AS TBB pank

2023 CONSOLIDATED
ANNUAL REPORT

(translation of the Estonian original)*

*This version of the consolidated annual report is a translation of 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 consolidated annual report takes precedence over this translation

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1.1 General information of the credit institution

Reporting period:	1 January 2023 – 31 December 2023
Balance sheet date:	31 December 2023
Reporting currency:	Euro (EUR)
Reporting units:	EUR thousand

Name of the entity:	AS TBB pank
Location and address:	Vana-Viru 7, 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 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 the credit institution's Group

AS TBB pank (hereinafter also "the Bank") is the oldest functioning commercial bank in Estonia that launched 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. As at 31 December 2023, its share capital was EUR 25,500 thousand. The number of the credit institution's operating license is EP-08 PO and it is effective from 21 January 1993. As at 31 December 2023, AS TBB pank has not been rated by an international rating agency.

From its very start, TBB pank 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 it issues different types of debit and credit cards to its customers.

In July 2019, AS TBB pank became a 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 currencies.

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 Street, Tallinn. Other bank offices are located at 5a Estonia Avenue and Viru Street 9, Tallinn and at 4 Kerese Street, Narva.

As at 31 December 2023 Tallinn Business Bank has a 100% ownership interest in two 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 2023 is provided below:

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 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 the 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 of the Bank consists of five members: Chairman of the Supervisory Board Madis Kiisa and members of the Supervisory Board Veiko Veskiväli, Rene Salumäe, Andrei Žukov and Sergei Elošvili. As at 31 December 2023, the persons related to the member of the Supervisory Board Andrei Žukov own 11,339,922 shares of the Bank (44.4703%). The number of shares has not changed as at the time of preparation of the Annual Report. As at 31 December 2023, the persons related to the member of the Supervisory Board Sergei Elošvili own 2,441,255 shares of the Bank (9.5735%). The number of shares has not changed as at the time of preparation of the Annual Report. Other members of the Supervisory Board and their related persons did not own any shares of AS TBB pank as at 31 December 2023.

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 the 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 of the Bank consists of four members. By the time of authorisation of the Annual Report for issue, the Management Board consists of the Chairman of the Management Board **Igor Novikov** and members of the Management Board **Evi Tänak, Ilja Serõšev** and **Konstantin Anissimov**. The number of shares has not changed as at 31 December 2023 and at the time of authorisation of the Annual Report for issue.

In connection with the change in the composition of the Management Board by the decision of the Management Board at 7 December 2023, the areas at 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, administrative office, administrative department;
- Member of the Management Board **E.Tänak**: organisation and development of the system for operational risk management, Anti-Money Laundering Department, Risk and Compliance Department (AML/CTF/Sanctions), organisation of ensuring information security, Legal Department, organisation and development of compliance checks, organisation and development of the financial risk management system;
- Member of the Management Board **Ilja Serõšev**: organisation of the customer service system, organisation and development of customer financing;
- Member of the Management Board **Konstantin Anissimov**: IT division, settlements, bank cards, bank development, organisation of advertising and marketing activities.

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 (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 department 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 (3 July 1996). The department's work involves all levels of management and operations at the Bank in order to ensure the efficiency of the activities of the credit institution, accuracy of its 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 (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 authorisation of the Annual Report for issue.

The Bank's Management Board has established and approved the main principles and competences 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 of the Bank's activities 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 Group'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 defending 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.

Risk Management Committee (6 December 2023). The objective of the committee is to implement the risk policy and overseeing the risk management framework. The committee provides an expert assessment of all risk positions and submits a report that covers all risks to the Bank's Management Board and the Supervisory Board.

Auditor:

At the General Meeting of Shareholders held at 27 April 2023, AS PricewaterhouseCoopers was selected as the external auditor of TBB pank for the years 2023 and 2024. Responsible auditor is Lauri Past. TBB pank complies with the requirement of auditor rotation.

In 2023, 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.

In 2023, the total amount of fees paid or payable for audit services provided by the auditor is EUR 92 thousand.

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 consolidation group of the Bank. The Chairman of the Supervisory Board of AS TBB liising is Evi Tänak and the members of the Supervisory Board are Igor Novikov and Ilja Serõšev.

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.

TBB pank, as a credit institution with a small market share that offers conventional banking and financing products, has a small staff and a simple management structure. 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.

Diversity 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 principles also apply to the 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 is capable of working and that persons with different competences and professional backgrounds are represented. Managers collectively have sufficient knowledge, skills and experience, taking into account the credit institution's business model and strategy, to understand the credit institution's operations, including the main 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 Tallinn Business Bank

As at the date of preparation of the Annual Report (30 September 2024), Leonarda Invest AS owns a 44.47% stake the Bank, the remaining shareholders each own less than 10% of the shares. The ultimate beneficiary of TBB pank is Andrei Žukov. The shares are divided as follows:

Shareholder	Domicile	Number of shares as at 31.12.2023	Ownership %	Number of shares at the time of preparation of the Annual Report	Ownership %
Leonarda Invest AS	Estonia	11,339,922	44.47%	11,339,922	44.47%
Other shareholders	Russia	4,961,552	19.46%	2,500,000	9.80%
Other shareholders	Estonia	4,312,726	16.91%	4,312,726	16.91%
Other shareholders	Spain	2,463,300	9.66%	2,463,300	9.66%
Other shareholders	Great Britain	2,422,500	9.50%	2,422,500	9.50%
Other shareholders	Lithuania	-	-	2,461,552	9.66%
Total		**25,500,000**	**100.00%**	**25,500,000**	**100.00%**

2.5 Overview of 2023 results

<u>Main events in the external environment in 2023:</u>

- In 2023, the global economy's recovery from the shocks of the pandemic, the Russian invasion of Ukraine and the cost of living crisis was weak. Despite the problems related to the war in energy and food markets and a tightening of monetary conditions to overcome the highest inflation in decades, global economic growth slowed down but did not stall.
- In 2023, however, economic growth remained slow and uneven, and the discrepancies between countries increased. Economic growth slowed down mainly in developed countries, which are more sensitive to rising interest rates.
- In December 2023, the annual inflation rate in the Eurozone was 2.9%, which is significantly lower than a year ago, when the inflation rate was 9.2%. The inflation indicators of the Baltic countries and Finland were better. In December 2023, inflation in Latvia, Lithuania and Finland was 0.9%, 1.6% and 1.3% respectively.
- The Euro Area GDP weakened in the second half of 2023 as it was hampered by tighter financing conditions, and declining confidence and competitiveness.
- The global economy grew at a weak and unsustainable rate. For example, in 2023 the economic growth was 2.1% in the USA, more than 5.0% in China, 0.5% in the United Kingdom, while the economic growth was negative - 0.3% in Germany. The average annual real GDP growth in Euro Area countries was 0.7% in 2023.
- Global economic growth is forecast to decline from an estimated 3.5 percent in 2022 to 3.0 percent in 2023, and to 2.9 percent in 2024.
- The General Council of the European Central Bank increased the base interest rates during 2023, including the interest rate for refinancing operations from 3.0% to 4.5% and the deposit interest rate up to 4.00%.
- The US Federal Reserve raised the USD base rate to 5.50% in 2023.
- High inflation continued to be a negative factor in 2023. Another negative global factor was the economic instability caused by the war in Ukraine and the expanding sanction policy of the European Union and the United States.

- The consumer price index (CPI) in EU countries declined from 9.2% to 6.4%, and in Euro Area countries, from 8.4% to 5.4%.
- In 2023, the average 6-month EURIBOR increased from 2.73% at the beginning of the year to 3.86% at the end of the year.
- US inflation increased more than expected last December. The consumer price index, the main measure of inflation, increased by 3.4 percent in a year.
- In 2023, the price trend of the European and US stock markets was positive. For example, the Dow Jones Industrial Average 30 index increased by 13.7% and the Nasdaq 100 was highest since 1999. Germany's DAX increased by 20.3%, while France's CAC increased by 16.8%.
- In 2023, the level of unemployment in the Euro Area countries was less than a year ago and in December 2023, it was 6.5% (2022: 6.7%).

<u>Main changes in the Estonian economy in 2023:</u>

- In 2023, Estonia's economic recession continued.
- Inflation in the Estonian economy continued to increase in 2023. The change in the consumer price index as compared to the previous year was 9.2%. The main reasons for the increase in consumer prices included the high price of food and non-alcoholic beverages, various goods and services, the price increases of household goods, clothing and shoes.
- Private consumption (annual real growth) decreased by 0.5% in the fourth quarter of 2023.
- According to Statistics Estonia, in 2023, industrial enterprises produced 10.5% less output at constant prices than the year before. Production decreased in all three sectors: energy by 21%, manufacturing by 9.8% and mining by 4.7%.
- The number and total value of transactions in the Estonian real estate market declined in 2023 that was battered by new crises. The total value of transactions decreased by 17% as compared to 2022. According to Statistics Estonia, the construction price index increased by 6.1% in 2023 as compared to the average for 2022.
- The situation on the labour market has changed. The unemployment rate of 6.4% in 2023 was 0.8 percentage points higher than in 2022. On the other hand, in 2023, the number of working-age population increased by 25,600 in Estonia. Most of them were refugees from Ukraine.
- The average gross monthly salary continued to increase. The average gross monthly salary was EUR 1,832 in 2023, which is 11.4% higher as compared to 2022.
- The increase in base interest rates has made bank loans more expensive and has slowed loan demand. The new annual average interest rate increased to 5.76% by the end of 2023.
- At the end of 2023, the share of corporate loans overdue by more than 60 days was 0.24%, and the share of such housing loans was 0.14%. Both indicators are low as compared to the last couple of decades and are approximately at the same level as in the previous year.
- In the fourth quarter, the interest rate on deposits with a maturity of up to one year was at the highest level of the last 14 years. The interest rate for household deposits was 4.09% and that of corporate deposits was 3.93%. The average interest rates of terms deposits were 4.13% and 3.95%, respectively
- Foreign demand was still very lacklustre and this has had a significant impact on Estonian foreign trade. Exports of goods decreased by 21% and imports decreased by 25% as compared to the previous year. The deficit of the goods account decreased by EUR 160 million to EUR 214 million. Exports and imports of goods decreased in most commodity groups; while imports and exports of mineral products decreased the most.

- Exports of services decreased by 6% as compared to the previous year, while imports remained at the same level. The surplus of the services account decreased by EUR 68 million to EUR 206 million.

The year 2023 turned out to be more difficult for the Estonian economy than expected, and the recession will last longer than expected. Estonian exports were dampened by temporarily suspended foreign trade relations, lost commodity markets and the increase in the exchange rates of the Nordic countries. Overall, the Estonian economy contracted for the second year in a row this year, and the expected decrease is up to 3.5%. Next year, i.e. in 2024, it is expected that Estonia's economy will decrease by only 0.4%, as the demand for goods and services in both domestic and foreign markets will only gradually recover.

The ongoing war between Russia and Ukraine in 2023 aggravated geopolitical risks, which turned into a recession for most EU countries. The expansion of restrictive restrictions on Russian and Belarusian companies has changed the geography of economic relations, supply chains of raw materials, and markets for finished products. All this continued to negatively affect the prices of raw materials, supplies, fuel, transport services, etc. Due to higher inflation, the EU and US central banks continued their strict monetary policy. Its purpose was to bring inflation under control. During 2023, the US and EU central banks raised their base interest rates several times, reflected in the rapid growth of Euribor. By the end of the year, it reached a record high of 4.0%. This increased the profitability of the Banks' loan portfolios, but led to an increase in the cost of loans and an increase in the loan burden of bank customers, as well as a decrease in the capacity of credit markets.

In 2023, the policy of economic sanctions continued, the aim of which was to isolate Russia from the global economy, technology markets and raw materials markets. This caused settlement difficulties for bank customers doing business in Russia, Belarus, Ukraine and the CIS countries. The Bank made all payments with the aforementioned countries mainly through Raiffeisen Bank.

The Bank's revenue base does not really depend on the realisation of geopolitical risk. The Bank does not finance non-residents of Estonia, and it does not conduct foreign exchange transactions with the currencies of Russia, Belarus and Ukraine. The share of loan customers, whose structure includes beneficiaries of these countries, is only 1.2% of the loan portfolio. The resource base of funds raised by the Bank does not depend on the resources of the residents of Russia, Belarus and Ukraine. As at 31 December 2023, the deposits held by residents of Russia, Belarus and Ukraine represent only 3.2% of all deposits and 0.6% 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.

The policy of expanding sanction limits reduced the business and profitability of the Bank's customers who work in the East. Many companies closed their businesses and left the Bank, which affected the size of the balance sheet and the dynamics of the loan portfolio. Despite the decline in the balance sheet from EUR 176,993 thousand to EUR 134,180 thousand at the end of 2023, the Group's operations were profitable.

The reason for the Group's revenue growth in 2023 was primarily related to the increase in the base interest rates of the dollar and the euro and, accordingly, the rapid growth of Euribor. The interest income received on the interbank market, the increase in the yield of the loan portfolio and the income received from the execution of international payments enabled the Group to generate a profit in the amount of EUR 940 thousand (2022: EUR 185 thousand).

At the time of the authorisation of the Annual Report for issue, the Group's liquidity and capital positions are strong and do not differ significantly from the situation as at 31 December 2023. The Group's operations are 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 2023, 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
  - relocation and optimisation of the website content (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 and mobile application continued in 2023
- Launch of a development project related to the provision of instant payments
- The development of the e-invoice service also continued.
- Continuation of development of SALV platform for the purpose of further enhancing the quality of transaction screening and monitoring.
- The Bank moved to Microsoft 365 and JIRA Cloud. This provides better flexibility in hiring new people and their hybrid work. This development also enables easier and more secure integration with third-party solutions and services. This gives better control and security.

Income statement analysis

The audited profit of TBB pank Group for the year 2023 amounted to EUR 940 thousand, while the profit for 2022 amounted to EUR 185 thousand. The Group's total revenue increased by 20.9% as compared to last year and amounted to EUR 8,540 thousand.

As compared to 2022, interest income increased by 75.0% and amounted to EUR 6,443 thousand (see Note 17). The increase in interest income was influenced by the increase 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 2,828 thousand due to a significant increase of the average interest rate (31.12.2023: 4.00% and 31.12.2022: 3.45%). Interest income on loans increased by 29.2% against the background of an increase in the loan portfolio and higher interest rates. The average borrowing rate also increased as compared to 2022 (31.12.2023: 6.80%; 31.12.2022: 4.78%) (see Note 7). The decrease in interest income from leasing activities was 3.6%.

Interest expenses decreased by 6.3% and amounted to EUR 1,005 thousand (see Note 18). The main reason is the absence of interest expenses due to the negative interest rate as a result of the significant increase in base interest rates. Interest expenses on deposits increased by 27.2% as compared to the previous year. The average interest rate has increased (31.12.2023: 2.82%; 31.12.2022: 1.58%). The average interest rates on the funds raised and loans received from the

Rural Development Foundation and the Enterprise and Innovation Foundation (former KredEx Foundation) remained almost at the same level (31.12.2023: 0.72% and 4.38%; 31.12.2022: 0.67% and 4.38%, respectively).

Overall, the Group's net interest income increased by 108.4% and amounted to EUR 5,438 thousand (2022: EUR 2,610 thousand).

The loss of EUR 170 thousand from the change in the value of receivables in 2023 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 (2022: period loss of EUR 166 thousand) (see Notes 2, 3, 7, 19).

Service fee income decreased by 4.0% and amounted to EUR 1,480 thousand (2022: EUR 1,542 thousand), which was mainly due to the decrease in service fees related to transfers and loans (see Note 20). In 2023, the key components in the structure of fee income were:

- payment-related fees 45.3% (2022: 47.6%);
- account maintenance fees 25.8% (2022: 15.5%);
- fees related to loan management 13.0% (2022: 16.4%).

Service fee expenses decreased by 9.7% as compared to the previous year and amounted to EUR 1,242 thousand (2022: EUR 1,375 thousand) (see Note 21). The three most components in the structure of fee and commission expenses were:

- data processing fees 54.3% (2022: 50.2%);
- service fees related to card services 26.1% (2022: 23.1%);
- service fees related to payments 10.4% (2022: 18.8%).

Overall, the Group's net fee and commission income increased by 42.5% and amounted to EUR 238 thousand.

In 2023, when conducting foreign exchange swaps, the Group earned a profit of EUR 375 thousand, which is three times less than last year (2022: EUR 1,145 thousand) (see Note 22).

The profit from the revaluation of investment property was EUR 37 thousand (2022: profit of EUR 225 thousand) (see Note 11).

The net profit from the revaluation of gold was EUR 46 thousand (2022: profit of EUR 33 thousand).

Administrative expenses increased by 23.3%, totalling EUR 4,137 thousand (2022: EUR 3,355 thousand). Staff costs were the largest component in the expense structure which accounted for 84.0% of administrative expenses (2022: 87.1%) (see Notes 23-24).

In 2023, other operating income decreased by 63.8% and as compared to the previous year and amounted to EUR 159 thousand (2022: EUR 439 thousand) (see Notes 25, 8, 11). Other operating expenses increased by 33.0% and amounted to EUR 621 thousand (2022: EUR 467 thousand) (see Note 26).

Analysis of the statement of financial position

As at 31 December 2023, the total volume of TBB pank Group statement of financial position increased by 24.2% from the beginning of the year, totalling EUR 134,180 thousand (2022: EUR 176,993 thousand). The main reason for this decline was the decrease in customer demand deposits as compared to the beginning of the year (see Note 12). Also, the balance sheet item “Payments in transit” decreased by 63.1%, related to the decrease in the volume of uncredited receipts under validation and outgoing payments under monitoring (see Note 14).

Lending activities

As compared to 2022, the Group's gross carrying amount of loan receivables from customers decreased by 15.8% in 2023 and amounted to EUR 48,513 thousand (31.12.2022: EUR 57,638 thousand) (see Note 7). By customer sectors, receivables changed as follows: loan receivables from legal entities and individuals by 15.5% and 18.4%, respectively. The balance of the allowance for expected loan losses as at 31 December 2023 is EUR -525 thousand (31.12.2022: EUR -360 thousand) (see Note 7). The reason for the increase in the allowance is the increase of the expected credit loss (ECL) in Stage 3 (EUR +229 thousand) in connection with the implementation of Article 47c of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 (calculation of insufficient coverage of overdue claims).

Financing

As at 31 December 2023, the Group has no liabilities to other credit institutions (31.12.2022: EUR 64 thousand).

As at 31 December 2023, payables to customers amounted to EUR 97,353 thousand, decreasing by 24.9 % as compared to the beginning of the year due to the decrease of deposits to legal entities by 34.6% and the decrease to individuals by 7.2% (see Note 12).

As at 31 December 2023, other payables decreased by 28.5% and amounted to EUR 8,988 thousand (2022: EUR 12,572 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 Enterprise and Innovation Foundation (former KredEx Foundation) is to jointly improve the financing opportunities of start-up entrepreneurs. The Bank finances the business activities of enterprises from the funds received from the Foundation.

The volume of other liabilities and accrued expenses decreased by 60.4%, related to the decrease in the volume of payments in transit (2023: EUR 5,179 thousand, 2022: EUR 13,077 thousand) (see Note 14).

2.6 Development goals of TBB pank for 2024.

At the General Meeting of Shareholders held at 25 April 2024, the shareholders have decided to start the voluntary liquidation of the Bank (for more detailed information, see Note 28).

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 organisational measures, activities and internal rules and regulations implemented at 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’s 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 Board 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 2023 consists of the risk control and compliance control functions (incl. a separate anti-money laundering and countering the financing of terrorism compliance function and compliance function) and the third line of defence represented by the Internal Audit Department. Internal control functions have sufficient authority to perform 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 2023, in addition to the Credit Committee and Audit Committee set up as required by legislation, the other committees include the Risk and Capital Management Committed, High-Risk Customer Approval Committee and Business Continuity Process Management Committee. For enhancing the effectiveness of internal control and risk management, a Risk Management Committee was established in 2023.

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 in its activities is guided by legislation regulating to the Bank's activities, the Auditors Activities Act and the standards of internal auditor's professional activity established on its basis, the department's statutes and other internal regulations of the Bank, the instructions of financial supervisory bodies and good banking practices.

The main objectives of the department are to provide the Bank's Supervisory Board and Management Board with reasonable assurance and an independent, risk-based and objective overview of what was identified during the audits, including identified deficiencies, while giving appropriate and value-creating recommendations to improve the Bank's work organisation, risk management and internal control environment. The main task of the department is to conduct risk-based internal audits at the Bank.

In addition, the Internal Audit Department regularly reviews elimination of deficiencies specified in the reports of the Financial Supervision Authority and internal audit. In 2023, the Bank's internal auditor was changed, and in order to ensure the consistent operation of the internal audit function, the bank temporarily purchased the internal audit service from the auditing company Ernst & Young Baltic.

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 that are available at the Bank website. 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. Performance-based remuneration has not been introduced at the Bank.

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 identifies 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 is reviewed at least once a year or when there are structural changes or the creation of new positions affecting the list of identified staff members. The remuneration of identified staff members is the same as for the other employees of the Bank, i.e. their remuneration is based on the basic remuneration.

2.10 Financial ratios and capital adequacy

Below is the list of key **financial ratios** that describe the Group's operations in the financial years 2023 and 2022. Balance sheet ratios are calculated as an arithmetic average of the data from the end of the previous financial year and the ending date of each quarter of the financial year. The actual data for the financial year is used for income statement related ratios.

Ratios	31.12.2023	31.12.2022
1. ROE, Return on Equity = Net profit (loss) / equity	4.18%	0.86%
2. EM, Equity Margin = Assets / equity	6.59	9.34
3. PM, Profit Margin = Net profit (loss) / total revenue*	11.00%	2.62%
4. AU, Asset Utilisation = Total revenue / assets	5.77%	3.52%
5. ROA, Return on Assets = Net profit / total assets	0.63%	0.09%
6. EPS, Earnings per Share = Net profit (loss) / average number of shares (EUR)	0.04	0.01

**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 31.12.2023, capital adequacy was 29.16% (31.12.2022: 25.02%).

Own funds and ratios

(EUR thousand)	31.12.2023	31.12.2022
TIER 1	**20,442**	**20,219**
Common Equity Tier 1 capital (CET 1)	**20,442**	**20,219**
Paid-in share capital	25,500	25,500
Prior period retained earnings/accumulated loss	-4,793	-4,970
Net profit/loss (-) for the financial year	940	185
(-) Unacceptable part of the annual profit	-940	-185
Reserves established from profit	1,013	1,005
Common equity Tier 1 capital deductions	-1,278	-1,316
Total own funds	**20,442**	**20,219**
Total risk-weighted assets (Total risk exposure)	**70,097**	**80,806**
Capital ratios and buffers		
Common equity Tier 1 capital ratio (CET1)	29.16%	25.02%
Tier 1 capital ratio (TIER 1)	29.16%	25.02%
Total own funds ratio	**29.16%**	**25.02%**

Combined buffer requirement	**2,793**	**2,818**
Buffer for capital preservation	1,752	2,020
Buffer for system risk	1,041	798

Since 1 December 2023, considering the latest applicable SREP[1] capital requirements, the Group's minimum regulatory capital ratio is **21.08%** (until 01.12.2023: 20.58%), 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, 4.0% of the combined buffer requirement (until 01.12.2023: 3.5%), 6.08% of Pillar 2 requirement (until 15.12.2022: 7.66%) and 3% of additional own funds guidance (from 15.12.2022).

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 2023 and 2022, both on-balance sheet assets and off-balance sheet liabilities have been taken into consideration.

Risk-weighted assets

(EUR thousand)

	31.12.2023	Capital requirements (8%)	31.12.2022	Capital requirements (8%)
TOTAL RISK EXPOSURE	**70,097**	**5,608**	**80,806**	**6,464**
Risk-weighted assets for credit risk and counterparty credit risk	**62,343**	**4,988**	**73,028**	**5,842**
Government	-	-	-	-
Credit institutions and investment companies	2,376	190	3,997	320
Legal entities	6,045	484	8,498	680
of which: SME	6,042	483	8,495	680
Retail receivables	213	17	286	23
Real estate secured receivables	35,621	2,850	41,808	3,344
of which: SME	32,701	2,616	38,304	3,064
Overdue receivables	727	58	1,771	141
Items with particularly high-risk exposure	12,503	1,000	12,108	969
Other assets	4,858	389	4,560	365
Total amount of foreign currency risk	**731**	**58**	**625**	**50**
Total operational risk amount	**7,023**	**562**	**7,153**	**572**

**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

[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.

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 is 1.5% since 1 December 2023 (since 7 December 2022, the applicable countercyclical capital buffer rate is 1%). Capital requirements and buffers as at 31 December 2023 are presented in the table below.

Capital requirements and buffers

31.12.2023

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	**20,442**	**70,097**	**8%**	**5,608**	**14,834**	**29.16%**	**2.5%**	**1,752**	**1.5%***	**1,041**	**12.0%**	**8,401**	**12,041**
Tier 1 capital	20,442	70,097	6%	4,206	16,236	29.16%	2.5%	1,752	1.5%*	1,041	10.0%	6,999	13,443
CET 1 capital	20,442	70,097	4.5%	3,154	17,288	29.16%	2.5%	1,752	1.5%*	1,041	8.5%	5,947	14,495

**1.485%* *or Group-specific countercyclical capital buffer rate calculated in accordance with Article 140 (1) of Capital Requirements Directive (CRD)*[2].

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)

	31.12.2023	31.12.2022
On-balance sheet risk exposures	133,062	175,812
Other off-balance sheet risk exposures	740	1,481
The indicator of total risk exposure of financial leverage ratio	**133,802**	**177,293**
Own funds of Tier 1	**20,442**	**20,219**
Financial leverage ratio (using the fully implemented definition of Tier 1 capital)	**15.28%**	**11.40%**

The management estimates that the Group is in compliance with all external and internal capital management requirements as at 31 December 2023 and 31 December 2022.

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 646% in 2023 and 589% in 2022 (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 2023.

Liquidity coverage ratio

(EUR thousand)

	31.12.2022*	31.03.2023*	30.06.2023*	30.09.2023*	31.12.2023*
Liquidity buffer	92,616	93,803	89,158	81,046	73,022

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

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

Net liquidity outflows	15,725	18,582	18,033	15,222	11,311
Liquidity coverage ratio (%)	589%	505%	494%	532%	646%

**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.

2.11 Consolidated statements of financial position of TBB pank Group for2019-2023

(EUR thousand)

	31.12.2023	31.12.2022	31.12.2021	31.12.2020	31.12.2019
Cash	994	1,204	807	466	1,023
Receivables	120,455	163,285	155,046	129,658	138,037
Other assets	1,231	790	1,073	1,268	989
Gold	534	499	525	504	440
Property, plant and equipment	3,597	3,772	4,026	4,361	4,878
Intangible assets	1,118	1,181	1,199	1,021	797
Investment properties	6,251	6,262	8,318	9,406	10,670
TOTAL ASSETS	**134,180**	**176,993**	**170,994**	**146,684**	**156,834**
Payables	106,341	142,196	147,168	121,976	125,615
Other liabilities and accrued expenses	5,179	13,077	2,291	1,931	4,806
Total liabilities	**111,520**	**155,273**	**149,459**	**123,907**	**130,421**
Total equity	22,660	21,720	21,535	22,777	26,413
TOTAL LIABILITIES AND EQUITY	**134,180**	**176,993**	**170,994**	**146,684**	**156,834**

2.12 Court disputes and tax inspections

During its normal course of business, the Bank and the group 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 opinion that as a result of pending legal disputes as at 31 December 2023 and the date of authorisation of the report for issue, the Bank and the group companies will not incur significant losses.

The following is ongoing in 2023 and as at the date of the authorisation of the report for issue:
- AS TBB pank has 1 (one) court proceeding, 4 (four) bankruptcy proceedings, 1 (one) enforcement proceeding, 2 (two) expedited payment order proceedings, 1 (one) criminal proceeding, 2 (two) court proceedings against the Bank and 1 (one) cassation proceeding against the Bank in France. 2 (two) judgments have been made against the Bank. (see also Note 16);
- AS TBB liising has 1 (one) bankruptcy proceeding, 1 (one) court proceeding,1 (one) judgment made 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 favour of the Bank and the group companies.

In 2023, the tax authorities did not carry out a tax audit at the Bank Group. Tax authorities have the right to review the company'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 company.

3. CONSOLIDATED FINANCIAL STATEMENTS

3.1 Consolidated statement of financial position of TBB pank Group

(EUR thousand)

ASSETS	Note	31.12.2023	31.12.2022
Cash		**994**	**1,204**
Receivables		**120,455**	**163,285**
Receivables from Central Bank	5	60,585	86,019
Receivables from credit institutions	6	11,882	19,988
Receivables from customers	7	47,988	57,278
Other assets	8	**1,231**	**790**
Gold	9	**534**	**499**
Property, plant and equipment	10	**3,597**	**3,772**
Intangible assets	10	**1,118**	**1,181**
Investment properties	11	**6,251**	**6,262**
TOTAL ASSETS		**134,180**	**176,993**

LIABILITIES AND EQUITY	Note	31.12.2023	31.12.2022
Payables		**106,341**	**142,196**
Payables to credit institutions		-	64
Payables to customers	12	97,353	129,560
Other payables	13	8,988	12,572
Other payables and accrued expenses	14	**5,179**	**13,077**
TOTAL LIABILITIES		**111,520**	**155,273**
Share capital	15	25,500	25,500
Reserves	15	1,013	1,005
Accumulated loss		-3,853	-4,785
TOTAL EQUITY		**22,660**	**21,720**
TOTAL LIABILITIES AND EQUITY		**134,180**	**176,993**

The notes to the financial statements set out on pages 27 to 113 form an integral part of these financial statements.

3.2 Consolidated statement of comprehensive income of TBB pank Group

(EUR thousand)

	Note	2023	2022
Net interest income		**5,438**	**2,610**
Interest income calculated using the effective interest method	17	6,292	3,508
Other similar income	17	151	174
Interest expense	18	-1,005	-1,072
Impairment losses on receivables	7, 19	**-170**	**-166**
Net fee and commission income		**238**	**167**
Fee and commission income	20	1,480	1,542
Fee and commission expense	21	-1,242	-1,375
Net gain from financial transactions	22	**375**	**1,145**
Administrative expenses		**-4,137**	**-3,355**
Wages and salaries	23	-2,602	-2,187
Wage related taxes	23	-875	-735
Other administrative expenses	24	-660	-433
Depreciation of property, plant and equipment and intangible assets	10	**-409**	**-424**
Revaluation of investment properties	11	**37**	**225**
Net gain from revaluation of gold		**46**	**33**
Other operating income/ expenses		**-462**	**-28**
Other operating income	25	159	439
Other operating expense	26	-621	-467
Gain/loss before tax		**956**	**207**
Income tax expense (-)/gain (+)	2	-16	-22
Net gain/loss for the financial year		**940**	**185**
Total comprehensive gain/loss for the financial year		**940**	**185**

The notes to the financial statements set out on pages 27 to 113 form an integral part of these financial statements.

3.3 Consolidated cash flow statement of TBB pank Group

(EUR thousand)

	Note	2023	2022
Cash flow from operating activities			
Gain/loss before tax		**940**	**185**
Adjustments for:			
Depreciation	10	409	424
Change in the value of investment properties	11	-37	-225
Net interest income	17,18	-5,438	-2,610
Change in receivables from credit institutions and customers	6, 7, 19	14,426	-2,750
Change in other receivables and prepayments related to operating activities	8, 11	-476	311
Changes in liabilities related to the operating activities	12,13,14	-43,681	5,847
Interest received	7, 17	6,421	3,623
Interest paid	12,18	-989	-1,018
Total cash flow from operating activities		**-28,425**	**3,787**
Cash flow from investing activities			
Purchase of property, plant and equipment and intangible assets	10	-171	-152
Write-off of property, plant and equipment and intangible assets	10	-	-
Purchase of investment properties	11	-	-322
Proceeds from sale of investment properties	11	48	2,603
Total cash flow from investing activities		**-123**	**2,129**
Cash flow from financing activities			
Payments of principal on leases	14	-88	-88
Total cash flow from financing activities		**-88**	**-88**
Total cash flow		**-28,636**	**5,828**
Cash and cash equivalents at the beginning of the year		**101,168**	**95,340**
Cash and cash equivalents at the end of the year		**72,532**	**101,168**

Cash and cash equivalents comprise cash, a correspondent account at Eesti Pank, demand deposits and overnight loans at other banks.

		2023	2022
Cash		994	1,204
Correspondent account at Eesti Pank (available funding)	5	59,656	84,678
Demand deposits and overnight loans at banks	6	11,882	15,286
Total cash and cash equivalents		**72,532**	**101,168**

The notes to the financial statements set out on pages 27 to 113 form an integral part of these financial statements.

3.4 Consolidated statement of changes in equity of TBB pank Group

(EUR thousand)

	Share capital	Reserves	Retained earnings/ Accumulated loss	Total
Balance at 01.01.2022	**25,500**	**1,005**	**-4,970**	**21,535**
Comprehensive loss for the financial year	-	-	185	185
Closing balance at 31.12.2022	**25,500**	**1,005**	**-4,785**	**21,720**
Increase in statutory capital reserve		8	-8	-
Comprehensive gain for the financial year	-	-	940	940
Closing balance at 31.12.2023	**25,500**	**1,013**	**-3,853**	**22,660**

The notes to the financial statements set out on pages 27 to 113 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 "the Group") of AS TBB pank (hereinafter also as "TBB pank" or "the Bank") as at 31 December 2023:

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%

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, incl. recognition of assets and liabilities, the going concern principle has been applied. At the General Meeting of Shareholders held at 25 April 2024, the shareholders decided to launch the voluntary liquidation of the Bank. Thus, the Bank's Management Board is currently preparing for the voluntary liquidation, i.e. there is no probable alternative option under which the Bank's sustainability would be guaranteed. As a result, the Management Board is uncertain about the sustainability of the Group's activities, and there is a high probability that the Group's business will not be sustainable. In addition to the shareholders' decision, the Financial Supervision Authority that oversees the Bank's operations, needs to provide its administrative consent regarding voluntary liquidation. Until a decision is made to start the voluntary liquidation proceedings of the Bank, the Bank will continue its normal activities. Therefore, the impact of discontinuance of the Group's activities on the financials has not been assessed or recognised. The financial statements have been prepared based on the principles of IFRS, i.e. taking into account the principle of sustainability (see Note 28).

The consolidated financial statements have been prepared under the historical cost convention, except for 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 entities that the Group controls. The Group controls the entity if it has exposure, or rights, to variable returns from its involvement with the entity and it has the ability to use its power over the entity 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 at 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 functional and presentation currency of the Bank and the group companies 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 at 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 at the balance sheet date.
Gains and losses from foreign currency transactions are recognised in the income statement.

Cash and cash equivalents

For the Group, cash and cash equivalents comprise cash, a correspondent account at Eesti Pank (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 recognised at fair value. All other financial instruments are initially recognised at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss at initial recognition is only recognised if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions with similar instruments or by valuation techniques whose inputs include only market observable data. 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.
At initial recognition, the Group may designate financial assets, that meet the criteria for measurement at adjusted acquisition cost or at fair value through other comprehensive income, at fair value through the income statement, provided that they meet the qualification criteria. 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 recognise subsequent changes in fair value in other comprehensive income.

At 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.

A 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 at 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 recognised at the value date.

As at 31.12.2023 (and as at 31.12.2022), the Group did not have any financial assets classified in the category of financial assets at fair value through comprehensive income.

(EUR thousand)

Financial assets of the Group	Note	31.12.2023	31.12.2022
Financial assets at amortised cost		**121,193**	**163,502**
Receivables from Central Bank	5	60,585	86,019
Receivables from credit institutions	6	11,882	19,988
Receivables from customers and other receivables (incl. lease receivables)	7	47,812	56,985
Other receivables (cash in transit, other notes receivable)	8	914	510
Financial assets at fair value through profit or loss		**213**	**330**
Receivables from customers and other receivables	7	176	293
Equity instruments (securities)	8	37	37
Total financial assets		**121,406**	**163,832**

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 (solely payments of principal and interest on the principal amount outstanding), 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 for 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 criteria 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 at amortised cost in the financial statements 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:
• At initial recognition, any losses expected to occur from the asset in the next 12 months are recognised;
• Evaluation on a collective basis; based on past experience and future forecasts.

Stage 2 - Underperforming financial assets whose credit quality has significantly deteriorated:
• Recognition of 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:
• Recognition of 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 significantly increased as 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 SICR indicators 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:
<u>Quantitative criterion</u>
- 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 (receivables from credit institutions), i.e. no intra-day payments were made according to the contract as at the end of the banking day;

<u>Qualitative criterion</u>
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 debtor, then all the remaining receivables of the debtor are also in default (on-balance sheet and off-balance sheet).

Receivables from credit institutions
The Bank takes into account the international credit rating of credit institutions (Standard & Poor's) when placing deposits. Depending on the location of the credit institution, 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 at 31.12.2023, in case of a Chinese bank, the credit rating issued by Lianhe Credit Rating Co. Ltd was used). 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 expressed 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, also in case the term of the deposit exceeds 12 months).
LGD (Loss Given Default) – the share of a potential credit loss from the deposit balance (%) in case of the occurrence of 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 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 up to 30 days overdue).

The expected loss is calculated for each pool of assets.
** The credit class of the loan is calculated in accordance with the formulas and principles provided in Note 4 "Risk Management. 4.1. Credit risk".*

Stage 2
Stage 2 consists of underperforming (on the watch list) loans:
- Credit risk has significantly increased since initial recognition (a decrease in credit class by at least 2.0 points, in terms of credit cards and express leases by at least 1.5 points);
- Payment delays lasting for more than 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 for pools 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 have passed;
- Contract has been expired and 14 calendar days have 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 default classified in Stage 3 may be classified in Stage 2 for the probation 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 on-balance sheet receivables of the given customer, then all 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 Bank’s and leasing loan portfolio 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 have been 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. LGD is determined based on the percentage of the collateral rating, which was verified during the analysis of the Bank's historical statistics and which takes into account the management's future outlook. 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 individual impairment. *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 the estimated cash flows of collateralised financial assets less the costs related to the redemption indicate the cash flows that can be generated in the disposal 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. For calculating the macro coefficient, indicators of changes in the gross domestic product (hereinafter GDP) and the consumer price index (hereinafter CPI) are used. In 2023, the selection of macro indicators remained unchanged. The historical figures of the changes in GDP and CPI have been taken from the data of Statistics Estonia, on the basis of which the average indicators of the cycle were determined.

IFRS9 does not provide all specific rules for calculating ECL, but allows to be more flexible in forward-looking information and not to automatically apply the current measures. It is also possible to use qualitative assessments and expert opinions. Since the current economic situation is not changing as usual but is largely dependent on the effects of the ongoing economic crisis and the ongoing military conflict between Russia and Ukraine, we rely more on expert assessments as the starting point that is closer to reality than a mathematical model alone. To find the changes in the GDP and CPI forecast by the Group, the forecast published by Eesti Pank and also internal assessments have been used to find scenario weights.

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

Scenario-weighted forecasts of the change in GDP and CPI 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 ECLs. Changes in the macro coefficient resulting from the change in GDP have been linked to the maximum fixed change in GDP 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 price decreases. Macro-coefficient effects on average PDs over the cycle tend to increase or decrease 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 equally both private borrowers and business customers.

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 2023 and 31 December 2022, 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 11). 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 expenses".

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 maturity. The related interest expenses are included in the income statement line "Interest expense". The funds received from governmental loan funds (Rural Development Foundation, Enterprise and Innovation Foundation, former KredEx Foundation), that have been earmarked for specific purposes, 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 lease

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 recognises assets held under a finance lease in its statement of financial position and presents 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 have not been 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 recognises 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.

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 capitalised expenses related to the establishment of an entity, including legal expertise and auditor fees, state fees, etc. expenses directly related to the establishment. They are amortised during the period of up to 5 years.

Development costs are capitalised only when the necessary resources are available to carry out the development project and it is probable that the costs will result in revenue. They are amortised over the period of up to 5 years, in exceptional cases 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 amortisation 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 amortised over the period of up to 5 years.

Intangible assets are initially recognised at cost and amortised on a straight-line basis.

Impairment of assets

At 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 amortisation 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 and 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 at 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 makes the total tax rate 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 assets (and deferred tax income) on quarterly losses are recognised only if it is probable that future taxable profits will be available during 19 subsequent quarters to utilise those losses.

As at 31.12.2023, the Bank's balance sheet includes deferred income tax assets from tax losses in the amount of EUR 22 thousand (31.12.2022: EUR 39 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 31.12.2023, 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 at 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 and 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 at 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 reporting period. Provisions are not set up to cover future losses. ECLs on off-balance sheet items are recognised as provisions, 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 recognised 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 evaluated on an ongoing basis to determine whether it has become probable that the Group is under the obligation to give up the asset. If it has become probable that the company will have to give up an asset as a result of an obligation previously recorded as a contingent liability, the Group recognised a provision in the financial statements in the period when the corresponding change in probability occurred (except in extremely rare circumstances where no reliable estimate can be made of the cost related to the liability) (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 has an obligation related to the respective cost and/or the Group has received goods or services, and the latter has occurred earlier.

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

The effective interest rate method is the method for calculating the amortised cost of a financial asset or a financial liability, and for allocating interest income or interest expense to the respective period. The effective interest rate is a rate which exactly discounts the expected future cash flows through the expected life of a financial instrument to the carrying amount of a financial asset or a liability. For calculating the effective interest rate, the Company evaluates all contractual conditions of a financial instrument but does not take into account future credit losses. All significant contractual service fees paid or received are included in the calculation, which are an integral part of the effective interest rate, as well as transaction costs and all other additional payments or deductions.
Finance income from leases ("Other similar income", see Note 17) is allocated over the lease term 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 term of the instrument by applying the effective interest rate method and included within 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 General Meeting of Shareholders, the statutory reserve can be used to cover losses if the latter cannot be covered from unregistered equity as well as to increase 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 1 January 2023, and which the Group has not early adopted.

"Classification of liabilities as current or non-current, deferral of effective date" – Amendments to IAS 1
(effective for annual periods beginning at 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 management has assessed that the amendments to the standard will not affect 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 product groups. Lifetime PDs are calculated separately for the groups of receivables related to legal persons, quick leasing, credit cards and individuals;
  - use 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 amended as compared to 202s. 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:
In 2022 and 2023, there were no changes in the treatment of the concept of default.

Credit classes:
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 2.0 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 2023), if upon applying SICR criteria, the credit class would decrease by 1) 1 point; 2) 2 points (for credit cards and express leases) and 2.5 points (for remaining loan receivables. As a result, the impairment loss would 1) increase by EUR 140 thousand; 2) decrease by EUR 15 thousand.

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

The sensitivity analysis of the effect on the ECL upon changes in PD rates by +/-10% yielded changes in impairment losses in the same direction by EUR +11/-11 thousand, whereby the effect on the 12-month and lifetime ECL is EUR +6 /-6 thousand and EUR +5/-5 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 11 thousand higher/ EUR 11 thousand lower, respectively.

Selection of macro-economic indicators:
The selection of macro indicators in 2022 was reviewed for relevance and revised. The selection of macro indicators in 2023 was also reviewed and not 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 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 +11/-11 thousand, respectively.

Other estimates:

According to IAS 40, the fair value of investment property reported at fair value is assessed at each balance sheet date, to reflect the market conditions prevailing at 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, 11).

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 11). Several initial stages were successfully completed in 2022 and in 2023. 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 2023 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 -29 /+30 thousand lower/higher, 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), Eesti Pank, 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 the 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 defence – 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	31.12.2023	31.12.2022
Receivables from Central Bank	5	60,585	86,019
Receivables from credit institutions	6	11,882	19,988
Receivables from customers (AC), net	7	47,812	56,985
Receivables from customers (FVTPL)	7	176	293
Other financial assets	8	914	510
Total financial assets		**121,369**	**163,795**
Off-balance sheet liabilities, excl. performance guarantees	16	2,051	3,281
Maximum credit risk exposure		**123,420**	**167,076**

Based on the results of the analysis performed by the management, expected credit losses on the balances of demand and term deposits held at the central bank and correspondent banks is an insignificant amount as at 31 December 2023 and 31 December 2022, 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, equalling or exceeding 10% of the Bank’s or the Group’s own funds, is approved by the Supervisory Board of the Bank.

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 not been any 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 continued in Ukraine in 2023 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 the residents of Russia, Belarus and Ukraine. The Bank has terminated settlements through Russian banks, it does not provide credit to non-residents and does not conduct foreign exchange transactions with the currencies of the aforementioned countries.

Risk measurement

Credit risk of both 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 customers' current business activities;
- assessment of the risk level of customer’s management and owners;
- valuation of collaterals;
- security 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 cannot 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.

Twice a year (4 times a year for high-risk loans) the loan portfolio is monitored, during which each individual loan and customer is examined separately. During the evaluation, attention is paid to the fulfilment of the terms of the loan agreement, including the timeliness of contractual payments, the customer's financial condition, the condition of the collateral, and the submission of the necessary 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, at initial recognition, a loss is recognised 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 (e.g. credit rating deterioration or 31-90 day payment delays) and where losses that are expected to occur over the remaining life of asset are recognised and assessed individually or by similar groups.

Stage 3 - Non-performing financial assets, assets that are not collected as intended (e.g. 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 one 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.

The 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 on-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 divided 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. The PD of credit obligations is based on the PD rates published by Standard&Poor's, historical bank statistics and is combined 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. For legal entities (excluding express leases) and private individuals in Stage 2, the LGD is determined on the basis of the collateral rating (same calculation as in Stage 1), other than 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 thousand)

		31.12.2023		31.12.2022	
		number/ amount	**% of eligible capital**	**number/ amount**	**% of eligible capital**
1.	Number of customers with high risk concentration	6	-	8	-
2.	Receivables from high risk concentration customers	21,200	103.7%	28,473	140.8%
3.	Receivables from individuals related to the Group	1,630	8.0%	1,478	7.3%

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

The receivables of the Group as at 31 December 2023 and 2022, divided by economic sectors, are presented below. Receivables include receivables from Eesti Pank, 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

31.12.2023 (EUR thousand)

Economic sector	On-balance sheet receivables (gross)	incl. overdue	Off-balance sheet items	Provisions of off-	Share of sectors

	receivables	securities	interest receivables		Allowance for receivables		balance sheet items	
Agriculture, hunting and forestry	855	-	2	262	-8	-	-	0.7%
Manufacturing	5,997	-	22	1,111	-109	1,106	1	5.7%
Supply of electricity, gas, steam and air conditioning	2,824	-	2	-	-9	-	-	2.3%
Construction	9,763	-	36	117	-16	473	1	8.3%
Retail and wholesale, maintenance of motor vehicles, motorbikes, commodities and repair of home appliances	4,129	-	17	718	-283	299	-	3.6%
Transportation, storage and communication	1,126	-	4	82	-5	204	-	1.1%
Financial intermediation	18,961	-	23	-	-9	79	-	15.4%
Central Bank	60,585	-	18	-	0	-	-	49.0%
Real estate	7,611	-	36	-	-27	138	-	6.3%
Administration and support activities	239	-	1	13	-5	99	-	0.3%
Other sectors	2,964	37	14	41	-17	-	-	2.4%
Individuals	5,926	-	21	530	-37	139	-	4.9%
Total	**120,980**	**37**	**196**	**2,874**	**-525**	**2,537**	**2**	**100.0%**

31.12.2022 (EUR thousand)

	On-balance sheet receivables)							
Economic sector	**receivables**	**securities**	**interest receivables**	**Inc. 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%**

See also Notes 6, 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.

Economic 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 2023, a geopolitical risk was realised due to the ongoing 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 the 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, who were residents of Russia, Belarus and Ukraine, was 3.2%.

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 the 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 2023 and 31 December 2022 is presented separately. The receivable include receivables from Eesti Pank, 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

31.12.2023 (EUR thousand)

	On-balance sheet receivables (gross)							
Region	**receivables**	**securities**	**incl. interest receivables**	**incl. overdue**	**Allowance for receivables**	**Off-balance sheet items**	**Provisions of off-balance sheet items**	**Share of the region (%)**
Estonia	108,502	-	193	2,874	-525	2,503	2	89.8%
Austria	10,806	-	3	-	-	-	-	8.7%
China	638	-	-	-	-	-	-	0.6%
Belgium	589	37	-	-	-	-	-	0.5%
Russia	10	-	-	-	-	20	-	0.0%
Other countries	435	-	-	-	-	14,	-	0.4%
Total	**120,980**	**37**	**196**	**2,874**	**-525**	**2,537**	**2**	**100.0%**

31.12.2022 (EUR thousand)

	On-balance sheet receivables (gross)							
Region	**receivables**	**securities**	**incl. interest receivables**	**incl. overdue**	**Allowance for receivables**	**Off-balance sheet items**	**Provisions of 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%
China	1,368	-	-	-	-	-	-	0.8%
Belgium	582	37	-	-	-	-	-	0.4%
Russia	10	-	-	-	-	19	-	0.0%
Other countries	105	-	-	-	-	13	-	0.1%
Total	**163,645**	**37**	**174**	**3,203**	**-360**	**4,177**	**7**	**100.0%**

4.3 Market risk

Definition

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

Risk management

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

To manage market risk, the Group adheres to the following principles:

- Risk avoidance;
- Risk 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 rate risk;
- risk of revaluation of investment property.

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.

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 holds speculative positions in any foreign currency;

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 2023 (EUR thousand)

	EUR	USD	SEK	NOK	CNY	MUU	Total
Assets							
Cash and receivables from Central Bank	61,519	60	-	-	-	-	61,579
Receivables from credit institutions	189	10,729	767	27	109	61	11,882
Receivables from customers (net) and other receivables	47,399	589	-	-	-	-	47,988
Securities	37	-	-	-	-	-	37
Other assets (Note 8)	914	-	-	-	-	-	914
Total assets	**110,058**	**11,378**	**767**	**27**	**109**	**61**	**122,400**
Liabilities							
Payables to customers and other payables	94,206	11,302	729	-	93	11	106,341
Other liabilities (Note 14)	4,815	16	-	-	-	-	4,831
Total liabilities	**99,021**	**11,318**	**729**	**-**	**93**	**11**	**111,172**
Net position	11,037	60	38	27	16	50	11,228

31 December 2022 (EUR thousand)

	EUR	USD	SEK	NOK	CNY	MUU	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 14)	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

As at 31 December 2023 and 31 December 2022, the Group did not have any fixed net exposures that would exceed the level of 1% of own funds. The level of the Group's foreign currency net position as at the balance sheet date reflects the level of foreign currency positions during the year. The euro is not taken into account when calculating net positions.

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

	31.12.2023	31.12.2022
EUR thousand	**Effect on profit or loss**	**Effect on profit or loss**
Appreciation of currencies by 10% (2022: 10%)		
USD appreciation by 10% (2022: 10%)	6	3
DKK appreciation by 10% (2022: 10%)	1	5
SEK appreciation by 10% (2022: 10%)	4	-3
NOK appreciation by 10% (2022: 10%)	3	2
CNY appreciation by 10% (2022: 10%)	2	-4
Other (excluding EUR) appreciation by 10% (2022: 10%)	4	3
Total	**20**	**6**
Depreciation of currencies by 10% (2022: 10%)		
USD depreciation by 10% (2022: 10%)	-6	-3
DKK depreciation by 10% (2022: 10%)	-1	-5
SEK depreciation by 10% (2022: 10%)	-4	3
NOK depreciation by 10% (2022: 10%)	-3	-2
CNY depreciation by 10% (2022: 10%)	-2	4
Other (excluding EUR) depreciation by 10% (2022: 10%)	-4	-3
Total	**-20**	**-6**

4.4 Cash flow interest rate risk

Cash flow interest rate 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 rate 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 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.

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 s 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 rate risk by interest fixing period

31 December 2023 (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	60,567	-	-	-	-	-	60,567
Receivables from credit institutions, gross	11,879	-	-	-	-	-	11,879
Receivables from customers, gross	33	33,901	2,150	203	2,494	8,666	47,447
incl. with a floating interest rate	-	*31,990*	-	-	-	-	*31,990*
Securities	-	-	-	-	-	37	37
Off - balance sheet liabilities	161	330	1,560	-	-	-	2,051
incl. with a floating interest rate	-	*128*	-	-	-	-	*128*
Total assets and off-balance sheet liabilities	**72,640**	**34,231**	**3,710**	**203**	**2,494**	**8,703**	**121,981**
Liabilities							
Payables to customers and other payables	57,537	13,217	19,291	4,420	4,379	6,741	105,585
incl. with a floating interest rate	*8,181*	*5*	-	-	-	-	*8,186*
Lease liabilities	-	19	58	44	38	-	159
Total liabilities	**57,537**	**13,236**	**19,349**	**4,464**	**4,417**	**6,741**	**105,744**
Total difference by interest fixation periods	15,103	20,995	-15,639	-4,261	-1,923	1,962	16,237

31.12.2022 (EUR thousand)

	On demand	Up to 3 months	3-12 months	1-2 years	2-5 years	After 5 years	Total
31 December 2022							
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*
Finance 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

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

As at 31 December 2023 and 31 December 2022 and during the respective periods, the Group was not exposed to fair value interest rate 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, the speed of the 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 that are 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 risk management policy;
- 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;
- forecasting of deposits and loans;
- 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, i.e. 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 2023 (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	58,292	13,491	20,518	5,567	6,271	3,442	**107,581**
Finance lease payables	-	20	60	44	39	-	**163**
Other payables*	4,673	-	-	-	-	-	**4,673**
Guarantees and off-balance sheet liabilities related to loans**	2,406	-	-	-	-	-	**2,406**
Unused factoring limit	131	-	-	-	-	-	**131**
Total financial liabilities	**65,502**	**13,511**	**20,578**	**5,611**	**6,310**	**3,442**	**114,954**
Financial assets							
Cash and receivables from Central Bank	61,579	-	-	-	-	-	**61,579**
Receivables from credit institutions	11,882	-	-	-	-	-	**11,882**
Receivables from customers, net	1,113	2,982	4,900	3,688	17,649	17,656	**47,988**
Other assets***	914	-	-	-	-	37	**951**
Total financial assets	**75,488**	**2,982**	**4,900**	**3,688**	**17,649**	**17,693**	**122,400**
Liquidity gap from financial instruments	**9,986**	**-10,529**	**-15,678**	**-1,923**	**11,339**	**14,251**	**7,446**

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 31.12.2023 exceeds the regulatory requirement (100%) by a large margin (*see Management Report, 2.10 Ratios and capital adequacy*).

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 banks	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**

* other payables include payments in transit and other payables (Note 14).
** 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 2023.

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

Control systems have been implemented to manage and mitigate operational risk, which must ensure multiple supervision of transactions and other operations on a daily basis
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 arising from the inadequacy, inappropriateness 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 errors (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 at 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 priorities of the Bank's activities. Therefore, identification of AML risks, assessment of their impact and application of mitigation measures are under increased attention at the Bank.
2023, the following conditions led to an increased or high level of AML risk:

- Implementation of additional financial sanctions against both Russia and Belarus due to Russia's aggression against Ukraine;
- The transfer of economic transactions to third countries, which entails the risk of avoiding sanctions against Russia;
- Threats due to weak regulation and supervision of virtual currency service offerings, savings and loan cooperatives and corporate service offerings registered in Estonia;
- Threats related to the low transparency of the control and management structure of companies registered in Estonia, whose founders or actual beneficiaries are citizens of other countries, which increases the risks related to the activities of such companies;
- Threats related to the activities of companies registered in Estonia, whose activities do not take place in Estonia;
- Continuous improvement of the regulations regarding money laundering and terrorist financing and the implementation of international sanctions, and increased attention of the competent authorities in evaluating the effectiveness of the implementation measures, which are accompanied by the risks of non-compliance with the measures.

AML risk management at the Bank is based on the risk management system, which consists of defining the AML risks associated with the activities, mapping their scope and impact (regular reviews), and assessment (risk assessment), and delimiting the impact (risk appetite), as well as implementation of the measures to reduce the impact of risks resulting from risk assessment.

The risk appetite document expresses the set of risk levels and types accepted by the Bank, which the Bank is ready to take in order to achieve its economic activities and strategic goals, and the impact of which the Bank is able to mitigate considering its risk management and control measures. The scope of risks taken by the Bank is proportional to the nature and complexity of the Bank's activities and services provided.

AML risk mitigation measures are based on the Bank's business strategy, and proportional and risk-based application of due diligence measures. The Bank's money laundering and terrorist financing risk management model consists of an organisational solution, internal guidelines for preventing money laundering and terrorist financing, implemented control mechanisms, Risk Assessment and Risk Appetite documents in the set.

The Bank implements measures to minimize the possibility that the Bank's services could be used for money laundering or terrorist financing or for violating the restrictions set by financial sanctions. To this end, the Bank's management ensures continuous assessment of the risks related to the field and their comparison with the goals set out in the strategy and the limits fixed by the Risk Appetite. In order to assess business-related risks, risk assessment methodology based on internationally recognised principles is applied, which assesses the risks related to customers and various services and their impact.

As part of the risk assessment, including the preparation of the Risk Assessment, the main threats and risk factors related to customers and services are identified, how high the probability of their realisation or occurrence is, and to what extent the Bank must apply due diligence measures to mitigate the risks.

In order to identify risk factors, the Bank applies the due diligence measures stipulated in the legislation, and to determine their impact and mitigation measures, it is based on the information collected during the application of due diligence measures, the information obtained during the establishment of a business relationship with customers and the information obtained during the subsequent monitoring and screening of customer relations and transactions.

The principles governing the Bank's operations have been laid down in various policies, procedures and instructions. The bank is constantly updating its work processes and internal procedures to ensure compliance with applicable laws and regulations.

The risks associated with the Bank's operations are managed using the principle of three lines of defence. The first line of defence is formed by customer service and structural units that develop and manage business relations with customers.

The duties of the first line of defence also include the application of due diligence, incl.:

- Identification of the individual;
- Identification of actual benefits and origin of assets used in transactions and transaction partners;
- Verification of compliance of transactions with the customer's activity profile.

During the application of due diligence measures, a personal risk level is assigned to the customer on the basis of his activity profile and activity analysis using the matrix for determining the appropriate risk level. If customers who do not meet the Bank's risk appetite are identified, the business relationship with such persons will be terminated.

The second line of defence is made up of:

- The Anti-Money Laundering Department (RTO), the main purpose of which is to manage the AML risk infrastructure, including the customer management program CRM and the automated transaction screening program Salv, providing input for supplementing the applicable procedures and preparing risk analyses. The activities of the RTO also include monitoring and screening after transactions, asking for additional data in case of fraud, blocking/closing accounts, and implementing enhanced due diligence measures in the customer's activities in case of fraud. In order to avoid possible conflicts of interests, the latter tasks will be transferred to the composition of the first line of defence.
- Risk and Compliance Control Department (RVO), the main purpose of which is the organization of risk assessment and compliance control in the AML field, preparation of risk reports, Risk Assessment and Risk Appetite documents, carrying out monitoring and supervision activities. The composition of the RVO includes the contact person of the Money Laundering Office, whose activities are aimed at the analysis of suspicious and unusual transactions, the identification of transactions suspected of money laundering and terrorist financing, the detection of violations of international sanctions or the avoidance of their execution, and the notification of the Money Laundering Office (RAB) and compliance with its instructions.

The third line of defence is the internal audit unit. The task of the internal audit is to audit the effectiveness of measures and internal procedures for the prevention of money laundering and terrorist financing and the compliance of the organisational solution.

AML risk management is based on related legislation and norms, including: the Money Laundering and Terrorist Financing Prevention Act, the International Sanctions Act, the instructions and guidelines of the Financial Supervision Authority's, in particular "Organizational solution for credit and financial institutions and preventive measures to prevent money laundering and terrorist financing", "Application of international financial sanctions to credit and financial institutions", Financial Intelligence Unit guidance materials, FATF and EBA recommended guidelines.

The Bank has limited its exposure to AML risks by establishing both qualitative and quantitative limits set in its risk appetite. Thus, starting from 1 December 2018, the Bank has not built business relationships with non-resident legal entities that were established in tax-free or low-tax countries and territories. From 19 February 2024, the Bank does not provide payment services to non-resident legal entities and to resident legal entities whose at least one actual beneficiary is a non-resident. In addition, the Bank does not provide payment services outside the European Economic Area.

Establishing business relations with the Bank is generally possible in bank offices. From the end of 2021, if Estonian residents who are private persons have an ID card, they have the opportunity to establish a business relationship through remote identification. After establishing a business relationship, customers can use the services through the Bank's web application, where the customer is identified either by Smart-ID, ID card, Mobile ID or identification by SMS code.

- The Bank does not establish business relationships with persons who are represented by intermediaries or agents providing business services at the Bank.
- Neither are business relationships established with persons who are the subject of international sanctions or related to such persons or goods registered in a tax-free zone or who are persons with a national background of a third country or companies related to them.

In order to better manage AML risks related to customers, they are divided into four customer groups according to the assessment of risk factors and risk categories: "low", "medium", "high" and "extremely high" risk level. The risk level is determined based on the following risks: customer risk, product or service risk, and country and geographic risk and the risk factors that make them up.

Depending on the risk level, the decision to establish a business relationship with a customer is made by: (i) in the case of a "low" risk level, the Customer Service Department, (ii) in the case of a "medium" risk level, the Customer Service Department after reviewing the RTO's assessment, (iii) in the case of a customer with a "high" or "extremely high" risk level, the Customer Service Department with the approval of the High-Risk Customer Approval Committee. The RTO's assessment and the approval of the High-Risk Customer Approval Committee are not mandatory for the Customer Service Department to establish a business relationship, their purpose is to refer to related and identified risk factors. Despite this, the Customer Service Department may decide not to establish a business relationship with the customer's candidate.

In order to assess risks related to transactions, Salv Technologies automated screening technology (AST) is applied to all transactions, the purpose of which is to identify subjects of international sanctions, politically exposed persons, persons subject to enhanced due diligence requirements in transactions using fuzzy logic algorithms. Transactions are checked to detect violations of international sanctions of the bases of Dow Jones databases, which are updated daily. AST also identifies risk factors in transactions in accordance with algorithms that may indicate money laundering, terrorist financing or evasion of international sanctions. If any risk factors are detected in the transaction, the transaction is suspended and further analysis will be performed by employees who screen or monitor transactions. If there is any doubt regarding the AML risk in relation to transactions, the Bank requires the customer to submit additional information and data regarding the transaction(s) and documents confirming the origin of the customer's funds and the legitimacy of the transactions. If suspicion remains, information is forwarded to the contact person of the Financial Intelligence Unit.

In addition to the implementation of the lines of defence mentioned above, there is the High-Risk Customer Approval Committee, which reviews both the applications of new customer candidates and business relations with existing customers to ensure compliance with the Bank's risk appetite and tolerance limits.

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 2023 **(EUR thousand)**

Financial assets at fair value through profit or loss	Note	Level 1	Level 2	Level 3	Total
Receivables from customers	7	-		176	176
Equity instruments (securities)	8	37	-	-	37
Total financial assets at fair value through profit or loss		**37**	**-**	**176**	**213**

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**

IFRS 13 determines the hierarchy of fair value valuation techniques, based on whether 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 customer is viewed individually and interest rates vary according to the customer'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 2023 and 31 December 2022.

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 generated 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 2023, 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, ensuring that all risks are adequately covered by own funds at any given time. The Group's 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.

From the beginning of 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 was applied to all credit institutions on exposures located in Estonia. Due to the COVID-19 pandemic, as an exception, Eesti Pank decided to temporarily lower the buffer rate to 0% from 1 May 2020.

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

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. Eesti Pank 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. Eesti Pank increased the countercyclical capital buffer rate by 1.5% due to the increased risks related to rapid loan growth in 2023. The new buffer rate entered into force at 1 December 2023.

Since 1 December 2023, considering the latest applicable SREP capital requirements, the Group's minimum regulatory capital ratio is 21.08% (until 01.12.2023: 20.58%), 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 to 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 or Tier 2 capital.

According to regulatory requirements, a credit institution's own funds must be at least EUR 5 million and the ratio of total own funds to total risk position (total own funds ratio) must be at least 12.0% (11.5% until 01.12.2023) 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 (31.12.2023: EUR 20,442 thousand, 31.12.2022: EUR 20,219 thousand). 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).

The management estimates that the Group complies with all requirements for the management of foreign and domestic capital as at 31.12.2023 and 31.12.2022.

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 disclosed on the Bank's website www.tbb.ee and in the risk and capital (Pillar 3) report of AS TBB pank for 2023.

Note 5. Receivables from the Central Bank

In accordance with the requirements of the European Central Bank, credit institutions in Estonia are required to hold statutory reserves. The components of the calculation of the reserve comprise all liabilities of credit institutions acquired through raising debt and contingent liabilities, financial guarantees issued to cover the liabilities of resident financial institutions which are part to the consolidation group. The calculation of the statutory reserve requirement is based on the previous month's balance sheet and it has to be complied with as a monthly average. In 2023 and 2022, TBB pank was in compliance with this requirement. As at 31 December 2023, the receivables from the Central Bank amounted to EUR 60,585 thousand (31.12.2022: EUR 86,019 thousand), incl.

overnight loans EUR 55,408 thousand (31.12.2022: EUR 85,209 thousand). As at 31 December 2023, the reserve requirement was EUR 929 thousand (31.12.2022: EUR 1,341 thousand), therefore, the available funds at Eesti Pank as at 31 December 2023 totalled EUR 59,656 thousand (31.12.2022: EUR 84,678 thousand), which is included in cash equivalents.

(EUR thousand)

	31.12.2023	31.12.2022
End-of-day balance of current account as a monthly average	5,193	4,628
End-of-day balance of current account considering the overnight loans as a monthly average	*60,987*	*85,147*
Minimum reserve requirement as a monthly average	943	1,416
Exceeding of the minimum reserve requirement as a monthly average	8,908	3,448

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 2023, the Group earned interest in the amount of EUR 26 thousand (2022: EUR 8 thousand) and EUR 2,186 thousand on overnight deposits (2022: EUR 318 thousand).

The negative deposit facility rate that was valid 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) led to negative interest rate costs for the Group in the amount of EUR 231 thousand on the funds held at the central bank in 2022.

Note 6. Receivables from credit institutions

Receivables from credit institutions are as follows:

(EUR thousand)

	31.12.2023	31.12.2022
Demand deposits:		
in OECD banks	2,188	1,725
China	638	1,368
in CIS and other countries' banks	3	3
Total demand deposits	**2,829**	**3,096**
Overnight loans:		
in OECD banks	9,053	12,190
Total overnight loans	**9,053**	**12,190**
Term deposits:		
in OECD banks	-	4,702
Total term deposits	**-**	**4,702**
Total receivables from credit institutions	**11,882**	**19,988**

As at 31 December 2022, the average interest rate on term deposits was 3.45%.

Below is the analysis of receivables from credit institutions by credit quality on the basis of Standard and Poor’s and Lianhe Credit Rating Co. Ltd as at 31 December 2023 and 31 December 2022 (receivables that are neither overdue nor impaired).

31.12.2023 (EUR thousand)

	Total demand deposits	Term deposits	Total
Receivables from credit institutions			
- rating AA	638	-	638
- rating A-2	10,806	-	10,806
- without rating	438	-	438
Total	**11,882**	**-**	**11,882**

31.12.2022 (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**

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 28 "*Events after the balance sheet date*").

Note 7. Receivables from customers

(EUR thousand)

Type of receivable	31.12.2023	31.12.2022
Loans to customers (AC), net	**47,812**	**56,985**
Loans to legal entities	**42,411**	**50,086**
- Investment loans	38,640	45,711
- Overdraft facilities	1,743	2,026
- Leases	1,348	1,628
- Other loans	680	721
Loans to individuals	**5,926**	**7,259**
- Housing loans and leases	5,263	6,377
- Other loans and leases	663	882
Allowance for receivables	**-525**	**-360**
Receivables from customers (FVTPL)*	**176**	**293**
- Other receivables	176	293
Total receivables from customers	**47,988**	**57,278**

**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 persons, 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 2023 (EUR thousand)

Investment loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	12,439	-	-	12,439
Credit class 2	16,965	240	-	17,205
Credit class 3	2,325	699	3,264	6,288
Credit class 4	-	109	905	1,014
Credit class 5	-	-	1,694	1,694
Gross carrying amount	**31,729**	**1,048**	**5,863**	**38,640**
Loss allowance	-43	-26	-359	-428
Carrying amount	**31,686**	**1,022**	**5,504**	**38,212**

31.12.2022 (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**

31.12.2023 (EUR thousand)

Overdraft facilities	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	292	-	-	292
Credit class 2	945	-	-	945
Credit class 3	260	-	150	410
Credit class 4	-	-	-	-
Credit class 5	-	-	96	96
Gross carrying amount	**1,497**	**-**	**246**	**1,743**
Loss allowance	-6	-	-13	-19
Carrying amount	**1,491**	**-**	**233**	**1,724**

31.12.2022 (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**

31.12.2023 **(EUR thousand)**

Leases	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	771	-	-	771
Credit class 2	462	-	-	462
Credit class 3	6	1	-	7
Credit class 4	-	-	-	-
Credit class 5	-	-	108	108
Gross carrying amount	**1,239**	**1**	**108**	**1,348**
Loss allowance	-5	-	-36	-41
Carrying amount	**1,234**	**1**	**72**	**1,307**

31.12.2022 **(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**

31.12.2023 **(EUR thousand)**

Other loans	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	598	-	-	598
Credit class 2	82	-	-	82
Credit class 3	-	-	-	-
Credit class 4	-	-	-	-
Credit class 5	-	-	-	-
Gross carrying amount	**680**	**-**	**-**	**680**
Loss allowance	-	-	-	-
Carrying amount	**680**	**-**	**-**	**680**

31.12.2022 **(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**

31.12.2023 **(EUR thousand)**

Housing loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	3,221	-	-	3,221
Credit class 2	940	-	-	940
Credit class 3	387	326	-	713
Credit class 4	-	146	243	389
Credit class 5	-	-	-	-
Gross carrying amount	**4,548**	**472**	**243**	**5,263**
Loss allowance	-3	-21	-4	-28
Carrying amount	**4,545**	**451**	**239**	**5,235**

31.12.2022 **(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**

31.12.2023 **(EUR thousand)**

Other loans and leases	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Credit class 1	128	-	-	128
Credit class 2	297	-	-	297
Credit class 3	5	-	189	194
Credit class 4	-	-	1	1
Credit class 5	-	41	2	43
Gross carrying amount	**430**	**41**	**192**	**663**
Loss allowance	-1	-3	-5	-9
Carrying amount	**429**	**38**	**187**	**654**

31.12.2022 **(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**

Receivables by type of collateral

If a loan has several collaterals, the collateral that the Bank considers most important for the assessment of the loan-related risks related is disclosed in the table below. There are a total of 3 levels regarding the significance of collaterals. 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 real estate secured loans, the real estate collateral is always provided first, regardless of its quality as 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.

31.12.2023 (EUR thousand)

Type of loan	Mortgage	Surety	Leased assets	Unsecured	Other*	Total
Loans to legal entities	**36,338**	**4,359**	**1,116**	**596**	**2**	**42,411**
Investment loans	34,975	3,665	-	-	-	38,640
Overdraft facilities	1,351	392	-	-	-	1,743
Leases	12	220	1,116	-	-	1,348
Other loans	-	82	-	596	2	680
Loans to individuals	**5,670**	**189**	**11**	**46**	**10**	**5,926**
Housing loans and leases	5,263	-	-	-	-	5,263
Other loans and leases	407	189	11	46	10	663
Total loans to customers (gross carrying amount)	**42,008**	**4,548**	**1,127**	**642**	**12**	**48,337**

31.12.2022 (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**

* 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”.

31.12.2023 (EUR thousand)

	Receivables with sufficient collateral coverage	Receivables with insufficient collateral coverage

Type of loans	Carrying amount of receivables	Actual collateral coverage		Carrying amount of receivables	Actual collateral coverage	
		total collaterals	incl. sureties and guarantees		total collaterals	incl. sureties and guarantees
Receivables from customers, gross carrying amount	**47,192**	**95,544**	**6,088**	**1,145**	**396**	**365**
Investment loans	38,635	80,897	5,521	5	5	5
Overdraft facilities	1,351	2,659	-	392	360	360
Leases	1,245	2,260	276	103	26	-
Other loans	84	118	82	596	-	-
Housing loans to individuals	5,263	8,314	-	-	-	-
Other loans and leases to individuals	614	1,296	209	49	5	-
Loss allowance	-496			-29		
Receivables from customers, net carrying amount	**46,696**			**1,116**		

31.12.2022 (EUR thousand)

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

Fair value of collaterals of individually assessed impaired loans

31.12.2023 (EUR thousand)

Type of loans	Receivables with sufficient collateral			Receivables with insufficient collateral		
	Carrying amount of receivables	Fair value of collateral		Carrying amount of receivables	Fair value of collateral	
		total collaterals	incl. sureties and guarantees		total collaterals	incl. sureties and guarantees
Individually impaired loans, gross carrying amount	**6,578**	**9,564**	**209**	**74**	**-**	**-**
Investment loans	5,863	8,489	-	-	-	-
Overdraft facilities	246	467	-	-	-	-
Leases	35	35	-	73	-	-
Other loans	-	-	-	-	-	-
Housing loans to individuals	243	364	-	-	-	-

Other loans and leases to individuals	191	209	209	1	-	-
Loss allowance	-393			-24		
Individually impaired loans, net carrying amount	**6,185**			**50**		

31.12.2022 (EUR thousand)

Type of loans	Receivables with sufficient collateral			Receivables with insufficient collateral		
	Carrying amount of receivables	Fair value of collateral: total collaterals	Fair value of collateral: incl. sureties and guarantees	Carrying amount of receivables	Fair value of collateral: total collaterals	Fair value of collateral: 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**			**-**		

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 loss allowance	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Loss allowance as at 01.01.2022	**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**
Movements:	-7	-7	14	-
From Stage 1 to Stage 2	-20	20	NA	-
From Stage 1 to Stage 3	-14	NA	14	-
From Stage 2 to Stage 1	27	-27	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired, incl. refinancing*	8	-	-	8
Changes related to credit risk changes	-45	32	305	292
Financial assets terminated/matured during the period	-23	-9	-2	-34
Write-offs	0	0	-101	-101
Loss allowance as at 31.12.2023	**58**	**50**	**417**	**525**

* *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 ECLs	Lifetime ECLs	Lifetime ECLs	
Loss allowance as at 01.01.2022	**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**
Movements:	-7	-5	12	-
From Stage 1 to Stage 2	-19	19	NA	-
From Stage 1 to Stage 3	-12	NA	12	-
From Stage 2 to Stage 1	24	-24	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired, incl. refinancing*	6	-	-	6
Changes related to credit risk changes	-40	9	274	243
Financial assets terminated/matured during the period	-19	-	-2	-21
Write-offs	-	-	-100	-100
Loss allowance as at 31.12.2023	**43**	**26**	**359**	**428**

* *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 ECLs	Lifetime ECLs	Lifetime ECLs	
Loss allowance as at 01.01.2022	**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**
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	1	-	11	12
Financial assets terminated/matured during the period	-1	-	-	-1
Write-offs	-	-	-	-
Loss allowance as at 31.12.2023	**6**	**-**	**13**	**19**

(EUR thousand)

Leases	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Loss allowance as at 01.01.2022	**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**
Movements:	-	-2	2	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-2	NA	2	-
From Stage 2 to Stage 1	2	-2	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	--	-

New financial assets issued or acquired, incl. refinancing*	1	-	-	1
Changes related to credit risk changes	-2	-1	22	19
Financial assets terminated/matured during the period	-2	-9	-	-11
Write-offs	-	-	-	-
Loss allowance as at 31.12.2023	**5**	**-**	**36**	**41**

** 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 ECLs	Lifetime ECLs	Lifetime ECLs	
Loss allowance as at 01.01.2022	**-**	**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**
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	-	-	-1
Financial assets terminated/matured during the period	-	-	-	-
Write-offs	-	-	-	-
Loss allowance as at 31.12.2023	**-**	**-**	**-**	**-**

(EUR thousand)

Housing loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Loss allowance as at 01.01.2022	**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**
Movements:	-	-	-	-
From Stage 1 to Stage 2	-1	1	NA	-
From Stage 1 to Stage 3	-	NA	-	-
From Stage 2 to Stage 1	1	-1	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired, incl. refinancing*	-	-	-	-
Changes related to credit risk changes	-2	21	-1	18
Financial assets terminated/matured during the period	-1	-	-	-1
Write-offs	-	-	-	-
Loss allowance as at 31.12.2023	**3**	**21**	**4**	**28**

(EUR thousand)

Other loans and leases	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Loss allowance as at 01.01.2022	**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**
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	3	-1	1
Financial assets terminated/matured during the period	-	-	-	-
Write-offs	-	-	-1	-1
Loss allowance as at 31.12.2023	**1**	**3**	**5**	**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	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Gross carrying amount as at 01.01.2022	**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 related to credit risk changes	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**
Movements:	-841	-2,260	3,101	-
From Stage 1 to Stage 2	-1,230	1,230	NA	-
From Stage 1 to Stage 3	-3,101	NA	3,101	-
From Stage 2 to Stage 1	3,490	3,490	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired, incl. refinancing*	5,097	-	-	5,097
Changes related to credit risk changes	-2,915	-115	80	-2,950
Financial assets terminated/matured during the period	-9,581	-71	-184	-9,836
Write-offs	-1	-	-1,318	-1,319
Gross carrying amount as at 31.12.2023	**40,123**	**1,562**	**6,652**	**48,337**

* *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 31.12.2023, 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 ECLs	Lifetime ECLs	Lifetime ECLs	
Gross carrying amount as at 01.01.2022	**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**
Movements:	-404	-2,559	2,963	-
From Stage 1 to Stage 2	-705	705	NA	-
From Stage 1 to Stage 3	-2,963	NA	2,963	-
From Stage 2 to Stage 1	3,264	-3,264	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired, incl. refinancing*	4,401	-	-	4,401
Changes in balances of financial assets	-2,215	-99	23	-2,291
Financial assets terminated/matured during the period	-7,679	0	-184	-7,863
Write-offs	-	0	-1,318	-1,318
Gross carrying amount as at 31.12.2023	**31,729**	**1,048**	**5,863**	**38,640**

** 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 ECLs	Lifetime ECLs	Lifetime ECLs	
Gross carrying amount as at 01.01.2022	**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**

Movements:	-13	-	13	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-13	NA	13	-
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*	121	-	-	121
Changes in balances of financial assets	-224	-	137	-87
Financial assets terminated/matured during the period	-317	-	-	-317
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2023	**1,497**	**-**	**246**	**1,743**

(EUR thousand)

Leases	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Gross carrying amount as at 01.01.2022	**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**
Movements:	-107	-16	123	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-123	NA	123	-
From Stage 2 to Stage 1	16	16	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired, incl. refinancing*	377	-	-	377
Changes in balances of financial assets	-299	-4	-56	-359
Financial assets terminated/matured during the period	-227	-71	-	-298
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2023	**1,239**	**1**	**108**	**1,348**

* *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 ECLs	Lifetime ECLs	Lifetime ECLs	
Gross carrying amount as at 01.01.2022	**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**
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	12	-	-	12
Financial assets terminated/matured during the period	-55	-	-	-55
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2023	**680**	**-**	**-**	**680**

(EUR thousand)

Housing loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Gross carrying amount as at 01.01.2022	**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**
Movements:	-276	276	-	-
From Stage 1 to Stage 2	-483	483	NA	-
From Stage 1 to Stage 3	-	NA	-	-
From Stage 2 to Stage 1	207	-207	NA	-
From Stage 2 to Stage 3	NA	-	-	-
From Stage 3 to Stage 2	NA	-	-	-
New financial assets issued or acquired, incl. refinancing*	188	-	-	188
Changes in balances of financial assets	-100	-11	-5	-116

Financial assets terminated/matured during the period	-1,186	-	-	-1,186
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2023	**4,548**	**472**	**243**	**5,263**

(EUR thousand)

Other loans and leases	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Gross carrying amount as at 01.01.2022	**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**
Movements:	-41	39	2	-
From Stage 1 to Stage 2	-42	42	NA	-
From Stage 1 to Stage 3	-2	NA	2	-
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*	8	-	-	8
Changes in balances of financial assets	-89	-1	-19	-109
Financial assets terminated/matured during the period	-117	-	-	-117
Write-offs	-1	-	-	-1
Gross carrying amount as at 31.12.2023	**430**	**41**	**192**	**663**

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

(EUR thousand)

Total receivables	Stage 1	Stage 2	Stage 3	Total
	12-month ECLs	Lifetime ECLs	Lifetime ECLs	
Gross carrying amount as at 01.01.2022	**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	-	-	1,920
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**
Movements:	-137	-	137	-
From Stage 1 to Stage 2	-	-	NA	-
From Stage 1 to Stage 3	-137	NA	137	-
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*	669	-	-	669
Changes in balances of financial assets	-195	-	-137	-332
Financial assets terminated/matured during the period	-1,567	-	-	-1,567
Write-offs	-	-	-	-
Gross carrying amount as at 31.12.2023	**2,051**	**-**	**-**	**2,051**

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 ECLs	Lifetime ECLs	Lifetime ECLs	
Provision as at 01.01.2022	**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**
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 in balances of financial assets	-4	-	-	-4
Financial assets terminated/matured during the period	-2	-	-	-2
Write-offs	-	-	-	-
Provision as at 31.12.2023	**2**	**-**	**-**	**2**

Distribution of off-balance sheet risk exposures by types of liabilities and loan classes 2023

(EUR thousand)

	Contingent assets and liabilities

Type of liability	Performance guarantees	Loan limits	Unused factoring	Total
Collectively impaired	**486**	**1,920**	**131**	**2,537**
Credit class 1	486	1,573	-	2,059
Credit class 2	-	344	131	475
Credit class 3	-	3	-	3
Provision	**-**	**2**	**-**	**2**
Individually impaired	**-**	**-**	**-**	**-**
Provision	**-**	**-**	**-**	**-**

2022

(EUR thousand)

	Contingent assets and liabilities			
Type of liability	**Performance guarantees**	**Loan limits**	**Unused factoring**	**Total**
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	**-**	**-**	**-**	**-**

The Group's loans granted to customers as at 31 December 2023 and 31 December 2022 by the due date are presented below.

(EUR thousand)

	2023	2022
On demand	622	645
Overdue	2,874	3,203
Up to 3 months	2,205	759
Between 3-12 months	2,554	3,836
Between 1-2 years	1,005	1,562
Between 2-5 years	12,933	8,639
Over 5 years	26,320	38,994
Total loans to customers	**48,513**	**57,638**

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

The analysis of net and gross lease investments and future rental income as at 31 December 2023 and 31 December 2022 is as follows:

	Present value of receivables	
(EUR thousand)	**31.12.2023**	**31.12.2022**
Total gross investment	**1,606**	**1,931**
Up to 1 year	647	810
Between 1 and 2 years	456	469
Between 2 and 3 years	310	379
Between 3 and 4 years	158	212

Between 4 and 5 years	35	61
Minus: Deferred interest income	-206	-183
Total present value of receivables	**1,400**	**1,748**
Up to l year	546	721
Between 1 and 2 years	393	415
Between 2 and 3 years	279	350
Between 3 and 4 years	148	202
Between 4 and 5 years	34	60

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 divided as follows:

(EUR thousand)

	31.12.2023	31.12.2022
Other financial assets, incl.	**951**	**547**
-cash in transit	862	468
-other accounts receivable	52	42
-securities	37	37
Other assets, incl.	**280**	**243**
-prepaid expenses	190	135
-prepaid taxes	22	39
-other assets	64	65
-collector's coins	4	4
Total	**1,231**	**790**

As at 31 December 2023, the Bank's balance sheet included deferred income tax assets on tax losses in the amount EUR 22 thousand (as at 31.12.2022: EUR 39 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 22 thousand will be realised through future taxable profit.

Note 9.Gold

Analysis of the changes in the gold investment balance:

(EUR thousand)

	31.12.2023	31.12.2022
Balance at the beginning of the year	**499**	**525**
Sold	-11	-59
Gain from fair value revaluation	419	554
Loss from fair value revaluation	-373	-521
Balance at the end of the year	**534**	**499**

In 2023, the Group earned EUR 323 from the sale of gold (2022: EUR 2 thousand).

Note 10. Property, plant and equipment, and intangible assets

Property, plant and equipment and intangible assets are dividend as follows:

(EUR thousand)

	Property, plant and equipment						Intangible Assets		Total PP&E
	Improve-ments of rented PP&E	Buildings	Right-of-use assets	Vehicles	Office equipment	Pre-payments	Software	Pre-payments	
Cost									
As at 31 December 2021	**1,335**	**3,651**	**444**	**22**	**1,944**	**-**	**545**	**853**	**8,794**
Acquisitions	-	-	-	-	-	85	-	67	152
Fully amortised non-current assets 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**
Acquisitions	-	-	80	-	-	65	-	26	171
Fully amortised non-current assets written off balance sheet	-	-	-163	-	-192	-	-12	-	-367
Disposals	-	-	-	-	-	-	-	-	-
Reclassification from prepayment for PP&E	-	-	-	-	65	-65	117	-117	-
As at 31 December 2023	**1,335**	**3,651**	**361**	**22**	**1,826**	**-**	**693**	**727**	**8,615**
Accumulated depreciation									
As at 31 December 2021	**-979**	**-559**	**-221**	**-12**	**-1,599**	**-**	**-199**	**-**	**-3,569**
Depreciation	-36	-72	-76	-4	-151	-	-85	-	-424
Fully amortised non-current assets written off balance sheet	-	-	-	-	76	-	59	-	135
Disposals	-	-	-	-	-	-	-	-	-
As at 31 December 2022	**-1,015**	**-631**	**-297**	**-16**	**-1,674**	**-**	**-225**	**-**	**-3,858**
Depreciation	-36	-72	-72	-4	-136	-	-89	-	-409
Fully amortised non-current assets written off balance sheet	-	-	163	-	192	-	12	-	367
Disposals	-	-	-	-	-	-	-	-	-
As at 31 December 2023	**-1,051**	**-703**	**-206**	**-20**	**-1,618**	**-**	**-302**	**-**	**-3,900**
Carrying amount									
As at 31 December 2022	**320**	**3,020**	**147**	**6**	**279**	**-**	**363**	**818**	**4,953**
As at 31 December 2023	**284**	**2,948**	**155**	**2**	**208**	**-**	**391**	**727**	**4,715**

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 and AS TBB Invest, measured at fair value (see Note 26).

Analysis of changes in the balances of investment property:

(EUR thousand)

	31.12.2023	31.12.2022
Balance at the beginning of the year	**6,262**	**8,318**
Additions as a result of collateral realisation	-	-
Purchases	-	322
Disposals	-48	-2,603
Gain/loss from revaluation of fair value	37	225
Balance at the end of the year	**6,251**	**6,262**

In 2023, 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 42 thousand, including expenses made on investment properties that earn rental income in the amount of EUR 6 thousand. In 2022, income in the amount of EUR 1 thousand was received, and direct expenses related to the management of real estate investments amounted to EUR 52 thousand, including expenses made on investment properties that earn rental income in the amount of EUR 16 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 2023 and 31 December 2022 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, as well as sales contracts concluded by the Group with third parties.

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 as compared to 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 assessment of the fair value of real estate investments is based on estimates, assumptions and historical experience adjusted for prevailing market conditions and other factors, which the Management Board 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.

When determining the fair value of the Group's real estate investments, both the Group's management and independent real estate appraisers primarily use the method of comparable transactions. Due to the low liquidity of the Estonian real estate market, the appraisers have had 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 at Level 3 of the fair value hierarchy. During 2023, 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 regarding the Group’s investment property located in Viimsi Parish, and its sale price was taken into account in determining the fair value of the property as at 31.12.2022 and also at 31.12.2023. 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 31.12.2022 and 31.12.2023, and future cash flows are discounted to the present value using the discount rate of 2.1%. In 2023, 8 properties in Stage 1 of Viimsi development project were sold in the total amount of EUR 48 thousand (2022: EUR 2,600 thousand) and due to the shortening of the discounting period, the book value of Viimsi development project was increased by EUR 37 thousand (2022: EUR 225 thousand).

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

2023 (EUR thousand)

Region	Intended use	Carrying amount	Value (per m^2)	Potential change	Impact on value
Viimsi Parish, Harju County	Residential land, transportation land, public land	1,533	11.65	+10%	165
				-10%	-165
Tallinn, Harju County	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 Virumaa County	Commercial land (built-up land)	322	229.31	+10%	32
				-10%	-32
France	Residential land	701	221.20	+10%	70
				-10%	-70
	Total	**6,251**			

2022 (EUR thousand)

Region	Intended use	Carrying amount	Value (per m^2)	Potential change	Impact on value
Viimsi Parish, Harju County	Residential land, transportation land, public land	1,544	11.69	+10%	154
				-10%	-154
Tallinn, Harju County	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 Virumaa County	Commercial land (built-up land)	322	229.31	+10% -10%	32 -32
France	Residential land	701	221.20	+10% -10%	70 -70
	Total	**6,262**			

Note 12. Payables to customers

Payables to customers are divided by segments as follows:

(EUR thousand)

	31.12.2023	31.12.2022
Legal entities	54,500	83,369
Individuals	42,853	46,191
Total	**97,353**	**129,560**

Analysis by maturity of deposits is as follows:

(EUR thousand)

	31.12.2023	31.12.2022
Demand deposits	58,293	91,266
Deposits with maturities of less than 3 months	13,210	14,169
Deposits with maturities between 3 months - 1 year	19,271	14,499
Deposits with maturities between 1 - 5 years	6,579	9,626
Total	**97,353**	**129,560**

Note 13. Other payables

(EUR thousand)

	31.12.2023	31.12.2022
Enterprise and Innovation Foundation (former KredEX)	5	21
MES	8,983	12,551
Total	**8,988**	**12,572**

In 2023, the Bank continued to carry out cooperation started in 2014 with the Enterprise and Innovation Foundation (former KredEx) for issuing start-up loans. The objective of cooperation is to jointly improve financing possibilities of new enterprises. By using funds received from the Foundation, 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 2023, the current portion of other payables totals EUR 937 thousand and the long-term portion totals EUR 8,051 thousand.

Analysis by maturity of loans is as follows:

(EUR thousand)

	31.12.2023	31.12.2022
Due in 3 months	7	27
Due between 3 months to 1 year	19	-
Due between 1 year to 5 year	2,220	2,574
Due after 5 years	6,742	9,971
Total	**8,988**	**12,572**

As at 31 December 2023 and 2022, the average weighted effective interest rates of borrowings from the Rural Development Foundation were 0.72% and 0.67%, respectively. As at 31 December 2023 and 2022, the average weighted effective interest rates of borrowings from the Enterprise and Innovation Foundation were 4.38% and 4.38%, respectively.

Note 14. Other payables and accrued expenses

Other liabilities and accrued expenses are as follows:

(EUR thousand)

	31.12.2023	31.12.2022
Financial liabilities, incl.	**4,831**	**12,747**
-payments in transit	4,627	12,535
-other liabilities	44	51
-lease liabilities	158	154
-provisions	2	7
Other liabilities (accrued expenses)	**348**	**330**
Total	**5,179**	**13,077**

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 2023, the balance of right-of-use assets is disclosed in Note 9. The interest expense on lease obligations was EUR 9 thousand (Note 18) and the depreciation of right-of-use assets was EUR 72 thousand (Note 10). Repayments of the principal of the lease obligation in 2023 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 2023 are shown in the table below.

Right-of-use lease liabilities

(EUR thousand)

31.12.2023	**Up to 1 year**	**1 to 6 years**	**Total**
Non-cancellable lease payments	80	83	163

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

Note 15. Share capital

As at 31 December 2023, 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 2022: 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 1,013 thousand as at 31.12.2023 and EUR 1,005 thousand as at 31.12.2022) 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)

	31.12.2023		31.12.2022	
	Receivables	Liabilities	Receivables	Liabilities
Irrevocable and revocable transactions, incl.	**-**	**2,537**	**-**	**4,177**
Performance guarantees and other similar irrevocable transactions	-	486	-	896
Undrawn portion of credit and overdraft facilities	-	1,759	-	2,343
Other irrevocable transactions*	-	161	-	174
Unused factoring limit	-	131	-	764

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

Court cases

The former owner of the investment property, which was used as the collateral for the claim arising from the overdraft agreement, filed an appeal in cassation with the Court of Cassation of France, which commenced the proceedings. Taking into account the course of the previous proceedings of the 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.

At 16 May 2023, a judgment was made against the Bank to terminate the loan agreements with Customer 1. According to the judgment, the loan agreements were deemed as valid and they will continue to be serviced. The Bank has paid court costs to Customer 1.

AS TBB pank terminated the current account agreement and loan agreement with a private person, Customer 2, who is a member of the management board of Customer 1, on an emergency basis. At 2 December 2022, Customer 2 filed an action against the Bank with Harju County Court to identify the invalidity of the cancellation of the contracts. The court commenced proceedings of the claims and ordered the Bank to designate a bank account in order for Customer 2 to fulfil the obligations arising from the loan contract and prohibited the Bank from disposing the assets under enforcement proceedings. AS TBB accepted the action to identify the invalidity of the termination of the loan contract. The dispute regarding the termination of the current account agreement continues. 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.

A lawsuit has been filed against the Bank by a legal entity to identify the invalidity of the termination of the current account agreement. The termination of the current account agreement was ordinary. The court case is still pending. The Bank 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.

Customer 3 The liquidators applied to the Harju County Court with a request to carry out an examination of the account held in the name of Customer 3 at AS TBB bank with the aim of identifying the value of the funds in the account and the change in values from the opening of the account to its closure. At 11 November 2023, Harju County Court made a ruling in the civil case number x-xx-xxxxx and ordered an expert assessment for clarifying the circumstances of the case that are relevant and require a special expert opinion, and assigned the task of conducting the expert assessment to the British expert bureau. After receiving the results of the expert assessment, the court ended the provisional hearing with a court order, which entered into force at 5 January 2024. In the provisional hearing, the claims made against the Bank were dismissed.

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 collaterals. As a result of these lawsuits, the Group will not incur significant losses.

As at 31 December 2023, neither the Bank nor AS TBB liising and AS TBB Invest, which are members of the Bank's joint consolidation group, 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 2023 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 2023 totalled EUR -3,853 thousand (EUR -4,785 thousand as at 31 December 2022). There will be no dividend distributions.

Note 17. Interest income

Interest income is divided as follows:

(EUR thousand)

	31.12.2023	31.12.2022
Interest income calculated using the effective interest method	**6,292**	**3,508**
Loans	3,420	2,646
Deposits	2,828	791
Other	44	71
Other similar income	**151**	**174**
Leases	134	139
Other	17	35
Total	**6,443**	**3,682**

As at 31 December 2023 and 2022, the weighted average effective interest rates on loans granted were 6.8 and 4.78%, respectively.

As at 31 December 2022, the average effective interest rates on fixed-term deposits with correspondent banks was 3.45%. As at 31 December 2023, the interest rate of the ECB's permanent deposit option was 4% for overnight deposits with Eesti Pank.

As at 31 December 2023 and 2022, the weighted average effective interest rates on finance lease agreements were 9.32% and 6.92%, respectively.

Note 18. Interest expense

Interest expense is divided as follows:

(EUR thousand)

	31.12.2023	31.12.2022
Deposits	-925	-727
Negative deposit interest rate for banks	-	-258
Loans	-71	-83
Interest expense on lease liabilities	-9	-4
Total	**-1,005**	**-1,072**

The average effective interest rates on customer time deposits as at 31 December 2023 and 2022 were 2.82% and 1.58%, respectively (see also Note 13)

Note 19. Impairment losses on receivables

(EUR thousand)

	31.12.2023	31.12.2022
Reversal of loan loss allowances	711	648
Loan loss allowances (Notes 3, 4, 7)	-881	-814
Total	**-170**	**-166**

Note 20. Fee and commission income

(EUR thousand)

	31.12.2023	31.12.2022
Transfers	670	734
Incl. verification of payment information	*422*	*179*
Servicing loans and leases, guarantees	192	253
Account maintenance fees	382	239
Bank cards	115	179
Securities transaction and administration fees	15	19
Cash transactions	9	16
Loro-accounts	22	11
Others	75	91
Total	**1,480**	**1,542**

Note 21. Fee and commission expenses

(EUR thousand)

	31.12.2023	31.12.2022
Data processing fees	-675	-690
Card services	-324	-317
Execution of transfers	-129	-259
Legal consultations	-60	-44
Loan servicing fees and guarantee fees	-37	-32
Cash collecting and cash transaction fees	-3	-2
Others	-14	-31
Total	**-1,242**	**-1,375**

Note 22. Net gains from financial transactions

(EUR thousand)

	31.12.2023	31.12.2022
Net gains from currency exchange transactions	367	1,138
Dividend income	8	7
Total	**375**	**1,145**

As compared to 2022, the decrease in net income from foreign exchange transactions in 2023 was due to the decrease in the volume of foreign exchange transactions

Note 23. Wages and salaries, and social security taxes

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

(EUR thousand)

	31.12.2023	31.12.2022
Management remuneration	-426	-355
Employee wages and salaries	-2 176	-1 832
Social security taxes	-875	-735
Total	**-3 477**	**-2 922**

In 2023 and 2022, the Group had an average of 73 and 72 employees, respectively.

Note 24. Other administrative expenses

Other administrative expenses are as follows:

(EUR thousand)

	31.12.2023	31.12.2022
Maintenance and repairs	-137	-99
Utilities	-141	-77
Security services	-77	-67
Marketing	-54	-33
Communication and postal expenses	-22	-23
Training expenses	-22	-18
Rent	-16	-17
Office supplies	-16	-11
Transportation	-4	-6
Representational expenses	-5	-3
Other expenses	-166	-79
Total	**-660**	**-433**

Note 25. Other operating income

(EUR thousand)

	31.12.2023	31.12.2022
Other income and rental income on investment properties (Note 11)	-	1
Fines and penalty interests	24	131
Other operating income	135	307
Total	**159**	**439**

Note 26. Other operating expenses

(EUR thousand)

	31.12.2023	31.12.2022
Guarantee Fund payments	-130	-60
Financial Supervision Authority supervision fees	-81	-76
Expenses related to management of investment properties (Note 11)	-42	-52
Other operating expenses	-368	-279
Total	**-621**	**-467**

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 2023, the ownership interest of AS Leonarda Invest was 44.47% and at the time of preparation of the Annual Report – 44.47% of the Bank's outstanding shares (31.12.2022: 43.84%). The individual ownership interest of other shareholders as at 31 December 2023 and 31 December 2022 was below 10%. No shareholder exercises control over the Group.

Transactions with related parties are carried out at market value. As at 31 December 2023 and 31 December 2022, no write-downs on receivables from related parties were recognised during both reporting periods.

According to the Remuneration Policy, termination benefits are only paid to the members of the Bank's Management Board. Termination benefits are determined by the Supervisory Board, and its amount and payment procedure are stipulated in the contract of the member of the Management Board. The principles of determining the performance fee are applied to termination benefits in accordance with the provisions of the Credit Institutions Act. The Supervisory Board has the right to reduce the amount to be paid, to suspend the payment of benefits, or to demand a partial or full refund of benefits paid, if:

- the Bank's overall financial performance has significantly deteriorated as compared to the previous period;
- the member of the Management Board no longer meets the performance criteria, and the requirements laid down in the Credit Institutions Act for the head of a credit institution,
- has participated in causing damage to the Bank or is responsible for the damage caused;
- the Bank no longer complies with prudential regulations or its risks are not adequately covered by own funds or
- the amount of compensation is determined based on data that have turned out to be significantly inaccurate or incorrect.

Members of the Management Board are not entitled to termination benefits in the following cases:

- upon termination of the contract by the Bank, if the reason for the termination of the contract was a significant violation of the contract or official duties by a member of the Management Board, which led or may lead to the filing of damage claims against the Bank;
- upon termination of the contract at the initiative of a member of the Management Board without a valid reason.

The costs resulting from damage, breach of obligations or other such expenses are charged to the member of the Management Board and may be offset with the final invoice.

Transactions and balances made in 2023 and 2022 with related parties are recognised as follows:

2023 (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 31.12.2023	-	417	1 192	1,609
Loans granted	-	319	385	704
Repayments of loans	-	55	479	534
Interest income received	-	6	84	90
Balance of deposits as at 31.12.2023	108	77	236	421
Interest expenses paid	-	4	2	6
Services provided	2	2	5	9
Services purchased	114	-	91	205
Other off-balance sheet liabilities	-	12	8	20
Remuneration during the period	-	476	-	476

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 assists	-	-	100	100

Note 28. Events after the balance sheet date

In 2023, the Financial Supervision Authority checked the compliance of the Bank's money laundering and terrorist financing measures with the requirements of the Money Laundering and Terrorist Financing Prevention Act (RahaPTS). During the on-site inspection, the structure and functioning of the organisation for the prevention of money laundering and terrorist financing was assessed, among others; activities of the management and employees in the field of prevention of money laundering and terrorist financing, including risk management and mitigation, in the implementation of due diligence measures, including the establishment of business relationships, and in case of suspicion of money laundering or terrorist financing; the activities of the Financial Intelligence Unit contact person.

During the on-site inspection, the Financial Supervision Authority detected violations at the Bank regarding the Bank's compliance with the regulatory framework concerning the prevention of money laundering and terrorist financing, including the shortcomings identified by the Financial Supervision Authority:

- Organisational structure of the Banks' money laundering and prevention of terrorist financing and activities of management bodies in risk management;
- Application of due diligence measures and determination of the customer's risk profile;
- Compliance with the obligation to notify the Financial Intelligence Unit.

Based on § 1011 subsection 4 of the Credit Institutions Act, the Bank submitted a dissenting opinion regarding the positions expressed in the act of the Financial Supervision Authority.

In order to eliminate the deficiencies identified during the inspection, the Financial Supervision Authority restricted the Bank's provision of payment services to non-resident legal entities and to resident legal entities whose at least one actual beneficiary is a non-resident from 19 February 2024. In addition, the provision of payment services outside the European Economic Area.

In addition, the Financial Supervisory Authority obliged the Bank to make changes in the organisational approaches regarding the findings outlined in the precept, specify the application of due diligence measures and the management of risks related to customers, supplement the risk appetite, and prepare procedures for monitoring the execution of the risk appetite, and notifying the Financial Intelligence Bureau.

The Management Board of the Bank waived the objection regarding the proportionality and appropriateness of the measures laid down in the Financial Supervision Authority's precept, and considered it more important to implement improvement measures regarding the issues referred to in the on-site report.

Based on the deficiencies outlined in the on-site report of the Financial Supervision Authority, the Bank has drawn up an action plan to:

- Develop measures to identify AML risks and assess their impact, to improve the organisational system and to increase its capabilities. One measure includes the improvement of automated screening technology for appropriate IT systems and transactions;
- Terminate cross-border payments outside the European Economic Area and give up existing customers whose activities do not meet the parameters set out in the Bank's risk appetite, or whose transactions have money laundering or terrorist financing features, or who may engage in transactions whose content and purpose cannot be identified or which may be related to international sanctions or with risk countries.

In connection with the precept, the Bank terminated provision of payment services to countries outside the European Economic Area from 19 February 2024 and also terminated provision of cross-border payment services (incl. those related to payment cards) to non-resident legal entities and to resident legal entities whose at least one actual beneficiary is a non-resident. Payment services within Estonia to the Bank's customers are carried out as usual.

At the time of authorisation of the Annual Report for issue, the Group's liquidity and capital positions are solid: as at 30.09.2024, the Group's capital adequacy was 32.75% (31.12.2023: 29.16% and from 1 December 2023, considering the latest applicable SREP requirements, the Group's minimum regulatory capital ratio is 21.08%) and as arithmetic averages of data at the end of the twelve months preceding the end of the calculated period, the liquidity coverage ratio was 1143% (31.12.2023: 646% and regulatory minimum requirement is 100) (see Note 2.10). Although the Bank's capitalisation is good, the level of capital and liquidity buffers is sufficient and all regulations are fully met, the Supervisory Board and the Management Board have been uncertain about the sustainability and profitability of the Group's operations in a constantly changing economic environment. The Bank has been for sale for several years, but no buyer has been found who is able to make investments to the extent necessary for further development of the Bank. Therefore, the shareholders have considered several options: raising additional funds, selling the bank to new investors, as well as voluntary liquidation.

At the General Meeting of Shareholders held at 25 April 2024, the shareholders have decided to start the voluntary liquidation of the Bank. In addition to the decision of the shareholders, voluntary liquidation requires administrative consent from the Financial Supervision Authority, which supervises the Bank's activities, and the sale of the Bank's loan portfolio. The market participants' interest in the loan portfolio was significant, and this is confirmed by the intention of AS LHV bank to acquire a major part of TBB pank's credit portfolio. The exact volume of the portfolio to be acquired will be disclosed at the day of completion of the transaction, which could take place in the second half of October. Several companies providing financial services in Estonia have expressed their interest in the remaining part of the loan portfolio, and most of the loans have either already been sold or have been refinanced by customers to other Estonian banks.

The sale of the loan portfolio to launch the voluntary liquidation of the Bank is one of the most logical solutions unless the shareholders consider it necessary to make additional investments for further development of the Bank. This is a legitimate and fair move towards depositors. The sale of the loan portfolio will ensure the availability of sufficient funds to pay the depositors their funds in full during the liquidation proceedings. Although this need arises only when the Financial Supervision Authority has checked the compliance of the prerequisites for voluntary liquidation and granted permission for the execution of the voluntary liquidation, and the Bank's shareholders have made a decision to start the voluntary liquidation proceedings, the Bank plans to gradually end the provision of most services and start disbursing the customer funds at the end of 2024/at the beginning of 2025.

Pursuant to the law, the Bank continues to operate under the supervision of the Financial Supervision Authority to ensure that the interests and rights of depositors and all other Bank customers are guaranteed.

Until a decision has been made to launch the voluntary liquidation proceedings of the Bank, the Bank will continue its normal activities. TBB pank is solvent and serves customers by fulfilling their claims in full.

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	31.12.2023	31.12.2022
Cash	**994**	**1,204**
Receivables	**125,107**	**167,777**
Receivables from Central Bank	60,585	86,019
Receivables from credit institutions	11,882	19,988
Receivables from customers	52,640	61,770
Other assets	**1,141**	**687**
Gold	**534**	**499**
Shares and other securities	**967**	**1,077**
Property, plant and equipment	**3,595**	**3,770**
Intangible assets	**1,118**	**1,181**
Investment properties	**701**	**701**
TOTAL ASSETS	**134,157**	**176,896**

LIABILITIES AND EQUITY	31.12.2023	31.12.2022
Debt obligations	**106,341**	**142,196**
Payables to credit institutions	-	64
Payables to customers	97,353	129,560
Other payables	8,988	12,572
Other liabilities and accrued expenses	**5,155**	**13,040**
TOTAL LIABILITIES	**111,496**	**155,236**
Share capital	25,500	25,500
Reserves	1,000	992
Accumulated profit/ (-loss)	-3,839	-4,832
TOTAL EQUITY	**22,661**	**21,660**
TOTAL LIABILITIES AND EQUITY	**134,157**	**176,896**

STATEMENT OF COMPREHENSIVE INCOME OFAS TBB PANK

(EUR thousand)

	2023	2022
Net interest income	**5,482**	**2,619**
Interest income calculated using the effective interest method	6,487	3,691
Interest expense	-1,005	-1,072
Gain/loss from revaluation of investments into subsidiaries	**-110**	**-**
Net fee and commissions income	**230**	**152**
Fee and commission income	1,472	1,527
Fee and commission expense	-1,242	-1,375
Net gain from financial transactions	**375**	**1,145**
Administrative expenses	**-4,023**	**-3,260**
Wages and salaries	-2,545	-2,133
Wage related taxes	-856	-718
Other administrative expenses	-622	-409
Depreciation of property, plant and equipment, and intangible assets	**-409**	**-424**
Impairment losses on receivables	**-154**	**-160**
Gains	695	621
Losses	-849	-781
Net gain from revaluation of gold	**46**	**33**
Other operating income and expenses	**-420**	**50**
Other operating income	138	408
Other operating expense	-558	-358
Loss before tax	**1,017**	**155**
Income tax expense (-)/gain (+)	-16	-22
Net profit/ (-loss) for the financial year	**1,001**	**133**
Total comprehensive income/ (-loss) for the financial year	**1,001**	**133**

CASH FLOW STATEMENT OFAS TBB PANK

(EUR thousand)

	2023	2022
Cash flows from operating activities		
Loss before tax for the financial year	**1,001**	**133**
Adjustments for:		
Depreciation and amortisation	409	424
Unrealised gain/loss from revaluation of investment in subsidiaries	110	-
Net interest income	-5,482	-2,619
Change in receivables from credit institutions and customers	14,266	-313
Change in other receivables and prepayments related to operating activities	-488	243
Changes in liabilities related to the operating activities	-43,669	5,588
Interest received	6,465	3,630
Interest paid	-989	-1,018
Total cash flows from operating activities	**-28,377**	**6,068**
Cash flows from investing activities		
Purchase of property, plant and equipment	-171	-152
Total cash flows from investing activities	**-171**	**-152**
Cash flows from financing activities		
Payments of principal on leases	-88	-88
Total cash flows from financing activities	**-88**	**-88**
Total cash flows	**-28,636**	**5,828**
Cash and cash equivalents at the beginning of the year	**101,168**	**95,340**
Cash and cash equivalents at the end of the year	**72,532**	**101,168**

Cash and cash equivalents comprise cash, a correspondent account at Eesti Pank, demand deposits and overnight loans at other banks.

	2023	2022
Cash	994	1,204
Correspondent account at Eesti Pank	59,656	84,678
Demand deposits and overnight loans at banks	11,882	15,286
Total cash and cash equivalents	**72,532**	**101,168**

STATEMENT OF CHANGES IN EQUITY OF AS TBB PANK FOR 2023 AND 2022

(EUR thousand)

	Share capital	Reserves	Retained earnings/ Accumulated loss	Total
Closing balance 31.12.2021	**25,500**	**992**	**-4,965**	**21,527**
Comprehensive income	-	-	133	133
Closing balance 31.12.2022	**25,500**	**992**	**-4,832**	**21,660**
Transfer to statutory reserve capital	-	8	-8	-
Comprehensive income	-	-	1,001	1,001
Closing balance 31.12.2023	**25,500**	**1,000**	**-3,839**	**22,661**
Carrying amount of ownership interests under control and significant influence				**-930**
Value of ownership interests under control and significant influence under the equity method				929
Adjusted unconsolidated equity at 31.12.2023				**22,660**

4. INDEPENDENT AUDITOR'S REPORT

6. MANAGEMENT BOARD`S PROPOSAL FOR PROFIT DISTRIBUTION

In 2023, the audited profit of AS TBB pank Group is EUR 940 thousand, and the Bank's profit is EUR 1,001 thousand.

Proposal of the Management Board:

1. To approve the 2023 Annual Report of AS TBB pank.

2. To distribute the audited profit of the Bank for 2023 in the amount of EUR 1001 thousand as follows:

- reserve capital	EUR 50 thousand
- retained earnings	EUR 951 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	30.09.2024

7. DECLARATION OF THE SUPERVISORY BOARD TO THE 2023 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 2023.

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

Andrei Žukov
Member of the Supervisory Board

Sergei Elošvili
Member of the Supervisory Board