FINORA
YOUR FIRST CREDIT PROVIDER
PERSONAL AND DIGITAL

First licensed credit provider in Estonia

CONSOLIDATED ANNUAL REPORT

(translation from Estonian language version)*

Beginning of the financial year:	**01.01.2020**
End of the financial year:	**31.12.2020**

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

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Management Report

In 2020, the Estonian economy contracted by 2.9% compared to previous year, which was lower than expected at the outbreak of Covid-19 last spring and also smaller compared to the euro area average. The smaller-than-expected downturn in the Estonian economy reflects both the good resilience of Estonia's major trading partners to the crisis and the more modest impact of state measures restricting economic activity. The restrictions related to the pandemic in 2020 were one of the mildest in Estonia compared to the rest of the European Union.

The unusual economic environment also affected Finora Capital's operations - the volume of new loans issued decreased, the debt capital available to Finora through the capital markets decreased and additional loan loss provisions had to be made.

In addition to the complexity of the economic situation, the company's results of 2020 and previous years were affected by the company's decision to start applying International Financial Reporting Standards (IFRS) from 2020, on the basis of which this annual report has also been prepared. We made additional provisions for the years 2018-2019, but in 2020 it was necessary to reduce the provisions instead compared to the report made according to the local accounting standard. As a result, cumulative equity decreased by approximately 10%, which is the usual effect of the transition to IFRS of banks and other financial companies.

According to the Bank of Estonia, new sales of corporate loans and leases decreased by 14% last year. The decline in our new sales was not so strong and remained mainly in the spring of 2020, but new loan sales also decreased in our country as well. Similar to banks, we offered our customers payment holidays in the spring and summer, for a total of about 15% of our portfolio. All in all, the consolidated loan portfolio grew by 2% by the end of 2020 compared to the end of 2019 (see Figure 1 below) e. at the level of approximately 6.6 million euros. The majority of loans continue to be different type of corporate loans. The company has largely given up offering unsecured consumer credit, and business loans account for 99% of new loans issued (see Figure 2).

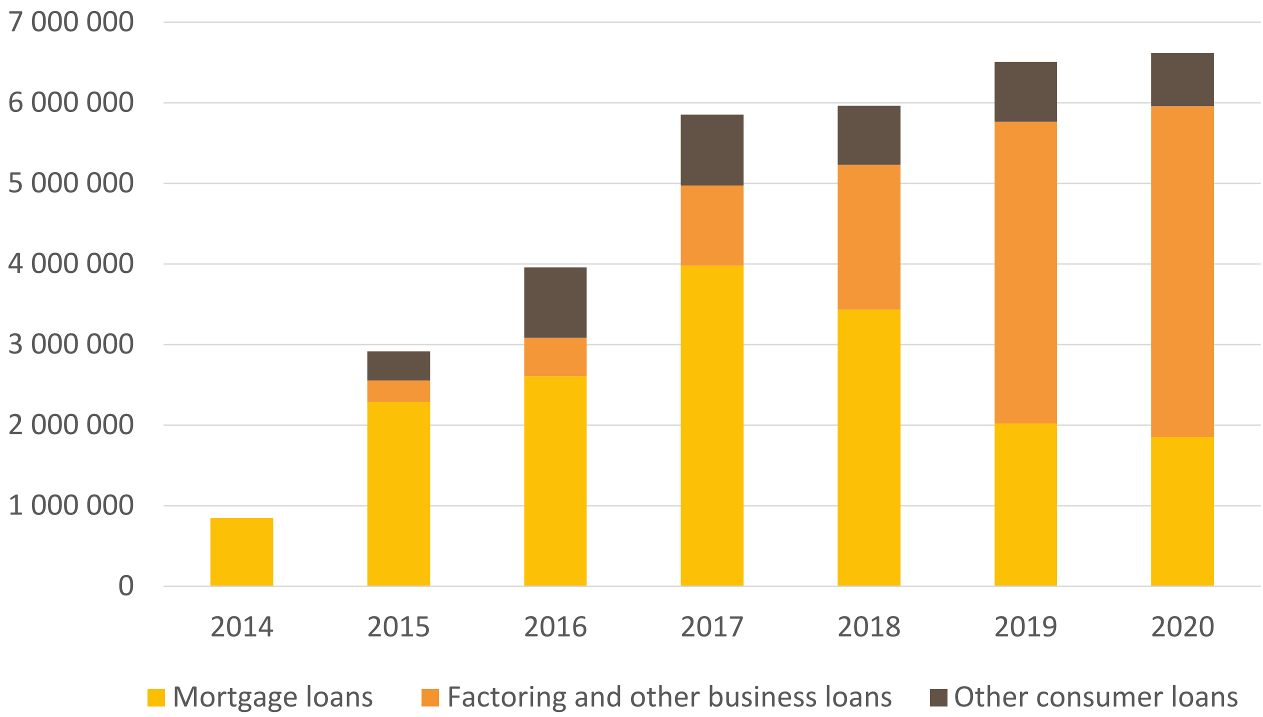

Figure 1

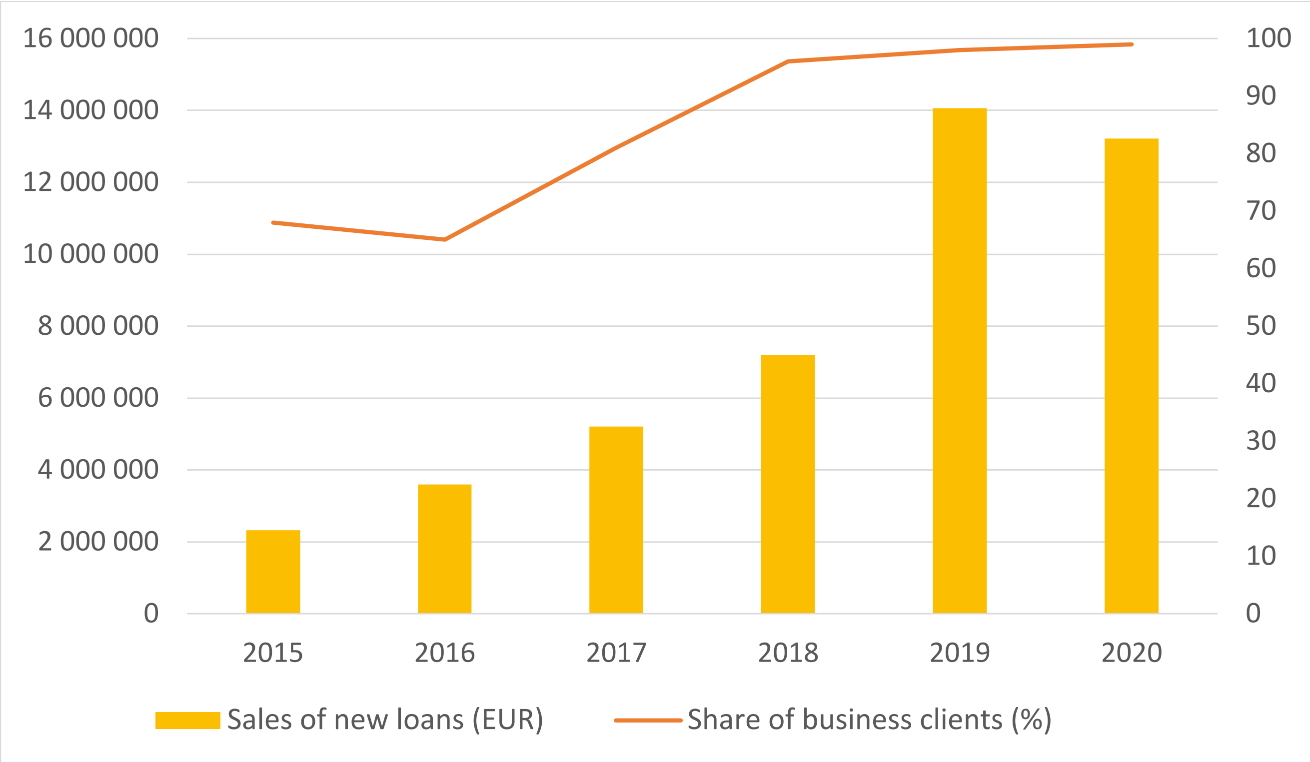

Figure 2

In order to increase the equity buffers both for the growth of the coming years and for a smoother passage of the crisis, both existing and new investors significantly increased the company's equity last year. Additional equity contributions were made in the amount of nearly 2.7 million euros and the year 2020 ended with 2.6 million euros in equity.

In addition to the increase in equity, the company's operations were financed through increased debt to the UK fund Advanced Global Capital and several bridge loans. At the end of 2020, we extended the loan taken from COOP Bank by 3 years. The volume of bonds decreased by almost 10%. All bonds have always been secured to more than 100% by various assets and receivables. The Company will continue to comply with all the terms of the bond.

At the end of 2020, preparations were made for the introduction of two new important sources of financing in 2021. At the end of December, we signed an agreement with Invega in Lithuania, which allows lending to Lithuanian companies on favorable terms. It is a credit line type agreement, through which we hope to provide loans in Lithuania in the amount of more than 2 million euros this year.

In 2020, we also started cooperating with the European Investment Fund. In autumn 2020, we launched a loan for the creative and cultural sectors with an EIF guarantee. Finora Capital was the first financial services company in the Baltics to enter into such an agreement with the EIF. In the coming years, the portfolio of this product could reach several million euros.

In addition to the guarantee agreement, negotiations were launched with the EIF to open a credit line for micro-enterprises. The agreement was signed between Finora Capital and the EIF in March 2021 and allows Finora to obtain a loan of EUR 2 million from the EIF with favorable terms.

The company's total revenue was over 1.4 million euros in 2020 and grew by almost 11% compared to 2019. The majority of income is interest income on various loans. In the year as a whole, both interest income and expenses increased quite equally by 17-18%, but as other income decreased and operating expenses increased, the year ended with a loss before discounts. Loan impairment provisions remained at the level of more than EUR 300 thousand for the second year in a row, and a net loss of EUR 404 thousand was achieved during the year.

The annual growth of operating expenses was significantly affected by the increase in labor costs. First, due to the increase in business volumes, the company's Lithuanian team increased. Secondly, at the end of 2020, we launched a leasing product as a new business line in both Estonia and Lithuania. Third, we strengthened the group's financial management as the company's operations are cross-border, the product portfolio has expanded and IFRS principles have been applied.

In order to better represent the interests of creditors and participate in legislation affecting the sector, a separate creditors' working group was formed at the beginning of April 2016 under MTÜ FinanceEstonia, which unites the financial sector. By the same working group and in cooperation with the Ministry of Finance, the Financial Supervision Authority and the Consumer Protection Board, the good practice of creditors was completed in autumn 2016. Finora Capital has been approved by the FinanceEstonia Management Board for the Good Practice Labels in all years 2017-2020. The label indicates that Finora Capital adheres to the principles of responsible lending, follows the rules of the fight against money laundering and actively contributes to the development of good credit market practices.

All in all, 2020 was a challenging year and we are pleased that, despite Covid's year, we were able to increase revenues by more than 10% and significantly strengthen our equity base. In 2021, we want to grow the portfolios of all loan products and bring new products to the market both in Estonia and Lithuania.

Financial ratios

	2020	Change 2020/2019	2019
Average equity, in euros	1 473 488	194%	501 754
Return on equity (ROE)	-27%	41%	-68%
Total Assets (average), in euros	8 923 853	17%	7 657 223
Return on assets (ROA)	-5%	0%	-4%
Cost and income ratio	-104%	-5%	-99%

Average equity = (equity at the end of the reporting period + equity at the end of previous reporting period) / 2

Return on equity = net profit (loss) / average equity * 100

Assets (average) = (assets at the end of the reporting period + assets at the end of previous reporting period) / 2

Return on assets = net profit (loss) / total assets (average) * 100

Cost and income ratio = operating expenses / net income * 100

Net income = net interest income + other income

Consolidated financial statements

Consolidated statement of financial position (in Euros)

	31.12.2020	31.12.2019	01.01.2019	Note
Assets				
Cash	1 840 096	366 816	731 432	
Loan receivables	6 618 662	6 509 898	5 964 365	7
Other receivables and prepayments	907 358	819 185	650 310	8; 20
Investments into affiliates	173 110	8 380	8 380	12
Property, plant and equipment	10 604	12 381	8 416	10
Intangible assets	457 375	123 838	111 042	11
Total assets	**10 007 207**	**7 840 499**	**7 473 946**	
Liabilities and equity				
Loan liabilities	7 183 863	7 314 554	6 680 415	13
Bank loans	363 750	397 289	956 156	
Bonds	5 070 113	5 567 265	4 824 259	
Other loan liabilities	1 750 000	1 350 000	900 000	
Payables and prepayments	207 223	195 091	120 878	9; 14
Total Liabilities	**7 391 086**	**7 509 645**	**6 801 293**	
Equity				
Share capital	459 332	279 823	279 823	15
Share premium	3 257 728	748 466	748 466	
Own shares	0	-11	-11	
Retained earnings (loss)	-697 435	-355 625	-385 772	
Net profit (loss) for the financial year	-403 503	-341 799	30 147	
Total equity	**2 616 121**	**330 854**	**672 653**	
Total liabilities and equity	**10 007 207**	**7 840 499**	**7 473 946**	

Consolidated statement of profit and loss and comprehensive income (in Euros)

	2020	2019	Note
Interest income	1 210 472	1 025 482	16
Interest expense	-720 499	-614 399	
Net interest income	**489 972**	**411 083**	
Other income	195 519	245 949	17
Total revenue	**685 491**	**657 032**	
Operating expenses	-384 074	-328 716	18
Labor expenses	-361 527	-316 531	19
Total expenses	**-745 601**	**-645 247**	
Profit before impairment losses	**-60 110**	**11 785**	
Depreciation and amortisation	-40 153	-29 721	10,11
Changes in loan impairment reserve	-303 241	-313 390	
Other changes	0	-10 473	12
Net profit (loss) for the financial year	**-403 503**	**-341 799**	
Comprehensive income (loss) for the financial year	**-403 503**	**-341 799**	

Consolidated statement of cash flows (in Euros)

	2020	2019	Note
Cash flows from operating activities			
Net profit (loss)	-403 503	-341 799	
Adjustments			
Depreciation and amortisation	40 153	29 721	10; 11
Interest expense	720 499	614 399	
Interest income	-1 105 650	-1 025 482	16
Total adjustments	**-344 998**	**-381 362**	
Total change in receivables and prepayments related to operating activities	-132 392	-607 664	7; 8
Total change in payables and prepayments related to operating activities	4 382	74 212	14
Interest received	1 065 030	1 030 584	
Total cash flows from operating activities	**188 519**	**-226 029**	
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	-371 913	-45 581	10; 11
Loans to affiliates	-39 962	0	
Repayment of loans from affiliates	-157 500	-146 000	8
Repayment of loans from associate	42	36 000	
Total cash flows from investing activities	**-569 334**	**-155 581**	
Cash flows from financing activities			
Loans received	1 672 290	1 056 000	13
Repayments of loans received	-1 305 829	-1 164 866	
Proceeds from issue of shares	2 688 771	0	
Other proceeds from financing activities (bonds)	736 847	2 532 000	13
Other payments from financing activities (bonds)	-1 234 000	-1 768 000	
Interest paid	-703 985	-638 140	
Total cash flows from financing activities	**1 854 094**	**16 994**	
Total cash flows	**1 473 279**	**-364 616**	
Cash and cash equivalents at beginning of period	366 816	731 432	
Change in cash and cash equivalents	**1 473 279**	**-364 616**	
Cash and cash equivalents at end of period	1 840 096	366 816	

Consolidated statement of changes in equity (in Euros)

	Share capital	Share premium	Own shares	Retained earnings (loss)	Total
01.01.2019	**279 823**	**748 466**	**-11**	**-355 625**	**672 653**
Net profit (loss) for the financial year	0	0	0	-341 799	-341 799
31.12.2019	**279 823**	**748 466**	**-11**	**-697 424**	**330 854**
Net profit (loss) for the financial year	0	0	0	-403 503	-403 503
Issue of share capital	179 509	2 509 262	0	0	2 688 771
Cancellation of own shares	0	0	11	-11	0
31.12.2020	**459 332**	**3 257 728**	**0**	**-1 100 939**	**2 616 121**

Notes to the consolidated financial statements

Note 1 General information

AS Finora Capital is a public limited company incorporated and domiciled in Estonia. The principal activity of AS Finora Capital (hereinafter: the Parent Company) and its subsidiaries (hereinafter collectively referred to as: the Group) is the provision of financial services to private and corporate customers. The consolidated statements of the Group disclose the financial indicators of AS Finora Capital (hereinafter: the Parent Company) and its 100% subsidiaries Finora Factoring OÜ and Finora kreditas UAB.

The financial year of the Group started on 1 January 2020 and ended on 31 December 2020. The figures in the consolidated financial statements are presented in euros.

The consolidated financial statements of the Group for the year ended 31 December 2020 were approved by the management on 20 May 2021. The supervisory board of the Group has the right to approve or reject them and request that new statements be prepared in accordance with law.

Covid-19, which is spreading in the world and in Estonia, affects the activities of all companies. On the one hand, this may limit the Group's ability to raise additional loan capital and thus may affect the growth of the company's loan portfolio. On the other hand, it affects the payment behaviour of the company's customers. In the reporting year, Finora Capital offered payment holidays to several customers, but this was not followed by a significant decline in payment behaviour in the reporting year. As the developments of Covid-19 are difficult to assess, the management does not see it reasonable to provide quantitative assessments on the potential additional impact of the health crisis on the company. However, to balance potential economic impacts, in 2020 the owners of the company invested additional 2.7 million euros in the company. The management believes that Covid-19 has no impact on the Group's ability to continue as a going concern.

Note 2 Basis of preparation

2.1. Accounting principles

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Group has applied the IFRS in the preparation of the financial statements for the first time. The impact of the transition to the IFRS on the financial indicators of the previous periods is described in Note 22.

2.2. Evaluation principles

The consolidated financial statements have been prepared on a historical cost basis.

2.3. Significant accounting estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The actual outcomes may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. The effect of a change in an accounting estimate is recognised in the period of the change, if the change affects that period only, and any future periods affected by the change.

An important area of the estimates used in preparing the statements is related to the assessment of the impairment loss of financial assets.

The Group regularly monitors and analyses loans and receivables to assess impairment. The estimation of potential impairment losses is dependent on various circumstances. The assessment of significant increase in credit risk is a new concept under IFRS 9 Financial Instruments and will require significant estimates. At each balance sheet date, the Group assesses whether credit risk has increased significantly since initial recognition by considering the change in the risk of a default occurring over the remaining life of the financial instrument, using key risk indicators that are used in the Group's existing risk management processes. On an on-going basis potential issues are identified promptly as a result of loans being regularly monitored and analysed. Impairment losses are calculated on an individual basis in terms of loan types with reference to expected future cash flows including those arising from the realisation of collateral. The Group uses its experienced judgment to estimate the amount of any impairment loss considering matters such as future economic conditions and the resulting trading performance of the borrower and the value of collateral, for which there may not be a readily accessible market.

Note 3 Summary of significant accounting policies

3.1. New standards, interpretations and amendments thereto

The following new or revised standards and interpretations became mandatory as of 1 January 2020:

- **Amendments to Conceptual Framework for Financial Reporting:** The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Group does not expect the amendments to have a material impact on its financial statements.
- **Definition of Material – Amendments to IAS 1 and IAS 8:** The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group does not expect the amendments to have a material impact on its financial statements.
- **Definition of a Business – Amendments to IFRS 3**: The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if there are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity

can apply a ‘concentration test’. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The Group does not expect the amendments to have a material impact on its financial statements.

New standards, interpretations and amendments thereto – applicable as of 1 January 2021

The following new standards, interpretations and amendments are not yet effective for the annual reporting period ended 31 December 2020 and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

- **Amendments to IFRS 3 Business Combinations** (effective for annual periods beginning on or after 1 January 2022; to be applied retrospectively; not yet adopted by the European Union). The amendments update a reference in IFRS 3 to the 2018 Conceptual Framework for Financial Reporting instead of the 1989 Framework. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. The Group does not expect the amendments to have a material impact on its financial statements when initially applied.
- **Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets** (effective for annual periods beginning on or after 1 January 2022; to be applied retrospectively; not yet adopted by the European Union). In determining costs of fulfilling a contract, the amendments require an entity to include all costs that relate directly to a contract. The amendments clarify that the cost of fulfilling a contract comprises both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The Group does not expect the amendments to have a material impact on its financial statements when initially applied.
- **Amendments to IAS 1 Presentation of Financial Statements** (effective for annual periods beginning on or after 1 January 2023; to be applied retrospectively; not yet adopted by the European Union). The amendments clarify that the classification of liabilities as current or non-current is based solely on the entity’s right to defer settlement at the end of the reporting period. The company’s right to defer settlement for at least 12 months from the reporting date need not be unconditional but must have substance. The classification is not affected by management’s intentions or expectations about whether and when the entity will exercise its right. The amendments also clarify the situations that are considered settlement of a liability. The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Other new or revised standards or interpretations not yet effective are not expected to have a material impact on the Group.

3.2. Consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The consolidated financial statements comprise the financial statements of AS Finora Capital (the Parent Company) and its subsidiaries Finora Factoring OÜ and Finora kreditas UAB. The financial statements of the subsidiaries are prepared for the same period as the consolidated financial statements. If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

Business combinations

Business combinations are accounted for using the acquisition method, whereby all identifiable assets, liabilities and contingent liabilities of the acquired subsidiary are recognised at their fair values at the acquisition date, irrespective of the existence of a non-controlling interest. The consideration transferred for the acquisition of a subsidiary comprises the: fair values of the assets transferred; liabilities incurred to the former owners of the acquired business; equity instruments issued by the Group; fair value of any asset or liability resulting from a contingent consideration arrangement; and fair value of any pre-existing equity interest in the subsidiary. For each business combination, the Group chooses whether to recognise a non-controlling interest in the acquired entity at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

The Group recognises the cost of acquiring a business combination, except for the costs of issuing of debt or equity securities, as an expense when incurred.

If the consideration transferred, the non-controlling interest in the acquired entity and the acquisition-date fair value of the acquirer's previously held equity interest in the acquired entity exceeds the Group's interest in the identifiable assets acquired and liabilities assumed, the difference is recorded as goodwill. If those amounts are less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Non-controlling interest is the portion of the subsidiaries' profit or loss and net assets in a subsidiary not attributable to the Group. In the consolidated statement of profit or loss and statement of other comprehensive income, profit or loss and each component of other comprehensive income are attributed to owners of the Parent Company and to the non-controlling interests. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to equity holders of the Parent Company.

Transactions eliminated on consolidation

All intra-group balances, transactions and unrealised gains are eliminated in the consolidated financial statements. Unrealised losses are also eliminated but only to the extent that there is no indication of impairment.

3.3. Associates

Associates are all entities over which the Group has significant influence but not control. Significant influence means that the Group can participate in adopting decisions concerning the financial and operating policies of an undertaking, but cannot determine or control such financial and operating policies.

Associates are reported in the statements using the equity method. Upon applying the equity method, an investment is initially recognised in its amount invested at cost. Thereafter the amount of the investment is increased by the share of the profit received from the investment made in the associate and reduced by the share of the corresponding loss.

3.4. Foreign currency translation

Functional and presentation currency

The functional currency of the Group companies is the currency of their economic environment. The Group's Estonian companies use euros (EUR) in accounting. The consolidated financial statements are presented in euros, which is the Parent Company's functional and presentation currency.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates of the European Central Bank prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of financial assets and liabilities denominated in foreign currencies at the exchange rates of the balance sheet date, are recognised in profit or loss. Realised and unrealised gains and losses resulting from the settlement and revaluation of foreign currency-based receivables and payables related to principal activities are recognised using the net method under Other operating income (-expenses). Unrealised gains and losses resulting from cash, revaluation of cash equivalents and loans are recognised using the net method under Financial income (-expenses).

3.5. Cash and cash equivalents

Balances of current accounts and term deposits of up to three months are recognised as cash and cash equivalents in the balance sheet and statement of cash flows.

3.6. Financial assets

The Group classifies its financial assets in the following measurement categories:

- those to be measured at amortised cost, and
- those to be measured at fair value (either through OCI or through profit or loss).

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. Regular way purchases and sales of financial assets are recognised on trade date, being the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the Group measures financial assets at their fair value (excl. in the case of trade receivables, which do not have a significant financing component) plus transaction costs that are directly attributable to the acquisition of the financial asset, except for financial assets that are recognised at fair value through profit or loss (FVPL).

Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Trade receivables without a significant financing component are measured on initial recognition at the transaction price.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing financial assets and on the cash flow characteristics of the asset. All the Group's debt instruments are classified in amortised cost measurement category. Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in financial income using the effective interest method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other operating income/ expenses. Foreign exchange gains and losses and credit losses are recognised in profit or loss.

Factoring

Factoring transactions are considered to be financing transactions where the Group provides the financial resources to its selling partners through transfer of the rights to the receivables from these sales transactions. The Group acquires the right to the receivables payable by the buyer subject to the purchase-sale agreement.

Factoring is the transfer (sale) of receivables where depending on the terms of the factoring contract the buyer either has the right to sell the receivable back to the seller during a pre-specified term (recourse factoring) or there is no right of resale and all the risks and rewards associated with the receivable substantially transfer from the seller to the buyer (non-recourse factoring). The receivable of the Group against the buyer is recognised as of the moment of factoring the purchase-sale agreement, i.e. as of acquiring the receivable. A transaction is treated as financing (e.g. loan secured by the receivable) in case the Group does not acquire all the risks and rewards associated with the receivable, and the receivable is recognised in the balance sheet until it has been collected or the recourse has expired. If there is no repurchase obligation and control over the receivable and the associated risks and rewards transfers from the customer to the Group at the moment of transfer of the receivable, the transaction is recognised as acquisition of the receivable. Receivables acquired are initially recorded at fair value and subsequently measured at amortised cost.

3.7. Property, plant and equipment

Property, plant and equipment are assets used for production, provision of services or administrative purposes over a period of more than one year.

Recognition and measurement

Items of property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses. The cost includes the purchase price and other costs directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. The cost of self-constructed assets includes the cost of materials, direct labour, an appropriate proportion of production overheads, and borrowing costs related to the acquisition, construction or production of qualifying assets. Where an item of property, plant and equipment consists of significant parts that have different useful lives, the parts are accounted for as separate items of property, plant and equipment and are assigned depreciation rates that correspond to their useful lives.

Subsequent costs

Parts of some items of property, plant and equipment require replacement or renovation at certain intervals. Such costs are recognised in the carrying amount of an item of property, plant and equipment when it is probable that future economic benefits associated with the parts of the item will flow to the Group and the cost of the part of the item can be measured reliably. The carrying amount of any part that is replaced is derecognised. Under the recognition principle provided in the previous paragraph, the costs of the day-to-day servicing of an item are not recognised in the carrying amount of the item. Instead, such costs are expensed as incurred.

Depreciation

Depreciation is recognised as an expense on a straight-line basis over the estimated useful life of an item of property, plant and equipment and its identifiable components. Land and construction in progress are not depreciated. Group companies use uniform depreciation rates. Estimated useful lives, residual values and depreciation methods are reviewed annually. The effect of the changes is reflected in the reporting period and in subsequent periods.

Threshold for recognition of non-current assets: EUR 600

Useful life by non-current asset groups (years)

Name of non-current asset group	Useful life
Computers and computer systems	2-5 years
Other property, plant and equipment	2-5 years
Intangible assets	2-5 years

3.8. Intangible assets

Intangible assets (other than goodwill) are amortised on a straight-line basis over their estimated useful lives. Intangible assets are tested for impairment whenever there is any indication of impairment similarly to items of property, plant and equipment.

Development expenditure

Development expenditure is expenses incurred for the development, design or testing of new products, services, processes or systems. Development expenditure is capitalised as an intangible asset if the expenditure can be measured reliably, the Group has technical and financial resources and a positive intention to complete the project, the Group can use or sell the asset and the probable future economic benefits generated by the asset can be measured. Capitalised development expenditure is carried at cost less any accumulated amortisation and any impairment losses. Development expenditure is recognised as an expense on a straight-line basis over its estimated useful life that generally does not exceed ten years. Amortisation commences when the development project is ready for use.

Other intangible assets

Other intangible assets comprise licences and software. Acquired licences are recognised at cost. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire the software and prepare it for use. Other acquired intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

3.9. Impairment of assets

Financial assets

Financial assets are tested for impairment according to the models established by IFRS 9. The impairment requirements are based on a three-stage expected credit loss (ECL) model, which considers changes in credit quality since initial recognition. The Group uses internally developed models which take into account external macroeconomic indicators (including unemployment rate, economic growth).

To test impairment, receivables are classified into the following three stages upon their initial recognition and at subsequent balance sheet dates:

- Performing loans (1 stage)
- Loans whose risk level has increased since their initial recognition (2 stage)
- Non-performing loans (3 stage)

In the case of performing loans, no such circumstances exist which could lead to a failure to perform contractual obligations. Increased-risk loans are as for their nature of weaker repayment ability, which can lead, upon realisation of the weaknesses, to their classification into the group of non-performing loans. At the same time no evidence of impairment exists in the case of this class. In the case of non-performing loans, there is objective evidence of their impairment, such as the number of days in default being 90 or more, cancellation of the agreement or other evidence suggesting insolvency (e.g. bankruptcy and compulsory dissolution, reorganisation proceedings, fraud, death of the customer, etc.).

The allowance to be taken into account in the case of performing loans is the 12-month expected loan losses. In the case of increased-risk and non-performing loans, the lifetime loan losses must be taken into account. 12-month loan losses are the loan losses that arise within 12 months after the reporting date and lifetime expected loan losses are the losses that arise over the remaining lifetime of the loan.

Expected loan losses are measured on a collective basis. Receivables measured on a collective basis are deemed to be all the receivables of the same type, whose risk level, guarantee or other common features are similar and which are not subject to measurement on an individual basis. Receivables belonging to the group of performing loans and loans with an increased risk level are measured on a collective basis according to the general principles. Individual measurement is performed in respect of more large-scale loans receivable whose credit quality has impaired and whose possible loan losses depend on the realisation of the collaterals.

The inputs used to measure the expected loan losses include PD (probability of default), LGD (loss given default) and EAD (exposure at default). PD means the probability of default of the borrower over 90 days according to the calculation method either within 12 months or throughout the lifetime of the loan. LGD means the categorisation which arises from the default of the borrower over 90 days or from another basis that leads to the loan being classified as non-performing, the ratio of the loss on an exposure due to the default of the borrower to the amount outstanding at default. EAD means the expected exposure at the time when the default over 90 days arises, taking into account the planned repayments of the loan agreement. Lifetime of a loan means the period of time from the reporting date to the date of expiry of the loan agreement. The expected credit loss is determined by calculating the expected credit losses after the end of the 12 months after the reporting date or over the remaining lifetime of the loan according to the 12-month interim periods of the agreement, the PD rate and the LGD of the agreement at the end of the corresponding period. The final amount of the loan loss of the 12 months following the reporting date marks the 12-month expected loan loss of the loan and the amount of the loan losses of the remaining periods of the loan marks the loan loss of the lifetime of the loan. The loan losses calculated are discounted using the effective interest rate of the loans either on a collective basis or in terms of individual loans.

Upon calculation of LGD, a distinction is made between receivables unsecured by a collateral and receivables secured by a collateral. Collaterals meant here are immovable property collaterals. The LGD of an unsecured loan is determined according to the estimate based on past experience. The LGD of loans secured by immovable property collateral is determined using the method of discounted realisable value of the collateral in respect of each agreement or a group of agreements, respectively. The realisable value of the collateral is found on the basis of the market value defined at the beginning of the agreement, which is adjusted, if necessary. The value of the collateral is measured upon discounting the value of the collateral received within 12 months or throughout the lifetime at the weighted average interest rate of the agreement or group of agreements. The circumstances to be taken into consideration upon measurement of the realisable value of the collateral are the expenses related to compulsory sale, possible decline in the price and expected time delays arising in the course of the process.

The expected loan loss of receivables is measured on a collective basis, using the weighted average LGD of the agreements belonging to the respective subdivision, and the expected loan loss of agreements is measured on an individual basis, using the agreement-based LGD. If the collateral is encumbered with a mortgage whose ranking is higher than that of the Group's receivable, the market value of the collateral is reduced by the amount of the higher-ranking mortgage.

The impairment of doubtful receivables is measured as the difference between the carrying amount of such receivables and the future cash flows, using the effective interest method. The carrying amount of receivables is reduced by the impairment of doubtful receivables and the impairment loss is charged to profit or loss as a change in loan impairment allowance. Uncollectible receivables are deemed to be receivables from customers who have permanent solvency problems and it is not possible or economically expedient to implement measures to recover the loan. If a receivable is deemed uncollectible, the receivable and its allowance are written off the balance sheet. The collection of doubtful receivables that have previously been written down is recognised as a decrease in loan impairment allowance.

Classification of receivables between the three defined risk groups may change and, to this end, the following principles are implemented.

Agreements which had earlier been classified into the group of increased-risk loans are classified into the group of working loans if all of the following conditions are met:

- Last three previous scheduled payments of the principal amount, interest and service fee have been received according to the agreement and the circumstances serving as a basis for the reduction in the creditworthiness have been eliminated.
- The borrower's situation must also have improved to such an extent that the loan will probably be repaid in full according to the initial terms and conditions.
- At the moment of measurement, the borrower has no overdue amounts whose due date of payment has been exceeded for more than 30 days.

According to the number of days in default, non-performing loans are classified as performing or increased-risk loans if:

- The last three scheduled amounts under a loan agreement have been received and the circumstances that led to the reduction in the creditworthiness have been eliminated.
- The borrower's situation has improved to such an extent that the loan will probably be repaid in full.
- At the moment of measurement, the borrower has no overdue amounts whose due date of payment has been exceeded for more than 30 days.

Non-financial assets

At each balance sheet date, the Group's management assesses whether there is any indication that an asset may be impaired. If there is any indication that an asset may be impaired, an impairment test is performed. The recoverable amount is equal to the higher of the asset's fair value (less costs of disposal) or value in use based on the discounted cash flows.

If the test reveals that the recoverable amount is lower than its carrying amount, the non-current asset is written down to its recoverable amount. If an impairment test cannot be performed in respect of an individual asset, then the recoverable amount is determined for the smallest group of assets to which the asset belongs.

If as a result of the impairment test of a previously impaired asset the asset's recoverable value exceeds its carrying amount, the earlier impairment loss is reversed and the carrying amount of the asset is increased.

Reversal of an impairment loss

If the reason for the impairment disappears, the previously recognised impairment loss is reversed. Changes in the circumstances of the impairment loss are analysed at least annually at the end of the reporting period. Impairment losses are reversed and the value of an asset item is increased as a maximum to the carrying amount that the asset item would have had if no impairment loss had been recognised, taking thereby into account the depreciation. The reversal of an impairment loss is recognised in profit or loss of the period on the same line where the original impairment loss was recognised. As an exception, impairment losses on goodwill are not reversed. Impairment losses recognised for an investment in an equity instrument classified as available for sale are not reversed through profit or loss. If the fair value of a debt instrument classified as available for sale subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

3.10. Leases

The Group as a lessee

The Group leases office premises, IT and office equipment. At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group determines the lease term as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. The lessee reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee and affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term. The Group revises the lease term if there is a change in the non-cancellable period of a lease.

The Group recognises a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is measured at cost, which comprises the amount of the initial measurement of the lease liability. The amount of the initial measurement of the lease liability is adjusted for any advance lease payments, any direct costs incurred and any restoration costs. Any lease incentives received are deducted from this amount. Right-of-use assets are depreciated on a straight-line basis from the commencement date of the lease until the end of the lease term unless the ownership of the underlying asset transfers to the Group at the end of the lease term or the residual value of the right-of-use asset indicates that the Group plans to exercise the purchase option. In that case, the underlying asset is depreciated over its entire estimated useful life, which is determined using an approach consistent with that for similar items of property, plant and equipment owned by the Group. Right-of-use assets are also adjusted for impairment losses, if any. In addition, right-of-use assets are adjusted to reflect certain remeasurements of the lease liabilities.

The lease liability is initially measured at the net present value of the lease payments not paid by the commencement date of the lease, using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. The Group applies the incremental borrowing rate as the discount rate.

The incremental borrowing rate is determined by reference to different sources of financing. The inputs received are adjusted to reflect the terms of the lease and the type of the underlying asset, in order to find the incremental borrowing rate appropriate for the asset. Lease payments included in the measurement of the lease liability comprise the following: fixed payments; the exercise price of a purchase option (if the lessee is reasonably certain to exercise that option); amounts expected to be payable by the lessee under residual value guarantees; and lease payments that depend on an index or rate.

The lease liability is measured at amortised cost. It is remeasured if there are changes in future lease payments reflecting a change in the index or rate used to determine the payments, if the amount of the residual value guarantee is reassessed or if the Group changes its assessment as to whether it intends to exercise the option to purchase the underlying asset or the option to extend or terminate the lease. The lease liability is also remeasured to reflect changes in fixed payments.

If the lease liability is remeasured due to the above reasons, a corresponding adjustment is made to the carrying amount of the right-of-use asset. The effect of the change in the lease liability is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

3.11. Financial liabilities

All financial liabilities of the Group are classified as "other financial liabilities at amortised cost". Financial liabilities are classified as current when they are due to be settled within 12 months after the balance sheet date unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Liabilities with due dates longer than one year from the date of the statement of financial position are disclosed in the statement of financial position as non-current liabilities.

Loans and borrowings

Loans and borrowings are initially recognised at fair value less direct transaction costs. Subsequently, loans are recognised at amortised cost using the effective interest rate.

Trade payables

Trade payables are initially recognised at fair value less direct transaction costs and they are subsequently measured at amortised cost using the effective interest rate.

3.12. Contingent liabilities

All possible or present obligations whose settlement is not probable or the amount cannot be measured with sufficient reliability are disclosed as contingent liabilities in the notes to the financial statements.

Unused factoring limit arising from differences between total credit limit granted to the seller according to the contract, and the total amount used by the seller, indicating the amount of invoices the seller is eligible to have financed as of the balance sheet date is considered a contingent liability.

3.13. Income tax and deferred tax

Income tax is paid on fringe benefits, gifts, donations, costs of entertaining guests, dividends, and non-business related disbursements. The corporate income tax calculated on the profit of the subsidiaries located in Lithuania, the effect of the change in deferred tax liabilities and assets and the income tax on dividends of Estonian companies are recognised in the consolidated statement of profit or loss.

Corporate income tax in Estonia

According to the Income Tax Act that entered into force in Estonia on 1 January 2000, it is not the company's profits that are taxed but net dividends paid. Thus, in the case of the Group companies located in Estonia there are no differences between the tax bases and carrying values of assets and liabilities and no deferred tax payables or receivables arise. As of 1 January 2015, the tax rate applicable to profit distributed as dividends is 20/80 of the net amount to be paid out. The income tax payable on dividends is recognised as a liability and an expense when the dividends are declared irrespective of the period for which they are declared or when they are distributed. Starting from 2019, it is possible to apply a more favourable tax rate on dividend payments (14/86). This more favourable tax rate can be applied to dividend payments not exceeding the average dividend disbursements for the previous three financial years that have been taxed at the rate of 20/80. 2018 is the first year to be taken into consideration when calculating the average dividend disbursement for the previous three financial years. Provisions in respect of future income tax payable on dividends are not formed before the declaration of dividends, but the relevant information is disclosed in the notes.

Tax assets and liabilities of this period and previous periods are equal to the amount that will presumably be received from or payable to the tax authority. Deferred tax refers to differences between the carrying value and tax base, on the basis of which the income tax payable in the future will arise. Deferred tax liabilities refer to the income tax attributable to temporary differences, which is subject to payment in the future. Deferred tax liabilities are recognised in the case of all the deferred tax liabilities arising from temporary differences. An exception is the situation where the company does not recognise the deferred tax liability arising from temporary differences attributable to the initial recognition of goodwill and an exception is also certain differences in the case of interests in subsidiaries. Deferred tax assets represent a reduction in future tax attributable to deductible temporary differences, tax loss carry-forwards or other future taxable deductions. Deferred tax assets are tested at each balance sheet date and recognised to the extent it is likely at each balance sheet date that they can be utilised. As a result, a previously unrecognised deferred tax asset is recognised when it is considered likely that a sufficient surplus will be available in the future. Tax rates established or substantially established on the reporting date are used in the calculations. The Group's deferred tax assets and liabilities are estimated at nominal value using each country's tax rate in effect in subsequent years. All current and deferred taxes are recognised through profit and loss as "Income tax". As the Parent Company controls the dividend policy of its subsidiaries, it is also able to control the timing of the reversal of temporary differences associated with that investment. Therefore, when the Parent Company has determined that those profits will not be distributed in the foreseeable future, the Parent Company does not recognise a deferred tax liability. To the extent that the Parent Company has determined that dividends will be distributed, relevant deferred tax liability is recognised.

Corporate income tax in other countries

The net profit of the Group's Lithuanian subsidiary is subject to income tax, thus its income tax assets and liabilities, and income tax expenses and income include current (payable) and deferred tax. The income tax rate in Lithuania is 15%. Taxable profit is calculated on profit before tax, which is adjusted in income tax declarations with temporary and permanent differences based on local tax law requirements. Deferred tax is calculated on all significant temporary differences between the tax bases of assets and liabilities and their carrying values in the financial statements. Deferred tax assets are only recorded in the company's statement of financial position if their future realisation is probable. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

3.14. Contingent liabilities

Significant commitments and other obligations which may transform into a liability subject to the occurrence of certain future events are disclosed in the notes to the financial statements as contingent liabilities.

3.15. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are accounted for as a deduction from consideration received and recognised under equity.

Where any Group entity repurchases the company's treasury shares, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Parent Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Parent Company's equity holders.

3.16. Capital reserve

The Estonian Commercial Code requires companies to create a capital reserve from annual net profit. Each financial year, at least one-twentieth of the net profit has to be transferred to the capital reserve until the capital reserve accounts for one-tenth of the share capital. The capital reserve may be used for covering losses and increasing share capital but not for making distributions to shareholders.

3.17. Revenue recognition

Interest income

The Group's main revenue stream is interest income from lending activities. Interest income is received from mortgage loans, small loans, hire purchase contracts, overdraft and factoring contracts.

The effective interest method is applied to recognise interest income and interest expenses in profit or loss for financial assets and financial liabilities measured at amortised cost.

The effective interest method is a method of calculating the gross carrying amount of a financial asset or the amortised cost of a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the carrying amount of the financial instrument. When calculating future payments, all payments included in the terms and conditions of the contracts, such as advance payments, are taken into consideration.

The calculation of the effective interest rate includes fees that are an integral part of the effective interest rate. However, expected credit losses are not taken into account.

If a financial asset subsequently has become credit impaired the interest income is recognised applying the effective interest rate to the amortised cost, i.e. gross carrying amount adjusted for the loss allowance. In case a financial asset is credit-impaired at initial recognition, the expected credit losses are included in the estimated cash flows to calculate a credit adjusted effective interest rate which then is applied to recognise the interest income.

Fee and commission income

The Group receives fee and commission income mainly in the form of contract fees.

The recognition of revenue from contracts with customers is reported as fee and commission income. This does not apply for revenue from leasing contracts or financial instruments and other contractual obligations within the scope of IFRS 9 Financial Instruments. Fees that are included in the calculation of the effective interest rate of a financial instrument measured at amortised cost, such as loan origination fees, are allocated over the expected tenor of the instrument applying the effective interest method and presented in Net interest income. Fee and commission income is recognised to depict the transfer of promised services to the customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for the service. Fee and commission income is recognised over time on a straight-line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Group's performance. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur. Other fee and commission income is recognised at a point in time when the Group satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations.

3.18. Interest expenses

Interest expenses are recorded on an accrual basis each month.

3.19. Dividend income

Dividend income is recognised when the right to receive payment is established.

Dividend distribution. A dividend distribution to the company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the company's shareholders.

3.20. Related parties

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

- owners that have significant impact and the entities related to them;
- members of the management board and legal entities controlled by them;
- members of the supervisory board;
- close relatives of the persons mentioned above and the entities related to them.

3.21. Events after the reporting period

The financial statements of the reporting period include material circumstances affecting the assessment of assets and liabilities that became evident between the balance sheet date and the date of preparing the financial statements but that are related to transactions in the reporting period or previous periods.

The financial statements of the Group are prepared in accordance with the principles of consistency and comparability, which means that the same accounting policies and presentation methods are continuously applied. Any changes in the accounting policies or presentation methods are only made upon the adoption or amendment of new IFRS standards or interpretations or if the new accounting policy or presentation method provides a more objective overview of the financial position, financial results and cash flows of the company.

3.22. Unconsolidated statements of the Parent Company presented in the notes to the consolidated statements

Pursuant to the Accounting Act of the Republic of Estonia, the separate unconsolidated primary statements of the consolidating entity (parent company) are disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the Parent Company, the same accounting policies have been used as also in preparing the consolidated financial statements.

Note 4 Fair values of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value. The value of short-term liquid financial instruments, such as cash and cash equivalents, and receivables with a maximum maturity of one month are deemed equal to their carrying amount in the balance sheet. The value of trade and other payables with credit risk adjustment is also approximately equal to their carrying amount.

On the basis of the general principles, financial assets are broken down into three levels:

1. Level 1 – quoted prices in an active and liquid market.
2. Level 2 – valuation based on market observables (values and interest levels of arm's length transactions);
3. Level 3 – other methods (e.g. discounted cash flow method) with estimations as input.

Financial instruments of the Group are the assets that are not quoted and whose market price cannot generally be estimated by indirect methods either. These are primarily loans and other trade receivables. Financial assets have been measured in accordance with the methods used by the Group. The financial liabilities of the Group have been measured using the same principle.

According to the application of the method, the fair value of loans receivable is equal to the residual value that has been calculated by summing up the minimum loan payments, which have been discounted using effective agreement interest rate and adjusted for impairment allowance.

The fair value of the loans taken and bonds issued by the Group has been found on the basis of cash flows discounted using effective interest rate which represents current market rate.

The fair values of financial liabilities are the following:

Stage 3: Bonds: 31.12.2020 5 070 113 EUR (31.12.2019 5 567 265 EUR).

Bonds have been issued at a fixed interest rate on an arm's length basis and thus the fair value of the liabilities found as a result of discounting cash flows does not differ materially from their carrying amount. The fair value of these loans receivable is determined using the management estimates.

Note 5 Use of significant accounting judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies.

Significant accounting judgments

Assessment of receivables

At each balance sheet date, the Group assesses the collectability of the receivables recognised in the balance sheet. If there are signs of impairment of receivables, the receivables will be written down to the present value of their estimated future cash inflows. Receivables are assessed both on an individual basis and by performing the aging analysis of the receivables. Impairment losses are recognised as an expense in profit or loss.

The assessment of loans receivable is set out in Note 6 Risk management.

Significant accounting estimates

Assessment of the useful life of intangible assets

The useful life of intangible assets is determined based on the actual period of using the asset as estimated by the management. Management reviews the useful lives of intangible assets on yearly basis at minimum. Currently the amortisation rate for licences, software and internally developed intangible assets is two to five years. For further details refer to Note for Intangible assets.

Impairment of intangible assets

At each balance sheet date, the Group's management board assesses critically whether there is any indication that an asset may be impaired. If any such indication exists, an impairment test is performed. If an impairment test cannot be performed in respect of an individual asset because the cash flows generated by the given asset cannot be distinguished from the remaining cash flows of the company, the impairment test is performed in respect of the cash-generating unit to which the asset belongs. An impairment test is performed to determine the recoverable amount of an asset, which is the higher of the two indicators – fair value of an asset (less costs to sell) and its value in use. For estimating an asset's value in use, a realistic estimate is prepared for the cash flows to be derived from the use of the asset in subsequent periods and the present value of these cash flows is calculated. The budgets or forecasts approved by the management for subsequent periods (generally no longer than five years) are used as the basis for the cash flow estimate. The cash flows of the periods beyond those covered by the budgets and forecasts approved by the management are estimated by applying realistic growth rates to current budgets or estimates.

Note 6 Risk management

General principles for risk management

Risk is defined as a potential negative deviation from the expected financial result and the Group has taken into consideration that in its business activities it is exposed to several risks. The object of risk management is to recognise, measure and manage these risks adequately. On a wider scale, the purpose of risk management is to minimise potential losses and reduce the volatility of financial results. Risk management in the Group is based on the classic three-level risk management system with the following structure:

1. The first level consists of the departments of the Group and employees thereof whose duty is to understand and manage risks in their sphere of responsibility.
2. The second level consists of the persons independently in charge of risk management and compliance whose duty is to develop and manage the risk management and control mechanism and overall framework.
3. The third level consists of the internal audit who carries out an independent control over the adequacy of the risk management system and reports to the supervisory board of the Group.

The Group manages its risks first of all based on the definition of its risk capacity, i.e. which the maximum loss is that the Group is able to tolerate upon the materialisation of risks. Risk tolerance has been defined as the maximum risk arising from the risk capacity that the Group is able to tolerate and this, in turn, serves as a basis for risk appetite, i.e. which risks the Group wants to take to achieve its objectives and which ones should be avoided. A risk profile has been created on the basis of the risk appetite as follows. The risk profile combines various risks arising from the specificity, scope and complexity level of the operations of the Group as well as from its operating environment.

The risk management system comprises mapping all material risks, measuring exposure to these risks and quantifying the results, if possible, and ensuring the existence of sufficient capital to cover all material risks as well as control thereof. The risk management system also comprises developing adequate measures for minimising the probability of materialisation of the risks and the adverse consequences arising from their possible materialisation.

Thus, the risk management process established starts with the identification of the risks to which the Group is exposed, assessment of the risks and compliance control thereof in respect of the risk profile. The risks to which the Group is exposed may be internal as well as external. The identification of risks starts from extensive mapping of the risks to which the Group may be exposed and, in the course of further analysis, a shorter list is compiled of the major risks whose risk categories are subject to a more detailed assessment.

As a result of its risk assessment process, the Group has found that the major risks to which it is exposed, which must be monitored and responded to with adequate countermeasures are as follows: credit risk (incl. concentration risk), liquidity risk, interest risk, operational risk, market risk and business and strategic risk. In addition, fields related to money laundering must also be pointed out in the risk assessment process.

Credit risk and concentration risk

Credit risk is the risk of financial loss to the Group if customers or market counterparties fail to meet their contractual obligations to the Group. Credit risk arises principally from loans given to customers, including outstanding loans and given guarantees. The Group is also exposed, to a minor extent, to the risk through cash and cash equivalents position. Credit risk is one of the major risks and the management performs a detailed assessment of the positions exposed to credit risk. The purpose of the Group is to maintain well-diversified loan and guarantee portfolio at an accepted risk level.

The purpose of credit risk management is to limit the impact of the credit risks and other risks arising from customers on the income of the Group to an acceptable level and try to optimise the risk-return-ratio. This maximises the risk-adjusted return while maintaining the credit risk parameters at an acceptable level. Credit risk management process consists of the initial identification of a given risk, risk assessment, risk management and subsequent monitoring as well as reporting.

Identification of a credit risk is based on the sources from which the risk originates, which is the bank's credit products such as factoring, micro loan, consumer loans and loans secured by immovable property, each of which has its own risk level and factors that affect it, which are mapped and quantitatively assessed at this stage. The most important subcategories of credit risk are the customer's insolvency, default risk, risk of a decline in solvency, risk of fraud, concentration risk and market risk (as regards, first of all, the value of collaterals).

Credit risk assessment comprises the assessment of solvency and liquidity in respect of the loan or another financial product, valuation of collaterals as well as the terms and conditions of the loan. In the assessment process, customers are classified into various risk categories from low to high or very high risk.

In order to manage credit-related risks, the Group applies customer selection criteria on the basis of their risk profile and applies limits in terms of product and customer groups. Issues of importance in credit risk management are the principles of granting loans, decision-making and loan analysis as well as the overall quality of the loan process. The Group uses scoring models to assess the creditworthiness of loan customers being private persons and legal persons, except for loans secured by immovable property and factoring (to forecast credit quality and the probability of default). The validation of the models takes place when material changes occur, but no less often than once a year. The Group uses loan customers' scoring models in making credit decisions and choosing customers. Following the issue of a loan, the Group consistently assesses the customer's solvency and value of the collateral. The Group manages the credit risk in terms of the loan portfolio as a whole as well as in terms of individual loans. The credit risk is managed, taking also into consideration the ratio of the given risk to other material risks.

The credit risk monitoring and reporting function is different in the case of various products, ensuring that the most important risk parameters are observed and a sufficiently detailed overview of the loan portfolio is always provided. The credit risk monitoring must ensure as early assessment of the decline in solvency and possible breach of the terms and conditions of the agreement as possible. It must ensure that the risk level is acceptable and the profitability of the Group is ensured as well as to prevent loan losses from occurring. To this end, the Group has developed internal information systems, which give early warnings of a possible increase in risks.

Concentration risk within the meaning of a credit risk is defined as an increase in the risk level of exposures arising from related parties, parties operating in the same economic sector or parties belonging to the same geographic region. The Group assesses and manages the concentration risk through the establishment of limits and subsequent monitoring.

Maximum exposure to credit risk

The group's maximum exposure to credit risk from financial instruments subjected to impairment:

	31.12.2020 Total	Stage 1	Stage 2	Stage 3
Mortgage loans to clients	**1 857 233**	**664 996**	**506 473**	**685 763**
Mortgage loans	1 871 495	666 069	507 291	698 135
Allowance for doubtful accounts	-14 262	-1 073	-817	-12 372
Other loans to clients	**4 772 456**	**3 295 723**	**948 730**	**528 004**
Factoring and other business loans	4 463 303	3 281 132	745 925	436 247
Allowance for doubtful accounts	-351 974	-45 143	-17 893	-288 938
Consumer loans	979 191	63 888	229 638	685 665
Allowance for doubtful accounts	-318 065	-4 154	-8 941	-304 970
Total loan receivables to clients	**6 629 689**	**3 960 719**	**1 455 203**	**1 213 767**

	31.12.2019 Total	Stage 1	Stage 2	Stage 3
Mortgage loans to clients	**1 981 895**	**966 065**	**539 531**	**476 299**
Mortgage loans	1 992 720	967 103	540 251	485 366
Allowance for doubtful accounts	-10 825	-1 038	-720	-9 067
Other loans to clients	**4 489 272**	**2 910 805**	**1 034 828**	**543 640**
Factoring and other business loans	4 073 538	2 832 872	791 821	448 845
Allowance for doubtful accounts	-325 474	-32 930	-8 363	-284 182
Consumer loans	1 043 969	118 128	266 534	659 307
Allowance for doubtful accounts	-302 761	-7 265	-15 165	-280 331
Total loan receivables to clients	**6 471 167**	**3 876 869**	**1 574 359**	**1 019 939**

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its future obligations as they fall due or in full. Major sub-risks of the liquidity risk are payment risk and financing risk. Payment risk is the risk that the Group cannot meet its obligations without major related costs. Financing risk is the risk that the Group cannot raise sufficient resources without an adverse impact on the everyday activities or financial position of the Group. The overall purpose of liquidity risk management is to ensure that the Group has sufficient cash and liquid assets in order to perform its financial obligations as they fall due and to increase its loan portfolio.

Upon managing the liquidity risk, the Group takes into consideration that a sufficient liquidity buffer must be maintained at any time for issuing loans and covering other possible obligations. Financing is performed mostly through equity, loans and bonds, and the Group forecasts cash flows in order to have a sufficient buffer of financial resources on the due dates of repayment of financial obligations and a sufficient time frame for preparing refinancing upon expiry of the terms.

The overview of the Group's financial assets and financial liabilities by residual maturity (undiscounted cash flows) is provided in the table below:

	31.12.2020	within 12 months	1-5 years	over 5 years
Financial assets				
Cash	1 840 096	1 840 096	0	0
Loan receivables	6 618 662	5 320 211	1 048 491	249 961
Other receivables and prepayments	907 358	907 358	0	0
Total financial assets	**9 366 116**	**8 067 664**	**1 048 491**	**249 961**
Liabilities and equity				
Loan liabilities	7 183 863	167 557	6 816 306	200 000
Bank loans	363 750	167 557	196 193	0
Bonds	5 070 113	0	5 070 113	0
Other loan liabilities	1 750 000	0	1 550 000	200 000
Payables and prepayments	207 222	207 222	0	0
Total financial liabilities	**7 391 085**	**374 779**	**6 816 306**	**200 000**
Duration gap of financial assets and financial liabilities	**1 975 031**	**7 692 886**	**1 925 070**	**1 975 031**

	31.12.2019	within 12 months	1-5 years	over 5 years
Financial assets				
Cash	366 816	366 816	0	0
Loan receivables	6 509 898	5 707 156	439 551	363 191
Other receivables and prepayments	819 185	819 185	0	0
Total financial assets	**7 695 899**	**6 893 157**	**439 551**	**363 191**
Liabilities and equity				
Loan liabilities	7 314 554	288 449	7 026 106	0
Bank loans	397 289	138 449	258 841	0
Bonds	5 567 265	0	5 567 265	0
Other loan liabilities	1 350 000	150 000	1 200 000	0
Payables and prepayments	195 091	195 091	0	0
Total financial liabilities	**7 509 645**	**483 539**	**7 026 106**	**0**
Duration gap of financial assets and financial liabilities	**186 254**	**6 409 617**	**-176 937**	**186 254**

Interest rate risk

Interest rate risk reflects the mismatch in the balance sheet items and the off-balance sheet items due to changes in interest rates as well as the possible negative change in the fair value of financial instruments due to a decline in the present value of future cash flows arising from a change in interest rates. The purpose of monitoring and managing interest rate risk is to assess the profitability of the Group's interest-bearing products, forecast profits of future periods and prevent a significant decline in profitability arising from a change in interest rates. To this end, the Group monitors interest rate risk exposures in order for them to be exactly defined, observed and controlled. Loans issued by the Group have a fixed interest rate and financial liabilities also mostly have a fixed interest rate. Thus, fluctuations in interest rates have no remarkable impact on the financial position in the short term. A change in the overall level of interest rates has an indirect impact on the interest rates of the loans issued (although a more important factor is still market competition) and the expected interest rate upon financing liabilities in the future. The Group's management analyses the market situation and avoids, when pricing its loan products, a possible situation where an increase in interest expenses would have a critical impact on financial results.

Operational risk

Operational risk means a potential loss caused by human, process or information system flaws or inadequate operation thereof. This risk includes reputation and legal risk, but excludes strategic and business risk, which is assessed separately. Legal risk is the risk of an entitled party not being able to exercise its rights or expect the performance of obligations because of the failure of the obligated party to perform the obligations assumed by it. Reputation risk means the potential that negative publicity regarding the Group and its business activities, whether true or not, will cause a decline in the customer base or in revenue, and increase in the expenses relating to legal assistance.

All products, services, activities and processes are exposed to operational risk and the management of operational risk plays a leading role in the risk management system of the Group as a whole. The initial step in the management of this risk category consists in the identification and measurement of risks (if qualitatively possible). Thereafter it is ensured that sufficient monitoring and control mechanisms have been developed and implemented, which is followed by finding measures for the management of these risks. Operational risks are reported to the management board and supervisory board of the Group.

To minimise operational risks, the Group defines and records all material business processes, observes strict rules in defining duties and responsibilities, and engages in constant development of information systems.

Market risk

Market risk is the risk caused by adverse movements of market prices. Although market risks are, as a rule, material for companies operating in the field of credit, the Group has assessed the share of this risk as low because it has no assets and liabilities directly exposed to market risks.

Business and strategic risk

Business and strategic risk means risks caused by a potential decline in revenue due to changes in the operating environment or incorrect business decisions, unsuitable implementation of decisions in a given situation or inadequate changes in the activities of the Group due to the overall change in the business environment. Business risk is the risk that the Group earns less profit than expected or sustains losses. Strategic risk is caused by negative consequences if the Group's management adopts incorrect decisions regarding strategy, products, distribution channels or other aspects of direct impact on business activities. The Group's areas of activity are exposed to risks that may have an adverse impact on the planned financial results. This is primarily related to stiff competition in main fields of activity. The Group mitigates these risks, offering fast and flexible financing solutions for which there is a strong market demand and works constantly towards their further improvement in order to stand out against its competitors. In its business activities, the Group is not only aimed at winning a market share from the current providers of similar services, but it is also important to expand the market, introducing financing opportunities above all to small and medium-sized enterprises. The Group also mitigates these risks with its effective management structure and clear division of roles and responsibilities, ensuring that the management board and the supervisory board have sufficient information in order to adopt high-quality management decisions as well as disclose and implement the decisions in the organisation as a whole. The Group implements regulatory management principles, being at the same time aware of the relevance of an open and dynamic organisational culture. Employees are constantly trained in order to ensure the ability to implement sufficient knowledge and skills, high quality of the decision-making process and taking responsibility. The Group's long-term goals, such as sufficient profitability as well as customer and employee satisfaction, must ensure that the Group responds fast to customers' changing expectations. The goal established undergo constant measurement and analysis.

Anti-money laundering

Money laundering and terrorist financing risk is the risk that products of the Group are used for money laundering or terrorist financing purposes, which may manifest itself in reputation or compliance risk. Reputation risk is the risk that the actual or suspected involvement in money laundering or terrorist financing results in a material impact on the financial results of the Group, which also leads to the materialisation of the compliance risk. Compliance risk is the risk that the Group is unable to comply with the anti-money laundering and terrorist financing rules, especially upon implementation of the due diligence obligation, which may lead to fines or revocation of a licence. For anti-money laundering purposes, the Group's management monitors compliance of the business activities with the rules established as well as the existence and adequacy of internal rules of procedure and control systems. The regulations established are also followed upon analysing projects and involving investors, and employees are aware and sufficiently informed in order to identify possible money laundering and terrorist financing risks at an as early stage as possible. The business model of the Group is also established on the principles that reduce these risks. The Group does not provide payment services, its customers are located in the Baltic countries, the Group does not offer its products and services to non-residents and its customers are all customers of European Union (Estonian and Lithuanian, as a rule) credit institutions.

Note 7 Loan receivables (in Euros)

	31.12.2020	Allocation by remaining maturity		
		within 12 months	1-5 years	over 5 years
Mortgage loans to clients	**1 851 407**	**1 163 367**	**438 079**	**249 961**
Mortgage loans	1 865 669	1 177 629	438 079	249 961
Allowance for doubtful accounts	-14 262	-14 262	0	0
Other loans to clients	**4 767 255**	**4 156 844**	**610 412**	**0**
Factoring and other business loans	4 458 477	3 848 065	610 412	0
Allowance for doubtful accounts	-351 973	-351 973	0	0
Consumer loans	978 816	978 816	0	0
Allowance for doubtful accounts	-318 065	-318 065	0	0
Total loan receivables to clients	**6 618 663**	**5 320 211**	**1 048 491**	**249 961**

	31.12.2019	Allocation by remaining maturity		
		within 12 months	1-5 years	over 5 years
Mortgage loans to clients	**2 018 805**	**1 260 544**	**395 070**	**363 191**
Mortgage loans	2 029 628	1 271 366	395 070	363 191
Allowance for doubtful accounts	-10 822	-10 822	0	0
Other loans to clients	**4 491 093**	**4 446 611**	**44 481**	**0**
Factoring and other business loans	4 071 929	4 071 929	0	0
Allowance for doubtful accounts	-325 885	-325 885	0	0
Consumer loans	1 047 401	1 002 920	44 481	0
Allowance for doubtful accounts	-302 352	-302 352	0	0
Total loan receivables to clients	**6 509 898**	**5 707 155**	**439 551**	**363 191**

	01.01.2019	Allocation by remaining maturity		
		within 12 months	1-5 years	over 5 years
Mortgage loans to clients	**3 434 170**	**2 210 477**	**572 251**	**651 442**
Mortgage loans	3 446 530	2 222 837	572 251	651 442
Allowance for doubtful accounts	-12 360	-12 360	0	0
Other loans to clients	**2 530 196**	**2 304 242**	**225 954**	**0**
Factoring and other business loans	1 904 608	1 904 608	0	0
Allowance for doubtful accounts	-108 222	-108 222	0	0
Consumer loans	996 262	770 308	225 954	0
Allowance for doubtful accounts	-262 452	-262 452	0	0
Total loan receivables to clients	**5 964 365**	**4 514 718**	**798 205**	**651 442**

As in previous years, all the issued loans are denominated in euro with maturity ranging from 6 months to 20 years (except for factoring contracts, where the usual length of invoice is between 30-90 days). Annual interest rate of the issued loans is 13-32% and the effective interest rate does not differ significantly from the contractual interest rate. As at 31.12.2020, the largest part of the portfolio consisted of factoring, followed by microloans and mortgage loans. As at 31.12.2019 the largest part of the portfolio consisted of factoring, followed by mortgage loans.

Note 8 Receivables and prepayments (in Euros)

	31.12.2020	Allocation by remaining maturity		Note
		within 12 months	1-5 years	
Other receivables				
Other receivables	297 235	297 235	0	
Accrued income	2 200	2 200	0	9
Prepaid expenses	32 450	32 450	0	
Claims to affiliates	575 473	0	575 473	20
Total receivables and prepayments	**907 358**	**331 885**	**575 473**	

	31.12.2019	Allocation by remaining maturity		Note
		within 12 months	1-5 years	
Other receivables				
Other receivables	296 578	296 578		
Accrued income	2 516	2 516		9
Prepaid expenses	25 091	25 091		
Claims to affiliates	495 000		495 000	20
Total receivables and prepayments	**819 185**	**324 185**	**495 000**	

	01.01.2019	Allocation by remaining maturity		Note
		within 12 months	1-5 years	
Other receivables				
Other receivables	242 958	242 958	0	
Prepaid expenses	23 646	23 646	0	
Claims to affiliates	383 706	0	383 706	20
Total receivables and prepayments	**650 310**	**266 604**	**383 706**	

Other receivables as of 31.12.2020 mainly consist of a receivable from Inbank. In January 2020 the Group acquired a 100% subsidiary of Inbank that offered full-service leasing. After the acquisition, the company was renamed AS Finora Finance. As a result of the transaction, the Finora Group's consolidated loan portfolio increased to 10 million euros by the end of January 2020. In May, the leasing company returned to Inbank's ownership, as Inbank and Finora Capital were unable to agree on the final fulfillment of the company's purchase and sale conditions.

Information on receivables from an associate is provided in Note 20 Related parties.

Note 9 Tax prepayments and tax payables (in Euros)

	31.12.2020	31.12.2020	31.12.2019	31.12.2019	01.01.2019	01.01.2019	Note
	Tax prepayments	Tax payables	Tax prepayments	Tax payables	Tax prepayments	Tax payables	
Corporate income tax	0	191	0	84	0	76	
Value-added tax	0	20	0	54	0	28	
Personal income tax	0	11 633	0	8 515	0	5 663	
Social security tax	0	18 616	0	13 839	0	9 379	
Contributions to mandatory funded pension	0	948	0	723	0	619	
Unemployment insurance premium	0	988	0	719	0	594	
Net of prepayment account	2 200	0	2 516	0	-44	0	8
Total tax prepayments and liabilities	**2 200**	**32 396**	**2 516**	**23 936**	**-44**	**16 359**	**14**

The company does not have any overdue tax payables. The tax authorities have the right to verify the Company's tax records up to 5 years from the time of filing the tax return and upon finding errors, impose additional taxes, interest and fines. The Company's management estimates that there are not any circumstances which may lead the tax authorities to impose additional significant taxes on the Company.

Note 10 Property, plant and equipment (in Euros)

	Computers and IT systems	Other property, plant and equipment	Total
01.01.2019			
Cost	14 224	4 749	18 973
Accumulated depreciation	-6 415	-4 142	-10 557
Carrying amount	**7 809**	**607**	**8 416**
Additions and improvements	6 430	2 527	8 957
Sales	-900	0	-900
Depreciation	-3 903	-1 089	-4 993
31.12.2019			
Cost	19 754	7 276	27 030
Accumulated depreciation	-9 418	-5 231	-14 649
Carrying amount	**10 336**	**2 045**	**12 381**
Additions and improvements	3 479	1 703	5 182
Depreciation	-5221	-1738	-6 959
31.12.2020			
Cost	23 231	8 979	32 212
Accumulated depreciation	-14 639	-6 969	-21 608
Carrying amount	**8 592**	**2 010**	**10 604**

No write-downs of assets have taken place during the reporting period.

Note 11 Intangible assets (in Euros)

	Software	Other intangible assets	Total
01.01.2019			
Cost	133 925	21 843	155 768
Accumulated depreciation	-25 451	-19 275	-44 726
Carrying amount	**108 474**	**2 568**	**111 042**
Additions and improvements	30 762	6 762	37 524
Depreciation costs	-20 632	-4 096	-24 728
31.12.2019			
Cost	164 687	28 605	193 292
Accumulated depreciation	-46 083	-23 371	-69 454
Carrying amount	**118 604**	**5 234**	**123 838**
Additions and improvements	137 132	229 599	366 731
Write-offs	-34 086	0	-34 086
Depreciation costs	-26 390	-6 804	-33 194
31.12.2020			
Cost	267 733	258 204	525 937
Accumulated depreciation	-38 387	-30 175	-68 562
Carrying amount	**229 346**	**228 029**	**457 375**

There have been no write-downs of assets during the reporting period.

During the reporting period, the former loan management software, which is no longer in use and had a residual value of 0 at the time of write-off, was written off.

Note 12 Subsidiaries and affiliates (in Euros)

Shares in subsidiary	31.12.2020	31.12.2019
Name of subsidiary	Finora kreditas UAB	Finora kreditas UAB
Registration number	305156796	305156796
Country of residency	Lithuania	Lithuania
Ownership share	100%	100%
Ownership nominal value	2 300 000	250 000
Expenses related to establishment	10 473	10 473
	2 310 473	**260 473**

Shares in subsidiary	31.12.2020	31.12.2019	01.01.2019
Name of subsidiary	Finora Factoring OÜ	Finora Factoring OÜ	Finora Factoring OÜ
Registration number	14439107	14439107	14439107
Country of residency	Estonia	Estonia	Estonia
Ownership share	100%	100%	100%
Ownership nominal value	10 000	10 000	10 000
Expenses related to establishment	190	190	190
	10 190	**10 190**	**10 190**

Shares in affiliate	31.12.2020	31.12.2019	01.01.2019
Name of affiliate	Bankish AS	Bankish AS	Bankish AS
Registration number	14251833	14251833	14251833
Country of residency	Estonia	Estonia	Estonia
Ownership share	17%	17%	17%
Ownership nominal value	172 920	8 000	8 000
Expenses related to establishment	190	190	0
Share value at acquisition cost	173 110	8 190	4 661
Reversal of losses from previous periods	0	0	3 529
	173 110	**8 190**	**8 190**

Note 13 Loan liabilities (in Euros)

	31.12.2020	Allocation by remaining maturity			Due date
		within 12 months	1-5 years	over 5 years	
Bank loans					
Coop Pank AS	363 750	167 557	196 193	0	March 23
Total bank loans	**363 750**	**167 557**	**196 193**	**0**	
Other loans					
Corporates	1 750 000	0	1 550 000	200 000	See below
Private individuals	0	0	0	0	
Total other loans	**1 750 000**	**0**	**1 550 000**	**0**	
Bonds					
Bonds	5 070 113	0	5 070 113	0	April 22
Total bonds	**5 070 113**	**0**	**5 070 113**	**0**	
Total loan liabilities	**7 183 863**	**0**	**6 816 306**	**0**	

	31.12.2019	Allocation by remaining maturity			Due date
		within 12 months	1-5 years	over 5 years	
Bank loans					
Coop Pank AS	397 289	138 449	258 841	0	March 21
Total bank loans	**397 289**	**138 449**	**258 841**	**0**	
Other loans					
Corporates	1 200 000	0	1 200 000	0	see below
Private individuals	150 000	150 000	0	0	June 20
Total other loans	**1 350 000**	**0**	**1 200 000**	**0**	
Bonds					
Bonds	5 567 265	0	5 567 265	0	April 22
Total bonds	**5 567 265**	**0**	**5 567 265**	**0**	
Total loan liabilities	**7 314 554**	**150 000**	**7 026 106**	**0**	

	01.01.2019	Allocation by remaining maturity			Due date
		within 12 months	1-5 years	over 5 years	
Bank loans					
Coop Pank AS	956 156	0	956 156	0	May 21
Total bank loans	**956 156**	**0**	**956 156**	**0**	
Other loans					
Corporates	900 000	0	900 000	0	
Total other loans	**900 000**	**0**	**900 000**	**0**	
Bonds					
Bonds	4 824 259	4 824 259	0	0	May 19
Total bonds	**4 824 259**	**4 824 259**	**0**	**0**	
Total loan liabilities	**6 680 415**	**4 824 259**	**1 856 156**	**0**	

Interest rates of loans are the following:

- Loan from Coop Pank AS 6,7% (31.12.2019: 7.0%)
- Bonds 9.0% (31.12.2019: 9%)
- Loans from legal entities 1%-8,25% (31.12.2019: 9.0-11.0%) and from private individuals as at 31.12.2019 11%.

Since March 2015, the main source of funding has been secured bonds: the bond on the balance sheet is maturing in April 2022 and has an interest rate of 9.0%. The effective interest rate on loans and bonds does not differ significantly from the contractual interest rate. Bonds are pledged with mortgages, pledges arising from loan agreements, and account pledges, which must cover 105% of the debt obligations at minimum. As of the end of the reporting period, 27% (31.12.2019): 31% of the collateral was mortgage and real estate pledges, 46% (31.12.2019: 16%) pledges from the Lithuanian subsidiary (and thus pledges of Lithuanian corporate customers), 0% (31.12.2019: 8%) factoring pledges, 36% (31.12.2019: 25%) corporate microloan and consumer loan pledges, and the rest account pledges and receivables from affiliated companies (total collateral is over 100% of issued bonds).

All issued loans and bonds are denominated in euro.

The bank loan is 100% secured by mortgage pledges. A loan taken from a legal entity (31.12.2020: EUR 1 550 000, 31.12.2019: EUR 1,200,000) is a credit line with no fixed maturity. Loan from corporate in the amount of EUR 200,000 (31.12.2019: EUR 0) in with the maturity of 31.12.2027 and secured by the bank account of the Lithuanian subsidiary related to this loan.

Note 14 Other payables and prepayments (in Euros)

	31.12.2020	Within 12 months	31.12.2019	Within 12 months	01.01.2019	Within 12 months	Note
Trade payables	14 868	14 868	24 571	24 571	16 644	16 644	
Payables to employees	32 641	32 641	31 588	31 588	20 504	20 504	
Tax liabilities	32 396	32 396	23 936	23 936	16 359	16 359	9
Other liabilities	80 564	80 564	61 067	61 067	62 529	62 529	
Interest liabilities	71 579	71 579	55 064	55 064	46 640	46 640	
Other accrued expenses	8 985	8 985	6 003	6 003	15 889	15 889	
Prepayments received	46 753	46 753	53 928	53 928	4 842	4 842	
Deferred income	46 753	46 753	53 928	53 928	4 842	4 842	
Total payables and prepayments	**207 222**	**207 222**	**195 090**	**195 090**	**120 878**	**120 878**	

Note 15 Share capital (in Euros)

	31.12.2020	31.12.2019	01.01.2019
Share capital	459 332	279 823	279 823
Number of shares (pcs)	459 332	279 823	279 823

As at 31.12.19 the Group had 11 shares in the balance sheet as treasury shares that were canceled in 2020. The company had no contingent liabilities (related to dividends) as of 31.12.2020 and as of 31.12.2019. As retained earnings are negative, there is no contingent amount of income tax on dividends

Note 16 Interest income (in Euros)

	2020	2019
Geographical breakdown of sales revenue		
Sales to EU countries		
Estonia	1 063 993	997 819
Lithuania	146 479	27 663
Sales to EU countries, total	**1 210 472**	**1 025 482**
Sales revenue total	**1 210 472**	**1 025 482**
Sectoral breakdown of sales revenue		
Interests from mortgage loans	376 216	296 423
Other interests	729 434	659 459
Fee income	104 822	69 600
Sales revenue total	**1 210 472**	**1 025 482**

Company's main source of revenue is interest received from lending activities. Interest is received from mortgage loans, small loans, microloans, hire-purchase and factoring contracts. The majority of revenue came from Estonia, 1% (2019: 3%) from Lithuania.

Note 17 Other income (in Euros)

	2020	2019
Penalty interest	190 205	243 079
Other fee income	92	0
Other operating income	5 222	2 870
Total other income	**195 519**	**245 949**

Note 18 Operating expenses (in Euros)

	2020	2019
Office expenses	41 645	40 629
State and local taxes	14 954	2 212
IT services costs	57 981	49 033
Legal costs	71 267	78 211
Advertising and marketing costs	48 168	37 935
Accounting services (incl. audit costs)	28 417	11 370
Other	121 641	109 326
Total miscellaneous operating expenses	**384 074**	**328 716**

Other expenses include queries to databases, costs related to the issue of bonds, travel costs and various other operational costs.

The Group has recognized office rental expenses in various operating expenses, as the rental period is less than one year.

Note 19 Labor expenses (in Euros)

	2020	2019
Wages and salaries	290 841	252 251
Labour taxes	70 685	64 280
Total labour expense	**361 527**	**316 531**
Average number of employees in full time equivalent units	**14**	**11**

Note 20 Related parties (in Euros)

Name of accounting entity's parent company: Nebbiolo Capital OÜ : Estonia

Country, where parent company is registered: Estonia

Related party balances according to groups	31.12.2020	31.12.2020	31.12.2019	31.12.2020	01.01.2019	01.01.2019
	Receivables	Liabilities	Receivables	Liabilities	Receivables	Liabilities
Affiliates	575 473	0	544 109	0	383 706	0
Management and higher supervisory body and individuals with material ownership interest and material influence of management and higher supervisory body	847	0	602	0	29 349	6 162

2020	Sales	Purchases	Received loans	Repayment of received loans
Parent company	0	18 000	0	0
Affiliates	78 820	204 116	0	0
Management and higher supervisory body and individuals with material ownership interest and material influence of management and higher supervisory body	2 461	30 907	100 000	100 000

2019	Sales	Purchases	Received loans	Repayment of received loans
Parent company	0	0	0	0
Affiliates	61 331	60 794	0	0
Management and higher supervisory body and individuals with material ownership interest and material influence of management and higher supervisory body	21 913	50 490	65 000	65 000

Remuneration and other significant benefits calculated for members of management and highest supervisory body	2020	2019
Remuneration	37 224	37 224

Parties are considered to be related either when one party is controlled by another, or one party has significant influence over the business decisions of another.

Related party is management and supervisory board members and their close relatives and corporates controlled by them.

There have been no write-downs of related party assets during the reporting period.

Management received management fees and did not receive any other significant benefits.

The company does not have any contingent liabilities in connection with its management.

The interest rate of the loan to the affiliate is 8% (31.12.2019: 11%) with the maturity of 31.12.2023 and the loan has no collateral.

Note 21 Contingent liabilities (in Euros)

	31.12.2020	31.12.2019	01.01.2019
Issued guarantees	1 564 196	1 194 460	0
Unused factoring limits	2 429 643	2 492 285	2 329 763
Total contingent liabilities	**3 993 839**	**3 686 745**	**2 329 763**

Note 22 Impact of transition to IFRS

The financial statements for 2020 have been prepared in accordance with IFRS standards for the first time. The accounting policies described in Note 3 have been applied during the preparation of financial statements for the reporting year ended on 31 December 2020 and the reporting year ended on 31 December 2019 as well as the financial statements as at 1 January 2019.

Previously submitted financial statements, which were prepared according to the Estonian Financial Reporting Standard (hereinafter the EFS) have been adjusted in relation to the transition to the IFRS. The impact of the transition from the Estonian Financial Reporting Standards to the IFRS on the consolidated statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity is described in the tables below. Changes upon transition to the IFRS arise from the requirements of the impairment recognition of IFRS 9, which are based on the expected credit loss model.

Changes in consolidated statement of financial position (in Euros)

	EFS		IFRS	EFS		IFRS
	31.12.2019	muutus	31.12.2019	01.01.2019	muutus	01.01.2019
Assets						
Cash	366 816	0	366 816	731 432	0	731 432
Loan receivables	6 926 452	-416 554	6 509 898	6 197 425	-233 060	5 964 365
Other receivables and prepayments	819 185	0	819 185	650 310	0	650 310
Investments into affiliates	8 380	0	8 380	8 380	0	8 380
Property, plant and equipment	12 381	0	12 381	8 416	0	8 416
Intangible assets	123 838	0	123 838	111 042	0	111 042
Total assets	**8 257 052**	**-416 554**	**7 840 498**	**7 707 006**	**-233 060**	**7 473 946**
Liabilities and equity						
Loan liabilities	7 314 554	0	7 314 554	6 680 415	0	6 680 415
Bank loans	397 289	0	397 289	956 156	0	956 156
Bonds	5 567 265	0	5 567 265	4 824 259	0	4 824 259
Other loan liabilities	1 350 000	0	1 350 000	900 000	0	900 000
Payables and prepayments	195 090	0	195 090	120 878	0	120 878
Total Liabilities	**7 509 644**	**0**	**7 509 644**	**6 801 293**	**0**	**6 801 293**
Equity						
Share capital	279 823	0	279 823	279 823	0	279 823
Share premium	748 466	0	748 466	748 466	0	748 466
Net profit (loss) for the financial year	-158 305	-183 494	-341 799	30 147	0	30 147
Total equity	**747 408**	**-416 554**	**330 854**	**905 713**	**-233 060**	**672 653**
Total liabilities and equity	**8 257 052**	**-416 554**	**7 840 498**	**7 707 006**	**-233 060**	**7 473 946**

Changes in consolidated statement of income and comprehensive income (in Euros)

	EFS		IFRS
	2019	change	2019
Interest income	1 025 482	0	1 025 482
Interest expense	-614 399	0	-614 399
Net interest income	**411 083**	**0**	**411 083**
Other income	245 949	0	245 949
Total revenue	**657 032**	**0**	**657 032**
Operating expenses	-328 716	0	-328 716
Labor expenses	-316 531	0	-316 531
Total expenses	**-645 247**	**0**	**-645 247**
Profit before impairment losses	**11 785**	**0**	**11 785**
Depreciation and amortisation	-29 721	0	-29 721
Changes in loan impairment reserve	-129 896	-183 494	-313 390
Other changes	-10 473	0	-10 473
Net profit (loss) for the financial year	**-158 305**	**-183 494**	**-341 799**
Comprehensive income (loss) for the financial year	**-158 305**	**-183 494**	**-341 799**

Changes in consolidated statement of cash flows (in Euros)

	EFS		IFRS
	2019	change	2019
Cash flows from operating activities			
Net profit (loss)	-158 305	-183 494	-341 799
Adjustments			
Depreciation and amortisation	29 721	0	29 721
Interest expense	614 399	0	614 399
Interest income	-1 025 482	0	-1 025 482
Total adjustments	**-381 362**	**0**	**-381 362**
Total change in receivables and prepayments related to operating activities	-791 158	183 494	-607 664
Total change in payables and prepayments related to operating activities	74 212	0	74 212
Interest received	1 030 584	0	1 030 584
Total cash flows from operating activities	**-226 029**	**0**	**-226 029**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	-45 581	0	-45 581
Loans to affiliates	-146 000	0	-146 000
Repayment of loans from affiliates	36 000	0	36 000
Total cash flows from investing activities	**-155 581**	**0**	**-155 581**
Cash flows from financing activities			
Loans received	1 056 000	0	1 056 000
Repayments of loans received	-1 164 866	0	-1 164 866
Other proceeds from financing activities (bonds)	2 532 000	0	2 532 000
Other payments from financing activities (bonds)	-1 768 000	0	-1 768 000
Interest paid	-638 140	0	-638 140
Total cash flows from financing activities	**16 994**	**0**	**16 994**
Total cash flows	**-364 616**	**0**	**-364 616**
Cash and cash equivalents at beginning of period	731 432	0	731 432
Change in cash and cash equivalents	**-364 616**	**0**	**-364 616**
Cash and cash equivalents at end of period	366 816	0	366 816

Changes in consolidated statement of changes in equity (in Euros)

EFS	Share capital	Share premium	Own shares	Retained earnings (loss)	Total
EFS					
01.01.2019	**279 823**	**748 466**	**-11**	**-122 565**	**905 713**
Net profit (loss) for the financial year	0	0	0	-158 305	-158 305
31.12.2019	**279 823**	**748 466**	**-11**	**-280 870**	**747 408**
CHANGE					
01.01.2019	**0**	**0**	**0**	**-233 060**	**-233 060**
Net profit (loss) for the financial year	0	0	0	-183 494	-183 494
31.12.2019	**0**	**0**	**0**	**-416 555**	**-416 555**
IFRS					
01.01.2019	**279 823**	**748 466**	**-11**	**-355 625**	**672 653**
Net profit (loss) for the financial year	0	0	0	-341 799	-341 799
31.12.2019	**279 823**	**748 466**	**-11**	**-697 424**	**330 854**

Note 23 Unconsolidated financial statements of the parent company

Statement of financial position (in Euros)

	31.12.2020	31.12.2019
Assets		
Cash	385 621	174 315
Loan receivables	3 589 933	3 972 756
Mortgage loans	1 224 413	1 574 714
Other loans	2 365 520	2 398 042
Other receivables and prepayments	1 809 119	2 153 737
Investments into subsidiaries and affiliates	2 493 774	278 853
Property, plant and equipment	7 318	12 381
Intangible assets	245 000	118 800
Total assets	**8 530 765**	**6 710 842**
Liabilities and equity		
Loan liabilities	5 733 863	6 114 555
Bank loans	363 750	397 289
Bonds	5 070 113	5 567 266
Other loan liabilities	300 000	150 000
Payables and prepayments	162 905	174 532
Total Liabilities	**5 896 768**	**6 289 087**
Equity		
Share capital	459 332	279 823
Share premium	3 257 728	748 466
Own shares	0	-11
Retained earnings (loss)	-606 534	-405 967
Net profit (loss) for the financial year	-476 529	-200 556
Total equity	**2 633 997**	**421 755**
Total Liabilities and equity	**8 530 765**	**6 710 842**

Income statement (in Euros)

	2020	2019
Interest income	849 345	767 057
Interest expense	-625 684	-526 501
Net interest income	**223 661**	**240 556**
Other income	182 893	245 933
Total revenue	**406 555**	**486 490**
Operating expenses	-313 209	-260 210
Labor expenses	-274 788	-257 362
Total expenses	**-587 997**	**-517 571**
Profit before impairment losses	**-181 442**	**-31 082**
Depreciation and amortisation	-38 201	-29 370
Changes in loan impairment reserve	-256 886	-140 104
Net profit (loss) for the financial year	-476 529	-200 556

Changes in consolidated statement of cash flows (in Euros)

	2020	2019
Cash flows from operating activities		
Net profit (loss)	-476 529	-200 556
Adjustments		
Depreciation and amortisation	38 201	29 370
Interest expense	625 684	558 666
Interest income	-849 345	-767 057
Total adjustments	**-185 460**	**-179 021**
Total change in receivables and prepayments related to operating activities	213 772	1 108 811
Total change in payables and prepayments related to operating activities	-31 639	32 661
Interest received	808 693	799 220
Total cash flows from operating activities	**328 836**	**1 561 115**
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	-283 518	-40 151
Investments into subsidiaries and associate	-2 089 962	-260 473
Loans to subsidiaries and affiliates	-1 085 500	-2 102 277
Repayment of loans from subsidiaries and affiliates	1 639 042	950 865
Total cash flows from investing activities	**-1 819 938**	**-1 452 036**
Cash flows from financing activities		
Loans received	1 672 290	756 000
Repayments of loans received	-1 555 829	-1 164 866
Proceeds from issue of shares	2 688 771	0
Other proceeds from financing activities (bonds)	736 847	2 532 000
Other payments from financing activities (bonds)	-1 234 000	-1 768 000
Interest paid	-605 671	-559 414
Total cash flows from financing activities	**1 702 408**	**-204 280**
Total cash flows	**211 306**	**-95 201**
Cash and cash equivalents at beginning of period	174 315	269 516
Change in cash and cash equivalents	**211 306**	**-95 201**
Cash and cash equivalents at end of period	385 621	174 315

Statement of changes in equity (in Euros)

	Share capital	Share premium	Own shares	Retained earnings (loss)	Total
01.01.2019	**279 823**	**748 466**	**-11**	**-405 967**	**622 311**
Net profit (loss) for the financial year	0	0	0	-200 556	-200 556
31.12.2019	**279 823**	**748 466**	**-11**	**-606 523**	**421 755**
Net profit (loss) for the financial year	0	0	0	-476 529	-476 529
Issue of share capital	179 509	2 509 262	0	0	2 688 771
Cancellation of own shares	0	0	11	-11	0
31.12.2020	**459 332**	**3 257 728**	**0**	**-1 083 063**	**2 633 997**

Adjusted unconsolidated equity	31.12.2019	31.12.2020
Investments into subsidiaries and affiliates	-278 853	-2 493 774
Investments into subsidiaries, based on equity method	187 952	2 475 898
Adjusted unconsolidated equity	**330 854**	**2 616 121**

Signatures of the report

Signing of the report: 28.05.2021

The correctness of the annual report of AS Finora Capital (registry number 12324050) for the period 01.01.2020 – 31.12.2020 has been approved:

Name:	Position:	Date and signature:
Andrus Alber	Member of the Board	28.05.2021

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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)

To the Shareholders of AS Finora Capital

Opinion

We have audited the consolidated financial statements of AS Finora Capital and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2020, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia) (ISA (EE)s). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (Estonia) (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

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

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISA (EE)s, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report

to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Aivar Kangust
Sworn Auditor, license number 223

Grant Thornton Baltic OÜ, license number 3

Pärnu mnt 22, 10141 Tallinn

May 31, 2021

Proposal for loss coverage (in Euros)

	31.12.2020
Profit (loss) of previous periods	-697 435
Annual period profit (loss)	-403 503
Total	**-1 100 938**
Distribution	0
Profit (loss) of previous periods after distribution	-1 100 938
Total	**-1 100 938**

Decision on loss coverage (in Euros)

	31.12.2020
Profit (loss) of previous periods	-697 435
Annual period profit (loss)	-403 503
Total	**-1 100 938**
Distribution	0
Profit (loss) of previous periods after distribution	-1 100 938
Total	**-1 100 938**

Declaration of the Supervisory Board

The management board of AS Finora Capital has prepared the company's annual report, consisting of the management report and financial statements for the financial year.

The Supervisory Board has reviewed the 2020 annual report prepared by the management board, consisting of management report, financial statements, independent auditor's report, the management board's profit allocation proposal, and has approved the annual report for presentation on the annual general meeting. The annual report is signed by all members of the Supervisory Board.

Veikko Maripuu	**Vahur Kraft**	**Indrek Randveer**	**Rein Ojavere**
Chairman of the Supervisory Board	Member of the Supervisory Board	Member of the Supervisory Board	Member of the Supervisory Board
signed digitally	*signed digitally*	*signed digitally*	*signed digitally*

Distribution of sales revenue by field of activity

Field of activity	EMTAK code	Sales revenue (EUR)	Sales revenue (%)	Main field of activity
Other credit products, excl pawnshops	64929	1 210 472	100.00%	Yes

Share holders

Nimi / ärinimi	Registry code	Location	Size of ownership
Nebbiolo Capital OÜ	11918037	Estonia	212 500 EUR
Other		Estonia	246 832 EUR

Contact details

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