand)

	31.12.2020	31.12.2019
Deposits	-781	-668
Negative deposit interest rate for banks	-252	-306
Loans	-63	-65
Interest expence on lease liabilities	-6	-7
Total	**-1,102**	**-1,046**

The average effective interest rate on customer time deposits as of 31 December 2020 and 2019 was 1.77% and 1.69%.
As at 31 December 2020 and 31 December 2019, the weighted average effective interest rate on loans received from Rural Development Foundations was 0.91% and 1.01%, respectively.

As of 31 December 2020 and 31 December 2019, the weighted average effective interest rate on loans received from KredEx Foundations was 4.00% and 4.00%, respectively.

Note 18. Impairment losses on receivables

(EUR thousand)

	31.12.2020	31.12.2019
Reversal of loan loss allowances	835	1 025
Loan loss allowances (Note 3, 4, 7)	-1,923	-1,795
Total	**-1,088**	**-770**

Note 19. Fee and commission income

(EUR thousand)

	31.12.2020	31.12.2019
Transfers	707	993
Account maintenance fees	219	356
Servicing loans and leases, guarantees	188	151
Bank cards	175	442
Securities transaction and administration fees	14	15
Cash transactions	7	19
Others	53	95
Total	**1,363**	**2,071**

Note 20. Fee and commission expenses

(EUR thousand)

	31.12.2020	31.12.2019
Data processing fees	-474	-476
Card services	-284	-393
Execution of transfers	-229	-449
Loan servicing fees and guarantee fees	-35	-69
Cash collecting and cash transaction fees	-14	-1
Others	-133	-55
Total	**-1,169**	**-1,443**

Note 21. Net gains/losses from financial transactions

(EUR thousand)

	31.12.2020	31.12.2019
Net gains from currency exchange transactions	800	1,299
Dividend income	6	2
Kokku	**806**	**1,301**

Note 22. Wages and salaries, and social security taxes

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

(EUR thousand)

	31.12.2020	31.12.2019
Management remuneration	-432	-592
Employee wages and salaries	-1,952	-1,679
Social security taxes	-801	-759
Total	**-3,185**	**-3,030**

In 2020 and 2019, the average number of employees in the Group was 79 and 69, respectively.

Note 23. Other administrative expenses

Other administrative expenses are as follows:

(EUR thousand)

	31.12.2020	31.12.2019
Security services	-121	-105
Rent	-17	-12
Utilities	-56	-54
Maintenance and repairs	-91	-102
Transportation	-9	-18
Expenses related to business trips	-	-8
Communication and postal expenses	-23	-18
Office supplies	-12	-38
Marketing	-32	-13
Representational expenses	-3	-6
Training expenses	-9	-31
Other expenses	-83	-119
Total	**-456**	**-524**

Note 24. Other operating income

(EUR thousand)

	31.12.2020	31.12.2019
Other income and rental income on investment properties (Note 10)	62	69
Fines* and penalty interests	366	54
Gain from revaluation of gold	232	123
Other operating income	214	13
Total	**874**	**259**

**incl. a fine paid by one customer in the amount of EUR 250 thousands for non-performance of a contract entered into in 2018.*

Note 25. Other operating expenses

(EUR thousand)

	31.12.2020	31.12.2019
Guarantee Fund payments	-71	-84
Financial Supervision Authority supervision fees	-77	-94
Expenses related to management of investment properties (Note 10)	-37	-49
Loss from repossessed assets (Note 8)	-17	-14
Loss from revaluation of gold	-167	-49
Other operating expenses	-402	-387
Total	**-771**	**-677**

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 2020, the ownership interest of AS Leonarda Invest amounted to 48.45% of the Bank's shares outstanding (31.12.2019: 48.45%). The individual ownership interest of other shareholders as at 31 December 2020 and 31 December 2019 was below 10%. No shareholder exercises control over the Group.

Transactions with related parties are carried out at market value. As at 31 December 2020 and 31 December 2019 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 2020 and 2019 with related parties are recognised as follows:

2020 (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 31.12.2020	163	494	189	846
Loans granted	217	469	5,560	6,246
Repayments of loans	286	138	5,776	6,200
Interest income received	8	8	42	58
Balance of deposits as at 31.12.2020	68	34	2,212	2,314
Interest expenses paid	-	2	4	6
Services provided	4	1	23	28

Services purchased	42	-	63	105
Other off-balance sheet liabilities	13	52	392	457
Remuneration during the period	-	481	-	481

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

Note 27. Events after the balance sheet date

The new wave of coronavirus (COVID-19) infection and the restrictive and sustained restriction measures implemented in many eurozone countries are disrupting economic activity in 2021. Nevertheless, the global economy continued to recover at the end of 2020 and global financing conditions remain very favourable.

Due to the coronavirus COVID-19, the Group monitors daily its financial position, including the effect of potential higher risks arising from the coronavirus on its loan portfolio and on the Bank's overall results. There has been no need for the Group to implement COVID-19 pandemic mitigation measures, and as the structure of the loan portfolio and the customers themselves have not been directly impacted by the economic effects of the coronavirus, regular monitoring of customers, risk assessment as well as direct communication with customers have been our daily activities for preventing possible payment difficulties in servicing loan contracts. In the first three months of 2021, there were no indications that the quality of the Group's loan portfolio would decrease due to the effects of Covid-19. The risks taken have been managed and the loan portfolio has not been allowed to deteriorate during the COVID-19 pandemic. Deterioration is also not expected.

The Group will continue its normal activity and the operating will be ensured and controlled through the normal management. Employees are given the opportunity to work remotely, which does not prevent them from performing any function, including activities in the entire field of credit. Bank offices are partially opened and internet banking services are available and all in use.

After the balance sheet date, a sales contract under the law of obligations was entered into for a property of significance for the Group (see Note 10 - Viimsi municipality). The management estimates that the realization of the transaction in accordance with the terms of the contract is certain and has taken the terms of the transaction into account in determining the fair value of the property as at 31 December 2020.

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 2020. The Group's activity is going concern. 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.

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	31.12.2020	31.12.2019
Cash	**466**	**1,023**
Receivables	**138,220**	**145,584**
Receivables from Central Bank	57,662	53,786
Receivables from credit institutions	22,339	31,289
Receivables from customers	58,219	61,509
Other assets	**1,064**	**677**
Gold	**504**	**440**
Shares and other securities	**1,007**	**2,102**
Property, plant and equipment	**4,333**	**4,803**
Intangible assets	**1,021**	**797**
TOTAL ASSETS	**146,615**	**156,426**

LIABILITIES AND EQUITY	31.12.2020	31.12.2019
Debt obligations	**121,976**	**125,615**
Payables to customers	115,909	119,096
Other payables	6,067	6,519
Other liabilities and accrued expenses	**1,902**	**4,529**
TOTAL LIABILITIES	**123,878**	**130,144**
Share capital	25,500	25,500
Reserves	992	992
Accumulated profit/ (-loss)	-3,755	-210
TOTAL EQUITY	**22,737**	**26,282**
TOTAL LIABILITIES AND EQUITY	**146,615**	**156,426**

STATEMENT OF COMPREHENSIVE INCOME OF AS TBB pank

(EUR thousand)

	2020	2019
Net interest income	**1,742**	**2,278**
Interest income calculated using the effective interest method	2,800	3,197
Other similar income	44	127
Interest expense	-1,102	-1,046
Gain/loss from revaluation of investments into subsidiaries	**-1,095**	**-480**
Net fee and commission income	**185**	**622**
Fee and commission income	1,354	2,065
Fee and commission expense	-1,169	-1,443
Net gains from financial transactions	**806**	**1,301**
Administrative expenses	**-3,523**	**-3,414**
Wages and salaries	-2,317	-2,192
Wage related taxes	-779	-733
Other administrative expenses	-427	-489
Depreciation	**-568**	**-550**
Impairment losses on receivables	**-1,026**	**-696**
Gain	812	880
Loss	-1,838	-1,576
Other operating income and expenses	**-66**	**-289**
Other operating income	481	166
Other operating expense	-547	-455
Profit before tax	**-3,545**	**-1,228**
Income tax expense (-)/gain (+)	-	172
Net profit/ (-loss) for the financial year	**-3,545**	**-1,056**
Total comprehensive income/ (-loss) for the financial year	**-3,545**	**-1,056**

CASH FLOW STATEMENT OF AS TBB pank

(EUR thousand)

	2020	2019
Cash flows from operating activities		
Profit before tax for the financial year	**-3,545**	**-1,228**
Adjustments for:		
Depreciation	568	550
Unrealised gain/loss from revaluation of investment in subsidiaries	1,095	480
Net interest income	-1,742	-2,278
Change in receivables from credit institutions and customers	3,977	8,324
Change in other receivables and prepayments related to operating activities	-413	150
Changes in liabilities related to the operating activities	-6,236	-57,451
Interest received	2,833	3,380
Interest paid	-1,059	-945
Corporate income tax paid	-	-44
Total cash flows from operating activities	**-4,522**	**-49,062**
Cash flows from investing activities		
Purchase of property, plant and equipment	-323	-1,712
Total cash flows from investing activities	**-323**	**-1,712**
Cash flow from financing activities		
Payments of principal on leases	-74	-74
Total cash flow from financing activities	**-74**	**-74**
Total cash flows	**-4,919**	**-50,848**
Cash and cash equivalents at the beginning of the year	**76,225**	**127,073**
Cash and cash equivalents at the end of the year	**71,306**	**76,225**

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

	2020	2019
Cash	466	1,023
Correspondent account at Bank of Estonia	56,651	52,827
Demand deposits and overnight loans at banks	14,189	22,375
Total cash and cash equivalents	**71,306**	**76,225**

STATEMENT OF CHANGES IN EQUITY OF AS TBB PANK FOR 2020 AND 2019

(EUR thousand)

	Share capital	Reserves	Retained earnings/ Accumulated loss	Total
Closing balance 31.12.2018	**25,500**	**915**	**923**	**27,338**
Increase of statutory reserve	-	77	-77	-
Comprehensive loss	-	-	-1,056	-1,056
Closing balance 31.12.2019	**25,500**	**992**	**-210**	**26,282**
Comprehensive loss	-	-	-3,545	-3,545
Closing balance 31.12.2020	**25,500**	**992**	**-3,755**	**22,737**
Carrying amount of ownership interests under control and significant influence				-970
Value of ownership interests under control and significant influence under equity method				1,010
Adjusted unconsolidated equity at 31.12.2020				**22,777**

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 ("the Company") and its subsidiaries (together – "the Group") as at 31 December 2020, and the Group´s consolidated financial performance and 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 31 March 2021.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- 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 Company and of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and its subsidiaries 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 Company and its subsidiaries in the period from 1 January 2020 to 31 December 2020 are disclosed in the management report.

AS PricewaterhouseCoopers
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Translation note:

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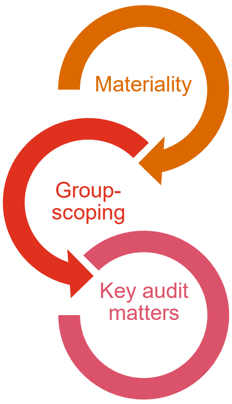
Our audit approach

Overview



- Overall group audit materiality is EUR 228 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 228 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.

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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 “Significant 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 2020 net carrying amount of loans to customers amounted to EUR 49,657 thousand that included related impairment allowance in the amount of EUR 2,312 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.
• calculating the 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
	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

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information into the ECL model; including estimating the above mentioned indicators for reliable future period and assigning weighted impact to those scenarios; and

- estimating ECL for Stage 3 individual assessments.

assumptions made by management, which serve as critical inputs in the ECL model, such as weights of different scenarios, classification of loans to customers between stages, 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 AS TBB liising, AS TBB Invest and AS Morgan Trade, which are operating in Estonia. We 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.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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, actions taken to eliminate threats or safeguards applied.

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

Report on other legal and regulatory requirements

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 12 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

31 March 2021
Tallinn, Estonia

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5. Management Board` s proposal for loss covering

In 2020, the audited loss of AS TBB pank Group is EUR -3,636 thousand, and the Bank's loss is EUR -3,545 thousand.

Proposal of the Management Board:

1. To approve the 2020 annual report of AS TBB pank.
2. To include the bank's 2020 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
/signed/	
Igor Novikov Chairman of the Management Board	31.03.2021
/signed/	
Sergei Elošvili Member of the Management Board	31.03.2021
/signed/	
Evi Tänak-Aruksaar Member of the Management Board	31.03.2021

6. DECLARATION OF THE SUPERVISORY BOARD TO THE 2020 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 2020.

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 loss covering 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

Sergey Gornyy
Member of the Supervisory Board

Aleksander Larionov
Member of the Supervisory Board