AS TBB pank

2022. CONSOLIDATED ANNUAL REPORT

*(translation of the Estonian original)**

TABLE OF CONTENTS

Page

1. INTRODUCTION 4
1.1 General information of Credit institution 4
1.2 Auditor 4
2. MANAGEMENT REPORT 5
2.1 Description of a Credit institution Group 5
2.2 General management of TBB pank 6
2.3 Principles of management procedures of TBB pank 8
2.4 Principal shareholders of TBB pank 10
2.5 Overview of 2022 results 10
2.6 Development goals of TBB pank for 2023 15
2.7 The internal control system 16
2.8 Dividend policy 17
2.9 Remuneration policy 17
2.10 Financial ratios and capital adequacy 18
2.11 Consolidated statements of financial position of TBB pank Group for 2018-2022 22
2.12 Court disputes and tax inspection 22
3. CONSOLIDATED FINANCIAL STATEMENTS 23
3.1 Consolidated statement of financial position of TBB pank Group 23
3.2 Consolidated statement of comprehensive income of TBB pank Group 24
3.3 Consolidated cash flow statement of TBB pank 25
3.4 Consolidated statement of changes in equity of TBB pank Group 26
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 27
Note 1. General information of the Group and basis of preparation 27
Note 2. Summary of significant accounting policies 28
Note 3. Significant accounting estimates and judgements 46
Note 4. Risk management 49
Note 5. Receivables from Central Bank 72
Note 6. Receivables from credit institutions 72
Note 7. Receivables from customers 74
Note 8. Other Assets 92
Note 9.Gold 92
Note 10. Property, plant and equipment 93
Note 11. Investment properties 94
Note 12. Payables to customers 96
Note 13. Other payables 97
Note 14. Other payables and accrued expenses 97
Note 15. Share capital 98
Note 16. Contingent assets and liabilities 98
Note 17. Interest income 100
Note 18. Interest expense 101
Note 19. Impairment losses on receivables 101
Note 20. Fee and commission income 101
Note 21. Fee and commission expenses 102
Note 22. Net gains from financial transactions 102

NOTE 23. WAGES AND SALARIES, AND SOCIAL SECURITY TAXES 102
NOTE 24. OTHER ADMINISTRATIVE EXPENSES 102
NOTE 25. OTHER OPERATING INCOME 103
NOTE 26. OTHER OPERATING EXPENSES 103
NOTE 27. RELATED PARTIES 103
NOTE 28. EVENTS AFTER THE BALANCE SHEET DATE 104
NOTE 29. PARENT'S UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION, STATEMENT OF COMPREHENSIVE INCOME, STATEMENT OF CHANGES IN EQUITY AND CASH FLOW STATEMENT 106

4. INDEPENDENT AUDITOR'S REPORT 110

5. MANAGEMENT BOARD`S PROPOSAL FOR PROFIT DISTRIBUTION 116

6. DECLARATION OF THE SUPERVISORY BOARD TO THE 2022 ANNUAL REPORT 117

1. INTRODUCTION

1.1 General information of Credit institution

Reporting period:	1 January 2022 - 31 December 2022
Balance sheet date:	31 December 2022
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:	Tatari 1, 10116 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 2022. The number of the credit institution operating license is EP-08 PO and it is effective from 21 January 1993. As at 31 December 2022, AS TBB pank has not been rated by an international rating agency.

From its very start, TBB has focused in its activities mainly on small and medium-sized enterprises and private persons, offering them traditional banking services: issuance of loans (regular loans and overdrafts) and leases, depositing, foreign currency transactions and intermediation of precious metals.

Since 2002, TBB pank is a full member of MasterCard International and issues different types of debit and credit cards to its customers.

In July 2019, AS TBB pank became direct member for EBA CLEARING STEP2 SEPA Credit Transfer (SCT) payments. Direct membership enables the Bank to make payments without mediators, guaranteeing rapid incoming and outgoing payments in euros for bank customers.

Recently, the Bank has started crediting combined services including complex settlements and trade of products and consumer goods between Estonian enterprises and their foreign partners in the EU. The Bank also grants loans and leases to agricultural enterprises and provides complex financing solutions to commercial, industrial and construction enterprises. The Bank conducts operations in the euro area money market by providing its correspondent banks with interbank loans in foreign currency.

Bank customers are offered a possibility to deposit funds in different types of fixed-term deposits both in euros and foreign currencies. The Bank has established favourable interest rates and service fees for certain customer groups. Personal banking services provide a more individual approach to customers.

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 2022 AS TBB pank owns 100% of the shares in three entities: AS TBB liising, and AS TBB Invest.

General information about the entities of AS TBB pank consolidation group (hereinafter also "TBB pank" and "the Bank") as at 31 December 2022:

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%

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 2022.

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**. The Member of the Management Board Sergei Elošvili and his related persons own 2,441,255 (9.5735%) of the Bank´s shares as at 31 December 2022. The number of shares has not changed at the time of preparation of the annual report. During 2022, 9.5000% of the shares of the existing shareholders had been sold to the owner from Great Britain (in the amount of 2,422,500 euros). 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 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**: 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**: 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:

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

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

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

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

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

including identification of key risks, development of risk management measures, upgrading and development of the risk management system.

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 23 April 2021 General Meeting of Shareholders has elected AS PricewaterhouseCoopers as the external auditor of AS TBB pank for the years 2021 and 2022. Responsible auditor is Lauri Past. TBB pank complies with the requirement of auditor rotation.

In 2022, 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 Bank's consolidation group. The Chairman of the Supervisory Board of AS TBB liising is Evi Tänak and its members are Igor Novikov and Sergei Elošvili. The Chairman of the Supervisory Board of AS TBB Invest is Sergei Elošvili and its members are Igor Novikov and Andrei Žukov.

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.

Social responsibility

The Bank has taken a clear and responsible position. Because of its size, the extent of the Bank's social and environmental impact is limited to customer financing.

The Bank does not finance such sectors as gambling, tobacco production, entertainment, weapons industry, etc. In addition, the Bank does not finance projects related to corruption or that are harmful to nature.

The Bank actively finances projects related to green production.

Risk committee

Considering the nature, scope and complexity of the Bank's activities, the Bank has not established a separate risk committee, its functions are performed by the audit committee in accordance with the provisions of the Credit institutions act (KAS). Risk management, including how information on risk reaches the management body, is described in **Note 4**.

Information about the objectives and principles for hedging the financial risks of financial instruments and the risks related to the changes in foreign exchange rates and interest rates is disclosed in **Note 4** "*Risk management*".

2.4 Principal shareholders of TBB pank

At the time of preparation of the Annual Report (31.03.2023) Leonarda Invest AS owns a 49.89% stake in TBB pank, all other shareholders own less than 10% of shares each. The ultimate beneficiary of the TBB bank is Andrei Žukov. The shares are divided as follows:

Shareholder	Country	Number of shares owned as at 31.12.2022	Ownership %	Number of shares at the time of preparation of the Annual Report	Ownership %
Leonarda Invest AS	Estonia	11,180,438	43.84%	12,721,849	49.89%
Muud aktsionärid	Estonia	6,935,510	27.20%	5,394,099	21.15%
Muud aktsionärid	Russia	4,961,552	19.46%	4,961,552	19.46%
Muud aktsionärid	United Kingdom	2,422,500	9.50%	2,422,500	9.50%
Total		**25,500,000**	**100.00%**	**25,500,000**	**100.00%**

2.5 Overview of 2022 results

Main events in the external environment in 2022:

- The year 2022 was the most difficult economic and financial year for all EU countries, including Estonia. Following the financial crisis caused by the restrictions of the coronavirus (COVID-19) pandemic, a war broke out between Ukraine and Russia. Military operations in Europe caused a rapid increase in the price of all energy carriers, commodities and materials, restrictions on financial transactions with Russia and Belarus, changes in supply chains, a decrease in business volume, a decrease in economic activity.
- The year 2022 was the year in which almost all geopolitical risks materialised in the decline of all macroeconomic indicators in European countries. The above reasons led to a slowdown in the growth of the world's leading economies.
- In the fourth quarter of 2022, GDP growth in the euro area countries was zero and in the case of the EU countries, GDP decline was -0.1%.
- Global economic growth is projected to fall from an estimated 3.4% in 2022 to 2.9% in 2023.
- The European Central Bank raised the key interest rate, including the deposit facility rate, from -0.5% to 2.0% at the end of 2022.
- The US Federal Reserve raised the USD base rate by up to 4.50% in 2022.
- The ECB completed the Quantitative Easing Programme and its negative interest rate policy.
- Rising inflation was a significant negative factor in 2022. Another main negative factor in the global economy was the reorientation of the foreign trade supply chains of goods and services in connection with the implementation of the sanctions policy against Russia and Belarus.
- The consumer price index (CPI) in EU countries was 10.4%, including 9.2% in the euro area. This was the fastest price increase since the creation of the euro area.
- In 2022, the average 6-month Euribor of the euro increased from -0.539% at the beginning of the year to 2.405% at the end of the year (01.12.2022).
- U.S. consumer prices rose by 6.5% in December 2022 compared to the same month in 2021, although their growth slowed after the June 2022 peak (9.1%).

- In 2022, stock market prices in Europe and USA showed a negative trend. While the UK FTSE 100 index rose by 0.9%, Germany's DAX and France's CAC 40 fell by -12.3% and -9.5%, respectively. The DJI index fell by -8.78% for the year.
- Unemployment in the euro area was stable in 2022 and stood at 6.7% in December (6.1% in the EU).
- In 2022, the geopolitical risk posed by Russia's war against Ukraine materialised, leading to a rapid increase in the price of fuel, food, electricity and other goods in Europe and the world. Inflation has become the main trigger of the recession in most countries of the world.

Main changes in the Estonian economy in 2022:

- Estonia's GDP decreased by 2.4% in the third quarter as compared to the third quarter of 2021
- Economic growth in Estonia's main trading partners was weak. While in our neighbouring countries Finland, Sweden and Lithuania GDP fell by -0.4%, -0.5% and -0.5% respectively, in Latvia the growth was zero.
- In 2022, exports of goods increased by 17% compared to 2021 and imports by 23%.
- Russia's share of goods imports has already decreased significantly under the sanctions. While in October 2021 it was 9.2%, in October 2022 it was 3.1% and will decrease further by the end of the year.
- A record increase in inflation was recorded in 2022. The change in the consumer price index compared to the previous year amounted to 19.4%. The main reasons for the increase in consumer prices include high energy prices, and rise in heating, services and food prices.
- According to Statistics Estonia, the construction price index increased by 17.8% in 2022 as compared to the average for 2021.
- The change in the producer price index of industrial output as compared to the previous year was 26.8%.
- In December 2022, the producer price index changed by 16.6% as compared to the same period last year.
- In 2022, manufacturing companies produced 1.9% less output at constant prices than the year before. Output increased in two of the three industrial sectors: mining and quarrying by 7.3% and energy by 5.4%, but decreased by 2.7% in manufacturing.
- Compared to the previous year, the total turnover of the Estonian real estate market decreased by 3% in 2022, the number of transactions was 15% lower, including 18% lower number of purchase and sale transactions. On the other hand, the total value of apartment ownerships sold as dwellings increased by 10%.
- The labour market situation has improved and unemployment has fallen to 5.6%. In 2022, the number of unemployed people was 40,200, a decrease of 2,900 people as compared to a year earlier.
- The average monthly wages and salaries continued to grow. At the end of the year, the average monthly gross wages and salaries amounted to EUR 1,679, which is 8.1% higher than in the previous period.
- The rise in base interest rates has made borrowing more expensive and is restricting demand for loans since the summer. Thus, the interest rate on new housing loans rose to 4.3% in November.
- In 2022, the capitalisation of Estonian banks continued to grow. Banks' equity increased by 3.9%, the portfolio of bank customer loans increased by EUR 2.65 billion, i.e. by 11.8%, and the volume of housing loans increased by 11.2%, i.e. by nearly EUR 1.0 billion.
- From 2022, the Bank of Estonia took into use the basic requirements for the countercyclical capital buffer. Raising the countercyclical capital buffer rate to 1% would increase the capital requirements of banks by nearly EUR 117 million, or 4%.

At the end of February 2022, a war broke out between Russia and Ukraine. Geopolitical risk for Estonia and the EU has transformed into recession risk. In connection with the beginning of the war, sanctions were adopted and implemented against various sectors of the Russian and Belarusian economy, as well as against the Central Bank of Russia and large commercial banks and various private individuals. The imposition of sanctions has changed the geography of raw materials, the production and sale of goods, the production chains that existed before. All of this has led to an increase in the prices of key raw materials, fuel, electricity, transport services, etc. The sharp rise in inflation has prompted both the EU and the USA central banks to adopt a more restrictive monetary policy aimed at controlling inflation. Over the past year, central banks have raised interest rates several times. On the one hand, it has increased the profitability of banks' portfolios, on the other – caused loans to become more expensive and has reduced the volume of credit markets.

The policy of economic sanctions aimed at isolating Russia from the global economy, technology markets and goods sales markets has created problems and difficulties for the Bank's customers, who have settled with partners in Russia, Belarus and Ukraine. Since May 2022, the Bank does not make settlements with the Russian ruble and correspondent relations with the Russian Sberbank has been frozen. Currently, the Bank makes settlements to Russia and back only via Raiffeizen Bank.

The Bank's revenue base is practically independent of the resilience of geopolitical risk. The Bank does not finance non-residents of Estonia, does not conduct foreign exchange transactions with the currencies of Russia, Belarus and Ukraine. The share of loan customers in the structure of which the beneficiaries of the countries are listed is only 1.31% of the loan portfolio. The resources raised by the Bank are also not dependent on the resources of the residents of Russia, Belarus and Ukraine. As of 31 December 2022, deposits by residents of Russia, Belarus and Ukraine represent only 3.0% of total deposits and 1.8% of term deposits.

AS TBB pank has no sanctioned persons in the structure of its owners and customers of the Group. The Bank has an efficient customer control system.

As the negative impact of geopolitical risk manifested itself primarily in the first half of the year, it did not affect the Group’s revenue growth at the end of 2022. The increase in revenue was mainly due to the increase in the base rate of the dollar and the euro, as well as the corresponding increase in the Euribor. Interest income received on the interbank market, growth in the quality and yield of the loan portfolio and profits from foreign exchange transactions enabled the Group to be profitable for the first time in three years.

At the time of the approval of the annual report, the Group's liquidity and capital positions are strong and do not differ significantly from the situation as at 31 December 2022. The Group's operations are sustainable and profitable. The Bank's capitalisation increased during the year and its solvency has increased. The Management Board does not currently see any indications that the Group is violating regulatory requirements: capital and liquidity buffers are sufficient and all requirements have been met.

In 2022, the Group's activities included the following main developments:

- Ads for loan products (mortgage loan, housing loan, investment loan) were regularly featured on Meta platforms, in Google search results, and in local news and online real estate portals and periodicals.
- The Bank periodically organised deposit campaigns aimed at local customers.

- Customer awareness of the products and services offered by the Bank was raised by the following means:
    - distribution of information leaflets in Bank's branches
    - relocating and optimising the content of the website (improving the visibility of banking products, call-to-action buttons, contact forms for contacting potential customers for further sales work)
    - social media posts and newsletters
- Further development of the new Internet bank continued in 2022.
- The remote identity verification service to establish a business relationship was developed with the help of Veriff.
- The remote identity verification service was implemented through the Population Register, which allows Estonian residents to open an account without visiting a bank branch.
- In 2022, the Bank established a correspondent relationship with the UK bank Banking Circle.
- Continuation of development of SALV platform for the purpose of further enhancing the quality of transaction screening and monitoring.

Income statement analysis

The audited profit of TBB pank Group for the year 2022 amounted to EUR 185 thousand as compared to the loss of EUR -1,242 thousand in 2021. The Group's total revenue increased by 25.6% compared to the previous year and amounted to EUR 7,066 thousand.

Compared to 2021, interest income increased by 38.3% in 2022 and amounted to EUR 3,682 thousand (see Note 17). The increase in interest income was influenced by the rise in interest rates of the US Federal Reserve and the European Central Bank, which made it possible to deposit liquid funds overnight and earn higher interest rates on term deposits in US dollars. Interest income on bank deposits amounted to EUR 791 thousand, due to a significant increase of the average interest rate at the end of 2022 (31 December 2022: 3.45% and 31 December 2021: 0.07%) and, as at 14 September 2022, the ECB's gradual increase of the interest rate on the deposit facility for overnight deposits with the Central Bank from zero to 2%. Interest income on loans increased by 13.5% against the background of an increase in the loan portfolio. The average borrowing rate also increased compared to 2021 (31.12.2022: 4.78%; 31.12.2021: 4.55%) (see Note 7). The decrease in interest income from leasing activities was 41.1%.

Interest expenses decreased by 12.1% and amounted to EUR 1,072 thousand (see Note 18). The interest expenses related to the negative interest rate on assets decreased by 22.3% and amounted to EUR 258 thousand. Interest expenses on deposits decreased by 10.7% as compared to the previous year. The average interest rate has decreased (31.12.2022: 1.58%; 31.12.2021: 1.61%). The average interest rates on the resources raised and loans received from the Rural Development Foundation and the KredEx Foundation remained almost at the same level (0.67% and 4.38% at 31.12.2022; 0.77% and 4.00% at 31.12.2021, respectively).

Overall, the Group's net interest income increased by 80.9% and amounted to EUR 2,610 thousand (2021: EUR 1,443 thousand).

The loss of EUR 166 thousand from the change in the value of receivables in 2022 is the result of an increase in expected credit loss (ECL), which was caused by the deterioration of macroeconomic indicators affecting the formation of the expected loss reserve in the context of the economic crisis (2021: profit for the period of EUR 197 thousand) (see Notes 2, 3, 7, 19).

Service fee income increased by 10.8% to EUR 1,542 thousand (2021: EUR 1,392 thousand), which was mainly due to an increase in loan-related and other service fees (see Note 20). In 2022, the most important in the fee income structure were:

- payment-related fees 36.0% (2021: 56.4%);
- fees related to loan management 16.4% (2021: 13.1%);
- account maintenance fees 15.5% (2021: 11.6%).

Service fee expenses increased by 2.7% as compared to the previous year and amounted to EUR 1,375 thousand (2021: EUR 1,339 thousand) (see Note 21). The three most significant components in the structure of fee and commission expenses were:

- data processing fees 50.2% (2021: 40.6%);
- service fees related to card services 23.1% (2021: 24.0%);
- service fees related to payments 18.8% (2021: 25.6%).

Overall, the Group's net fee and commission income tripled and amounted to EUR 167 thousand.

In 2022, when conducting foreign exchange swaps, the Group earned a profit of EUR 1,145 thousand from financial transactions, which is 33.9% more than in the previous year (EUR 855 thousand in 2021) (see Note 22).

The profit from the revaluation of real estate investments was EUR 225 thousand (profit for 2021 was EUR 216 thousand) (see Note 10).

The net profit from the revaluation of gold was EUR 33 thousand (2021: EUR 21 thousand).

Administrative expenses increased by 1.6% year-on-year, totalling EUR 3,355 thousand (2021: EUR 3,301 thousand). Staff costs were the largest component in the expense structure which accounted for 87.1% of administrative expenses (2021: 87.5%) (see Notes 23 to 24).

In 2022, other operating income decreased by 8.4% as compared to the previous year and amounted to EUR 439 thousand (2021: EUR 479 thousand) (see Notes 25, 8, 11). Other operating expenses decreased by 34.1% and amounted to EUR 467 thousand (2021: EUR 709 thousand) (see Note 26).

Analysis of the statement of financial position

As at 31 December 2022, the total volume of TBB pank Group statement of financial position increased by 3.5% from the beginning of the year, totalling EUR 176,993 thousand (2021: EUR 170,994 thousand). The main reason for growth was the increase in the volume of other debts, i.e. loans received from the Rural Development Foundations (MES) (see Note 13). Also, the volume of other liabilities, i.e. the balance sheet item “Payments in transit”, increased several times due to the inflow of receipts subject to control not credited to final recipients and the increase in the volume of outgoing payments monitored (see Note 14). Growth is temporary and the reason is the implementation of additional due diligence measures due to international financial sanctions imposed in 2022 in connection with Russia's aggression against Ukraine.

Lending activities

As compared to 2021, the Group's gross carrying amount of loan receivables from customers increased by 13.5% in 2022 and amounted to EUR 57,638 thousand (31.12.2021: EUR 50,778 thousand) (see Note 7). By customer sectors, receivables changed as follows: loan receivables from legal entities increased by 16.8% and receivables from private individuals decreased by 5.2%. The balance of the allowance for expected loan losses as at 31 December 2022 is EUR -360

thousand (31.12.2021: EUR -228 thousand) (see Note 7). The reason for the increase in the allowance is the increase in the expected credit loss (ECL) due to the deterioration of macroeconomic indicators affecting the expected loss reserve formation in the context of the economic crisis.

Financing

As at 31 December 2022, the Group's liabilities to other credit institutions amounted to EUR 64 thousand (31.12.2021: EUR 0 thousand).

As at 31 December 2022, payables to customers amounted to EUR 129,560 thousand, decreasing by 6.5% as compared to the beginning of the year due to a decrease of 7.0% in the volume of corporate deposits and a decrease of 5.6% in the volume of deposits of individuals (see Note 12).

As at 31 December 2022, other payables increased by 46.7% and amounted to EUR 12,572 thousand (2021: EUR 8,571 thousand) (see Note 13). The objective of cooperation between the Group and the Rural Development Foundation is to improve the opportunities for small and medium-sized enterprises to attract financial resources and 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 volume of other liabilities and accrued expenses increased several times due to the application of additional due diligence measures during ordinary banking operations related to the increase in payments in transit (2022: EUR 13,077 thousand, 2021: EUR 2,291 thousand) (see Note 14).

2.6 Development goals of TBB pank for 2023

The strategy of AS TBB Pank Group for 2023 foresees the implementation of the projects launched in 2022. The strategy is developed on the basis of the analysis of the Estonian current macroeconomic environment and banking market situation as well as the forecast of future trends.

In 2023, the Bank will focus on two main areas of work: maintaining high liquidity and ensuring the high quality and profitability of the gross loan portfolio.

The geopolitical component and the war between Russia and Ukraine in 2022 will have a negative impact on the financial, energy, food and raw material markets of European Union. The expected fall in inflation in 2023 will not allow for positive and stable growth, and the rise in loan prices will increase the volume of interest income as well as reduce the growth potential of the loan portfolio. These changes in the external environment may have a negative impact on the Group's profitability, while also forcing us to look for new markets, partners and investors in order to expand the volume of the Bank's services and settlement services and increase revenue.

In the context of the war between Russia and Ukraine, the Bank will continue to conduct international settlements in a reduced format, under strict compliance control and only through correspondent accounts of EU banks. Due to the conflict between Russia and Ukraine, the volume of settlements is expected to decrease in 2023.

For ensuring stable development, the Bank continues to invest in IT solutions, including CRM and online bank development. In 2023, it is planned to start the transition to a new banking information technology system. This will improve settlement speed and quality, introduce new prospective

banking services, simplify analytical calculations and raise the level of risk and liquidity management. The Bank's developments focus primarily on the automatisation of the various work processes related to prevention of money laundering and terrorist financing, including the development of analysis, scoring and monitoring software.

To improve the quality and availability of international payments, the network of correspondent banks and settlement currencies will be expanded. In view of the increase in the profitability of the money market, it is planned to increase the volume of interbank loans both in foreign currency and in euro. By the end of 2023, the income from investing money in the interbank market should exceed 25% of the Bank's total interest income.

The Bank considers it important to increase the customer portfolio and expand sales of various retail banking services. In order to achieve these goals, the advertising budget for 2023 was increased to ensure the expansion of the coverage of advertising spaces and increase the effectiveness of advertising. The customer journey is also being optimised (advertising channels, landing pages, application forms on the website and in the self-service office, further work with the customer).

In 2023, the Bank will continue to conduct periodic advertising campaigns. Goals:

- Increase the amount of term deposits
- Enhance the credit customer portfolio in priority areas
- Increase the customer portfolio (especially to attract younger audiences)
- Notify of the possibility to open a current account by remote identification

At the beginning of 2023, the development of the remote identity verification service with the help of Veriff for establishing a business relationship will be completed and the service will be available to customers in the first quarter of 2023.

In 2023, the Bank will continue the development of the new online bank.

2.7 The 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.

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

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

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

Important control functions at the Bank Group are carried out by the second line of defence which in 2022 consists of the risk control and compliance 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 2022, 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 2022 and are available at the Bank web site.

The prerequisite for the payment of dividends is continued compliance with both capital-related external and internal regulatory standards. Arising from this, the Bank Group's dividend policy is based on conservative and reliably assumptions so that after any distribution the effective capital requirements can be complied with. In case there are respective growth and/or investment plans, the Bank Group's general meeting may waive payment of dividends. The Bank Group uses the so-called residual dividend principle when paying out dividends, according to which only the remaining portion of the profit that is not reinvested is paid out as dividends.

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 members of governing bodies and 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 does not encourage excessive risk-taking. 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 governing bodies 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.

In 2023, we amended the Group's remuneration policy with a provision aimed at ensuring compliance with the principle of gender neutrality, i.e. male and female employees receive equal pay for equal work or work of equal value. Remuneration is paid on the basis of criteria relating to the ability, competence, qualifications, experience and knowledge of the staff member.

In accordance with the applicable legislation, the Bank defines specific staff members, who are members of the Supervisory Board and the Management Board, persons responsible for control functions, employees who have a significant impact on the Group's risk profile. The list of identified staff members shall be reviewed at least once a year or when there are structural changes or the creation of new posts affecting the list of identified staff members. The remuneration of the specified staff members shall be the same as for the other employees of the Bank, i.e. their remuneration shall be based on the basic remuneration.

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 2022 and 2021. 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 December 2022	31 December 2021
1. ROE, Return on Equity = Net profit (loss) / equity	0.86%	-5.63%
2. EM, Equity Margin = Assets / equity	9.34	7.35
3. PM, Profit Margin = Net profit (loss) / total revenue*	2.62%	-22.08%
4. AU, Asset Utilisation = Total revenue / assets	3.52%	3.47%
5. ROA, Return on Assets = Net profit / total assets	0.09%	-0.77%
6. EPS, Earnings per Share = Net profit (loss) / average number of shares (EUR)	0.01	-0.05

** 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 31.12.2022, capital adequacy was 25.02% (31.12.2021: 25.23%).

Own funds and ratios (EUR thousand)

	31 December 2022	31 December 2021
TIER 1	**20,219**	**20,336**
Common Equity Tier 1 capital (CET 1)	**20,219**	**20,336**
Paid-in share capital	25,500	25,500
Prior period retained earnings/accumulated loss	-4,970	-3,728
Net profit/loss (-)for the financial year	185	-1,242
(-) Unacceptable part of the annual profit	-185	-
Reserves established from profit	1,005	1,005
Common equity Tier 1 capital deductions	-1,316	-1,199
Total own funds	**20,219**	**20,336**
Total risk-weighted assets (Total risk exposure)	**80,806**	**80,600**
Capital ratios and buffers		
Common equity Tier 1 capital ratio (CET1)	25.02%	25.23%
Tier 1 capital ratio (TIER 1)	25.02%	25.23%
Total own funds ratio	**25.02%**	**25.23%**
Combined buffer requirement	**2,818**	**2,015**
Buffer for capital preservation	2,020	2,015
Buffer for system risk	798	-

Since 15 December 2022, considering the latest applicable SREP[1] capital requirements, the Group's minimum regulatory capital ratio is **20.58%** (until 15.12.2022: **21.16%**) 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, 3.5% of the combined buffer requirement (until 07.12.2022: 2.5%), 6.08% of Pillar 2 requirement (until 15.12.2022: 7.66%) and 3% of additional own funds guidance (since 10.01.2022).

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 2022 and 2021, both on-balance sheet assets and off-balance sheet liabilities have been taken into consideration.

[1] 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 Authority.

Risk-weighted assets

(EUR thousand)

	31 December 2022	Capital requirements (8%)	31 December 2021	Capital requirements (8%)
TOTAL RISK EXPOSURE	**80,806**	**6,464**	**80,600**	**6,448**
Risk-weighted assets for credit risk and counterparty credit risk	**73,028**	**5,842**	**70,883**	**5,671**
Government	-	-	-	-
Credit institutions and investment companies	3,997	320	4,888	391
Legal entities	8,498	680	10,886	871
of which: SME	8,495	680	10,330	826
Retail receivables	286	23	313	25,
Real estate secured receivables	41,808	3,344	38,046	3,044
of which: SME	38,304	3,064	34,346	2,748
Overdue receivables	1,771	141	531	42
Items with particularly high-risk exposure	12,108	969	11,037	883
Other assets	4,560	365	5,182	415
Total amount of foreign currency risk	**625**	**50**	**638**	**51**
Total operational risk amount	**7,153**	**572**	**9,079**	**726**

** 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.*

Since 2014, additional capital buffer requirements have been established in Estonia. The components of combined buffer requirements are:

- capital conservation buffer of 2.5%,
- systemic risk buffer of 0% from 1 May 2020 (1.0% until 30 April 2020),
- countercyclical buffer of 0-2.5% (depending on the location of credit exposures).

Since 2016, all EU credit institutions are required to hold own funds to meet the countercyclical capital buffer requirement. The countercyclical buffer requirement is the credit institution's total risk exposure multiplied by the weighted average of the countercyclical capital buffers. The countercyclical buffer rate is established on a country-by-country basis by the authority designated by the respective country. In Estonia, the countercyclical capital buffer requirement was 0% as at 2016, the applicable countercyclical capital buffer rate was 1% as at 7 December 2022 and will be 1.5% as at 1 December 2023. Capital requirements and buffers as at 31 December 2022 are presented in the table below.

Capital requirements and buffers

31 December 2022

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	**20,219**	**80,806**	**8%**	**6,464**	**13,755**	**25.02%**	**2.5%**	**2,020**	**1%***	**798**	**11.5%**	**9,282**	**10,937**
Tier 1 capital	**20,219**	**80,806**	6%	4,848	15,371	25.02%	2.5%	2,020	1%*	798	9.5%	7,666	12,553
CET 1 capital	**20,219**	**80,806**	4.5%	3,636	16,583	25.02%	2.5%	2,020	1%*	798	8%	6,454	13,765

*****0.987%** *or Group specific countercyclical capital buffer rate calculated in accordance with Article 140 (1) of Capital Requirements Directive (CRD).[2]*

[2] Capital Requirements Directive or Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 (CRD)

The Capital Requirement Regulation[3] 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 December 2022	31 December 2021
On-balance sheet risk exposures	175,812	169,795
Other off-balance sheet risk exposures	1,481	2,734
The indicator of total risk exposure of financial leverage ratio	**177,293**	**172,529**
Own funds of Tier 1	**20,219**	**20,336**
Financial leverage ratio (using the fully implemented definition of Tier 1 capital)	**11.40%**	**11.79%**

The management estimates that the Group is in compliance with all external and internal capital management requirements as at 31.12.2022 and 31.12.2021.

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 589% in 2022 and 975% in 2021 (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 2022.

Liquidity coverage ratio (EUR thousand)

	31.12.2021*	31.03.2022*	30.06.2022*	30.09.2022*	31.12.2022*
Liquidity buffer	69,981	73,357	79,771	87,011	92,616
Net liquidity outflows	7,177	7,937	9,613	12,675	15,725
Liquidity coverage ratio (%)	975%	924%	830%	686%	589%

* *calculated as arithmetic averages of data at the end of the twelve months preceding the end of the period*

The liquidity coverage ratio is equal to the ratio of the credit institution's liquidity buffer to its net liquidity outflows over a stress period of 30 calendar days, expressed as a percentage. The liquidity buffer to be used in the calculation is the liquid assets (cash, deposits to be withdrawn with the central bank) held by the credit institution in accordance with requirements. The net liquidity outflow is the amount which results from the deduction of the liquidity outflow of a credit institution from its liquidity outflow, whereby the cash inflow should not exceed 75% of the cash outflow when calculating the net cash outflow.

[3] Capital Requirements Regulation (EU) No 575/2013, 26 June 2013

2.11 Consolidated statements of financial position of TBB pank Group for 2018-2022

(EUR thousand)

	31.12.2022	31.12.2021	31.12.2020	31.12.2019	31.12.2018
Cash	1,204	807	466	1,023	1,183
Receivables	163,285	155,046	129,658	138,037	195,598
Other assets	790	1,073	1,268	989	1,490
Gold	499	525	504	440	367
Property, plant and equipment	3,772	4,026	4,361	4,878	4,601
Intangible assets	1,181	1,199	1,021	797	-
Investment properties	6,262	8,318	9,406	10,670	11,851
TOTAL ASSETS	**176,993**	**170,994**	**146,684**	**156,834**	**215,090**
Payables	142,196	147,168	121,976	125,615	182,357
Other liabilities and accrued expenses	13,077	2,291	1,931	4,806	5,499
Total liabilities	**155,273**	**149,459**	**123,907**	**130,421**	**187,856**
Total equity	21,720	21,535	22,777	26,413	27,234
TOTAL LIABILITIES AND EQUITY	**176,993**	**170,994**	**146,684**	**156,834**	**215,090**

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 16). The Bank's management is of the opinion that as a result of pending legal disputes as of 31 December 2022 and the date of submission of the report, the Bank and the Group companies will not incur significant losses.

The following is ongoing in 2022 and as of the date of submission of the report:

- AS TBB pank has 4 (four) bankruptcy proceedings, 7 (seven) enforcement proceedings, 2 (two) expedited payment order proceedings, 2 (two) court proceedings against the Bank, 1 (one) preliminary evidentiary proceedings against the Bank and 1 (one) cassation proceedings against the Bank in France. A judgment has been made against the Bank to which the Bank has filed an appeal (see also Note 16);
- AS TBB liising has 2 (two) bankruptcy proceedings, 8 (eight) enforcement proceedings, 1 (one) court proceeding, i.e. an appeal against AS TBB liising;
- AS TBB Invest does not have any matters in court or arbitration proceedings.

In the case of proceedings against the Bank and the Group companies, the management does not see any legal basis why the dispute could be satisfied not in favor of the Bank and the Group companies.

In 2022, 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 December 2022	31 December 2021
Cash		**1,204**	**807**
Receivables		**163,285**	**155,046**
Receivables from Central Bank	5	86,019	79,501
Receivables from credit institutions	6	19,988	24,995
Receivables from customers	7	57,278	50,550
Other assets	8	**790**	**1,073**
Gold	9	**499**	**525**
Property, plant and equipment	10	**3,772**	**4,026**
Intangible assets	10	**1,181**	**1,199**
Investment properties	11	**6,262**	**8,318**
TOTAL ASSETS		**176,993**	**170,994**

LIABILITIES AND EQUITY	Note	31 December 2022	31 December 2021
Payables		**142,196**	**147,168**
Payables to credit institutions		64	-
Payables to customers	12	129,560	138,597
Other payables	13	12,572	8,571
Other payables and accrued expenses	14	**13,077**	**2,291**
TOTAL LIABILITIES		**155,273**	**149,459**
Share capital	15	25,500	25,500
Reserves	15	1,005	1,005
Accumulated loss		-4,785	-4,970
TOTAL EQUITY		**21,720**	**21,535**
TOTAL LIABILITIES AND EQUITY		**176,993**	**170,994**

The notes to the financial statements set out on pages 27 to 109 form an integral part of these financial statements.

3.2 Consolidated statement of comprehensive income of TBB pank Group

(EUR thousands)

	Note	31 December 2022	31 December 2021
Net interest income		**2,610**	**1,443**
Interest income calculated using the effective interest method	17	3,508	2,394
Other similar income	17	174	268
Interest expense	18	-1,072	-1,219
Impairment losses on receivables	7, 19	**-166**	**197**
Net fee and commission income		**167**	**53**
Fee and commission income	20	1,542	1,392
Fee and commission expense	21	-1,375	-1,339
Net gain from financial transactions	22	**1,145**	**855**
Administrative expenses		**-3,355**	**-3,301**
Wages and salaries	23	-2,187	-2,161
Wage related taxes	23	-735	-728
Other administrative expenses	24	-433	-412
Depreciation of property, plant and equipment and intangible assets	10	**-424**	**-496**
Revaluation of investment properties	11	**225**	**216**
Net gain from revaluation of gold		**33**	**21**
Other operating income/ expenses		**-28**	**-230**
Other operating income	25	439	479
Other operating expense	26	-467	-709
Gain/loss before tax		**207**	**-1,242**
Income tax expense (-)/gain (+)	2	-22	-
Net gain/loss for the financial year		**185**	**-1,242**
Total comprehensive gain/loss for the financial year		**185**	**-1,242**

The notes to the financial statements set out on pages 27 to 109 form an integral part of these financial statements.

3.3 Consolidated cash flow statement of TBB pank

(EUR thousands)

	Note	31 December 2022	31 December 2021
Cash flow from operating activities			
Gain/loss before tax		**185**	**-1,242**
Adjustments for:			
Depreciation	10	424	496
Change in the value of investment properties	11	-225	-216
Net interest income	17,18	-2,610	-1,443
Change in receivables from credit institutions and customers	6, 7, 19	-2,750	-2,367
Change in other receivables and prepayments related to operating activities	8, 11	311	172
Changes in liabilities related to the operating activities	12,13,14	5,847	25,435
Interest received	7, 17	3,623	2,634
Interest paid	12,18	-1,018	-1,014
Total cash flow from operating activities		**3,787**	**22,455**
Cash flow from investing activities			
Purchase of property, plant and equipment and intangible assets	10	-152	-338
Write-off of property, plant and equipment and intangible assets	10	-	-
Purchase of investment properties	11	-322	-70
Proceeds from sale of investment properties	11	2,603	2,075
Total cash flow from investing activities		**2,129**	**1,667**
Cash flow from financing activities			
Payments of principal on leases	14	-88	-88
Total cash flow from financing activities		**-88**	**-88**
Total cash flow		**5,828**	**24,034**
Cash and cash equivalents at the beginning of the year		**95,340**	**71,306**
Cash and cash equivalents at the end of the year		**101,168**	**95,340**

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

		31 December 2022	31 December 2021
Cash		1,204	807
Correspondent account at the Bank of Estonia (available funding)	5	84,678	78,368
Demand deposits and overnight loans at banks	6	15,286	16,165
Total cash and cash equivalents		**101,168**	**95,340**

The notes to the financial statements set out on pages 27 to 109 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 01.01.2021	**25,500**	**1,005**	**-3,728**	**22,777**
Comprehensive loss for the financial year	-	-	-1,242	-1,242
Closing balance at 31.12.2021	**25,500**	**1,005**	**-4,970**	**21,535**
Comprehensive gain for the financial year	-	-	185	185
Closing balance at 31.12.2022	**25,500**	**1,005**	**-4,785**	**21,720**

The notes to the financial statements set out on pages 27 to 109 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 2022:

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 devedevelopment	11162243 01.09.2005	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 31.12.2022 (and as at 31.12.2021), 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 December 2022	31 December 2021
Financial assets at amortised cost		**163,502**	**155,447**
Receivables from Central Bank	5	86,019	79,501
Receivables from credit institutions	6	19,988	24,995
Receivables from customers and other receivables (incl. lease receivables)	7	56,985	50,234
Other receivables (cash in transit, other notes receivable)	8	510	717
Financial assets at fair value through profit or loss		**330**	**353**
Receivables from customers and other receivables	7	293	316
Equity instruments (securities)	8	37	37
Total financial assets		**163,832**	**155,800**

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 is overdue for more than 90 days. At the Bank, the materiality threshold of credit obligations not paid by the due date is EUR 0 in absolute terms and 0% in relative terms;
- Inter-bank receivables, i.e. no intra-day payments were made according to the contract as at the end of the banking day;

Qualitative criterion
The debtor is unlikely to pay its credit obligations in full without realisation of collateral :
- The contract is been assigned a non-performing status (e.g. the contract has been terminated and 14 calendar days have passed, or the contract has expired and 14 calendar days have passed);
- Due to the deterioration in credit quality, specific credit adjustments have been made;
- Sale of the debtor’s receivable at a significant economic loss. The materiality criterion of the economic loss is 0%. The sale of the receivable needs to be related to credit risk;
- It is a forborne exposure, as a result of which there is a significant reduction in the financial liability. The materiality criterion is 0%. A forborne exposure is then non-performing until the end of the recovery period;
- Bankruptcy or other similar proceedings have been initiated against the counterparty to the contract;
- Other qualitative factors that are considered relevant.

If the receivable (or group of receivables) of the debtor is in default 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 of the debtor are also in default (on-balance sheet and off-balance sheet).

Loans to and receivables from banks
The Bank takes into account the international credit rating of banks (Standard & Poor's, Moody’s Investors) when placing deposits. Depending on the location of the credit institutions, in the absence of an international credit rating, the Bank may also take into account the evaluations of other rating agencies if it is a reliable agency (for example, as of 31.12.2022, in case of a Chinese bank, the credit rating issued by Lianhe Credit Rating Co. Ltd was relied upon). 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 2.99, except for credit cards and express leases 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 as significantly increased since initial recognition (decrease in credit class of at least 2.0 points, in terms of credit cards and express leases 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. Receivables restructured as a result of defaults classified in Stage 3 may be classified in Stage 2 for the probationary period after the recovery period and in Stage 2 or 1 already after the end of the probationary period, depending on the outcome of the analysis of the customer's payment discipline, financial situation and other relevant circumstances;
- Specific credit adjustments have been made;
- Sale of the receivable of the debtor;
- Bankruptcy or other similar proceedings have been launched.

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.

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.

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

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").

Credit risk classes are now calibrated in such a way that the risk of insolvency increases exponentially for each following higher class.

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 analysis, correlation and regression analysis of defaults and impairments and benchmarking analysis of the Estonian banking market. In 2022, the selection of macro indicators was reviewed and revised for relevance. As at 31 December 2021, a macro indicator was used as a common indicator of the GDP change for the groups in the total portfolio, serving as an input for the calculation of the macro coefficient. The use of other indicators was not justified in 2021. The analysis, conducted in 2022, showed close correlation between impairments and changes in GDP and the consumer price index (CPI). The regression analysis showed close correlation between the dependent variable (expected credit loss, ECL) and the two explanatory indicators (GDP and CPI) contained in the model. The regression model showed that GDP has a negative impact while the CPI has a positive impact, which means that GDP will lead to a reduction in expected credit losses, whereas the CPI, on the contrary, will lead to an increase. The correlation analysis showed close correlation between the amount of the Bank's impairments and changes in GDP. The correlation between the Bank's impairments and the changes in the CPI was average. The GDP variable has a negative correlation over the longer term (over 10 years), i.e. the increase in the GDP variable is associated with a decrease in the impairment value and vice versa. The CPI variable is positively correlated, i.e. the increase in the CPI variable is related to the increase in the impairment value and vice versa. The historical figures of changes in GDP and CPI are taken from the data of Statistics Estonia, which have been used to find the average indicators of the cycle.

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 usual transition, but is largely dependent on the effects of the economic crisis and the military

conflict between Russia and Ukraine, we use a starting platform more based on expert assessments that is closer to reality than the mathematical model alone. For forecasting GDP and CPI changes, the Group used the forecasts published by the Bank of Estonia as well as internal estimates when allocating weights to the scenarios.

The forecasted macro parameter is weighted by three scenarios: base, positive, and negative. The baseline scenario is the most likely scenario and the other scenarios reflect a more optimistic and pessimistic scenario respectively. The forecasted values for the GDP and CPI 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 and CPI 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 been linked to the maximum fixed GDP change during the economic crisis. Changes in the macro coefficient due to changes in the CPI have been associated with the maximum fixed CPI change during a price fall. On the impact of the macro factor, cycle average PDs change both upwards and downwards, depending on whether the economy is contracting or growing.

A single macro coefficient is used for the entire portfolio, the Bank does not divide it into corporate and individual customers. As the sub-portfolio principle is not used due to the size of the loan portfolio and its structure, GDP and CPI growth affect both private borrowers and business customers equally.

More detailed information is provided in Note 3 "*Significant management estimates and assumptions*".

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 2022 and 31 December 2021, the following financial assets of the Company were classified in this category (see Note 2 *"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 „Net gain/loss from revaluation of gold".

Investment properties
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 properties".

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 31.12.2022, the Bank's balance sheet includes deferred income tax assets from tax losses in the amount of EUR 39 thousand (31.12.2021: EUR 61 thousand). The required adjustment to the

amount of deferred tax assets is based on the income tax calculated on the taxable profit earned during the reporting period.

As at 31.12.2022, 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 14).

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 16) 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 20, 22):
- 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 gain 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)

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 2023, and which the Group has not early adopted.

Amendments to IAS 1 and IFRS Practice Statement 2: „Disclosure of Accounting policies"
(effective for annual periods beginning on or after 1 January 2023)
IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. Management has assessed that the changes to the standard will not affect the Group's financial statements.

Amendments to IAS 8: „Definition of Accounting Estimates"
(effective for annual periods beginning on or after 1 January 2023).
The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates. Management has assessed that the changes to the standard will not affect the Group's financial statements.

„Classification of liabilities as current or non-current, deferral of effective date" – Amendments to IAS 1
(effective for annual periods beginning on or after 1 January 2024; not yet adopted by the EU).
These 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. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. 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 evaluating the impact of the changes on the Group's financial statements.

The remaining new or amended standards or interpretations that 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 properties (Notes 4, 11)

<u>Impairment of loans and receivables</u>

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, credit cards 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 model used was not significantly amended as compared to 2021. The model inputs were reviewed and if necessary, they were revised during the regular process (validation of macroeconomic parameters, forecast renewal). The effects of economic recession have been taken into account both for evaluation of the criteria related to a significant increase in credit risk as well as forecasting the probability of default and default rates (incl. through 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:
Beginning on 31.12.2021, the forborne exposures initially classified as Stage 3 may be reclassified after the end of the recovery period as Stage 2 for the probationary period and as Stage 2 or 1 after the end of the probationary 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 treatment had no effect on the impairment of receivables as at 31.12.2022, as there were no receivables with the characteristics described above.

Credit classes:
Beginning on the 3rd quarter of 2021, credit risk classes are calibrated in such a way that the risk of insolvency increases exponentially for each following higher class. For express leases and credit cards, receivables are evaluated using a simplified method.

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 2.5 points (at least 1.5 points for credit cards and express leasing).

The Group has carried out sensitivity analysis with regard to the effect on the ECL (as at 31 December 2022), if upon applying SICR criteria, the credit class would decrease by 1) 1 point; 2) 2 points (for credit cards and express leasing) and 2.5 points (for remaining loan receivables). As a result, the impairment loss would 1) increase by EUR 330 thousand; 2) decrease by EUR 9 thousand.

As at 31 December 2022, the Group's receivables from customers include a customer receivable in a material amount (EUR 2,955 thousand), classified into Stage 2. The receivable is reflected in the balance sheet without recalculating Stage 2 impairment, as the Group's internal methodology requires the receivable to be classified into Stage 1. Management has carried out a sensitivity analysis and assessed the receivable if the calculation of the ECL would correspond to the principles of internal methodology in Stage 2 – in this case, the Group's ECL as at 31 December 2022 would be EUR 43 thousand higher (in the case of the same credit class, the impact of a higher probability of default). The receivable is secured by a fixed surety of the Rural Development Foundation (to the extent of 80% of the principal amount) in the amount of EUR 2,362 thousand and by a guarantee of a legal person in the amount of EUR 3,000 thousand (calculated at the value of EUR 593 thousand), the Rural Development Foundation will use the surety only if the Bank is

unable to satisfy the claim against the debtor and third parties securing the obligations of the debtor to the extent of the principal liability of the debtor.

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 +17/-17 thousand, whereby the effect on the 12-month and lifetime ECL is EUR +13/-13 thousand and EUR +3/-3 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 16 thousand higher/ EUR 16 thousand lower, respectively.

Selection of macro-economic indicators:
In 2022, the selection of macro indicators was reviewed for relevance and revised. The macro indicators were selected using statistical, regression and correlation analysis of defaults and impairments, and benchmarking of the Estonian banking market. The analysis carried out showed close correlation between the impairment and changes in GDP and CPI.

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 +17/-17 thousand, respectively.

Other estimates:

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).

For determining the fair value of investment property, the management also considered the concluded sales contracts. At the beginning of 2021, a multi-stage sales contract under the law of obligations was concluded for the property located in Viimsi (see Note 10). Several initial stages were successfully completed in 2021 and in 2022. The management considers it probable that the

transaction will be carried out according to the terms of the contract under the law of obligations. As it represents a multi-stage contract, the fair value of the investment property is determined on the basis of the time value of money as at 31 December 2022 and future cash flows are discounted to the present value. The discount rate used (2.1%) is a key management estimate and it is determined on the basis of the specificity of the investment property and the details of the transaction. If the discount rate is changed by +/-0.5%, the fair value of the investment property would be EUR -37 /+38 thousand higher/lower, 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. Today, one of the most important risk factors for the Group is the sustainability risk or environmental, social and corporate governance (ESG) aspects.

ESG risk is a separate type of risk and represents a risk arising from the failure to appropriately manage environmental, social and corporate governance aspects such as human rights, fair labour use and business ethics which may adversely affect the financial position and/or reputation of the Group. The Group is engaged in integrating ESG risk into the risk management strategy with the aim of integrating the sustainability aspect into the Group's risk management process.

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
  - Compliance and operational risk specialist
- 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 geopolitical factors, change of interest rates, etc.). Basic financial risk testing is carried out on a regular basis according to a testing plan or ad-hoc testing. Unscheduled testing shall be carried out by the bank either when taking strategic decisions, at the request of the supervisory authority or when assessing large investment projects. Stress tests include credit risk, currency risk, liquidity risk, interest rate risk, and property investment revaluation risk.

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 1 and Pillar 2.

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) compliance with risk strategy limits;
f) meeting 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 December 2022	31 December 2021
Receivables from Central Bank	5	86,019	79,501
Receivables from credit institutions	6	19,988	24,995
Receivables from customers (AC), net	7	56,985	50,234
Receivables from customers (FVTPL)	7	293	316
Other financial assets	8	510	717
Total financial assets		**163,795**	**155,763**
Off-balance sheet liabilities, excl. performance guarantees	16	3,281	6,182
Maximum credit risk exposure		**167,076**	**161,945**

Based on the results of the analysis performed by the management, expected credit losses on the balances of demand and term deposits held at central bank and correspondent banks is an insignificant amount as at 31 December 2022 and 31 December 2021, 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.

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 due to the COVID-19 pandemic. Deterioration is also not expected.

The war that broke out in Ukraine in 2022 did not have a significant impact on the Group's financial performance. The Bank's resource base and income-generating assets have little to do with residents of Russia, Belarus and Ukraine. The Bank has terminated settlements through Russian banks, does not provide credit to non-residents and does not conduct foreign exchange transactions with the currencies of the aforementioned countries.

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, ILAAP, Pillar 3).

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.

Credit risk classes are calibrated in such a way that the risk of insolvency increases exponentially for each following higher class. For express leases and credit cards, receivables are evaluated using a simplified method.

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 2022		31 December 2021	
		number/ amount	% of eligible capital	number/ amount	% of eligible capital
1.	Number of customers with high risk concentration	8	-	6	-
2.	Receivables from high risk concentration customers	28,473	140.8%	26,643	131.0%
3.	Receivables from individuals related to the Group	1,478	7.3%	1,930	9.5%

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 2022 and 2021, divided by economic sectors, are presented below. Receivables include receivables from the Bank of Estonia, receivables from customers (including lease receivables) and credit institutions, and other receivables and financial assets.

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

Division of receivables by economic sectors

31 December 2022 (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	1,397	-	5	251	-34	131	-	0.9%
Manufacturing	7,503	-	29	1,519	-136	1,149	1	5.2%
Supply of electricity, gas, steam and air conditioning	2,955	-	1	0	-14	-	-	1.8%
Construction	10,122	-	26	126	-20	968	2	6.6%
Retail and wholesale, maintenance of motor vehicles, motorbikes, commodities and repair of home appliances	5,976	-	18	25	-45	806	1	4.0%
Transportation, storage and communication	785	-	1	-	-4	595	3	0.8%
Financial intermediation	29,942	-	37	24	-24	65	-	17.9%
Central Bank	86,019	-	9.0	-	-	-	-	51.2%
Real estate	7,885	-	23	4	-23	-	-	4.7%
Administration and support activities	294	-	1	15	-7	7	-	0.2%
Other sectors	3,508	37	8	958	-33	206	-	2.2%
Individuals	7,259	-	16	281	-20	250	-	4.5%
Total	**163,645**	**37**	**174**	**3,203**	**-360**	**4,177**	**7**	**100.0%**

31 December 2021 (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	2,192	-	5	711	-27	135	-	1.4%
Manufacturing	7,269	-	17	501	-10	763	1	5.0%
Supply of electricity, gas, steam and air conditioning	2,979	-	1	-	-36	-	-	1.8%
Construction	1,757	-	4	198	-7	3,336	2	3.1%
Retail and wholesale, maintenance of motor vehicles, motorbikes, commodities and repair of home appliances	5,546	-	13	188	-38	844	-	3.9%
Transportation, storage and communication	1,560	-	4	0	-7	569	1	1.3%
Financial intermediation	32,174	-	0	40	-14	69	-	19.9%
Central Bank	79,501	-	-	-	-	-	-	49.1%
Real estate	9,859	-	29	66	-31	-	-	6.1%
Administration and support activities	728	-	1	45	-10	13	-	0.5%
Other sectors	4,055	37	25	27	-10	560	-	2.9%
Individuals	7,654	-	17	434	-38	349	-	5.0%
Kokku	**155,274**	**37**	**116**	**2,210**	**-228**	**6,638**	**4**	**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 geopolitical risk. The relationship between country risk and geopolitical risk may change depending on the external economic situation.

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 geopolitical risk is determined by the stability of the political system, relations with neighbouring countries and security guarantees. In assessing the geopolitical 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;
- geopolitical risks;
- risk of insolvency of the country (default risk).

Geopolitical risk includes the following elements: a) risk of country occupation, b) risk of launch of military operations; c) risk of partial loss of sovereignty; d) political risk; e) risk of international sanctions; f) risk of violation of international agreements. Such risks were earlier classified as force majeure. In the current context of globalisation these risks have become manageable.

In 2022, a geopolitical risk was realised due to the outbreak of war in Ukraine. However, this had only a limited impact on the Bank's financial performance. The Bank's resource base and income-generating assets have little to do with residents of Russia, Belarus and Ukraine. The Bank has terminated settlements through Russian banks, does not credit non-residents and does not conduct foreign exchange transactions with the currencies of the aforementioned countries. At the end of the year, the share of customers resident in Russia, Belarus and Ukraine was 3.1%.

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.
- Geopolitical 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 2022 and 31 December 2021 is presented separately. The receivable 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 2022 (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	143,067	-	158	3,203	-360	4,145	7	87.7%
Austria	18,513	-	16	-	-	-	-	11.0%
Russia	10	-	-	-	-	19	-	0.0%
China	1,368	-	-	-	-	-	-	0.8%
Other countries	687	37	-	-	-	13	-	0.4%
Total	**163,645**	**37**	**174**	**3,203**	**-360**	**4,177**	**7**	**100.0%**

31 December 2021 (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	129,717	-	115	2,210	-228	6,609	4	84.2%
Austria	23,372	-	1	-	-	-	-	14.4%
Russia	563	-	-	-	-	16	-	0.4%
Other countries	1,068	-	-	-	-	-	-	0.7%
Estonia	554	37	-	-	-	13	-	0.3%
Total	**155,274**	**37**	**116**	**2,210**	**-228**	**6,638**	**4**	**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;
- Hedging;
- 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 3 main subcategories of market risk:
- foreign currency risk;
- interest risk;
- risk of revaluation of investment property.

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,
- 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 the estimated undiscounted cash flows of financial liabilities and the discounted values of financial assets. The tables show the assets and liabilities denominated in foreign currencies in euro equivalents.

Division of financial assets and liabilities by currency
31 December 2022 (EUR thousand)

	EUR	USD	SEK	NOK	CNY	OTHER	Total
Assets							
Cash and receivables from Central Bank	87,190	33	-	-	-	-	87,223
Receivables from credit institutions	326	17,944	744	22	816	136	19,988
Receivables from customers (net) and other receivables	56,696	582	-	-	-	-	57,278
Securities	37	-	-	-	-	-	37
Other assets (Note 8)	510	-	-	-	-	-	510
Total assets	**144,759**	**18,559**	**744**	**22**	**816**	**136**	**165,036**
Liabilities							
Payables to credit institutions	64	-	-	-	-	-	64
Payables to customers and other payables	123,424	17,575	748	-	364	21	142,132
Other liabilities (Note 13)	11,173	959	22	-	487	106	12,747
Total liabilities	**134,661**	**18,534**	**770**	**-**	**851**	**127**	**154,943**
Net position	10,098	25	-26	22	-35	9	10,093

31 December 2021					(EUR thousand)		
	EUR	USD	SEK	RUB	CNY	OTHER	Total
Assets							
Cash and receivables from Central Bank	80,153	149	-	6	-	-	80,308
Receivables from credit institutions	1,591	21,317	842	282	775	188	24,995
Receivables from customers (net) and other receivables	50,002	548	-	-	-	-	50,550
Securities	37	-	-	-	-	-	37
Other assets (Note 8)	717	-	-	-	-	-	717
Total assets	**132,500**	**22,014**	**842**	**288**	**775**	**188**	**156,607**
Liabilities							
Payables to customers and other payables	123,500	21,787	815	256	632	178	147,168
Other liabilities (Note 13)	1,672	193	1	-	143	1	2,010
Total liabilities	**125,172**	**21,980**	**816**	**256**	**775**	**179**	**149,178**
Net position	7,328	34	26	32	-	9	7,429

As at 31 December 2022 and 31 December 2021 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 December 2022	**31 December 2021**
EUR thousand	**Effect on profit or loss**	**Effect on profit or loss**
Appreciation of currencies by 10% (2021: 10%)		
USD appreciation by 10% (2021: 10%)	3	3
DKK appreciation by 10% (2021: 10%)	5	2
SEK appreciation by 10% (2021: 10%)	-3	3
NOK appreciation by 10% (2021: 10%)	2	-
CNY appreciation by 10% (2021: 10%)	-4	-
Other (excluding EUR) appreciation by 10% (2021: 10%)	3	-1
Total	**6**	**7**
Depreciation of currencies by 10% (2021: 10%)		
USD depreciation by 10% (2021: 10%)	-3	-3
DKK depreciation by 10% (2021: 10%)	-5	-2
SEK depreciation by 10% (2021: 10%)	3	-3
NOK depreciation by 10% (2021: 10%)	-2	-
CNY depreciation by 10% (2021: 10%)	4	-
Other (excluding EUR) depreciation by 10% (2021: 10%)	-3	1
Total	**-6**	**-7**

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. The policy defines the main control forms and methods for monitoring the interest rate risk. The policy for managing interest rate risk sets out the procedure for calculating the nominal and base interest rates; the procedure for calculating financial resources, the requirements for calculating the credit interest rate; and the 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".

In order to limit the risk of interest rates, the Bank has established:
- interest rate risk limits;
- monitoring of the established limits;
- stress testing of interest rate risk.

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. Duration method and 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. Measures to control interest rate risk and calculate its acceptable value are used in the annual ICAAP/ILAAP procedures.

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 2022 (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	86,009	-	-	-	-	-	86,009
Receivables from credit institutions, gross	15,284	4,688	-	-	-	-	19,972
Receivables from customers, gross	47	38,504	3,143	42	3,322	9,427	54,485
incl.with a floating interest rate	-	*37,863*	-	-	-	-	*37,863*
Securities	-	-	-	-	-	37	37
Off - balance sheet liabilities	174	971	2,036	-	-	100	3,281
incl.with a floating interest rate	-	*230*	-	-	-	-	*230*
Total assets and off-balance sheet liabilities	**101,514**	**44,163**	**5,179**	**42**	**3,322**	**9,564**	**163,784**
Liabilities							
Payables to credit institutions	64	-	-	-	-	-	64
Payables to customers and other payables	90,527	14,197	14,499	6,993	5,206	9,971	141,393
incl.with a floating interest rate	*24,744*	*21*	-	-	-	-	*24,765*
Lease liabilities	-	16	27	36	75	-	154

Total liabilities	**90,591**	**14,213**	**14,526**	**7,029**	**5,281**	**9,971**	**141,611**
Total difference by interest fixation periods	10,923	29,950	-9,347	-6,987	-1,959	-407	22,173

31 December 2021 (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	79,501	-	-	-	-	-	79,501
Receivables from credit institutions, gross	16,165	8,830	-	-	-	-	24,995
Receivables from customers, gross	52	38,198	1,969	710	1,885	7,246	50,060
incl.with a floating interest rate	-	*37,426*	-	-	-	-	*37,426*
Securities	-	-	-	-	-	37	37
Off - balance sheet liabilities	213	4,063	1,346	-	-	560	6,182
incl.with a floating interest rate	-	*3,465*	-	-	-	-	*3,465*
Total assets and off-balance sheet liabilities	**95,931**	**51,091**	**3,315**	**710**	**1,885**	**7,843**	**160,775**
Liabilities							
Payables to customers and other payables	92,839	13,148	16,486	11,443	5,916	6,652	146,484
incl.with a floating interest rate	*16,521*	*34*	-	-	-	-	*16,555*
Lease liabilities	-	19	57	43	111	-	230
Total liabilities	**92,839**	**13,167**	**16,543**	**11,486**	**6,027**	**6,652**	**146,714**
Total difference by interest fixation periods	3,092	37,924	-13,228	-10,776	-4,142	1,191	14,061

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

As at 31 December 2022 and 31 December 2021 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. The members of the Bank's Supervisory Board shall be informed quarterly of the liquidity situation of the Group through risk reports sent to them.

The tables below set out the expected undiscounted cash flows of financial liabilities and the discounted values of financial assets. The tables show assets and liabilities denominated in foreign currencies in euro equivalent.

Liquidity risk

31 December 2022 (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 credit institutions	64	-	-	-	-	-	**64**
Payables to customers and other payables	91,266	14,572	15,719	8,595	7,478	5,439	**143,069**
Finance lease payables	-	17	29	38	76	-	**160**
Other payables*	12,593	-	-	-	-	-	**12,593**
Guarantees and off-balance sheet liabilities related to loans**	3,413	-	-	-	-	-	**3,413**
Unused factoring limit	764	-	-	-	-	-	**764**
Total financial liabilities	**108,100**	**14,589**	**15,748**	**8,633**	**7,554**	**5,439**	**160,063**

Financial assets							
Cash and receivables from Central Bank	87,223	-	-	-	-	-	**87,223**
Receivables from credit institutions	15,286	4,702	-	-	-	-	**19,988**
Receivables from customers, net	3,441	905	7,434	5,122	16,652	23,724	**57,278**
Other assets***	510	-	-	-	-	37	**547**
Total financial assets	**106,460**	**5,607**	**7,434**	**5,122**	**16,652**	**23,761**	**165,036**
Liquidity gap from financial instruments	**-1,640**	**-8,982**	**-8,314**	**-3,511**	**9,098**	**18,322**	**4,973**

In order to fulfil its obligations, the Group has the following assets: cash, account balance with the central bank, deposits with other banks and loans and customer receivables. The measure of liquidity risk management is the analysis of estimated future cash flows, taking into account the growth of deposits and loan portfolios and possible sources of refinancing. In order to cover the liquidity gap until demand, the Bank maintains a sufficient liquidity reserve to ensure timely settlement of liabilities and provides a sufficient amount of liquidity buffers to cover the net outflow of liabilities. The Group's liquidity coverage ratio (LCR) as at 31.12.2022 exceeds the regulatory requirement (100%) by a large margin (*see Management Report, 2.10 Ratios and capital adequacy*).

31 December 2021 (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	93,525	13,403	17,430	12,960	8,033	2,915	**148,266**
Finance lease payables	-	20	60	45	116	-	**241**
Other payables*	1,780	-	-	-	-	-	**1,780**
Guarantees and off-balance sheet liabilities related to loans**	5,897	-	-	-	-	-	**5,897**
Unused factoring limit	741	-	-	-	-	-	**741**
Total financial liabilities	**101,943**	**13,423**	**17,490**	**13,005**	**8,149**	**2,915**	**156,925**
Financial assets							
Cash and receivables from Central Bank	80,308	-	-	-	-	-	**80,308**
Receivables from credit institutions	16,165	8,830	-	-	-	-	**24,995**
Receivables from customers, net	1,094	1,760	5,165	6,469	15,245	20,817	**50,550**
Other assets***	717	-	-	-	-	37	**754**
Total financial assets	**98,284**	**10,590**	**5,165**	**6,469**	**15,245**	**20,854**	**156,607**
Liquidity gap from financial instruments	**-3,659**	**-2,833**	**-12,325**	**-6,536**	**7,096**	**17,939**	**-318**

* 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 16).
*** other assets include other financial assets, receivables include interest receivables (Note 8).

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 2022.

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 (including the risk of terrorist financing and international sanctions), data protection, information security, IT, physical, project-related and other risks.
The factors causing operational risk include:

- IT and system risk;
- process risk;
- staff risk;
- external risk;

Operational risk management
Operational risk is managed and 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, where operational risk incidents or loss cases can be reported by filling out a report. An electronic system for monitoring and reviewing reported operational risk incidents/cases, self-evaluation and follow-up activities related to 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. Risk indicators for business services and the resolution of appeals and cases will be monitored. All the aforementioned reports shall be forwarded quarterly to the Management Board, the Supervisory Board and the internal audit of the Bank. 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.

ICT and system risk
Risks due to inadequacy, inadequacy and disruption of systems and technology, e.g. functionality problems, performance problems (volume problems); inadequate maintenance/inadequate support for legacy systems; inaccessibility of systems; inadequate testing/development; problems with software release/deployment; incorrect configuration; inadequate data storage and loss of data; exploitation of IT security vulnerabilities,; insufficient technology planning; other problems related to IT and systems; as well as insufficient investment in technology; development and implementation; information security risk.

Process risk
Risks arising from the design and functioning/non-functioning of processes and organisation, e.g. process design errors, including conflicting processes; process implementation errors, including incomplete or outdated process description, inadequate change/project management; weaknesses

in internal governance, including unclear roles and responsibilities; other process issues, including also payments/settlements/outsourcing services; documentation/contract management, valuation/pricing; entry, publication and change of incorrect data in internal and external reports; non-compliance with legislation (legal risk), sales activities; performance of operations (interruption of process(es), causing an error (operational risk), misrepresentation of image-building.

Staff risk

Risks resulting from the activity or inactivity of Bank employees, e.g., human errors, insufficient training/competence; insufficient staffing; insufficient roles and areas of responsibilities, miscommunication and/or deficient communication, organisational culture; malevolent behaviour of employees, other personnel-related problems and theft; inadmissible activities/fraud/offenses, violation of labour regulations, illegal organised activities of employees, lack or loss of key personnel, insufficient employee knowledge (skills); errors of employee errors resulting from negligence or lack of knowledge; lack of skilled workforce, conflicts in labour relations, disloyalty, disciplinary problems.

External risk

Risks arising from the activity or inactivity of external parties and from the environment and force majeure, e.g. natural disasters (pandemic, earthquake, flood); malicious behaviour of external parties; unintentional behaviour of external parties, including partners, including inaction; terrorism/external attacks (excl. cyber-attacks); environment (excluding natural disasters); geopolitical/economic/social instability; regulatory and legislative environment. Also external service providers, customers, force majeure risk (political risk), public interests and expectations that shape the assessment of the Bank’s operations.

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.

The basic approach is used to calculate the capital requirement for operational risks under the Basel II and Basel III capital adequacy rules. Under the Basic Indicator Approach, the capital requirement for operational risk is 15% of the Group's net operating income.

4.7 Sustainability or ESG risk

ESG is the risk arising from the inability to properly identify and manage environmental, social and corporate governance (ESG) events, which, if present, may have a material negative financial impact and/or a material negative impact on the Group's reputation. Sustainability or ESG risk also includes other types of risk, mainly credit, compliance and operational risk.

The Group's business strategy is aligned with the goals of the society, reflected in the Sustainable Development Goals. Consequently, the Group is engaged in integrating ESG risk into its risk management strategy with the aim of integrating the sustainability aspect into the Group's risk management process and ensuring effective governance and a responsible banking culture.

By increasing the positive impact of its ESG activities and mitigating the corresponding risks, the Group simultaneously reduces the negative impacts of its activities, products and services on people and the environment. To this end, we work responsibly with our customers to encourage the implementation of sustainable practices.

The Group deals with sustainability by focusing on the following:

- products and services

In the process of making credit decisions, the Bank pays attention to the ESG criteria and in the near future plans to create a unified system for managing ESG risks, which will help steer companies towards more sustainable business activities in order to reduce business related risks that affect the world and the natural environment. Taking sustainability objectives into account when making financing and investment decisions will allow funds to be channelled into more sustainable businesses, which will have a more positive impact on the environment, society and economic growth.

- responsible use of resources

The Group has focused on the development of digital services to reduce its ecological footprint. This enables it to reduce the use of paper and time, and create solutions for remote services, eliminating the need for customers to physically visit the Bank.

- business ethics and working environment

The Group focuses on ensuring a diverse and inclusive working environment and open communication. Procedures have been integrated into daily work, strict compliance with which enables to avoid possible conflicts of interest and ethical violations, including the possibility of reporting (so-called whistleblowing) in the field of AML. It is important for the Group to foster a working environment where employees can report such violations or other unethical behaviour without fear. Certain employees also submit annual declarations of financial interests. The Group considers it important that decisions made on a daily basis are not conflict with human rights and support the objectives of an anti-corruption fight.

4.8 Prevention of money laundering and terrorist financing and compliance with international sanctions

Ensuring compliance with the requirements aimed at prevention of money laundering and terrorism financing and compliance with international sanctions remains one of the Bank's priorities. In order to identify the associated risks (AML risk) and mitigate their impact, the Bank has created appropriate organisational and technical solutions. The Bank's AML risk management model consists of a multi-level risk identification and mitigation structure, internal anti-money laundering, countering terrorist financing and compliance with international sanctions rules and implemented control mechanisms.

In the framework of the regular risk assessment, including the preparation of the risk assessment, it will be ascertained what are the risks affecting the Bank's activities and the associated risk factors, what is the likelihood of their realisation or occurrence and to what extent the Bank must apply due diligence measures in order to mitigate the risks.

The risk appetite document defines the level of risks and the types of risks that the Bank is prepared to take in order to achieve its economic activities and strategic objectives, and the impact of which the Bank is able to mitigate taking into account its risk management and control measures. The limit of risk appetite is determined not only by the Bank's technical ability to manage the impact of the respective risks, but also by the proportionality of the various risks and their combined effect. The measures put in place are designed to ensure that the Bank's activities do not become overly dependent on a certain risk factor.

The extent of the AML risks assumed by the Bank shall be proportionate to the nature and level of complexity of the activities and services provided by the Bank. In order to ascertain the extent and impact of AML risks, the Bank applies due diligence measures provided by legislation and in order to determine the extent of the relevant mitigation measures, the Bank proceeds from the

information collected in the course of applying due diligence measures, establishing a business relationship with the customer and verifying the information submitted later and the information obtained in the course of subsequent monitoring and screening of customer relationships and transactions. In doing so, account shall also be taken of the combined effects of the simultaneous occurrence of other risks, which may multiply the effects of individual risk factors.

In addition to the normal due diligence measures, the Bank has taken additional measures to minimise the possibility that the Bank's services could be used for money laundering or terrorist financing or for violating the restrictions imposed by the financial sanctions. The risk management of the Bank's operations is based on the principle of three lines of defence. The main source of threat is the increase in the volume of certain services and their share above the set tolerance level, where it may begin to affect the standards and thresholds set for the Bank's activities.

To ensure maximum effectiveness of the activities related to the prevention of money laundering and terrorist financing and the implementation of international sanctions and thorough control over the risks involved, the Bank has developed a risk management systems based on three lines of defence.

The responsibility of the first line of defence is application of due diligence procedures when establishing a business relationship, incl. identification of the customer's identity and application of the Know Your Customer (KYC) 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 first line of defence also monitors customer relations and customer payments.

The responsibility of the second line of defence is to ensure identification, assessment, management of risks related to the Bank's processes/products/services and implementation of the respective monitoring measures in accordance with legislation, international norms and the Bank's strategy and economic goals. The second line of defence shall carry out the monitoring and screening of payments generated by alerts and shall carry out risk analyses and organise contacts with the competent authorities. In addition, the second line of defence is also tasked with informing the Bank's governing bodies of AML risks and ensuring the training of employees.

The third line of defence is made up of the Bank's independent internal audit which directly reports to the Supervisory Board. The internal audit function oversees and evaluates the activities of the entire Bank and the consolidation group, including compliance with the Money Laundering and Terrorism Prevention Act and compliance with the Bank's internal rules at least once a year.

In addition to the implementation of these lines of defense, there is a High-Risk Customer Approval Committee that reviews all applications from new customer candidates as well as business relationships with existing customers in order to ensure compliance with the Bank's risk appetite and tolerance limits.

Due to the Bank's strategy, the Bank has abandoned the service of legal entities registered in tax-free and low-tax countries/territories, and at present the Bank has no business relations with these legal entities. In addition, the Bank refrains from establishing business relationships with several persons operating in high-risk areas of activity. Due to Russia's military aggression against Ukraine and the imposition of sanctions against a number of individuals associated with the Russian Federation and Belarus, the Bank has ceased to establish business relations with persons of these countries, as well as with persons whose management or control structure includes citizens of these

countries. In addition, the Bank has significantly reduced business relations with persons from other countries who have no connection with Estonia.

The Bank regularly updates its AML risk policies, procedures and guidelines. The Bank's Management Board and Supervisory Board are committed to AML risk management and the implementation and development of the Know Your Customer (KYC) system throughout the Group. An important technical tool for identifying AML risks and mitigating their impact is the use of a customer transaction monitoring and screening program SALV. The use of SALV applications enables to identify the risks associated with the customer's activities significantly more efficiently, incl. the ability to identify suspicious and unusual transactions and subjects of international sanctions has been significantly improved.

4.9 Fair value of financial assets and financial liabilities

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

31 December 2022 (EUR thousand)

Financial assets at fair value through profit or loss	Note	Level 1	Level 2	Level 3	Total
Receivables from customers	7	-		293	293
Equity instruments (securities)	8	37	-	-	37
Total financial assets at fair value through profit or loss		**37**	-	**293**	**330**

31 December 2021 (EUR thousand)

Financial assets at fair value through profit or loss	Note	Level 1	Level 2	Level 3	Total
Receivables from customers	7	-		316	316
Equity instruments (securities)	8	37	-	-	37
Total financial assets at fair value through profit or loss		**37**	-	**316**	**353**

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 Note 2 "*Summary of significant accounting policies. 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 2022 and 31 December 2021.

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 2022, 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.

4.10 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 1 and Pillar 2 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).

The systemic risk buffer requirement has been in force in Estonia since 1 August 2014. As at 1 August 2016, a 1% buffer rate had applied to all credit institutions on exposures located in Estonia. Due to the COVID-19 pandemic, the Bank of Estonia decided to temporarily lower the buffer rate to 0% from 1 May 2020.

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 was applicable in Estonia from 2016 is 0%.

From 7 December 2022, the countercyclical capital buffer is restored to the base requirement level of 1%, i.e. at the same level as the systemic risk buffer requirement before the COVID-19 crisis. The Bank of Estonia will restore the capital buffer requirement which was released due to the great uncertainty arising from the COVID-19 pandemic. Thus, the previously used systemic risk buffer will be replaced by the countercyclical capital buffer instrument.

Since 15 December 2022, considering the latest applicable SREP capital requirements, the Group’s minimum regulatory capital ratio is 20.58% (until 15.12.2022: 21.16%) which ensures the coverage of both Pillar 1 and Pillar 2 risks as well as the combined buffer requirement.

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 11.5% (10.5% until 07 December 2022). 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 Management report part “*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 2022: 20,219 thousand euros, 31 December 2021: 20,336 thousand euros). As regulatory adjustments to Tier 1 capital, the total amount of intangible assets and negative amounts resulting from the calculation of the 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 31.12.2022 and 31.12.2021.

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 2022.

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 2022 and 2021, TBB pank was in compliance with this requirement. As at 31 December 2022, the receivables from the Central Bank amounted to EUR 86,019 thousand (31 December 2021: EUR 79,501 thousand), incl. overnight loans EUR 85,209 thousand. As at 31 December 2022, the reserve requirement was EUR 1,341 thousand (31 December 2021: EUR 1,133 thousand), therefore, the available funds in the Bank of Estonia as at 31 December 2022 EUR totall EUR 84,678 thousand (31 December 2021: EUR 78,368 thousand), which is included in cash equivalents.

(EUR thousand)

	31 December 2022	31 December 2021
End-of-day balance of current account as a monthly average	4,628	73,170
End-of-day balance of current account considering the overnight loans as a monthly average	*85,147*	-
Minimum reserve requirement as a monthly average	1,416	1,136
Exceeding of the minimum reserve requirement as a monthly average	3,448	70,446

At 14 September 2022, the Governing Council of the European Central Bank decided to raise the three key ECB interest rates and, among other things, to establish a positive interest rate on the deposit facility, as a result of which, in 2022, the Group earned interest in the amount of EUR 8 thousand on funds held at the central bank for settlement and EUR 318 thousand on overnight loans (2021: EUR 0 thousand).

The negative interest rate on the deposit facility in force from 11 June 2014 until 14 September 2022 (which also applied to average reserve holdings in excess of the minimum reserve requirements and to other deposits held with the Eurosystem) brought the Group negative interest rate costs in the amount of EUR 231 thousand (2021: EUR 311 thousand) from funds held at the central bank for settlement in 2022.

Note 6. Receivables from credit institutions

Receivables from credit institutions are as follows:

(EUR thousand)

	31 December 2022	31 December 2021
Demand deposits:		
in OECD banks	1,725	14,542
in CIS and other countries' banks	1,371	1,623
Total demand deposits	**3,096**	**16,165**
Overnight loans:		
in OECD banks	12,190	-
Total overnight loans	**12,190**	**-**
Term deposits:		
in OECD banks	4,702	8,830
Total term deposits	**4,702**	**8,830**
Total receivables from credit institutions	**19,988**	**24,995**

The due dates of term deposits are in 2022. As at 31 December 2022 and 31 December 2021, the average interest rates on term deposits were 3.45% and 0.07%, respectively.

Below is the analysis of receivables from credit institutions by credit quality on the basis of Standard and Poor's, Moody's ratings and Lianhe Credit Rating Co. Ltd as at 31 December 2022 and 31 December 2021 (receivables that are neither overdue nor impaired).

31 December 2022 (EUR thousand)

	Total demand deposits	Term deposits	Total
Receivables from credit institutions			
- rating AA	1,368	-	1,368
- rating A-2	13,811	4,702	18,513
- without rating	107	-	107
Total	**15,286**	**4,702**	**19,988**

31 December 2021 (EUR thousand)

	Total demand deposits	Term deposits	Total
Receivables from credit institutions			
- rating AA, A-1	1,072	-	1,072
- rating A-2	15,093	8,830	23,923
Total	**16,165**	**8,830**	**24,995**

The Group bases its investments in other credit institutions primarily on the experience gained from previous cooperation. The financial statements of the credit institutions where the funds are held and the quality of receivables are monitored on a regular basis (see Note 27. "*Events after the balance sheet date*").

Note 7. Receivables from customers

(EUR thousand)

Type of receivable	31 December 2022	31 December 2021
Loans to customers (AC), net	**56,985**	**50,234**
Loans to legal entities	**50,086**	**42,808**
- Investment loans	45,711	38,519
- Overdraft facilities	2,026	1,360
- Leases	1,628	2,103
- Other loans	721	826
Loans to individuals	**7,259**	**7,654**
- Housing loans and leases	6,377	6,604
- Other loans and leases	882	1,050
Allowance for receivables	**-360**	**-228**
Receivables from customers (FVTPL)*	**293**	**316**
- Other receivables	293	316
Total receivables from customers	**57,278**	**50,550**

** 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 2022 **(EUR thousand)**

Investment loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	13,813	-	-	13,813
Credit class 2	18,443	3,194	243	21,880
Credit class 3	5,370	372	2,946	8,688
Credit class 4	-	140	-	140
Credit class 5	-	-	1,190	1,190
Gross carrying amount	**37,626**	**3,706**	**4,379**	**45,711**
Loss allowance	-103	-22	-175	-300
Carrying amount	**37,523**	**3,684**	**4,204**	**45,411**

31 December 2021 **(EUR thousand)**

Investment loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	15,163	-	-	15,163
Credit class 2	15,320	902	253	16,475
Credit class 3	526	3,396	250	4,172
Credit class 4	-	290	2,261	2,551
Credit class 5	-	-	158	158
Gross carrying amount	**31,009**	**4,588**	**2,922**	**38,519**

Loss allowance	-16	-54	-70	-140
Carrying amount	**30,993**	**4,534**	**2,852**	**38,379**

31 December 2022 **(EUR thousand)**

Overdraft facilities	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	1,050	-	-	1,050
Credit class 2	667	-	-	667
Credit class 3	213	-	96	309
Credit class 4	-	-	-	-
Credit class 5	-	-	-	-
Gross carrying amount	**1,930**	**-**	**96**	**2,026**
Loss allowance	-5	-	-2	-7
Carrying amount	**1,925**	**-**	**94**	**2,019**

31 December 2021 **(EUR thousand)**

Overdraft facilities	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	666	-	-	666
Credit class 2	433	201	-	634
Credit class 3	60	-	-	60
Credit class 4	-	-	-	-
Credit class 5	-	-	-	-
Gross carrying amount	**1,159**	**201**	**-**	**1,360**
Loss allowance	-1	-2	-	-3
Carrying amount	**1,158**	**199**	**-**	**1,357**

31 December 2022 **(EUR thousand)**

Leases	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	1,079	-	-	1,079
Credit class 2	416	16	-	432
Credit class 3	-	76	-	76
Credit class 4	-	-	-	-
Credit class 5	-	-	41	41
Gross carrying amount	**1,495**	**92**	**41**	**1,628**
Loss allowance	-8	-12	-12	-32
Carrying amount	**1,487**	**80**	**29**	**1,596**

31 December 2021 (EUR thousand)

Leases	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	1,168	24	-	1,192
Credit class 2	518	-	-	518
Credit class 3	-	291	2	293
Credit class 4	-	21	-	21
Credit class 5	-	-	79	79
Gross carrying amount	**1,686**	**336**	**81**	**2,103**
Loss allowance	-3	-16	-25	-44
Carrying amount	**1,683**	**320**	**56**	**2,059**

31 December 2022 (EUR thousand)

Other loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	592	-	-	592
Credit class 2	48	-	-	48
Credit class 3	81	-	-	81
Credit class 4	-	-	-	-
Credit class 5	-	-	-	-
Gross carrying amount	**721**	**-**	**-**	**721**
Loss allowance	-1	-	-	-1
Carrying amount	**720**	**-**	**-**	**720**

31 December 2021 (EUR thousand)

Other loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	568	-	-	568
Credit class 2	63	-	-	63
Credit class 3	-	195	-	195
Credit class 4	-	-	-	-
Credit class 5	-	-	-	-
Gross carrying amount	**631**	**195**	**-**	**826**
Loss allowance	-	-3	-	-3
Carrying amount	**631**	**192**	**-**	**823**

31 December 2022 (EUR thousand)

Housing loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	3,976	207	-	4,183
Credit class 2	1,465	-	-	1,465
Credit class 3	481	-	248	729
Credit class 4	-	-	-	-
Credit class 5	-	-	-	-
Gross carrying amount	**5,922**	**207**	**248**	**6,377**
Loss allowance	-6	0	-5	-11
Carrying amount	**5,916**	**207**	**243**	**6,366**

31 December 2021 **(EUR thousand)**

Housing loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	4,271	-	-	4,271
Credit class 2	1,905	-	-	1,905
Credit class 3	77	256	-	333
Credit class 4	-	-	38	38
Credit class 5	-	-	57	57
Gross carrying amount	**6,253**	**256**	**95**	**6,604**
Loss allowance	-1	-4	-2	-7
Carrying amount	**6,252**	**252**	**93**	**6,597**

31 December 2022 **(EUR thousand)**

Other loans and leases	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	247	3	-	250
Credit class 2	334	-	3	337
Credit class 3	89	-	205	294
Credit class 4	-	-	1	1
Credit class 5	-	-	-	-
Gross carrying amount	**670**	**3**	**209**	**882**
Loss allowance	-2	0	-7	-9
Carrying amount	**668**	**3**	**202**	**873**

31 December 2021 **(EUR thousand)**

Other loans and leases	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	448	-	-	448
Credit class 2	363	-	-	363
Credit class 3	9	3	-	12
Credit class 4	-	3	224	227
Credit class 5	-	-	-	-
Gross carrying amount	**820**	**6**	**224**	**1 050**
Loss allowance	-1	-4	-26	-31
Carrying amount	**819**	**2**	**198**	**1 019**

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 2022 (EUR thousand)

Type of loan	Mortgage	Surety	Leased assets	Unsecured	Other*	Total
Loans to legal entities	**43,376**	**4,831**	**1,188**	**584**	**107**	**50,086**
Investment loans	41,334	4,279	-	-	98	45,711
Overdraft facilities	2,026	-	-	-	-	2,026
Leases	16	424	1,188	-	-	1,628
Other loans	-	128	-	584	9	721
Loans to individuals	**6,952**	**205**	**24**	**67**	**11**	**7,259**
Housing loans and leases	6,377	-	-	-	-	6,377
Other loans and leases	575	205	24	67	11	882
Total loans to customers (gross carrying amount)	**50,328**	**5,036**	**1,212**	**651**	**118**	**57,345**

31 December 2021 (EUR thousand)

Type of loan	Mortgage	Surety	Leased assets	Unsecured	Other*	Total
Loans to legal entities	**35,864**	**4,837**	**1,440**	**557**	**110**	**42,808**
Investment loans	34,479	3,940	,-	-	100	38,519
Overdraft facilities	1,360	-	-	-	-	1,360
Leases	25	638	1,440	-	-	2,103
Other loans	-	259	-	557	10	826
Loans to individuals	**7,303**	**221**	**33**	**86**	**11**	**7,654**
Housing loans and leases	6,604	-	-	-	-	6,604
Other loans and leases	699	221	33	86	11	1,050
Total loans to customers (gross carrying amount)	**43,167**	**5,058**	**1,473**	**643**	**121**	**50,462**

* 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 2022 (EUR thousand)

Type of loan	Receivables with sufficient collateral coverage			Receivables with insufficient collateral coverage		
	Carrying amount of receivables	Actual collateral coverage		Type of loan	Carrying amount of receivables	
		collaterals total	incl. sureties and guarantees		collaterals total	incl. sureties and guarantees
Receivables from customers, gross carrying amount	**56,297**	**100,658**	**6,840**	**1,048**	**400**	**400**
Investment loans	45,310	81,705	5,672	401	400	400
Overdraft facilities	2,026	3,902	-	-	-	-
Leases	1,628	2,872	831	-	-	-
Other loans	138	208	128	583	-	-
Housing loans and leases to individuals	6,377	10,493	-	-	-	-
Other loans and leases to individuals	818	1,478	209	64	-	-
Loss allowance	-357			-3		
Receivables from customers, net carrying amount	**55,940**			**1,045**		

31 December 2021						(EUR thousand)
	Receivables with sufficient collateral coverage			Receivables with insufficient collateral coverage		
Type of loan	Carrying amount of receivables	Actual collateral coverage		Type of loan	Carrying amount of receivables	
		collaterals total	incl. sureties and guarantees		collaterals total	incl. sureties and guarantees
Receivables from customers, gross carrying amount	**49,183**	**90,217**	**6,997**	**1,595**	**919**	**914**
Investment loans	37,798	69,632	4,847	721	720	720
Overdraft facilities	1,360	3,006	-	-	-	-
Leases	2,098	4,580	1,891	5	5	5
Other loans	585	867	259	557	-	-
Housing loans and leases to individuals	6,604	10,457	-	-	-	-
Other loans and leases to individuals	738	1,675	-	312	194	189
Loss allowance	-197			-31		
Receivables from customers, net carrying amount	**48,986**			**1,564**		

Fair value of collaterals of individually assessed impaired loans

31 December 2022						(EUR thousand)
	Receivables with sufficient collateral			Receivables with sufficient collateral		
Type of loan	Carrying amount of receivables	Fair value of collateral		Type of loan	Carrying amount of receivables	
		Collateral total	incl. sureties and guarantees		Collateral total	incl. sureties and guarantees
Individually impaired loans, gross carrying amount	**4,972**	**7,122**	**209**	**1**	**-**	**-**
Investment loans	4,379	6,368	-	-	-	-
Overdraft facilities	96	140	-	-	-	-
Leases	41	41	-	-	-	-
Other loans	-	-	-	-	-	-
Housing loans and leases to individuals	248	364	-	-	-	-
Other loans and leases to individuals	208	209	209	1	-	-
Loss allowance	-200			-1		
Individually impaired loans, net carrying amount	**4,772**			**-**		

31 December 2021 (EUR thousand)

Type of loan	Receivables with sufficient collateral			Receivables with sufficient collateral		
	Carrying amount of receivables	Fair value of collateral		Type of loan	Carrying amount of receivables	
		Collateral total	incl. sureties and guarantees		Collateral total	incl. sureties and guarantees
Individually impaired loans, gross carrying amount	**3,098**	**4,496**	**100**	**224**	**189**	**189**
Investment loans	2,922	4,328	100	-	-	-
Overdraft facilities	-	-	-	-	-	-
Leases	81	56	-	-	-	-
Other loans	-	-	-	-	-	-
Housing loans and leases to individuals	95	112	-	-	-	-
Other loans and leases to individuals	-	-	-	224	189	189
Loss allowance	-96			-27		
Individually impaired loans, net carrying amount	**3,002**			**197**		

When issuing loans, the Group receives documents on evaluation of the fair value of the security from the customer, upgrading it in subsequent years (every year/every three years), depending on the size of the loan/type of the security. The determination of the fair value of securities disclosed in the table takes into consideration value impairment (haircut) to the extent of 10%-50% so as to consider the changes in the quality of the security and liquidity on disposal.

Most of Stage 3 receivables have sufficient and high-quality collateral (mortgages of the 1st ranking).

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 01.01.2021	**56**	**109**	**2,147**	**2,312**
Movements:	12	-15	3	-
From Stage 1 to Stage 2	-6	6	NA	-
From Stage 1 to Stage 3	-1	NA	1	-
From Stage 2 to Stage 1	19	-19	NA	-
From Stage 2 to Stage 3	NA	-9	9	-
From Stage 3 to Stage 2	NA	7	-7	-
New financial assets issued or acquired, incl refinancing*	6	19	2	27
Changes related to credit risk changes	-44	-19	-23	-86
Financial assets terminated/matured during the period	-8	-11	-206	-225
Write-offs	0	0	-1,800	-1,800
Loss allowance as at 31.12.2021	**22**	**83**	**123**	**228**
Movements:	38	-50	13	1
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-1	NA	1	-
From Stage 2 to Stage 1	39	-39	NA	-
From Stage 2 to Stage 3	NA	-18	18	-
From Stage 3 to Stage 2	NA	7	-6	1

New financial assets issued or acquired, incl refinancing*	30	2	-	32
Changes related to credit risk changes	37	15	94	146
Financial assets terminated/matured during the period	-2	-12	-23	-37
Write-offs	-	-4	-6	-10
Loss allowance as at 31.12.2022	**125**	**34**	**201**	**360**

** 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 01.01.2021	**36**	**16**	**1,157**	**1,209**
Movements:	4	-8	4	-
From Stage 1 to Stage 2	-5	5	NA	-
From Stage 1 to Stage 3	-1	NA	1	-
From Stage 2 to Stage 1	10	-10	NA	-
From Stage 2 to Stage 3	NA	-3	3	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired, incl refinancing*	5	13	2	20
Changes related to credit risk changes	-23	34	-18	-7
Financial assets terminated/matured during the period	-6	-1	-4	-11
Write-offs	0	0	-1,071	-1,071
Loss allowance as at 31.12.2021	**16**	**54**	**70**	**140**
Movements:	38	-46	9	1
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-1	NA	1	-
From Stage 2 to Stage 1	39	-39	NA	-
From Stage 2 to Stage 3	NA	-14	14	-
From Stage 3 to Stage 2	NA	7	-6	1
New financial assets issued or acquired, incl refinancing*	25	2	-	27
Changes related to credit risk changes	27	14	106	147
Financial assets terminated/matured during the period	-3	-2	-10	-15
Write-offs	-	-	-	-
Loss allowance as at 31.12.2022	**103**	**22**	**175**	**300**

** 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 01.01.2021	**4**	**-**	**722**	**726**
Movements:	-1	1	-	-
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	-	-	-
From Stage 3 to Stage 2	NA	-	-	-

New financial assets issued or acquired, incl refinancing	-	-	-	-
Changes related to credit risk changes	-1	1	-	-
Financial assets terminated/matured during the period	-1	-	-	-1
Write-offs	-	-	-722	-722
Loss allowance as at 31.12.2021	**1**	**2**	**-**	**3**
Movements:	-	-	-	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-	NA	-	-
From Stage 2 to Stage 1	-	-	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired, incl refinancing*	2	-	-	2
Changes related to credit risk changes	2	-	2	4
Financial assets terminated/matured during the period	-	-2	-	-2
Write-offs	-	-	-	-
Loss allowance as at 31.12.2022	**5**	**-**	**2**	**7**

(EUR thousand)

Leases	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at 01.01.2021	**13**	**79**	**195**	**287**
Movements:	2	4	-6	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-	NA	-	-
From Stage 2 to Stage 1	2	-2	NA	-
From Stage 2 to Stage 3	NA	-1	1	-
From Stage 3 to Stage 2	NA	7	-7	-
New financial assets issued or acquired, incl refinancing*	1	1	0	2
Changes related to credit risk changes	-12	-60	-3	-75
Financial assets terminated/matured during the period	-1	-8	-161	-170
Write-offs	-	-	-	-
Loss allowance as at 31.12.2021	**3**	**16**	**25**	**44**
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, incl refinancing*	1	-	-	1
Changes related to credit risk changes	3	1	1	5
Financial assets terminated/matured during the period	1	-5	-11	-15
Write-offs	-	-	-3	-3
Loss allowance as at 31.12.2022	**8**	**12**	**12**	**32**

** 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 01.01.2021	**-**	**-**	**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, incl refinancing	-	1	-	1
Changes related to credit risk changes	-	2	-	2
Financial assets terminated/matured during the period	-	-	-38	-38
Write-offs	-	-	-	-
Loss allowance as at 31.12.2021	**-**	**3**	**-**	**3**
Movements:	-	-	-	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-	NA	-	-
From Stage 2 to Stage 1	-	-	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired, incl refinancing	1	-	-	1
Changes related to credit risk changes	-	-	-	-
Financial assets terminated/matured during the period	-	-3	-	-3
Write-offs	-	-	-	-
Loss allowance as at 31.12.2022	**1**	**-**	**-**	**1**

(EUR thousand)

Housing loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at 01.01.2021	**2**	**-**	**3**	**5**
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, incl refinancing	-	-	-	-
Changes related to credit risk changes	-1	4	2	5
Financial assets terminated/matured during the period	-	-	-3	-3
Write-offs	-	-	-	-
Loss allowance as at 31.12.2021	**1**	**4**	**2**	**7**
Movements:	-	-4	4	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-	NA	-	-
From Stage 2 to Stage 1	-	-	NA	-
From Stage 2 to Stage 3	NA	-4	4	-

From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired, incl refinancing	1	-	-	1
Changes related to credit risk changes	4	-	1	5
Financial assets terminated/matured during the period	-	-	-2	-2
Write-offs	-	-	-	-
Loss allowance as at 31.12.2022	**6**	**-**	**5**	**11**

(EUR thousand)

Other loans and leases	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at 01.01.2021	**1**	**14**	**32**	**47**
Movements:	7	-12	5	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-	NA	-	-
From Stage 2 to Stage 1	7	-7	NA	-
From Stage 2 to Stage 3	NA	-5	5	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired, incl refinancing*	-	4	-	4
Changes related to credit risk changes	-7	-	-4	-11
Financial assets terminated/matured during the period	-	-2	-	-2
Write-offs	-	-	-7	-7
Loss allowance as at 31.12.2021	**1**	**4**	**26**	**31**
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, incl refinancing*	-	-	-	-
Changes related to credit risk changes	1	-	-16	-15
Financial assets terminated/matured during the period	-	-	-	-
Write-offs	-	-4	-3	-7
Loss allowance as at 31.12.2022	**2**	**-**	**7**	**9**

** 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 01.01.2021	**41,128**	**1,397**	**8,984**	**51,509**
Movements:	-4,434	3,626	808	-
From Stage 1 to Stage 2	-4,300	4,300	NA	-
From Stage 1 to Stage 3	-648	NA	648	-
From Stage 2 to Stage 1	514	-514	NA	-
From Stage 2 to Stage 3	NA	-181	181	-
From Stage 3 to Stage 2	NA	21	-21	-
New financial assets issued or acquired, incl refinancing*	12,495	2,008	100	14,603
Changes in balances of financial assets**	-1,651	-1,238	-725	-3,614
Financial assets terminated/matured during the period	-5,980	-211	-613	-6,804
Write-offs	-	0	-5,232	-5,232
Gross carrying amount as at 31.12.2021	**41,558**	**5,582**	**3,322**	**50,462**
Movements:	-2,192	-383	2,575	-
From Stage 1 to Stage 2	-295	295	NA	-
From Stage 1 to Stage 3	-2,527	NA	2,527	-
From Stage 2 to Stage 1	630	-630	NA	-
From Stage 2 to Stage 3	NA	-524	524	-
From Stage 3 to Stage 2	NA	476	-476	-
New financial assets issued or acquired, incl refinancing*	14,059	239	-	14,298
Changes in balances of financial assets**	1,224	-201	-151	872
Financial assets terminated/matured during the period	-6,278	-1,223	-746	-8,247
Write-offs	-7	-6	-27	-40
Gross carrying amount as at 31.12.2022	**48,364**	**4,008**	**4,973**	**57,345**

** 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 at 31.12.2022, after the end of the recovery period the forborne exposures that were initially classified as Stage 3 may be re-classified as Stage 2 for the probationary period, and either as Stage 2 or 1 after the end of the probationary period depending on the customer's payment discipline, financial position and other relevant circumstances.

(EUR thousand)

Investment loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at 01.01.2021	**30,344**	**871**	**6,426**	**37,641**
Movements:	-3,829	3,063	766	-
From Stage 1 to Stage 2	-3,726	3,726	NA	-
From Stage 1 to Stage 3	-595	NA	595	-
From Stage 2 to Stage 1	492	-492	NA	-
From Stage 2 to Stage 3	NA	-171	171	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired, incl refinancing*	9,541	1,903	100	11,544
Changes in balances of financial assets	-469	-1,082	-721	-2,272

Financial assets terminated/matured during the period	-4,578	-167	-335	-5,080
Write-offs	-	-	-3,314	-3,314
Gross carrying amount as at 31.12.2021	**31,009**	**4,588**	**2,922**	**38,519**
Movements:	-2,109	-150	2,259	-
From Stage 1 to Stage 2	-77	77	NA	-
From Stage 1 to Stage 3	-2,467	NA	2,467	-
From Stage 2 to Stage 1	435	-435	NA	-
From Stage 2 to Stage 3	NA	-268	268	-
From Stage 3 to Stage 2	NA	476	-476	-
New financial assets issued or acquired, incl refinancing*	11,332	239	-	11,571
Changes in balances of financial assets	1,817	-68	-167	1,582
Financial assets terminated/matured during the period	-4,423	-903	-635	-5,961
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2022	**37,626**	**3,706**	**4,379**	**45,711**

** 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 01.01.2021	**1,363**	**-**	**1,900**	**3,263**
Movements:	-201	201	-	-
From Stage 1 to Stage 2	-201	201	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, incl refinancing	517	-	-	517
Changes in balances of financial assets	-121	-	-	-121
Financial assets terminated/matured during the period	-399	-	-	-399
Write-offs	-	-	-1,900	-1,900
Gross carrying amount as at 31.12.2021	**1,159**	**201**	**-**	**1,360**
Movements:	-55	-	55	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-55	NA	55	-
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, incl refinancing	693	-	-	693
Changes in balances of financial assets	224	-	41	265
Financial assets terminated/matured during the period	-91	-201	-	-292
Write-offs	0	-	-	-
Gross carrying amount as at 31.12.2022	**1,930**	**-**	**96**	**2,026**

(EUR thousand)

Leases	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at 01.01.2021	**1,691**	**512**	**310**	**2,513**
Movements:	15	1	-16	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-	NA	-	-
From Stage 2 to Stage 1	15	-15	NA	-
From Stage 2 to Stage 3	NA	-5	5	-
From Stage 3 to Stage 2	NA	21	-21	-
New financial assets issued or acquired, incl refinancing*	714	49	-	763
Changes in balances of financial assets	-635	-184	-43	-862
Financial assets terminated/matured during the period	-99	-42	-170	-311
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2021	**1,686**	**336**	**81**	**2,103**
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, incl refinancing*	621	-	-	621
Changes in balances of financial assets	-346	-125	-	-471
Financial assets terminated/matured during the period	-466	-119	-16	-601
Write-offs	-	-	-24	-24
Gross carrying amount as at 31.12.2022	**1,495**	**92**	**41**	**1,628**

** 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 01.01.2021	**669**	**-**	**38**	**707**
Movements:	-110	110	-	-
From Stage 1 to Stage 2	-110	110	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, incl refinancing	4	50	-	54
Changes in balances of financial assets	68	35	-	103
Financial assets terminated/matured during the period	-	-	-38	-38
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2021	**631**	**195**	**-**	**826**
Movements:	195	-195	-	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-	NA	-	-

From Stage 2 to Stage 1	195	-195	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired, incl refinancing	29	-	-	29
Changes in balances of financial assets	-82	-	-	-82
Financial assets terminated/matured during the period	-52	-	-	-52
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2022	**721**	**-**	**-**	**721**

(EUR thousand)

Housing loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at 01.01.2021	**5,905**	**-**	**70**	**5,975**
Movements:	-303	263	40	-
From Stage 1 to Stage 2	-263	263	NA	-
From Stage 1 to Stage 3	-40	NA	40	-
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, incl refinancing	1,652	-	-	1,652
Changes in balances of financial assets	-309	-7	55	-261
Financial assets terminated/matured during the period	-692	-	-70	-762
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2021	**6,253**	**256**	**95**	**6,604**
Movements:	-215	-41	256	-
From Stage 1 to Stage 2	-215	215	NA	-
From Stage 1 to Stage 3	-5	NA	-	-
From Stage 2 to Stage 1	0	-	NA	-
From Stage 2 to Stage 3	NA	-256	256	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired, incl refinancing	1,290	-	-	1,290
Changes in balances of financial assets	-335	-8	-8	-351
Financial assets terminated/matured during the period	-1,071	-	-95	-1,166
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2022	**5,922**	**207**	**248**	**6,377**

(EUR thousand)

Other loans and leases	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at 01.01.2021	**1,156**	**14**	**240**	**1,410**
Movements:	-6	-12	18	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-13	NA	13	-
From Stage 2 to Stage 1	7	-7	NA	-
From Stage 2 to Stage 3	NA	-5	5	-
From Stage 3 to Stage 2	NA	-	-	-

New financial assets issued or acquired, incl refinancing	67	6	-	73
Changes in balances of financial assets	-185	-	-16	-201
Financial assets terminated/matured during the period	-212	-2	-	-214
Write-offs	-	-	-18	-18
Gross carrying amount as at 31.12.2021	**820**	**6**	**224**	**1,050**
Movements:	-8	3	5	-
From Stage 1 to Stage 2	-3	3	NA	-
From Stage 1 to Stage 3	-5	NA	5	-
From Stage 2 to Stage 1	0	-	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired, incl refinancing	94	-	-	94
Changes in balances of financial assets	-54	-	-17	-71
Financial assets terminated/matured during the period	-175	-	-	-175
Write-offs	-7	-6	-3	-16
Gross carrying amount as at 31.12.2022	**670**	**3**	**209**	**882**

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 01.01.2021	**2,300**	**4**	**4**	**2,308**
Movements:	-49	-3	52	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-52	NA	52	-
From Stage 2 to Stage 1	3	-3	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired, incl refinancing	4,500	247	-	4,747
Changes in balances of financial assets	-462	27	-56	-491
Financial assets terminated/matured during the period	-381	-1	-	-382
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2021	**5,908**	**274**	**-**	**6,182**
Movements:	-20	-25	45	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-45	NA	45	-
From Stage 2 to Stage 1	25	-25	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired, incl refinancing	1,920	-	-	1920
Changes in balances of financial assets	-3,890	-	-45	-3,935
Financial assets terminated/matured during the period	-637	-249	-	-886
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2022	**3,281**	**-**	**-**	**3,281**

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 01.01.2021	**2**	**-**	**-**	**2**
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, incl refinancing	2	1	-	3
Changes in balances of financial assets	-1	-	-	-1
Financial assets terminated/matured during the period	-	-	-	-
Write-offs	-	-	-	-
Provision as at 31.12.2021	**3**	**1**	**-**	**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, incl refinancing	2	-	-	2
Changes in balances of financial assets	2	-	-	2
Financial assets terminated/matured during the period	-	-1	-	-1
Write-offs	-	-	-	-
Provision as at 31.12.2022	**7**	**-**	**-**	**7**

Distribution of off-balance sheet risk exposures by types of liabilities and loan classes 2022

(EUR thousand)

	Contingent assets and liabilities			
Type of liability	**Performance guarantees**	**Type of liability**	**Performance guarantees**	**Type of liability**
Collectively impaired	**896**	**2,517**	**764**	**4,177**
Credit class 1	896	871	-	1,767
Credit class 2	-	1,508	632	2,140
Credit class 3	-	138	132	270
Provision	**-**	**6**	**1**	**7**
Individually impaired	**-**	**-**	**-**	**-**
Provision	**-**	**-**	**-**	**-**

2021 (EUR thousand)

	Contingent assets and liabilities			
Type of liability	**Performance guarantees**	**Type of liability**	**Performance guarantees**	**Type of liability**
Collectively impaired	**456**	**5,441**	**741**	**6,638**
Credit class 1	456	815	235	1,506
Credit class 2	-	4,626	234	4,860
Credit class 3	-	-	272	272
Provision	**-**	**3**	**1**	**4**
Individually impaired	**-**	**-**	**-**	**-**
Provision	**-**	**-**	**-**	**-**

The Group's loans granted to customers as at 31 December 2022 and 31 December 2021 by the due date are presented below.

(EUR thousand)

	2022	**2021**
On demand	645	600
Overdue	3,203	2,210
Up to 3 months	759	480
Between 3-12 months	3,836	1,878
Between 1-2 years	1,562	2,294
Between 2-5 years	8,639	6,312
Over 5 years	38,994	37,004
Total loans to customers	**57,638**	**50,778**

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 2022 and 31 December 2021:

	Present value of receivables	
(EUR thousand)	**31.12.2022**	**31.12.2021**
Total gross investment	**1,931**	**2,581**
Up to 1 year	810	1,362
Between 1 and 2 years	469	583
Between 2 and 3 years	379	300
Between 3 and 4 years	212	238
Between 4 and 5 years	61	98
Minus: Deferred interest income	-183	-211
Total present value of receivables	**1,748**	**2,370**
Up to l year	721	1,246
Between 1 and 2 years	415	530
Between 2 and 3 years	350	272
Between 3 and 4 years	202	226
Between 4 and 5 years	60	96

Receivables by economic sector are disclosed in Note 4 "Risk management"
Receivables by currency are disclosed in Note 4 "Risk management"

Receivables by region are disclosed in Note 4 “Risk management”

Note 8. Other Assets

Other assets are splitted as follows:

(EUR thousand)

	31.12.2022	31.12.2021
Other financial assets, incl.	**547**	**754**
-cash in transit	468	585
-other accounts receivable	42	132
-securities	37	37
Other assets, incl.	**243**	**319**
-prepaid expenses	135	178
-prepaid taxes	39	61
-other assets	65	73
-collector’s coins	4	7
Total	**790**	**1,073**

As at 31 December 2022, the Bank’s balance sheet included deferred income tax assets on tax losses in the amount EUR 39 thousand (as at 31.12.2021: EUR 61 thousand). The required adjustment to the amount of deferred tax assets is based on the income tax calculated on the taxable profit earned during the reporting period. The Group’s management considers it probable that the remaining income tax assets in the amount of EUR 39 thousand will be realised through future taxable profit.

Note 9. Gold

Analysis of the changes in the gold investment balance:

(EUR thousand)

	31.12.2022	31.12.2021
Balance at the beginning of the year	**525**	**504**
Sold	-59	-
Gain from fair value revaluation	554	504
Loss from fair value revaluation	-521	-483
Balance at the end of the year	**499**	**525**

In 2022, the Group earned EUR 2 thousand from the sale of gold (2021: EUR 0 thousand).

Note 10. 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 2020	**1,335**	**3,651**	**362**	**22**	**2,081**	**-**	**353**	**800**	**8,604**
Acquisitions	-	-	82	-	-	16	-	240	338
Fully amortised property equipment written off balance sheet	-	-	-	-	-139	-	-9	-	-148
Disposals	-	-	-	-	-	-	-	-	-
Reclassification from prepayment for PP&E	-	-	-	-	2	-16	201	-187	-
As at 31 December 2021	**1,335**	**3,651**	**444**	**22**	**1,944**	**-**	**545**	**853**	**8,794**
Acquisitions	-	-	-	-	-	85	-	67	152
Fully amortised property equipment written off balance sheet	-	-	-	-	-76	-	-59	-	-135
Disposals	-	-	-	-	-	-	-	-	-
Reclassification from prepayment for PP&E	-	-	-	-	85	-85	102	-102	-
As at 31 December 2022	**1,335**	**3,651**	**444**	**22**	**1,953**	**-**	**588**	**818**	**8,811**
Accumulated depreciation									
As at 31 December 2020	**-943**	**-487**	**-145**	**-8**	**-1,507**	**-**	**-132**	**-**	**-3,222**
Depreciation	-36	-72	-76	-4	-232	-	-76	-	-496
Fully amortised property, plant and equipment written off balance sheet	-	-	-	-	140	-	9	-	149
Disposals	-	-	-	-	-	-	-	-	-
As at 31 December 2021	**-979**	**-559**	**-221**	**-12**	**-1,599**	**-**	**-199**	**-**	**-3,569**
Depreciation	-36	-72	-76	-4	-151	-	-85	-	-424
Fully amortised property, plant and equipment written off balance sheet	-	-	-	-	76	-	59	-	135
Disposals	-	-	-	-	-	-	-	-	-
As at 31 December 2022	**-1,015**	**-631**	**-297**	**-16**	**-1,674**	**-**	**-225**	**-**	**-3,858**
Carrying amount									
As at 31 December 2021	**356**	**3,092**	**223**	**10**	**345**	**-**	**346**	**853**	**5,225**
As at 31 December 2022	**320**	**3,020**	**147**	**6**	**279**	**-**	**363**	**818**	**4,953**

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 Note 14. Intangible assets include software and development costs.

Note 11. Investment properties

Investment properties include properties acquired by AS TBB pank, AS TBB liising, AS TBB Invest, measured at fair value (see Note 26).

Analysis of changes in the balance of investment property:

(EUR thousand)

	31.12.2022	31.12.2021
Balance at the beginning of the year	**8,318**	**9,406**
Additions as a result of collateral realisation	-	701
Purchases	322	70
Disposals	-2,603	-2,075
Gain/loss from revaluation of fair value	225	216
Balance at the end of the year	**6,262**	**8,318**

In 2022, the Group earned income from real estate investments in the amount of EUR 1 thousand, direct expenses related to the management of real estate investments amounted to EUR 52 thousand, including expenses made on real estate investments earning rental income in the amount of EUR 16 thousand. In 2021, income in the amount of EUR 32 thousand was received, and direct expenses related to the management of real estate investments amounted to EUR 22 thousand, including expenses on real estate investments earning rental income in the amount of EUR 22 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 2022 and 31 December 2021 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/KV.ee 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 2022, investment properties have not been classified to other levels of the fair value hierarchy.

At 1 February 2021 a contract of sale under the Law of Obligations Act was concluded for a property belonging to the Group as an investment property in Viimsi municipality, and its sale price was taken into account in determining the fair value of the property as at 31.12.2021 and also at 31.12.2022. When concluding the contract for the sale of the property, the management relied primarily on the specifics of the property and the best possible use of the property in determining the fair value of the investment property. In accordance with the Law on Obligations Act, the contract is a multi-stage contract, therefore the fair value of the investment property is determined on the basis of the time value of money as at 31.12.2021 and 31.12.2022, and future cash flows are discounted to the present value using the discount rate of 2.1%. On 22 February 2022, a Stage 2, 3 and also partly 4 and 5 sales contract in the amount of EUR 2.6 million (2021: Stage 1 in the amount of EUR 978 thousand) was concluded for this development project, and due to the shortening of the discounting period, the book value of the Viimsi development project was increased by EUR 225 thousand (2021: EUR 86 thousand).

In the framework of the auction held at 13 July 2022, AS TBB Invest, a company owned by the Group, acquired a built-up immovable located in the city of Jõhvi (former bakery production complex) in Ida-Viru County at the price of EUR 322 thousand. According to the decision of the management, the aforementioned property as at 31.12.2022 has been recorded in the balance sheet at acquisition cost.

The property acquired in 2021 as investment property in the amount of EUR 701 thousand is disclosed as collateral received by taking possession by the Group (a property of 3,168 square metres, located in France) in accordance with the real estate seizure ruling as at 8 September 2021).

The input to the price per square meter used in the benchmark transaction method is based on transactions with similar objects under market conditions.

2022 (EUR thousand)

Region	Intended use	Carrying amount	Value (per m²)	Potential change	Impact on value
Viimsi parish and Harju parish	Residential land, commercial land, industrial land, transportation land, public land	1,544	11.69	+10%	154
				-10%	-154
Tallinn	Commercial land (built-up land)	3,530	2,086.29	+10%	353
				-10%	-353
Rae Parish, Harju County	Cultivated land	165	1.01	+10%	17
				-10%	-17
Jõhvi, Ida parish	Commercial land (built-up land)	322	229.31	+10%	32
				-10%	-32
France	Residential land	701	221.20	+10%	70
				-10%	-70
	Total	**6,262**			

2021 (EUR thousand)

Region	Intended use	Carrying amount	Value (per m²)	Potential change	Impact on value
Viimsi parish and Harju parish	Residential land, commercial land, industrial land, transportation land, public land	3,922	15.51	+10%	392
				-10%	-392
Tallinn	Commercial land (built-up land)	3,530	2,086.29	+10%	353
				-10%	-353
Rae Parish, Harju County	Cultivated land	165	1.01	+10%	17
				-10%	-17
France	Residential land	701	221.20	+10%	70
				-10%	-70
	Total	**8,318**			

Note 12. Payables to customers

Payables to customers are divided by segments as follows:

(EUR thousand)

	31.12.2022	31.12.2021
Legal entities	83,369	89,657
Individuals	46,191	48,940
Total	**129,560**	**138,597**

Analysis by maturity of deposits is as follows:

(EUR thousand)

	31.12.2022	31.12.2021
Demand deposits	91,266	93,524
Deposits with maturities of less than 3 months	14,169	13,064
Deposits with maturities between 3 months - 1 year	14,499	16,424
Deposits with maturities between 1 - 5 years	9,626	15,585
Total	**129,560**	**138,597**

Note 13. Other payables

(EUR thousand)

	31.12.2022	31.12.2021
KredEX	21	34
MES	12,551	8,537
Total	**12,572**	**8,571**

In 2022, 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.

Other payables include loans received from the Rural Development Foundation (MES) for targeted financing of agricultural enterprises through the Bank. The loan received from the MES includes, inter alia, certain terms and conditions regarding the Group's banking standards, which the Group must comply with. As at the end of the reporting period, there are no breaches of the loan received from the MES.

All contracts are concluded in euros. The liabilities are secured by collateral assets provided by the Bank's customers in the framework of this government grant.

As at 31 December 2022, the current portion of other payables totals EUR 1,309 thousand and the long-term portion totals EUR 11,263 thousand.

Analysis by maturity of loans is as follows:

(tuhandetes eurodes)

	31.12.2022	31.12.2021
Due in 3 months	27	52
Due between 3 months to 1 year	-	60
Due between 1 year to 5 year	2,574	1,807
Due after 5 years	9,971	6,652
Total	**12,572**	**8,571**

As at 31 December 2022 and 2021, the average weighted effective interest rate of borrowings from the Rural Development Foundation was 0,67% and 0,77%, respectively. As at 31 December 2022 and 2021, the average weighted effective interest rate of borrowings from KredEx was 4,38% ja 4,00%, respectively.

Note 14. Other payables and accrued expenses

Other liabilities and accrued expenses are as follows:

(EUR thousand)

	31.12.2022	31.12.2021
Financial liabilities, incl.	**12,747**	**2,010**
-payments in transit	12,535	1,726
-other liabilities	51	50
-lease liabilities	154	230
-provisions	7	4
Other liabilities (accrued expenses)	**330**	**281**
Total	**13,077**	**2,291**

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 31 December 2022, the balance of right-of-use assets is disclosed in Note 9. The interest expense on lease obligations was 4 thousand euros (Note 18) and the depreciation of right-of-use assets was EUR 76 thousand (Note 9). Repayments of the principal of the lease obligation in 2022 amounted to EUR 88 thousand. The amount of future lease payments under unilaterally non-cancellable lease payments in the following periods as at 31 December 2022 are shown in the table below.

Right - of - use assets and lease liabilities

(EUR thousand)

31.12.2022	**Up to 1 year**	**1 to 6 years**	**Total**
Non-cancellable lease payments	45	115	160

31.12.2021	**Up to 1 year**	**1 to 6 years**	**Total**
Non-cancellable lease payments	80	160	240

Note 15. Share capital

As at 31 December 2022, 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 2021: 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 2022 and as at 31 December 2021) 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 16. Contingent assets and liabilities

(EUR thousand)

	31.12.2022		**31.12.2021**	
	Receivables	**Liabilities**	**Receivables**	**Liabilities**
Irrevocable and revocable transactions, incl.	**-**	**4,177**	**-**	**6,638**
Performance guarantees and other similar irrevocable transactions	-	896	-	456
Undrawn portion of credit and overdraft facilities	-	2,343	-	5,228
Other irrevocable transactions*	-	174	-	213
Unused factoring limit	-	764	-	741

* 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.. At 28 February 2022, in the civil case 2-20-12958 in which the former member of the Management Board claims from AS TBB pank the remuneration of a member of the Management Board, a court ruling was made to satisfy the action in part and to order the Bank to pay the former Management Board member EUR 22,000 (incl. procedural costs) plus penalty interest from the principal claim until the principal claim is met. AS TBB pank filed an appeal with the circuit court. 31 March 2022, contesting the severance payment and the related interest. The Bank is of opinion that there will be a positive decision in the court case.

The former owner of the investment property, which was the collateral for the claim arising from the overdraft agreement, filed an appeal in cassation with the Court of Cassation of France, which accepted the proceedings. Taking into account the course of the proceeding in the previous case, the management estimates that it is unlikely that a potential loss will be incurred and therefore the Group has not set up any provisions to compensate for potential losses.

Two legal proceedings have been initiated against the Bank in connection with the Bank's decision to cancel current account contracts and loan contracts with customers.

AS TBB Pink terminated the current account agreement with Burfa Media OÜ and cancelled two loan agreements. At 16 November 2022, the Bank commenced the execution of the collateral through enforcement proceedings. Burfa Media OÜ turned to the court to establish the existence of a legal relationship and to secure the action. At 20 December 2022, Harju County Court decided to satisfy Burfa Media OÜ's application for satisfaction of the action and suspended enforcement proceedings until the entry into force of the court decision in civil case no. 2-22-15888. Considering the circumstances underlying the termination of the contracts, the management estimates that it is unlikely that possible losses will be incurred and therefore the Group has not set up provisions to compensate for potential losses. There is no credit risk due to first-rank mortgages established on the properties of Burfa Media OÜ in favour of the Bank for the performance of obligations arising from the loan agreements. The court hearing, which took place on 31.03.2023, has not changed our earlier opinion that the management assesses the possibility of a possible loss as unlikely. Also, the court hearing has not affected the situation that the first mortgage has been set in favor of the bank.

AS TBB Pank terminated the current account contract and loan contract with Ivan Turygin, who is a member of the management board of Burfa Media OÜ. At 9 December 2022, Ivan Turygin filed an action against the Bank with Harju County Court to identify the invalidity of the cancellation of the contracts. The court accepted the action and ordered the Bank to designate a bank account in order for Ivan Turygin to fulfil the obligations arising from the loan contract and prohibited the Bank from disposing the assets under enforcement proceedings. The Bank provided Ivan Turygin with a payment schedule and an interim account number to meet his obligations under the loan contract. The date for the court hearing has not been set. Taking into account the circumstances underlying the extraordinary termination of the contract, the management estimates that it is unlikely that a potential loss will be incurred and, therefore, the Group has not set up any provisions to compensate for possible losses. There is no credit risk as for the fulfilment of the obligations of I. Turygin arising from the loan agreement, first-rank mortgages have been set on the properties of I. Turygin for the benefit of the Bank.

Liquidators of SFX Global Limited (in liquidation proceedings) have applied to Harju County Court with a request to conduct an expert assessment with regard to the account held in the name of SFX Global Limited (in liquidation proceedings) at AS TBB Pank, with the aim of identifying the value of monetary funds held in the account and the change in the value thereof from the opening of the account until its closure. At 11 November 2022, Harju County Court ruled in the civil case number 2-21-19508 and ordered an expert assessment for clarifying the circumstances of the case that are relevant and require special expert opinion, and assigned the task of conducting the expert assessment to Joanne Taylor, an expert at the British expert bureau K2 Integrity. Taking into account the fact that the evidence submitted by the counterparty as the basis for the expert assessment has been assessed by the Bank's specialists to be a non-authentic document in proceedings, the management estimates that it is unlikely that a possible loss will be incurred and therefore the Group has not set up any provisions to compensate for possible losses.

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.

As at 31 December 2022, AS TBB liising and AS TBB Invest, which are members of the Bank's joint consolidation group, do not have any matters in court or arbitration proceedings that could cause significant damage to the Bank's companies in the future, and therefore the Group has not set up any provisions to compensate for possible losses.

Potential liabilities arising from the tax audit

The tax authorities did not performed a tax audit of the Bank Group in 2021 and 2022. 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 2022 totalled EUR -4,785 thousand (2021 EUR -4,970 thousand). Dividends will not be paid.

Note 17. Interest income

Interest income is divided as follows:

(EUR thousand)

	31.12.2022	31.12.2021
Interest income calculated using the effective interest method	**3,508**	**2,394**
Loans	2,646	2,365
Deposits	791	11
Other	71	18
Other similar income	**174**	**268**
Leases	139	236
Other	35	32
Total	**3,682**	**2,662**

As at 31 December 2022 and 2021, the weighted average effective interest rate on loans granted was 4.78 and 4.55%, respectively.

As at 31 December 2022 and 31 December 2021, the average effective interest rates on fixed-term deposits with correspondent banks were 3.45% and 0.07% respectively, and the interest rates on the deposit facility with the ECB were 2% for overnight deposits with Eesti Pank.

As at 31 December 2022 and 2021, the weighted average effective interest rate on finance lease agreements was 6.92% and 7.46%, respectively.

Note 18. Interest expense

Interest expense is divided as follows:

(EUR thousand)

	31.12.2022	31.12.2021
Deposits	-727	-814
Negative deposit interest rate for banks	-258	-332
Loans	-83	-68
Interest expence on lease liabilities	-4	-5
Total	**-1,072**	**-1,219**

The average effective interest rate on customer time deposits as of 31 December 2022 and 2021 was 1,58% and 1,61%.

As at 31 December 2022 and 31 December 2021, the weighted average effective interest rate on loans received from Rural Development Foundations was 0,67% and 0,77%, respectively.

As of 31 December 2022 and 31 December 2021, the weighted average effective interest rate on loans received from KredEx Foundations was 4.38% and 4.00%, respectively.

Note 19. Impairment losses on receivables

(EUR thousand)

	31.12.2022	31.12.2021
Reversal of loan loss allowances	648	913
Loan loss allowances (Note 3, 4, 7)	-814	-716
Total	**-166**	**197**

Note 20. Fee and commission income

(EUR thousand)

	31.12.2022	31.12.2021
Transfers	555	785
Account maintenance fees	253	183
Servicing loans and leases, guarantees	239	161
Bank cards	179	183
Securities transaction and administration fees	19	15
Cash transactions	16	6
Loro-accounts	11	-
Others	270	59
Total	**1,542**	**1,392**

Note 21. Fee and commission expenses

(EUR thousand)

	31.12.2022	31.12.2021
Data processing fees	-690	-543
Card services	-317	-322
Execution of transfers	-259	-343
Loan servicing fees and guarantee fees	-32	-44
Cash collecting and cash transaction fees	-2	-1
Others	-75	-86
Total	**-1,375**	**-1,339**

Note 22. Net gains from financial transactions

(EUR thousand)

	31.12.2022	31.12.2021
Net gains from currency exchange transactions	1,138	850
Dividend income	7	5
Total	**1,145**	**855**

Note 23. Wages and salaries, and social security taxes

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

(EUR thousand)

	31.12.2022	31.12.2021
Management remuneration	-355	-305
Employee wages and salaries	-1,832	-1,856
Social security taxes	-735	-728
Total	**-2,922**	**-2,889**

In 2022 and 2021, the Group had an average of 72 and 74 employees, respectively.

Note 24. Other administrative expenses

Other administrative expenses are as follows:

(EUR thousand)

	31.12.2022	31.12.2021
Security services	-99	-89
Rent	-77	-62
Utilities	-67	-69
Maintenance and repairs	-33	-34
Transportation	-23	-24
Communication and postal expenses	-18	-10
Office supplies	-17	-22
Marketing	-11	-6
Representational expenses	-6	-3
Training expenses	-3	-
Other expenses	-79	-93
Total	**-433**	**-412**

Note 25. Other operating income

(EUR thousand)

	31.12.2022	31.12.2021
Other income and rental income on investment properties (Note 10)	1	63
Fines and penalty interests	131	32
Other operating income	307	384
Total	**439**	**479**

Note 26. Other operating expenses

(EUR thousand)

	31.12.2022	31.12.2021
Guarantee Fund payments	-60	-68
Financial Supervision Authority supervision fees	-76	-74
Expenses related to management of investment properties (Note 10)	-52	-45
Loss from repossessed assets (Note 8)	-	-30
Other operating expenses	-279	-492
Total	**-467**	**-709**

Note 27. 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 2022, the ownership interest of AS Leonarda Invest amounted to 43.84% and at the time of preparation of the Annual Report – 49.89% of the Bank's shares outstanding (31.12.2021: 48.45%). The individual ownership interest of other shareholders as at 31 December 2022 and 31 December 2021 was below 10%. No shareholder exercises control over the Group.

Transactions with related parties are carried out at market value. As at 31 December 2022 and 31 December 2021 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 2022 and 2021 with related parties are recognised as follows:

2022 (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 31.12.2022	-	153	1,286	1,439
Loans granted	-	40	294	334
Repayments of loans	-	100	205	305
Interest income received	-	3	47	50
Balance of deposits as at 31.12.2022	44	369	776	1,189
Interest expenses paid	-	2	-	2
Services provided	3	2	6	11
Services purchased	99	-	51	150
Other off-balance sheet liabilities	-	33	8	41
Remuneration during the period	-	405	-	405
Sale of asset	-	-	100	100

2021 (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 31.12.2021	0	213	1,197	1,410
Loans granted	10	76	5,321	5,407
Repayments of loans	173	357	4,313	4,843
Interest income received	1	8	41	50
Balance of deposits as at 31.12.2021	1,511	819	1,266	3,596
Interest expenses paid	-	-	1	1
Services provided	4	1	28	33
Services purchased	87	-	62	149
Other off-balance sheet liabilities	10	51	459	520
Remuneration during the period	-	354	-	354
Sale of investment property	-	-	325	325

Note 28. Events after the balance sheet date

At 10 March 2023, Silicon Valley Bank (SVB) declared bankruptcy. SVB mainly served start-ups and investors financing them. TBB Pank has no contractual relationship with Silicon Valley Bank. In connection with this event in the USA, the Bank has not observed any changes in the behaviour of its depositors. At the same time, in the light of new events and in particular considering the widespread publicity related to these events, changes in the behaviour of the society cannot be

ruled out. In view of the above, the Group does not see that the financial market turmoil that occurred in March 2023 and the problems of individual banks would have a negative impact on TBB Group.

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 2022. 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 29. 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	31.12.2022	31.12.2021
Cash	**1,204**	**807**
Receivables	**167,777**	**161,973**
Receivables from Central Bank	86,019	79,501
Receivables from credit institutions	19,988	24,995
Receivables from customers	61,770	57,477
Other assets	**687**	**904**
Gold	**499**	**525**
Shares and other securities	**1,077**	**1,077**
Property, plant and equipment	**3,770**	**4,023**
Intangible assets	**1,181**	**1,199**
Investment properties	**701**	**701**
TOTAL ASSETS	**176,896**	**171,209**

LIABILITIES AND EQUITY	31.12.2022	31.12.2021
Debt obligations	**142,196**	**147,421**
Payables to credit institutions	64	-
Payables to customers	129,560	138,849
Other payables	12,572	8,572
Other liabilities and accrued expenses	**13,040**	**2,261**
TOTAL LIABILITIES	**155,236**	**149,682**
Share capital	25,500	25,500
Reserves	992	992
Accumulated profit/ (-loss)	-4,832	-4,965
TOTAL EQUITY	**21,660**	**21,527**
TOTAL LIABILITIES AND EQUITY	**176,896**	**171,209**

STATEMENT OF COMPREHENSIVE INCOME OF AS TBB pank

(EUR thousand)

	2022	2021
Net interest income	**2,619**	**1,424**
Interest income calculated using the effective interest method	3,691	2,643
Interest expense	-1,072	-1,219
Gain/loss from revaluation of investments into subsidiaries	**-**	**70**
Net fee and commissions income	**152**	**36**
Fee and commission income	1,527	1,375
Fee and commission expense	-1,375	-1,339
Net gain from financial transactions	**1,145**	**855**
Administrative expenses	**-3,260**	**-3,191**
Wages and salaries	-2,133	-2,101
Wage related taxes	-718	-708
Other administrative expenses	-409	-382
Depreciation of tangible and intangible fixed assets	**-424**	**-470**
Impairment losses on receivables	**-160**	**169**
Gain	621	890
Loss	-781	-721
Net gain from revaluation of gold	**33**	**21**
Other operating income and expenses	**50**	**-124**
Other operating income	408	395
Other operating expense	-358	-519
Loss before tax	**155**	**-1,210**
Income tax expense (-)/gain (+)	-22	-
Net profit/ (-loss) for the financial year	**133**	**-1,210**
Total comprehensive income/ (-loss) for the financial year	**133**	**-1,210**

CASH FLOW STATEMENT OF AS TBB pank

(EUR thousand)

	2022	2021
Cash flows from operating activities		
Loss before tax for the financial year	**133**	**-1,210**
Adjustments for:		
Depreciation and Amortization	424	470
Unrealised gain/loss from revaluation of investment in subsidiaries	-	-70
Net interest income	-2,619	-1,424
Change in receivables from credit institutions and customers	-313	-735
Change in other receivables and prepayments related to operating activities	243	139
Changes in liabilities related to the operating activities	5,588	25,688
Interest received	3,630	2,617
Interest paid	-1,018	-1,014
Total cash flows from operating activities	**6,068**	**24,461**
Cash flows from investing activities		
Purchase of property, plant and equipment	-152	-339
Total cash flows from investing activities	**-152**	**-339**
Cash flow from financing activities		
Payments of principal on leases	-88	-88
Total cash flow from financing activities	**-88**	**-88**
Total cash flows	**5,828**	**24,034**
Cash and cash equivalents at the beginning of the year	**95,340**	**71,306**
Cash and cash equivalents at the end of the year	**101,168**	**95,340**

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

	2022	2021
Cash	1,204	807
Correspondent account at Bank of Estonia	84,678	78,368
Demand deposits and overnight loans at banks	15,286	16,165
Total cash and cash equivalents	**101,168**	**95,340**

AS- STATEMENT OF CHANGES IN EQUITY OF AS TBB PANK FOR 2022 AND 2021

(EUR thousand)

	Share capital	Reserves	Retained earnings/ Accumulated loss	Total
Closing balance 31.12.2020	**25,500**	**992**	**-3,755**	**22,737**
Comprehensive loss	-	-	-1,210	-1,210
Closing balance 31.12.2021	**25,500**	**992**	**-4,965**	**21,527**
Comprehensive loss	-	-	133	133
Closing balance 31.12.2022	**25,500**	**992**	**-4,832**	**21,660**
Carrying amount of ownership interests under control and significant influence				**-1,040**
Carrying amount of ownership interests under control and significant influence				1,100
Adjusted unconsolidated equity at 31.12.2022				**21,720**

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 2022, 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 2023.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated cash flow statement for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

Independence

We are independent of the Group in accordance with the International 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 2022 to 31 December 2022 are disclosed in the management report.

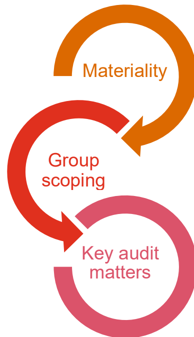
AS PricewaterhouseCoopers
Tatari 1, 10116 Tallinn, Estonia; License No. 6; Registry code: 10142876
T: +372 614 1800, www.pwc.ee

Translation note:

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

Our audit approach

Overview



- Overall group audit materiality is EUR 217 thousand, which represents approximately 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 consolidated financial statements as a whole.

Overall Group audit materiality	EUR 217 thousand
How we determined it	Approximately 1% of Group's net assets
Rationale for the materiality benchmark applied	We have applied this benchmark, as net assets is the key performance indicator for Management and Shareholders in evaluating the Group's value.

Translation note:

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter

Impairment of loans to customers (refer to note 2 “Summary of significant accounting policies”, note 3 “Significant accounting estimates and judgements”, note 4 “Risk management”, note 7 “Receivables from customers” and note 19 “Impairment losses on receivables” for further details).
 	
As at 31 December 2022 net carrying amount of loans to customers amounted to EUR 57,278 thousand that included related impairment allowance in the amount of EUR 360 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 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.
	We assessed whether the Group’s accounting policies and methodology applied for the calculation of impairment of loans to customers are in compliance with IFRS 9.
	
	We assessed the design and operating effectiveness of key controls over ECL data and respective calculations, including:
	• IT general controls over relevant systems;
	• IT application controls over exposure balances;
	• review and approval of customer risk classes.
	
	We performed detailed testing over:
	• the completeness and accuracy of data used in the ECL calculation system;
	• the compliance of key inputs used in ECL calculation system with IFRS 9 methodology;
	• the accuracy and compliance of 12-month and lifetime ECL calculations with IFRS 9 methodology;
	• the accuracy and completeness of data used for staging of loans (including applying the criteria for determining significant increase in credit risk and definition of default);
	• the internal assignment of risk classes for loan customers, which serve as inputs into the ECL model;
	• the correctness of information on collaterals and their values in the loan systems, which serve as an input into the ECL model;
	• the internal assignment of risk classes for collaterals, which serve as inputs into the ECL model; and
	• the completeness of loans subject to stage 3 assessment and related ECL calculations.
	
	We have assessed the reasonableness of key assumptions made by management, which serve 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.

Translation note:

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

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 and Aktsiaselts TBB Invest, 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.

Reporting on other information including the Management report

The Management Board is responsible for the other information. The other information comprises Introduction and 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, including the Management report.

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.

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

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management report for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements; and
- the Management report has been prepared in accordance with the requirements of the Accounting Act of the Republic of Estonia.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management report and other information that we obtained prior to the date of this auditor's report. 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.

Translation note:

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is 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.

Translation note:

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

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 14 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 2023
Tallinn, Estonia

Translation note:

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

5. MANAGEMENT BOARD`S PROPOSAL FOR PROFIT DISTRIBUTION

In 2022, the audited profit of AS TBB pank Group is EUR 185 thousand, and the Bank's profit is EUR 133 thousand.

Proposal of the Management Board:

1. To approve the 2022 annual report of AS TBB pank.

2. To distribute the audited profit of the Bank for 2022 in the amount of EUR 133 thousand as follows:
   - reserve capital EUR 8 thousand
   - retained earnings EUR 125 thousand

3. To submit this resolution to the Supervisory Board of AS TBB pank Group for review.

Signature Date

/signed/

Igor Novikov
Chairman of the Management Board 31.03.2023

6. DECLARATION OF THE SUPERVISORY BOARD TO THE 2022 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 2022.

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 profit distribution 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