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:	**01.01.2021**
End of the financial year:	**31.12.2021**

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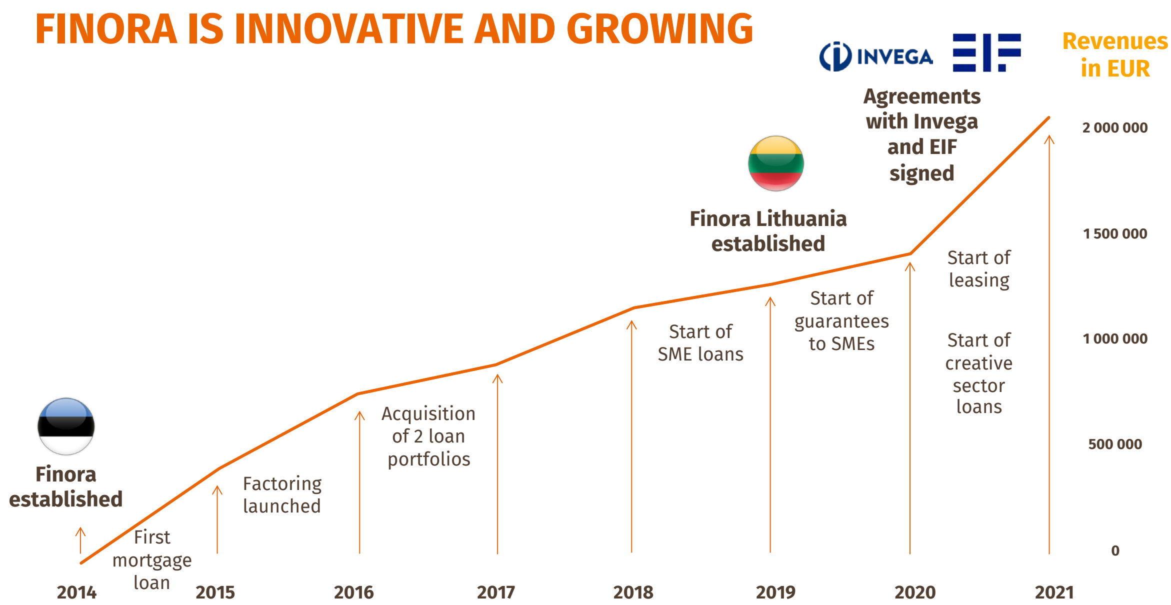
*This version of annual report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language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

TABLE OF CONTENTS

Management Report

In 2021, the Estonian economy grew by 8.3%. The growth rate of loans and leasing to non-financial corporations accelerated throughout 2021 and reached 7.4% annual growth in December. The growth of both the economy and corporate loans reflected the rapid recovery of the Estonian economy from the Covid crisis of 2020, although the recovery has not been uniform across economic sectors.

For Finora Capital, the growth both in Estonia and Lithuania exceeded the average market growth. This extraordinary growth was supported by the expansion of loan products for companies and growing cooperation with Invega in Lithuania and the European Investment Fund in both Estonia and Lithuania.



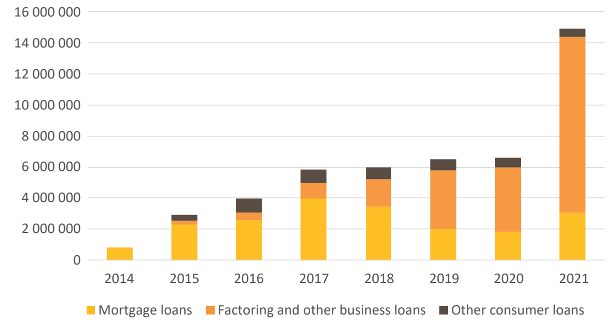


Figure 1.

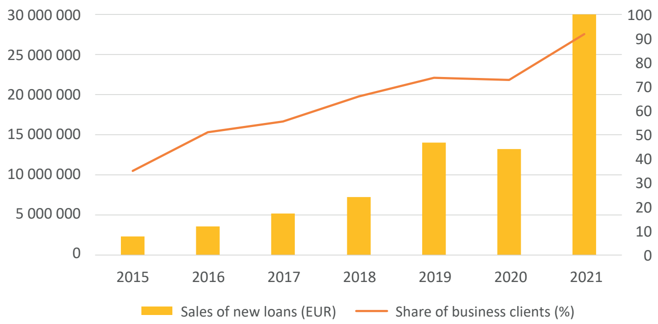


Figure 2.

Finora Capital's consolidated loan portfolio grew to almost 15 million euros by the end of 2021, which is more than 2 times compared to the end of 2020 (see Figure 1). The share of business loans in the portfolio has reached over 90%. 98% of new loans is also for businesses. (see Figure 2). It was very successful to launch leasing as a new product in both Estonia and Lithuania. The corporate microloan portfolio grew very rapidly in Lithuania. Only consumer loan portfolio decreased.

We financed the growth of the loan portfolio from various sources. At the end of 2021, more than half of the debt came alrady from three institutional investors - Invega in Lithuania, the European Investment Fund and the UK fund Advanced Global Capital. The volume of bonds also increased. All bonds have always been secured to more than 100% by various assets and receivables, and the Company will continue to comply with all the terms of the bond. In February 2022, the bondholders decided to extend the term of the bonds until February 2024.

The company's total revenue increased by 43% during the year and reached 2 million euros last year. The majority of income is interest income on various loans. In the year as a whole, interest income increased by almost 34% and interest expenses by almost 23%. As a result, net interest income increased by 50% during the year. As operating expenses grew by 25% but significantly slower than revenues, the year ended with a profit before discounts. Impairment losses on loan losses increased, but at a significantly slower pace than the loan portfolio, meaning the quality of the loan portfolio improved over the year. The introduction of new loan products, the hiring of additional employees in two countries due to the active expansion of lending activities, and increased loan provisions resulted in a net loss during the year as expected.

During the financial year, the company invested 71 thousand euros in fixed assets and intangible assets 380 thousand euros. The largest investments in intangible assets were related to the development of computer software and the activities required to obtain a banking license. In 2022, it is planned to continue investing in the development of computer software.

There have been no significant research-related projects and related expenditures in the reporting year and there are non planned in the nearest future.

The Group's business is not significantly affected by seasonality or cyclical economic activity. The Group's operations do not have significant environmental and social impacts.

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.

The Group considers the risks related to changes in foreign exchange rates and stock exchange rates during the financial year and the reporting period to be very low, as the company's receivables and liabilities are denominated in euros and the company does not invest in tradable securities. More detailed information is provided in the section describing risk management in the financial statements.

The consolidated financial statements of the Group consists of the financial indicators of AS Finora Capital (parent company, Estonia) and its 100% subsidiaries Finora Factoring OÜ (Estonia) and Finora kreditas UAB (Lithuania). During the financial year nor during the preparation period of annual report there have been no changes in the composition of the group, in the investment and financing strategy of the consolidating entity and the group, the financing structure, the risk management policy nor liquidity. In connection with obtaining a banking license, it may be necessary to restructure the group in the second half of 2022 or in 2023. The dividend policy of the consolidation group is being developed; there is currently no distributable profit.

In addition to its regular business operations and portfolio growth, Finora has made significant additional developments in the first months of 2022. At the beginning of 2022, as a result of the bondholders' vote, the maturity of the bonds was extended and the new term is February 2024. In April 2022, the share capital and share premium of AS Finora Capital was increased by 1.63 million euros, increasing the paid-in capital to 5.3 million euros.

In May 2022, the European Central Bank issued a specialized bank license to AS Finora Capital's Lithuanian subsidiary, Finora Kredas UAB, which will enable to start accepting deposits in addition to the financial services offered so far. The focus continues to be on providing loan products to small and medium-sized enterprises, but now we can do so on a larger scale and on better terms. The specialized bank license allows the offering of banking services throughout the European Economic Area, except for investment advice and brokerage of investment products.

In conclusion 2021 was a year of significant growth for the company, both in terms of the volume of the consolidated portfolio and various products. In 2022, we want to further grow the portfolios of all loan products, launch new products in Estonia and Lithuania, and successfully launch Finora Bank, including starting to attract deposits.

Financial ratios

	2021	Change 2021/2020	2020
Average equity, in euros	2 443 422	66%	1 473 488
Return on equity (ROE)	-14%	13%	-27%
Total Assets (average), in euros	14 025 321	57%	8 923 853
Return on assets (ROA)	-2%	2%	-5%
Cost and income ratio	-91%	14%	-104%

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)

	31.12.2021	31.12.2020	Note
Assets			
Cash	1 256 134	1 840 096	
Loan receivables	14 864 098	6 618 662	7
Other receivables and prepayments	1 074 260	907 358	8; 22
Financial investments	529 565	0	9
Investments into affiliates	0	173 110	13
Fixed assets	61 873	10 604	11
Intangible assets	787 069	457 375	12
Total assets	**18 573 000**	**10 007 207**	
Liabilities and equity			
Loan liabilities	15 795 608	7 183 863	14
Bank loans	156 590	363 750	
Bonds	5 873 607	5 070 113	
Other loan liabilities	9 765 411	1 750 000	
Payables and prepayments	506 670	207 223	10;15
Total liabilities	**16 302 278**	**7 391 086**	
Equity			
Share capital	459 332	459 332	16
Share premium	3 257 728	3 257 728	
Retained earnings (loss)	-1 100 939	-697 435	
Net profit (loss) for the financial year	-345 399	-403 503	
Total equity	**2 270 722**	**2 616 121**	
Total liabilities and equity	**18 573 000**	**10 007 207**	

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

	2021	2020	Note
Interest income	1 618 563	1 210 472	17
Interest expense	-884 313	-720 499	18
Net interest income	**734 249**	**489 972**	
Other income	390 853	195 519	19
Total revenue	**1 125 102**	**685 491**	
Operating expenses	-416 178	-384 074	20
Labor expenses	-519 134	-361 527	21
Total expenses	**-935 312**	**-745 601**	
Profit before impairment losses	**189 791**	**-60 110**	
Depreciation and amortisation	-69 265	-40 153	11; 12
Changes in loan impairment reserve	-458 029	-303 241	
Net profit (loss) for the financial year before taxes	**-337 503**	**-403 503**	
Income tax	**-7 896**	**0**	
Net profit (loss) and Comprehensive income (loss) for the financial year	**-345 399**	**-403 503**	

Consolidated statement of cash flows (in Euros)

	2021	2020	Note
Cash flows from operating activities			
Net profit (loss)	-345 399	-403 503	
Adjustments			
Depreciation and amortisation	69 265	40 153	11; 12
Interest expense	884 313	720 499	18
Interest income	-1 448 222	-1 105 650	17
Other adjustments	101 574	0	
Total adjustments	**-393 070**	**-344 998**	
Total change in receivables and prepayments related to operating activities	-8 853 757	-132 392	7;8
Total change in payables and prepayments related to operating activities	138 334	4 382	15
Interest received	1 448 222	1 065 030	
Total cash flows from operating activities	**-8 005 670**	**188 519**	
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	-445 036	-371 913	11; 12
Loans to affiliates and other investments	-21 800	-39 962	
Loans given to affiliates	0	-157 500	7
Repayment of loans from associate	0	42	
Total cash flows from investing activities	**-466 836**	**-569 334**	
Cash flows from financing activities			
Loans received	8 190 305	1 672 290	14
Repayments of loans received	-382 054	-1 305 829	
Proceeds from issue of shares	0	2 688 771	
Other proceeds from financing activities (bonds)	823 494	736 847	14
Other payments from financing activities (bonds)	-20 000	-1 234 000	
Interest paid	-723 200	-703 985	
Total cash flows from financing activities	**7 888 545**	**1 854 094**	
Total cash flows	**-583 961**	**1 473 279**	
Cash and cash equivalents at beginning of period	1 840 096	366 816	
Change in cash and cash equivalents	**-583 961**	**1 473 279**	
Cash and cash equivalents at end of period	1 256 134	1 840 096	

Consolidated statement of changes in equity (in Euros)

	Share capital	Share premium	Own shares	Retained earnings (loss)	Total
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**
Net profit (loss) and Comprehensive income (loss) for the financial year	0	0	0	-345 399	-345 399
31.12.2021	**459 332**	**3 257 728**	**0**	**-1 446 338**	**2 270 722**

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 2021 and ended on 31 December 2021. The figures in the consolidated financial statements are presented in euros.

The consolidated financial statements of the Group for the year ended 31 December 2021 were approved by the management on 20 May 2022. 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.

In May 2022, the European Central Bank issued a specialized bank license to Finora kreditas UAB, a subsidiary of Finora Capital AS in Lithuania.

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.

2.2. Evaluation principles

The consolidated financial statements have been prepared under the historical cost convention. The consolidation group presents its statement of financial position in the order of liquidity based on the group's intention and ability to settle the assets recognized in the financial statements or liabilities.

2.3. Significant accounting estimats 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 thefinancial 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 there to

New International Financial Reporting Standards, amendments to published standards and interpretations by the International Financial Reporting Interpretations Committee.

Standards, that became effective from 1 January 2021, did not have any material impact on the Group.

These are as follows:

Covid-19 Related Concessions – Amendments to IFRS 16;

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The Group does not apply an interest rate benchmark (IBOR). The Group primarily uses a fixed interest rate or the European Interbank Offered Rate (EURIBOR).

New or revised standards and interpretations have been issued that will become mandatory for the Group from 01.01.2022 or later, and which the Group has not implemented early:

Classification of liabilities as current or non-current – Amendments to IAS 1 (effective for annual period beginning on or after 1 January 2022; not yet adopted by the EU).

These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU).

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

The Group would not expect the amendments to have a material impact on its financial statements.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (effective for annual periods beginning on or after 1 January 2022; not yet adopted by the EU).

The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 ConceptualFramework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

The Group is currently assessing the impact of the new amendments on financial statements.

Disclosure of Accounting policies - amendments to IAS 1 and IFRS Practice Statement 2 (effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU).

IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The Group is currently assessing the impact of the new amendments on financial statements.

Definition of Accounting Estimates – amendments to IAS 8 (effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU).

The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

The Group is currently assessing the impact of the new amendments on financial statements.

Deferred tax related to assets and liabilities arising from a single transaction – amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2023; not yet adopted by the EU).

The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

The Group is currently assessing the impact of the new amendments on financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

3.2 Consolidation

Susidiaries

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.

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).

3.4 Cash and cash equivalents

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

3.5 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.

3.6 Property, plant and equipment

Property, plant and equipment are assets used for production, provision of services or administrative purposes over a periood 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.

Thereshold for recognition of non-current assets:

EUR 600

Useful life by non-current assets 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

3.7 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.

3.8 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 regonition 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 incresed-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 berepaid 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

Sensitivity analysis

The Group uses the change in the unemployment rate from the macro indicators when performing the sensitivity analysis. The forecast of the Ministry of Finance is used as the baseline scenario, in the case of a positive scenario the unemployment rate is expected to be 2% lower than in the baseline scenario. In the negative scenario, the unemployment rate is expected to be 2% higher than in baseline scenario. The change in ECL has been found by assessing the impact of the change in these macro indicators on the probability of insolvency. In the case of a positive scenario, the effect on the loan portfolio as of 31.12.2021 is 42 (31.12.2020: 13) thousand EUR and in the negative scenario, -40 (31.12.2020: -32) thousand EUR.

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.

3.9 Leases

The Group as a lease

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 noncancellable 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 reasonable 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. Rightof-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.

3.10 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.

3.11 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.

3.12 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.

3.13 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.

3.14 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.

3.15 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.

3.16 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 comission 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.

3.17 Interest expenses

Interest expenses are recorded on an accrual basis each month.

3.18 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.

3.19 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.

3.20 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.

3.21 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:

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

Amortizised cost at the fair value of financial assets and liabilities has been determined in accordance with Level 3 principles, where the inputs to the assets or liabilities are not based on observable market data; except for cash and cash equivalents, the fair value of which has been determined in accordance with Level 1 principles. The fair value of financial investments carried at fair value has been determined in accordance with Level 3 principles - based on the values of similar transactions.

(in Euros)

31.12.2021	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets at fair value					
Financial investments	0	529 565	0	529 565	529 565
Total financial assets at fair value	**0**	**529 565**	**0**	**529 565**	**529 565**
Financial assets at amortized cost					
Cash	1 256 134	0	0	1 256 134	1 256 134
Loan receivables	0	0	14 864 098	14 864 098	14 864 098
Other receivables and prepayments	0	0	1 074 260	1 074 260	1 074 260
Total financial assets at amortized cost	**1 256 134**	**0**	**15 938 358**	**17 194 492**	**17 194 492**
Financial liabilities at amortized cost					
Loan liabilities	0	0	15 795 608	15 795 608	15 795 608
Bank loans	0	0	156 590	156 590	156 590
Bonds	0	0	5 873 607	5 873 607	5 873 607
Other loan liabilities	0	0	9 765 411	9 765 411	9 765 411
Payables and prepayments	0	0	506 670	506 670	506 670
Total financial liabilities at amortized cost	**0**	**0**	**16 302 278**	**16 302 278**	**16 302 278**

31.12.2020	Level 1	Level 2	Level 3	Fair value	Carrying value
Financial assets at amortized cost					
Cash	1 840 096	0	0	1 840 096	1 840 096
Loan receivables	0	0	6 618 662	6 618 662	6 618 662
Other receivables and prepayments	0	0	907 358	907 358	907 358
Investments into associates	0	0	173 110	173 110	173 110
Total financial assets at amortized cost	**1 840 096**	**0**	**7 699 131**	**9 539 226**	**9 539 226**
Financial liabilities at amortized cost					
Loan liabilities	0	0	7 183 863	7 183 863	7 183 863
Bank loans	0	0	363 750	363 750	363 750
Bonds	0	0	5 070 113	5 070 113	5 070 113
Other loan liabilities	0	0	1 750 000	1 750 000	1 750 000
Payables and prepayments	0	0	207 223	207 223	207 223
Total financial liabilities at amortized cost	**0**	**0**	**7 391 086**	**7 391 086**	**7 391 086**

Note 5 Use of significant accounting judgements and estimates

The preparation of consolidated financial statements in corformity with IFRS requires management t omake judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies.

Significant accounting judgements

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 receivables 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 probabilty 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:

	31.12.2021 Total	Stage 1	Stage 2	Stage 3
Mortgage loans to clients	**3 033 144**	**2 383 983**	**466 102**	**183 059**
Mortgage loans	3 098 904	2 397 016	466 634	235 255
Allowance for doubtful accounts	-65 760	-13 032	-531	-52 196
Other loans to clients	**11 863 835**	**10 298 458**	**873 132**	**692 245**
Factoring and other business loans	11 853 561	10 357 249	807 188	689 124
Allowance for doubtful accounts	-471 570	-84 355	-11 074	-376 141
Consumer loans	805 228	26 886	81 497	696 845
Allowance for doubtful accounts	-323 385	-1 322	-4 480	-317 583
Total loan receivables to clients	**14 896 979**	**12 682 441**	**1 339 234**	**875 304**

	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**

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:

	31.12.2021	within 12 months	1-5 years	over 5 years
Financial assets				
Cash	1 256 134	1 256 134	0	0
Loan receivables	14 864 098	4 903 585	9 468 545	491 968
Other receivables and prepayments	1 074 260	1 074 260	0	0
Total financial assets	**17 194 492**	**7 233 979**	**9 468 545**	**491 968**
Liabilities and equity				
Loan liabilities	15 795 608	7 043 120	3 945 319	4 807 168
Bank loans	156 590	139 811	16 779	0
Bonds	5 873 607	5 873 607	0	0
Other loan liabilities	9 765 411	1 029 702	3 928 540	4 807 168
Payables and prepayments	506 670	506 670	0	0
Total financial liabilities	**16 302 278**	**7 549 790**	**3 945 319**	**4 807 168**
Duration gap of financial assets and financial liabilities	**892 214**	**-315 811**	**5 207 415**	**892 214**

	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	207 223	207 223	0	0
Total financial liabilities	**7 391 086**	**374 780**	**6 816 306**	**200 000**
Duration gap of financial assets and financial liabilities	**1 975 030**	**7 692 885**	**1 925 069**	**1 975 030**

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)

	31.12.2021	ALLOCATION BY REMAINING MATURITY		
		within 12 months	1-5 years	over 5 years
Mortgage loans to clients	**3 055 964**	**917 619**	**1 820 512**	**317 833**
Mortgage loans	3 121 723	983 378	1 820 512	317 833
Allowance for doubtful accounts	-65 759	-65 759	0	0
Other loans to clients	**11 808 134**	**3 985 967**	**7 648 033**	**174 134**
Factoring and other business loans	11 798 064	3 983 259	7 640 671	174 134
Allowance for doubtful accounts	-471 571	-471 571	0	0
Consumer loans	805 026	797 663	7 363	0
Allowance for doubtful accounts	-323 385	-323 385	0	0
Total loan receivables to clients	**14 864 098**	**4 903 585**	**9 468 545**	**491 968**

	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**

Loan type	31.12.2021	31.12.2020	Collateral
Mortgage loans	3 055 964	1 851 407	mortgage
Business loans	6 501 850	2 199 720	surety
Factoring	2 056 173	1 887 501	factoring invoices
Leasing	2 768 470	19 282	leased asset
Consumer loans	481 641	660 752	unsecured
Total	**14 864 098**	**6 618 663**	

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 7-25% and the effective interest rate does not differ significantly from the contractual interest rate.

Note 8 Other receivables and prepayments (in Euros)

	31.12.2021	ALLOCATION BY REMAINING MATURITY		Note
		within 12 months	1-5 years	
Other receivables				
Other receivables	939 662	382 162	557 500	
Tax prepayments	35 671	35 671	0	10
Prepaid expenses	98 926	98 926	0	
Total receivables and prepayments	**1 074 260**	**516 760**	**557 500**	

	31.12.2020	ALLOCATION BY REMAINING MATURITY		Note
		within 12 months	1-5 years	
Other receivables				
Other receivables	297 235	297 235	0	
Tax prepayments	2 200	2 200	0	10
Prepaid expenses	32 450	32 450	0	
Claims to affiliates	575 473	0	575 473	22
Total receivables and prepayments	**907 358**	**331 886**	**575 473**	

Other receivables as of 31.12.2021 and 31.12.2020 cotnains a receivable from Inbank in the amount of 290 921 EUR. 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. According to the management, inbank's claim will be realized within 12 months.

As of 31.12.2021, other receivables include a loan receivable from AS Bankish in the amount of EUR 557 000 and interest receivables in the amount of EUR 30 802. As of 31.12.2020, these receivables were reflected in the row "Receivables from associates". In 2021, the investment was reclassified as a financial investment at fair value and receivables are included in other receivables (see Note 9 Financial investments, Note 13 Subsidiaries and associates and Note 22 Related parties).

Note 9 Financial investments (in Euros)

	31.12.2021	31.12.2020
Financial investments	529 565	0
Total Financial investments	**529 565**	**0**

The fair value measurement was based on real transactions with the company's shares. Transactions took place in March, April and September 2021 and March 2020, of which majority were between non-related parties. The gain on fair value measurement was 335 thousand euros.

See also Note 13 Subsidiaries and associates.

Note 10 Tax prepayments and tax payables (in Euros)

	31.12.2021	31.12.2021	31.12.2020	31.12.2020	Note
	Tax prepayments	Tax payables	Tax prepayments	Tax payables	
Corporate income tax	0	8 131	0	191	
Value-added tax	0	111	0	20	
Personal income tax	0	13 012	0	11 633	
Social security tax	0	19 657	0	18 616	
Contributions to mandatory funded pension	0	730	0	948	
Unemployment insurance premium	0	1 048	0	988	
Net of prepayment account	35 671	0	2 200	0	8
Total tax prepayments and liabilities	**35 671**	**42 688**	**2 200**	**32 396**	**14**

The company does not have any overdue tax payables.

The tax authorites have the right to verify the Company's tax records up to 5 years from the time of filling 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 11 Property, plant and equipment (in Euros)

	Computers and IT systems	Other property, plant and equipment	Total
01.01.2020			
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	-5 221	-1 738	-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**
Additions and improvements	1 773	68 707	70 480
Sales	0	-5 192	-5 192
Depreciation	-6 474	-12 737	-19 211
31.12.2021			
Cost	25 003	77 686	97 499
Accumulated depreciation	-21 113	-19 706	-35 627
Carrying amount	**3 890**	**57 980**	**61 873**

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

Note 12 Intangible assets (in Euros)

	Software	Other intangible assets	Total
01.01.2020			
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**
Additions and improvements	220 594	159 154	379 748
Depreciation costs	-37 797	-12 257	-50 054
31.12.2021			
Cost	488 327	417 359	905 685
Accumulated depreciation	-76 184	-42 432	-118 616
Carrying amount	**412 142**	**374 927**	**787 069**

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

During 2020, ther former loan management software, which is no longer in use and had a residial value of 0 at the time of write-off, was written off.

Note 13 Subsidiaries and affiliates (in Euros)

Shares in subsidiary	31.12.2021	31.12.2020
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	2 300 000
Expenses related to establishment	10 473	10 473
	2 310 473	**2 310 473**

Shares in subsidiary	31.12.2021	31.12.2020
Name of subsidiary	Finora Factoring OÜ	Finora Factoring OÜ
Registration number	14439107	14439107
Country of residency	Estonia	Estonia
Ownership share	100%	100%
Ownership nominal value	10 000	10 000
Expenses related to establishment	190	190
	10 190	**10 190**

Shares in affiliate	31.12.2021	31.12.2020
Name of affiliate	0	Bankish AS
Registration number	0	14251833
Country of residency	0	Estonia
Ownership share	0	17%
Ownership nominal value	0	172 920
Expenses related to establishment	0	190
Share value at acquisition cost	0	173 110
	0	**173 110**

In 2021, the company reclassified the shares of AS Bankish that were recorded as affiliate as at 31.12.2020 into a financial investment carried at fair value because the investment no longer qualified as an affiliate. See also Note 9.

Note 14 Loan liabilities (in Euros)

	31.12.2021	ALLOCATION BY REMAINING MATURITY within 12 months	1-5 years	over 5 years	Maturity	Interest	Currency
Bank loans							
Coop Pank AS	156 590	139 811	16 779	0	March 2023	7%	EUR
Total bank loans	**156 590**	**139 811**	**16 779**	**0**			
Other loans							
Corporates	9 765 411	1 029 702	3 928 540	4 807 168	2022-2027	1%-11%	EUR
Total other loans	**9 765 411**	**1 029 702**	**3 928 540**	**4 807 168**			
Bonds							
Bonds	5 873 607	5 873 607	0	0	February 2024*	9%	EUR
Total bonds	**5 873 607**	**5 873 607**	**0**	**0**			
Total loan liabilities	**15 795 608**	**7 043 120**	**3 945 319**	**4 807 168**			

	31.12.2020	ALLOCATION BY REMAINING MATURITY within 12 months	1-5 years	over 5 years	Maturity	Interest	Currency
Bank loans							
Coop Pank AS	363 750	167 557	196 193	0	March 2023	7%	EUR
Total bank loans	**363 750**	**167 557**	**196 193**	**0**			
Other loans							
Corporates	1 750 000	0	1 550 000	200 000	2023-2027	1%-9%	EUR
Total other loans	**1 750 000**	**0**	**1 550 000**	**200 000**			
Bonds							
Bonds	5 070 113	0	5 070 113	0	April 2022	9%	EUR
Total bonds	**5 070 113**	**0**	**5 070 113**	**0**			
Total loan liabilities	**7 183 863**	**167 557**	**6 816 306**	**200 000**			

* The initial maturity of the bonds was April 2022. In February 2022, with the consent of the bondholders, the maturity of the bonds was extended until February 2024

The internal interest rate on loans and bonds does not differ significantly from the contractual interest rate.

The bonds are secured by mortgages, pledges of receivables arising from loan agreements and an account pledge, which must cover the liabilities arising from the bonds at least 105%. The total amount of guaranteed assets as of 31.12.2021 and 31.12.2020 was above the required level. At the end of the reporting period, mortgages and real estate pledges accounted for 11% (31.12.2020: 27%) of collateral, 45% (31.12.2021: 46%) receivables from the Lithuanian subsidiary (and thus receivables from Lithuanian companies to customers), 30% (31.12.2020: 27%). 2010: 36%) pledges of corporate microloans and consumer loan receivables, 26% receivables arising from leasing agreements (31.12.2020: 0%) and the rest were account pledges, receivables from a subsidiary, etc.

The bank loan is 100% secured by morgages.

The largest loan taken out from legal entities is secured both by the bank account of the Lithuanian subsidiary linked to the loan and by loans granted under this measure.

Note 15 Other payables and prepayments (in Euros)

	31.12.2021	Within 12 months	31.12.2020	Within 12 months	Note
Trade payables	25 554	25 554	14 868	14 868	
Payables to employees	48 698	48 698	32 641	32 641	
Tax liabilities	42 688	42 688	32 396	32 396	10
Other liabilities	250 918	250 918	80 564	80 564	
Interest liabilities	232 692	232 692	71 579	71 579	
Other accrued expenses	18 225	18 225	8 985	8 985	
Prepayments received	138 813	138 813	46 753	46 753	
Deferred income	138 813	138 813	46 753	46 753	
Total payables and prepayments	**506 670**	**506 670**	**207 222**	**207 222**	

Note 16 Share capital (in Euros)

	31.12.2021	31.12.2020
Share capital	459 332	459 332
Number of shares (pcs)	459 332	459 332

As at 31.12.2019 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 31.12.2021 and as of 31.12.2020. As retained earnings are negatiive, there is no contingent amount of income tax on dividends.

Note 17 Interest income (in Euros)

	2021	2020
Geographical breakdown of sales revenue		
Sales to EU countries		
Estonia	1 177 935	1 063 993
Lithuania	440 628	146 479
Sales to EU countries, total	**1 618 563**	**1 210 472**
Sales revenue total	**1 618 563**	**1 210 472**
Sectoral breakdown of sales revenue		
Interests from mortgage loans	342 208	376 216
Other interests	1 106 014	729 434
Fee income	170 340	104 822
Sales revenue total	**1 618 563**	**1 210 472**

Company's main source of revenue is interest received from lending activities. Interest is received from mortgage loans, small loans, microloans, hire-purchase, factoring and lease contracts.

Note 18 Interest expenses (in Euros)

	2021	2020
Bonds	534 424	527 129
Bank loans	18 142	35 216
Corporates	331 748	158 155
Total interest expense	**884 313**	**720 499**

Note 19 Other income (in Euros)

	2021	2020	Note
Penalty interest	47 133	190 205	
Other fee income	4 046	92	
ther operating income	339 675	5 222	9
Total other income	**390 853**	**195 519**	

Note 20 Operating expenses (in Euros)

	2021	2020
Office expenses	51 842	41 645
State and local taxes	15 016	14 954
IT services costs	75 821	57 981
Legal costs	48 035	71 267
Advertising and marketing costs	57 293	48 168
Accounting services (incl. audit costs)	29 870	28 417
Other	138 301	121 641
Total operating expenses	**416 178**	**384 074**

Other expenses include queries to databases, debt management costs, travel costs and various other operational costs.

Note 21 Labour expenses (in Euros)

	2021	2020
Wages and salaries	423 691	290 841
Labour taxes	95 442	70 685
Total labour expense	**519 134**	**361 527**
Average number of employees in full time equivalent units	**14**	**14**
Persons working under an employment contract	13	13
Member of the management or control body of a corporate	1	1

Note 22 Related parties (in Euros)

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

Country, where parent company is registered: Estonia

Related party balances according to groups	31.12.2021 Receivables	31.12.2021 Liabilities	31.12.2020 Receivables	31.12.2020 Liabilities	Note
Affiliates	0	0	575 473	0	13
Management and higher supervisory body and individuals with material ownership interest and material influence of management and higher supervisory body	598 994	1 180 319	847	0	

2021	Sales	Purchases	Received loans	Repayment of received loans	Note
Parent company	0	27 000	0	0	
Management and higher supervisory body and individuals with material ownership interest and material influence of management and higher supervisory body	51 449	273 650	898 000	0	

2020	Sales	Purchases	Received loans	Repayment of received loans	Note
Parent company	0	18 000	0	0	
Affiliates	78 820	204 116	0	0	13
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	300 000	

Remuneration and other significant benefits calculated for members of management and highest supervisory body	2021	2020
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 receice any ohter significant benefits. The company does not have any contingent liabilities in connection with its managements.

For infromation on associates, see Notes 9 and 13. The interest on the loan granted to the company recognized as an affiliate as of 31.12.2020 is 8%, maturity 31.12.2023 and the loan is unsecured.

As of 31.12.2021, this loan is recorded in the line “Management and higher supervisory body and individuals with material ownership interest and material influence of management and higher supervisory body”.

Note 23 Contingent liabilities (in Euros)

	31.12.2021	31.12.2020
Issued guarantees	1 684 474	1 564 196
Unused factoring limits	4 127 899	2 429 643
Total contingent liabilities	**5 812 373**	**3 993 839**

The unused factoring limit is the unused limit of factoring agreements concluded with customers.

Note 24 Unconsolidated financial statements of the parent company

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.

Statement of financial position (in Euros)

	31.12.2021	31.12.2020
Assets		
Cash	239 980	385 621
Loan receivables	5 018 112	3 589 933
Mortgage loans	1 081 115	1 224 413
Other loans	3 936 997	2 365 520
Other receivables and prepayments	2 913 052	1 809 119
Financial investments	529 565	0
Investments into subsidiaries and affiliates	2 320 663	2 493 774
Property, plant and equipment	59 537	7 318
Intangible assets	425 424	245 000
Total assets	**11 506 335**	**8 530 765**
Liabilities and equity		
Loan liabilities	9 153 358	5 733 863
Bank loans	156 590	363 750
Bonds	5 873 607	5 070 113
Other loan liabilities	3 123 161	300 000
Payables and prepayments	370 637	162 905
Total liabilities	**9 523 995**	**5 896 768**
Equity		
Share capital	459 332	459 332
Share premium	3 257 728	3 257 728
Retained earnings (loss)	-1 083 063	-606 534
Net profit (loss) for the financial year	**-651 658**	**-476 529**
Total equity	**1 982 339**	**2 633 997**
Total liabilities and equity	**11 506 335**	**8 530 765**

Income statement (in Euros)

	2021	2020
Interest income	788 729	849 345
Interest expense	-683 817	-625 684
Net interest income	**104 912**	**223 661**
Other income	357 849	182 893
Total revenue	**462 761**	**406 555**
Operating expenses	-322 766	-313 209
Labor expenses	-367 251	-274 788
Total expenses	**-690 018**	**-587 997**
Profit before impairment losses	**-227 257**	**-181 442**
Depreciation and amortisation	-65 318	-38 201
Changes in loan impairment reserve	-359 083	-256 886
Net profit (loss) for the financial year	**-651 658**	**-476 529**

Statement of Cash Flow (in Euros)

	2021	2020
Cash flows from operating activities		
Net profit (loss)	-651 658	-476 529
Adjustments		
Depreciation and amortisation	65 318	38 201
Interest expense	683 817	625 684
Interest income	-788 729	-849 345
Other adjustments	-2 628	0
Total adjustments	**-42 222**	**-185 460**
Total change in receivables and prepayments related to operating activities	-2 504 420	213 772
Total change in payables and prepayments related to operating activities	114 436	-31 639
Interest received	809 270	808 693
Total cash flows from operating activities	**-2 274 593**	**328 836**
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	-278 221	-283 518
Investments into subsidiaries and associate and other investments	-21 800	-2 089 962
Loans to subsidiaries and affiliates	-700 000	-1 085 500
Repayment of loans from subsidiaries and affiliates	300 000	1 639 042
Total cash flows from investing activities	**-700 021**	**-1 819 938**
Cash flows from financing activities		
Loans received	3 285 000	1 672 290
Repayments of loans received	-668 999	-1 555 829
Proceeds from issue of shares	0	2 688 771
Other proceeds from financing activities (bonds)	823 494	736 847
Other payments from financing activities (bonds)	-20 000	-1 234 000
Interest paid	-590 520	-605 671
Total cash flows from financing activities	**2 828 975**	**1 702 408**
Total cash flows	**-145 640**	**211 306**
Cash and cash equivalents at beginning of period	385 621	174 315
Change in cash and cash equivalents	**-145 640**	**211 306**
Cash and cash equivalents at end of period	239 980	385 621

Statement of changes in equity (in Euros)

	Share capital	Share premium	Own shares	Retained earnings (loss)	Total
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**
Net profit (loss) for the financial year	0	0	0	-651 658	-651 658
31.12.2021	**459 332**	**3 257 728**	**0**	**-1 734 721**	**1 982 339**

Adjusted unconsolidated equity	31.12.2020	31.12.2021
Unconsolidated equity	**2 633 997**	**1 982 339**
Investments into subsidiaries and affiliates	-2 493 774	-2 320 663
Investments into subsidiaries and affiliates, based on equity method	2 417 638	2 627 500
Adjusted unconsolidated equity	**2 557 861**	**2 289 176**

Note 25 Events After Balance Sheet Date

Extension of the maturity of the bonds

The initial maturity of the bonds that are recognized in the balance sheet as of 31.12.2021 and 31.12.2020 was April 2022. At the beginning of 2022, the maturity of the bonds was extended as a result of the bondholders' vote and the new maturity is February 2024. Other important conditions (interest rate and interest payment frequency, collaterals and collateral agent) stayed the same.

Increase in share capital

In April 2022, the share capital and share premium of Finora Capital AS were increased by EUR 1.63 million, as a result of which the paid-in capital increased to 5.3 million euros.

Bank license

Finora kreditas UAB, a subsidiary of Finora Capital AS in Lithuania, was issued a specialized bank license by the European Central Bank in May 2022, which enables it to start accepting deposits in addition to the financial services offered so far. The focus continues to be on offering loan products to small and medium-sized enterprises, but now we can do so on a larger scale and on better terms. The specialized bank license allows the provision of all banking services throughout the European Economic Area, except for investment advice and brokerage of investment products.

Signatures of the report

Signing of the report: 20.05.2022

The correctness of the annual report AS Finora Capital (registry code: 12324050) for the periood 01.01.2021 – 31.12.2021 has been approved:

Name:	Position:	Date and signature:
Andrus Alber	Member of the Board	20.05.2022

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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, 2021, and the consolidated statement of comprehensive income, 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, 2021, 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 other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. It is also our responsibility to disclose whether information presented in the Management report is in accordance with the applicable requirements provided for by law.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, in relation to the above, we are required to report that fact. We have nothing to report in this regard and we note that information presented in the management report is in material respects in accordance with the consolidated financial statements and with the applicable requirements provided for by law.

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.

Janno Greenbaum
Sworn Auditor, license number 486

Grant Thornton Baltic OÜ, license number 3

Pärnu mnt 22, 10141 Tallinn

May 20, 2022

Proposal for loss coverage (in Euros)

	31.12.2021
Profit (loss) of previous periods	-1 100 939
Annual period profit (loss)	-345 399
Total	**-1 446 338**
Coverage	
Profit (loss) of previous periods after distribution	-1 446 338
Total	**-1 446 338**

Decision on loss coverage (in Euros)

	31.12.2021
Profit (loss) of previous periods	-1 100 939
Annual period profit (loss)	-345 399
Total	**-1 446 338**
Coverage	
Profit (loss) of previous periods after distribution	-1 446 338
Total	**-1 446 338**

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 Management Board has prepared the management report and financial statements of AS Finora Capital for the financial year 2021. The Supervisory Board has reviewed the annual report prepared by the Management Board, which consists of the management report and the financial statements, the opinion of the sworn auditor and the proposal for the distribution of profits (coverage of loss) and approved it for submission to the general meeting of shareholders.

Veikko Maripuu

Chariman of the
Supervisory Board

signed digitally

Vahur Kraft

Member of the
Supervisory Board

signed digitally

Indrek Randveer

Member of the
Supervisory Board

signed digitally

Rein Ojavere

Member of the
Supervisory Board

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	1 618 563	100.00%	Yes

Share holders

Name	Registry code	Location	Size of ownership and currency
Nebbiolo Capital OÜ	11918037	Estonia	213 900 EUR
Other		Estonia	245 432 EUR

Contact details

Type	
Phone	+372 658 1300
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