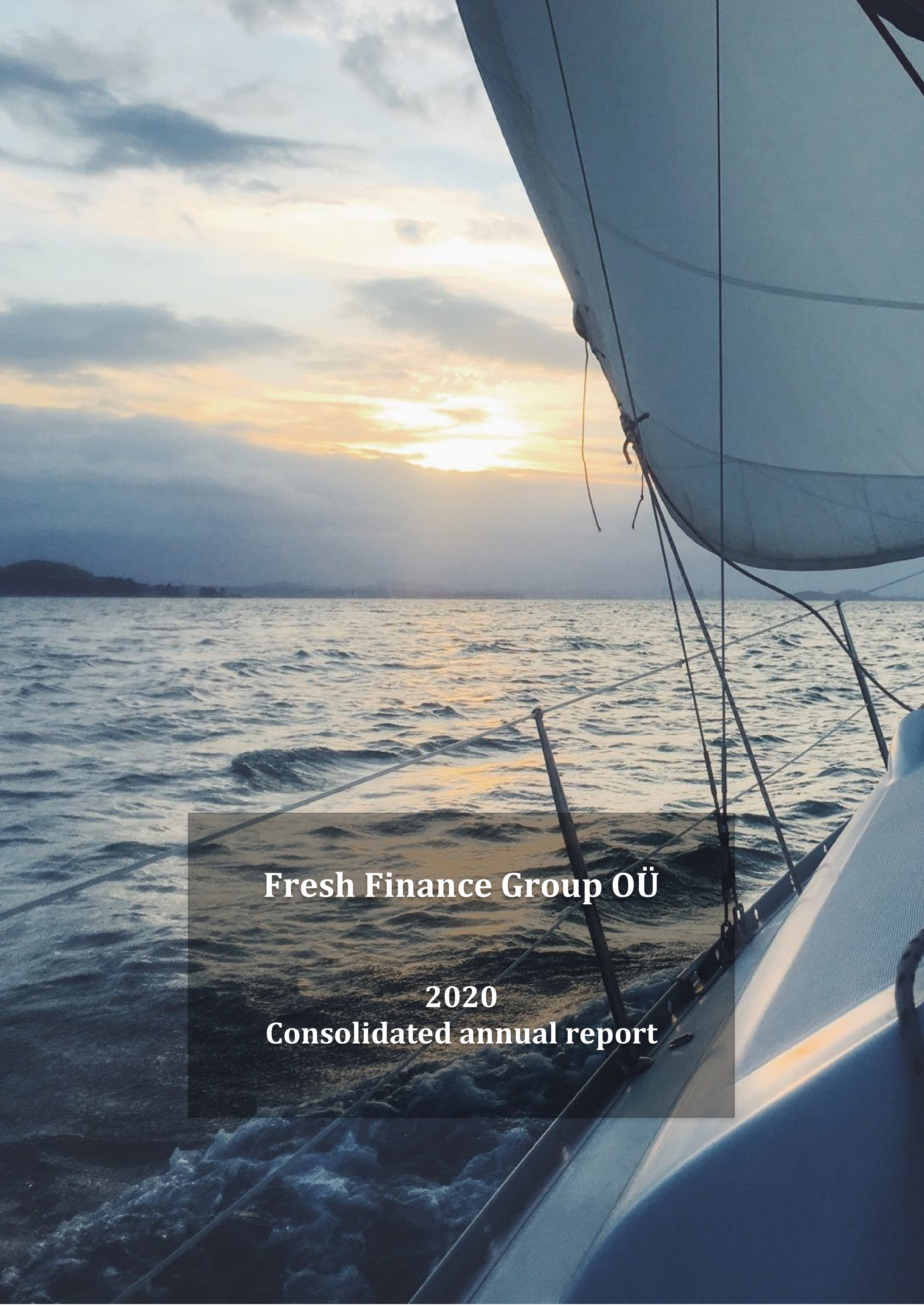

Fresh Finance Group OÜ

2020
Consolidated annual report

Fresh Finance Group OÜ

CONSOLIDATED ANNUAL REPORT 2020

Business name	Fresh Finance Group OÜ
Registry	Commercial Register of the Republic of Estonia
Commercial Registry number	14340366
Date of entry	27 September 2017
Address	Tartu mnt 83, 10115 Tallinn, Estonia
Telephone	+372 633 8282
E-mail	info@punkfinance.ee
Corporate website	www.punkfinance.ee
Reporting period	1 January 2020 – 31 December 2020
Member of the management board	Tanel Rõõm
Core business line	Licensed creditor activities (EMTAK code 64929)
Auditor	Aktsiaselts PricewaterhouseCoopers

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MANAGEMENT REPORT

Fresh Finance Group OÜ (the Entity, the FFG), a member of Aktsiaselts PlusPlus Capital (the PPC) group (the PlusPlus group) is a holding and managing company of the Group that operates as a credit provider through its subsidiaries in Estonia, Latvia and Lithuania.

As at 31 December 2020 and during the financial year 2020 the Group entities included:

Entity:	**Country:**	**Share:**	**Principal activity:**
Fresh Finance Group OÜ	Estonia	Parent company	Business strategy, IT development
Fresh Finance OÜ	Estonia	100% subsidiary	Credit provider
Fresh Finance AS	Latvia	100% subsidiary	Credit provider
Fresh Finance UAB	Lithuania	100% subsidiary	Credit provider

Fresh Finance Group entities provide credit and refinance products to private individuals in the Baltics under the brand name Punk Finance. Our products are tailored to offer clients a streamlined fully automated loan application flow that issues loan decision within a few minutes. In case of refinancing products, we seek to promote long-term relationships with clients and help them overcome their temporary financial difficulties and gain better control over their financial affairs. The Group is filling a gap in the market for clients with perceived credit constraints.

In 2020, Fresh Finance Group made significant investments into IT developments, improved operational capacity, and prepared to launch new loan products in Q1 2021. Attention was mainly paid to client loan application journey and necessary improvements were made in online sales channels and in the self-service to deliver the best possible customer experience.

In 2020 we were focussing on the strengthening the team, new Group CEO and new Management Board members were appointed in Estonian and Latvian subsidiaries. As a result, additional legal and financial competences were added to the management. The company also hired highly skilled key employees to be prepared for expansive growth in the coming years. In management’s opinion the changes made in 2020 were successful.

In 2020 significant demand for loan products was observed across the region. The plan for 2021 is to grow market share, introduce new sales channels, improve the product portfolio and decrease the client’s onboarding costs by expanding loyal client base. Fresh Finance also seeks to diversify its funding base to support the growth.

Key financials	**2020**	**2019**	**Change**
Total assets, EUR	3 098 569	4 138 649	*-25%*
Total loan portfolio, EUR	2 649 055	3 762 701	*-30%*
Total interest income, EUR	896 712	328 790	*173%*
Net interest income, EUR	209 148	42 007	*398%*

Key ratios	**2020**	**2019**	**Formulas used**
Net interest margin, %	23.3%	12.8%	*Net interest income / interest income*
Interest to portfolio, %	33.9%	8.7%	*Interest income / loan portfolio*

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of profit or loss and other comprehensive income

In Euros	Notes	2020	2019
Operating income			
Interest income calculated using the effective interest method	**5**	882 154	274 880
Other similar income	**5**	14 558	53 910
Total interest income		**896 712**	**328 790**
Interest expense	**5**	-687 564	-286 783
Net interest income (expense)		**209 148**	**42 007**
Other operating income	**5**	56 880	41 981
Miscellaneous operating expense			
Administrative and operating expenses	**6**	-425 386	-428 876
Salary expense	**7**	-700 988	-585 891
Net charge for expected credit losses on loans and advances to customers	**4**	-564 748	-148 904
Operating loss		**-1 425 094**	**-1 079 683**
Other financial income and expense	**8, 13**	7 301	-171 245
Loss before income tax		**-1 417 793**	**-1 250 928**
Income tax		0	-912
Loss for the year		**-1 417 793**	**-1 251 840**
Total comprehensive loss for the year		**-1 417 793**	**-1 251 840**
Loss attributable to the owners of the entity		-1 417 793	-1 251 840

The accompanying notes on pages **8-57** are an integral part of these financial statements.

Consolidated statement of financial position

In Euros	Notes	31.12.2020	31.12.2019
ASSETS			
Cash and cash equivalents	**9**	101 606	143 365
Trade and other receivables	**10**	119 502	35 424
Loans and advances to customers	**11, 12**	2 649 055	3 762 701
Goodwill	**14, 15**	190 666	190 666
Property, plant and equipment		37 740	6 493
Total assets		**3 098 569**	**4 138 649**
EQUITY AND LIABILITIES			
Share capital	**16**	50 000	50 000
Retained earnings		-2 731 004	-1 313 211
Total equity		**-2 681 004**	**-1 263 211**
Liabilities			
Trade and other payables	**18**	131 900	171 715
Borrowings	**19**	5 647 673	5 230 145
Total liabilities		**5 779 573**	**5 401 860**
Total equity and liabilities		**3 098 569**	**4 138 649**

The accompanying notes on pages **8-57** are an integral part of these financial statements.

Consolidated statement of cash flows

In Euros	Notes	2020	2019
Cash flows from operating activities			
Loss before income tax		-1 417 793	-1 250 928
Adjustments for non-cash items:			
Loss on equity method investment	**8, 13**	0	172 978
Depreciation and amortisation		6 253	1 169
Changes in working capital:			
Change in trade and other receivables	**10**	-84 078	-4 238
Change in trade and other payables	**18**	-39 457	125 758
Change in loans and advances to customers	**11, 12**	1 113 646	-2 474 378
Other adjustments:			
Interest expense	**5**	687 564	286 783
Net cash generated from operating activities		**266 135**	**-3 142 856**
Cash flows from investing activities			
Payment for acquisition of subsidiary, net of cash acquired	**14, 15**	0	-226 242
Net cash used in investing activities		**0**	**-226 242**
Cash flows from financing activities			
Loans received	**19**	940 000	4 095 000
Repayments of loans received	**11**	-266 180	-606 519
Repayments of leases received	**11**	-4 969	0
Interests paid	**5**	-976 745	-1 672
Net cash used in financing activities		**-307 894**	**3 486 809**
Net increase in cash and cash equivalents		-41 759	117 212
Cash and cash equivalents at the beginning of the year	**9**	**143 365**	**26 153**
Cash and cash equivalents at the end of the year	**9**	**101 606**	**143 365**

The accompanying notes on pages **8-57** are an integral part of these financial statements.

Consolidated statement of changes in equity

In Euros	Notes	Share capital	Retained earnings	Total
As at 31 December 2018	**16**	**50 000**	**-61 371**	**-11 371**
Total comprehensive loss for the year		0	-1 251 840	-1 251 840
As at 31 December 2019	**16**	**50 000**	**-1 313 211**	**-1 263 211**
Total comprehensive loss for the year		0	-1 417 793	-1 417 793
As at 31 December 2020	**16**	**50 000**	**-2 731 004**	**-2 681 004**

For more information refer to **Note 16**.

The accompanying notes on pages **8-57** are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Fresh Finance Group OÜ (hereinafter the Company, or the Parent, or together with its subsidiaries the Group) is a private limited liability company registered in the Republic of Estonia. The Company was registered on 27 September 2017 (former business name: Forward View OÜ). The address of its registered office is Tartu mnt 83, 10115 Tallinn, Estonia.

Fresh Finance Group OÜ is managing entity for subsidiaries operating in credit issuance. Since financial year 2019 Aktsiaselts PlusPlus Capital launched credit issuance activities through its subsidiary Fresh Finance Group OÜ and its subsidiaries (together the Group) in Estonia (Fresh Finance OÜ), Latvia (Fresh Finance AS) and Lithuania (Fresh Finance UAB).

The financial year of the Group starts on 1 January of the calendar year and ends on 31 December of the same calendar year.

Fresh Finance Group OÜ is the parent company of the Group and is a holding company. Aktsiaselts PlusPlus Capital owns 100% of the Company's shares as of 31 December 2020 and 31 December 2019; it is also the ultimate parent entity of the Company, owned by the following ultimate controlling parties: Mirje Trumsi 68% (2019: 71%), Karl Mitt 0% (2019: 15%), Ahti Aho 0% (2019: 10%), Vilius Gleb 3% (2019: 0%), Linda Visocka 3% (2019: 0%), Lauri Kelus 4% (2019: 0%) and Peeter Piho 22% (2019: 4%). As at 31 December 2020 and 31 December 2019 Fresh Finance Group OÜ held the following investments (hereinafter the Group):

Subsidiary	Country of incorporation	Field of activity	Ownership interest	
			31.12.2020	**31.12.2019**
Fresh Finance OÜ*	Estonia	Credit issuance	100%	100%
Fresh Finance AS**	Latvia	Credit issuance	100%	100%
Fresh Finance UAB***	Lithuania	Credit issuance	100%	100%

* *Acquired since 01.06.2019*
** *Acquired since 01.03.2019*
*** *Acquired since 01.01.2019*

The Company's management approved these financial statements on **14 May 2021** and are subject to approval by the shareholders. The shareholders of the Company have a statutory right to approve these financial statements or not to approve them and to require preparation of a new set of financial statements.

2. Accounting policies

2.1. Basis of preparation

These Consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS). The first date at which IFRS was applied was 29 September 2017.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements have been prepared under the historical cost convention, except as disclosed otherwise in the accounting policies.

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in **Chapter 3 "Critical Accounting Estimates, and Judgements in Applying Accounting Policies**.

The functional currency of each of the Group entities and presentation currency of the Group is the euro (EUR), all the currency-related numeric amounts and respective amounts written in words are in euros, except for if marked specifically for thousands or millions of euros.

2.2. New Accounting Pronouncements

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 1. January 2021, and which the Group has not early adopted.

<u>The following new or revised standards and interpretations became effective for the Group from 1 January 2020:</u>

Amendments to the Conceptual Framework for Financial Reporting

Effective for annual periods beginning on or after 1 January 2020.

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The Group has analysed and disclosed the effect of this change after its implementation. The implemented principles have been taken into consideration, no significant changes have been occurred in disclosed information.

Definition of a business – Amendments to IFRS 3

Effective for annual periods beginning on or after 1 January 2020.

The amendments revise the definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if there are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).

The Group has no significant impact on financial statements arising from this amendment.

Definition of materiality – Amendments to IAS 1 and IAS 8

Effective for annual periods beginning on or after 1 January 2020.

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The Group has analysed and disclosed the effect of this change after its implementation. The implemented principles have been taken into consideration, no significant changes have been occurred in disclosed information.

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7

Effective for annual periods beginning on or after 1 January 2020.

The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates (´IBORs´). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under both IFRS 9 and IAS 39 requires the future hedged cash flows to be ´highly probable´.

Where these cash flows depend on an IBOR, the relief provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward-looking prospective assessment in order to apply hedge accounting. While cash flows Under IBOR and IBOR replacement rates are currently expected to be broadly equivalent, which minimises any ineffectiveness, this might no longer be the case as the date of the reform gets closer.

Under the amendments, an entity may assume that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based, is not altered by IBOR reform. IBOR reform might also cause a hedge to fall outside the 80-125% range required by retrospective test Under IAS 39. IAS 39 has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR related uncertainty solely because the retrospective effectiveness falls outside this range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met.

In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. In order for hedge accounting to be applied, both IFRS 9 and IAS 39 require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis. In the context of a macro hedge, where an entity frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship. Any hedge ineffectiveness will continue to be recorded in profit or loss

Under both IAS 39 and IFRS 9. The amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present.

The amendments require entities to provide additional information to investors about their hedging relationships that are directly affected by these uncertainties, including the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process.

The Group has no significant impact on financial statements arising from this amendment.

Covid-19-Related Rent Concessions – Amendments to IFRS 16

Effective for annual periods beginning on or after 1 January 2020.

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

The Group didn't have any lease concessions related to COVID-19, so the amendment has not made significant impact on the Group's financial statements.

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

New Accounting Pronouncements:

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 1. January 2021, and which the Group has not early adopted.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

Effective date is not yet adopted by the European Union.

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary and the shares of the subsidiary are transferred during the transaction.

The Group has no significant impact on financial statements arising from this amendment.

Classification of liabilities as current or non-current – Amendments to IAS 1

Effective for annual periods beginning on or after 1 January 2022, not yet adopted by the European Union.

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

The Group analyses and discloses the effect of this change after its implementation.

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 European Union.

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 analyses and discloses the effect of this change after its implementation.

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

Effective for annual periods beginning on or after 1 January 2021, not yet adopted by the European Union.

The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.

End date for Phase 1 relief for non contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.

Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.

Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

The Group has no significant impact on financial statements arising from this amendment.

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.

2.3. Changes in accounting policies

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2019.

Company income tax and deferred income tax

Both Estonia and Latvia have replaced the traditional profit-based tax regimes with distribution-based tax regimes where corporate income tax is not payable on profit but rather on distribution of dividends. In accordance with IAS 12.52A and 57A, in distribution-based tax regimes no current or deferred tax liability is recognised in respect of undistributed profits until a liability to pay dividends is recognised. As a market practice in Estonia, this accounting policy has been applied consistently to all undistributed profits in the group, regardless of whether those profits accumulated in the parent or in the subsidiaries.

In June 2020, IFRS Interpretation Committee made an agenda decision where it concluded that the principle set out in IAS 12.52A and 57A only applies to undistributed profits accumulated in the parent company and does not apply to undistributed profits accumulated in the subsidiaries. Instead, the principles described in IAS 12.39-40 should be followed in respect of undistributed profits in subsidiaries, stipulating that a deferred tax shall be recognised in respect of such accumulated profits, unless it is probable that they will not be distributed to the parent in the foreseeable future.

Deferred income tax is recognised in case of temporary differences between the Group's carrying amounts of assets and liabilities and their tax bases (the tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes).

Pursuant to the laws of the Republic of Estonia, an entity's profit of the accounting year is not taxable in Estonia. The obligation to pay company income tax arises upon distribution of profit and it is recognised as an expense (in profit or loss for the period) when dividends are declared. Due to the nature of the taxation system, no deferred income tax assets or liabilities arise in entities registered in Estonia, except for possible deferred income tax liabilities related to an entity's investments in subsidiaries, associate and joint undertaking, and branches.

Deferred income tax liability arises for the Group in countries where the entity's reporting year profit is taxable. For the Group, deferred income tax liability also arises in respect to investments in an Estonian and Latvian subsidiary and associate undertaking, except for if the Group is able to control the timing of the reversal of the taxable temporary differences and it is probable that the reversal will not occur in the foreseeable future. Examples of taxable temporary reversal are the payment of dividends, the sale or liquidation of an investment, and other transactions.

The Group has control over the dividend policy of subsidiaries and is able to control the timing of the reversal of the temporary differences in respect to the relevant investment. If the parent company has decided not to distribute the subsidiary's profit in the foreseeable future, it does not recognise the deferred income tax liability. If the parent company assesses that the dividend will be paid in the foreseeable future, the deferred income tax liability is measured to the extent of the planned dividend payment.

The Group measures deferred income tax liability using the tax rates valid at the reporting date that are expected to apply to the taxable temporary differences of the period in which the temporary differences are expected to reverse. In Estonia, the valid company income tax rate is 20 percent (the payable tax amount is 20/80 of the net payment). From 2019, a lower tax rate is applied to regularly payable dividends – 14% (14/86 of the net payment). The lower tax rate can be applied every calendar year on dividend payments and other profit distributions to the extent that does not exceed the average amount of taxable paid dividends and other profit distributions of the previous three calendar years.

Based on above no effect or adjustment is considered to the current financial statements. The Group is able to control the timing of the reversal of the taxable temporary differences and it is probable that the reversal will not occur in the foreseeable future. No profit distribution in subsidiaries is expected in foreseeable future and no profit distributions in subsidiaries have done in prior periods.

In summary, no other adjustments in addition to the above-described ones were made in the current financial statements.

2.4. Significant accounting policies

The following are the significant accounting policies applied by the Group in preparing its consolidated financial statements.

a) Basis of consolidation

The consolidated financial statements present the financial information of the consolidating parent entity Fresh Finance Group OÜ and its subsidiaries, consolidated on a line-by-line basis. The subsidiaries are consolidated from the date on which control is transferred to the Group, and subsidiaries are deconsolidated from the date that control ceases.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when 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.

The subsidiaries use the same accounting policies in preparing their financial statements as the parent company. All inter-company transactions, receivables and payables and unrealised gains and losses from transactions between the Group companies have been fully eliminated in the financial statements. Unrealised losses are not eliminated if it constitutes asset impairment by substance.

The subsidiaries are recognized in the consolidated financial statements using the acquisition method.

The cost of a business combination accounted for using the acquisition method is allocated to the fair value of assets, liabilities, and contingent liabilities as at the date of acquisition. The difference between the cost of the acquisition and the fair value of acquired assets, liabilities and contingent liabilities is recognised as goodwill. If fair value exceeds cost, the difference (negative goodwill) is immediately recognised as income of the period.

Investments in subsidiaries in the unconsolidated primary financial statements of the Parent Company

Pursuant to the Accounting Act of the Republic of Estonia, information of the annual unconsolidated financial statements (primary statements) of the consolidating entity (Parent Company) shall be 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 in preparing the consolidated financial statements. Investments in subsidiaries are measured using equity method. Dividends paid by subsidiaries are recognised at the moment when the parent company obtains the right to these dividends.

b) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date at fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in operating expense.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances, and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. All contingent consideration (except that which is classified as equity) is measured at fair value with the changes in fair value in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

c) Functional currency

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries, and the Group's presentation currency, is the euro (EUR).

d) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less, that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value.

e) Financial assets and financial liabilities

(i) Financial assets and financial liabilities initial recognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets under normal market conditions are recognised on the trade date, the date on which the Group commits to the purchase or sale of the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss (FVTPL), transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions.

Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in income statement. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for assets measured at amortised cost (AC) and at fair value through other comprehensive income (FVOCI), which results in an accounting loss being recognised in income statement when an asset is newly originated.

(ii) Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes all fees paid and received between contracting parties, transaction costs, premiums or discounts that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired (POCI) financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes in value are recognised in income statement.

(iii) Financial assets subsequent measurement and derecognition

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset (i.e. whether the Group's objective is solely to collect the contractual cash flows from the assets, or to collect both the contractual cash flows and also the cash flows from the sale of assets; or is none of the above described two models) and the cash flow characteristics of the asset (i.e. whether the cash flows represent solely payments of principal and interest ("SPPI"), interest including only consideration for credit risk, time value of money, other basic lending risks and profit margin).

All Group's debt instruments are classified in amortised cost measurement category.

- Amortised cost – 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 accounted using the effective interest rate method. The carrying amount of these assets is adjusted by any expected credit loss allowance.

Impairment

The Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

For trade receivables and contract assets without a significant financing component the Group applies a simplified approach permitted by IFRS 9 and measures the allowance for impairment losses at expected lifetime credit losses from initial recognition of the receivables. The Group uses a provision matrix in which allowance for impairment losses is calculated for trade receivables falling into different ageing or overdue periods.

For all other debt instruments at amortised cost, the Group follows a three-stage model based on changes in credit quality since initial recognition.

- Stage 1 – comprises balances for which the credit risk has not increased significantly since initial recognition. ECL is measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter (12-month ECL).
- Stage 2 – comprises balances for which there has been a significant increase in credit risk since initial recognition but which do not have objective evidence of impairment. The expected credit losses are determined on a lifetime basis.
- Stage 3 – comprises balances that are credit-impaired (i.e. which are overdue more than 60 days, if debtor is insolvent, if it is likely that the debtor will enter bankruptcy or financial reorganisation). The expected credit losses are measured as lifetime expected credit losses.

Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual terms and conditions of issued loans. If the new terms are substantially different, the Group derecognises the original financial asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the asset. The Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition. Differences in the carrying amount are also recognised in income statement. If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount of the financial asset based on the revised cash flows discounted at the original effective interest rate and recognises a modification gain or loss in income statement.

Derecognition of financial assets
Financial assets are derecognised when the contractual rights to receive the cash flows from the financial assets have expired, or when they have been transferred and either

- the Group transfers substantially all the risks and rewards of ownership, or
- the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

Write-off policy
The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery

(iv) Financial liabilities subsequent measurement and derecognition

Financial liabilities are classified and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities (or part of a financial liability) are removed from the statement of financial position when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

f) Goodwill

Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash generating unit which is retained.

g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The initial cost of property, plant and equipment comprises its purchase price, including non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment is ready for its intended use, such as repair and maintenance costs, are normally charged to the statement of comprehensive income in the period the costs are incurred.

Depreciation is computed on a straight-line basis over the following useful lives:

Vehicles	2-10 years.

The useful lives, residual values and depreciation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from items in property, plant and equipment. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

h) Finance lease

The Group as a lessor
A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. The Group shall recognise assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease.

The lease payments included in the measurement of the net investment in the lease comprise the following payments for the right to use the underlying asset during the lease term that are not received at the commencement date:

- fixed payments (including in-substance fixed payments), less any lease incentives payable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The Group shall recognise finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.

i) Provisions for liabilities and charges and contingent liabilities

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Other contingent liabilities (guarantees, except financial guarantees, and other commitments) the realisation of which is less probable than non-realisation or related costs cannot be determined reliably, that in certain circumstances may become obligations, are disclosed in the notes to the financial statements as contingent liabilities.

j) Revenue and expenses

(i) Interest income and expenses

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
- Financial assets that are not POCI but have subsequently become credit-impaired (or stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (ie net of the expected credit loss provision).

Other similar income is interest revenue from leases.

(ii) Other income

Other operating income includes penalty revenue and other commission income. Penalties are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Other commission income are 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. Such income includes other commissions and fees (like reminder fees or similar) arising from operating activities.

Fee and commission income are 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.

(iii) Dividends

Dividend income is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividends.

k) Corporate income tax and deferred corporate income tax

Corporate income tax assets and liabilities, and income tax expenses and income include current (payable) income tax and deferred income tax. Income tax payable is classified as a current asset or a current liability, and deferred income tax as a non-current asset or a non-current liability.

Parent company and subsidiaries registered in Estonia

In accordance with applicable laws of the Republic of Estonia, the Estonian entities do not pay income tax on profits. Instead of the income tax payable on profits, the Estonian entities pay corporate income tax on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. As of 01 January 2015, the current tax rate is 20/80 on the amount paid out as net dividends. From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account.

Corporate income tax paid on dividends is recognized in the statement of comprehensive income as an income tax expense and in the statement of financial position as a deferred income tax liability to the extent of the planned dividend payment. An income tax liability is due on the 10th day of the month following the payment of dividends.

Deferred income tax is provided on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

Subsidiaries in Latvia and Lithuania

In Lithuania, corporate profits are subject to income tax. The corporate income tax rate is 15% in Lithuania on taxable income. Taxable income is calculated by adjusting profit before tax for permanent and temporary differences as permitted by local tax laws.

For Lithuanian subsidiary, the deferred income tax assets and liabilities are determined for all temporary differences between the tax bases of assets and liabilities and their carrying amounts on the balance sheet date. Deferred corporate income tax is calculated on the basis of tax rates applicable on the balance sheet date and current legislation expected to prevail when the deferred tax assets are settled. Deferred tax assets are recognised in the balance sheet only when it is probable that future taxable profit will be available against which the deductions can be made.
In Latvia, in accordance with the tax law effective until 2017, profits of entities in Latvia were taxable with income tax. Therefore, until that, deferred tax was provided for on all temporary differences arising between the tax bases of assets and liabilities of Latvian subsidiaries and their carrying amounts in the consolidated financial statements. In accordance with the new Corporate Income Tax Law, starting from 1 January 2018, corporate income tax with a rate of 20/80 is levied on profits arisen after 2017 only upon their distribution. Transitional provisions of the law allow for reductions in the income tax payable on dividends, if the entity has unused tax losses or certain provisions recognised by 31 December 2017.

Due to the new tax law, there is no longer differences between the tax bases and carrying amounts of assets and liabilities, and hence, deferred income tax assets and liabilities no longer arise in respect of subsidiaries in Latvia. All deferred tax assets and liabilities recognised in previous periods were derecognised in 2017 and related income tax expense/income was recorded in the statement of profit or loss or in other comprehensive income/equity in respect of deferred income tax assets/liabilities recognised through other comprehensive income/equity.

Deferred income tax is provided on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

l) Subsequent events

Subsequent events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the financial statements.

Subsequent events that are not adjusting events are disclosed in the notes when material.

m) Fair value measurement

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 measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- **Level 1** — Quoted (unadjusted) market prices in active markets for identical assets or liabilities,
- **Level 2** — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable,
- **Level 3** — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Quantitative disclosures on fair value measurement hierarchy at balance sheet dates:

	Notes	Carrying value	Fair value*	Level 1	Level 2	Level 3
Assets as at 31.12.2020						
Cash and cash equivalents	**9**	101 606	101 606	101 606	0	0
Trade and other receivables	**10**	119 502	119 502	0	119 502	0
Loans and advances to customers	**11, 12**	2 649 055	2 649 055	0	0	2 649 055

	Notes	Carrying value	Fair value*	Level 1	Level 2	Level 3
Assets as at 31.12.2019						
Cash and cash equivalents	**9**	143 365	143 365	143 365	0	0
Trade and other receivables	**10**	35 424	35 424	0	35 424	0
Loans and advances to customers	**11, 12**	3 762 701	3 762 701	0	0	3 762 701

	Notes	Carrying value	Fair value*	Level 1	Level 2	Level 3
Liabilities as at 31.12.2020						
Trade and other payables	**18**	131 900	131 900	0	0	131 900
Borrowings	**19**	5 647 673	5 647 673	0	0	5 647 673

	Notes	Carrying value	Fair value*	Level 1	Level 2	Level 3
Liabilities as at 31.12.2019						
Trade and other payables	**18**	171 715	171 715	0	0	171 715
Borrowings	**19**	5 230 145	5 230 145	0	0	5 230 145

**Fair value is practically equal to carrying value.*

For assets and liabilities that are recognised in the financial information at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

3. Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include the following critical accounting estimates:

Expected credit loss (ECL) measurement

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in **Chapter 4 "Financial risk management"**, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in **Chapter 4 "Financial risk management".**

4. Financial risk management

The Group's principal financial liabilities comprise borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include loan receivables, prepayments and other receivables, and cash and short-term deposits that derive directly from its operations.

The Group is exposed to credit risk, liquidity risk, and market risk. The Group's senior management (management board) oversees the management of these risks. The Group's senior management is supported by internal financial management function that advises on financial risks and the appropriate financial risk governance framework for the Group. Internal financial management function under governance of Group's CFO reviews and agrees policies for managing each of these risks, which are summarised below.

a) Credit risk

The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments. The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position.

Maximum exposure to credit risk at the reporting date:

	Notes	**31.12.2020**	**31.12.2019**
Cash and cash equivalents	**9**	101 606	143 365
Trade and other receivables	**10**	119 502	35 424
Loans and advances to customers	**11, 12**	2 649 055	3 762 701
		2 870 163	**3 941 490**

There were no existing non-issued loans or unused limits as at year-ends 2020 nor 2019.

Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk. The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

Loan applications originating with the relevant client relationship managers are passed on to the relevant credit committee for the approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees.

Measurement of expected credit loss (ECL)

IFRS 9 provides a three-phase model for measuring credit losses that takes into account changes in credit quality since initial recognition as follows:

- A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored by the Group.

- If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet considered to be credit impaired. If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3.

- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis and considered under Stage 3.

Significant increase in credit risk (SICR)

The Group considers a financial instrument to have experienced a significant increase in credit risk when there have been adverse changes in the economic environment, which might affect the borrowers' performance (e.g. adverse changes in regional unemployment rate, in inflation, in income).

A backstop is applied, and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments. The Group has not used the low credit risk exemption for any financial instruments in the year.

Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when the borrower is more than 60 days past due on its contractual payments or when the borrower is in significant financial difficulty. These are instances where the borrower is deceased, is insolvent or is marked as in proceeding in case of retail loans or liquidation, execution or going through reorganisation proceedings in case of non-retail loans.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group's expected credit loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis that considers the likelihood of a financial instrument returning to default status after curing by using different possible definitions of cures.

Measuring ECL – inputs, assumptions, and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- EAD is expressed by Group's assessment of the amounts the Group expects to be owed at the time of default. For off-balance-sheet items, the EAD shall include an estimate of what amounts will be taking into account at the time of the default.

- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). The LGDs are determined based on the factors which impact the recoveries made post default.

The ECL is calculated as a product of the main inputs - PD, LGD and EAD, discounted by effective interest rate (EIR). Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD.

The assumptions underlying the ECL calculation are monitored and reviewed on a regular basis. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECLs both incorporate supportable forward-looking information. The Group has identified certain key economic variables that correlate with developments in credit risk and ECLs.

Sensitivity analysis

The most significant indicators affecting the ECL allowance are as follows:

(i) Consumer price index, giving the indication of the inflation level of the economy

(ii) Unemployment rate, given its impact on secured and unsecured borrowers' ability to meet their contractual repayments.

(iii) GDP, given the significant impact on counterparties' performance and collateral valuations; and

(iv) Interest rate, given its impact on counterparties' likelihood of default.

The above-mentioned assumptions are taken into consideration when assessing the counterparties' likelihood of default. These variables are not modelled individually into the ECL model rather a combined macro-economic variable is used to accounted for these effects.

For the sensitivity analysis the ECL's main factors - Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) – are considered throughout the Group's expected credit loss calculation model.

PD and RV (Recovery Value, equals to EAD less LGD, used in the model for 2020, to reflect the sensitivity more thoroughly) and EIR (used for 2019) have major effect, the following indicates sensitivity of allowances to the above factors:

2020	**Change in PD (% change applied to the curve of probability of default)**						
Change in RV	**-15%**	**-10%**	**-5%**	**No change**	**5%**	**10%**	**15%**
15%	-479 187	-486 652	-494 106	-501 547	-508 976	-516 394	-523 800
10%	-433 803	-440 172	-446 530	-452 878	-459 216	-465 544	-471 862
5%	-388 420	-393 692	-398 955	-404 210	-409 456	-414 694	-419 924
No change	-343 037	-347 212	-351 379	**-355 541**	-359 696	-363 844	-367 987
-5%	-297 654	-300 731	-303 804	-306 872	-309 936	-312 995	-316 049
-10%	-252 271	-254 251	-256 229	-258 204	-260 176	-262 145	-264 111
-15%	-208 573	-209 456	-210 339	-211 220	-212 101	-212 981	-213 859

2019	**Change in PD (% change applied to the curve of probability of default)**						
Change in EIR	**-15%**	**-10%**	**-5%**	**No change**	**5%**	**10%**	**15%**
15%	-152 434	-156 601	-160 746	-164 869	-168 970	-173 050	-177 108
10%	-156 762	-161 166	-165 545	-169 901	-174 233	-178 542	-182 827
5%	-161 606	-166 274	-170 916	-175 532	-180 122	-184 687	-189 226
No change	-167 060	-172 026	-176 962	**-181 870**	-186 750	-191 603	-196 428
-5%	-173 242	-178 543	-183 814	-189 053	-194 261	-199 439	-204 587
-10%	-180 299	-185 984	-191 635	-197 251	-202 834	-208 382	-213 898
-15%	-188 420	-194 546	-200 634	-206 684	-212 697	-218 672	-224 611

Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information available for the Group to be statistically credible.

Where sufficient information is not available internally, the Group has considered benchmarking internal / external supplementary data to use for modelling purposes.

The characteristics and any supplementary data used to determine groupings are product type, contract type, market, number of overdue days of the contract, contract age as months in book. The appropriateness of groupings is monitored and reviewed on a periodic basis

Exposure to credit risk

(i) Cash and cash equivalents

The bank account balances presented as part of the cash and cash equivalents of the Group are divided according to the credit ratings of banks (Moody's long-term) as follows:

Rating	Notes	31.12.2020	31.12.2019
Aa3 (2019: Aa3)		97 923	137 835
Baa3 (2019: Baa3)		1 717	4 382
Aa2 (2019: Aa2)		1 951	1 121
N/A		15	27
Total	**9**	**101 606**	**143 365**

The Group management assesses that there is no indication of an impairment for cash and cash equivalents because the Group holds its liquid assets in banks with very good ratings. Management has assessed that the ECL from credit institutions exposures is immaterial due to the strong ratings of corresponding parties and their financial position.

(ii) Trade and other receivables

Trade and other receivables consists of other receivables from related parties, prepayments for future expenses, prepayments to suppliers, and prepayments to Tax Board.

Trade and other receivables have been settled after the balance sheet date or bear very low credit risk based on management assessment.

(iii) Loans and advances to customers

Detailed explanation of classes of loans issued is provided below:

- **Refinancing** – uncollateralized loans issued to private individuals for debt consolidation and refinancing of existing obligations.
- **Consumer credits** - uncollateralized loans issued to private individuals under standard terms where use of proceeds is not limited.
- **Mortgage loans** – loans issued to private individuals and small-sized companies under standard terms that are collateralized by mortgages mostly on residential property, mainly for consumer spending and working capital.
- **Leases** – loans issued to private individuals for financing purchase of vehicles.
- **Other** – loans issued to legal entities collateralized by personal surety or other smaller loans to corporates, mainly for working capital and investments into fixed assets.

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised.

	31.12.2020				
	Stage 1 12-months ECL	**Stage 2 Lifetime ECL for SICR**	**Stage 3 Lifetime ECL for credit impaired**	**Purchased or originated credit-impaired loans**	**Total**
Refinancing	1 288 888	228 215	424 055	0	**1 941 158**
Consumer credits	282 811	85 678	126 034	162 352	**656 875**
Mortgage loans	105 875	1 456	103 737	86 649	**297 717**
Leases	12 291	1 316	1 061	22 070	**36 738**
Other	30 682	0	41 422	0	**72 104**
Gross carrying amount	**1 720 547**	**316 665**	**696 309**	**271 071**	**3 004 592**
Loss allowance	-70 295	-14 243	-213 718	-57 281	**-355 537**
Carrying amount	**1 650 252**	**302 422**	**482 591**	**213 790**	**2 649 055**

	31.12.2019				
	Stage 1 12-months ECL	**Stage 2 Lifetime ECL for SICR**	**Stage 3 Lifetime ECL for credit impaired**	**Purchased or originated credit-impaired loans**	**Total**
Refinancing	1 072 266	306 382	102 503	0	**1 481 151**
Consumer credits	660 657	255 329	10 354	346 973	**1 273 313**
Mortgage loans	253 947	73 735	276 541	252 388	**856 611**
Leases	87 872	14 752	37 233	72 230	**212 087**
Other	111 514	9 895	0	0	**121 409**
Gross carrying amount	**2 186 256**	**660 093**	**426 631**	**671 591**	**3 944 571**
Loss allowance	-59 955	-44 633	-56 796	-20 486	**-181 870**
Carrying amount	**2 126 301**	**615 460**	**369 835**	**651 105**	**3 762 701**

The loss allowance recognised in the period is impacted by a variety of factors. The following tables explain the changes in the loss allowance:

Loan portfolio total	**Stage 1**	**Stage 2**	**Stage 3**		
	12-months ECL	**Lifetime ECL for SICR**	**Lifetime ECL for credit impaired**	**Purchased or originated credit-impaired**	**Total**
Loss allowance as at 1 January 2020	**59 955**	**44 633**	**56 796**	**20 486**	**181 870**
Adjusted loss allowance as at 1 January 2020*	**83 145**	**13 771**	**60 364**	**24 590**	**181 870**
Movements with P&L impact					
Transfers:					
Transfer from Stage 1 to Stage 2	-6 709	6 709	0	0	**0**
Transfer from Stage 1 to Stage 3	-15 406	0	15 406	0	**0**
Transfer from Stage 2 to Stage 3	0	-574	574	0	**0**
Transfer from Stage 2 to Stage 1	282	-282	0	0	**0**
Transfer from Stage 3 to Stage 1	1 589	0	-1 589	0	**0**
Transfer from Stage 3 to Stage 2	0	290	-290	0	**0**
New financial assets originated or purchased**	36 988	5 681	86 999	0	**129 668**
Changes in PDs/LGDs/EADs	4 761	1 563	381 096	47 660	**435 080**
Total net P&L charge during the period	**21 505**	**13 387**	**482 195**	**47 660**	**564 748**
Other movements with no P&L impact					
Write-offs and repayments***	-34 355	-12 915	-328 842	-14 969	**-391 081**
Loss allowance as at 31 December 2020	**70 295**	**14 243**	**213 718**	**57 281**	**355 537**

**Adjusted due to change in classification to stages by overdue days in 2020 vs 2019*
***New financial asset allowances are shown given their stage at the end of the year, the transfers between stages does not show the transfers for loans originated during the current financial year*
****Allowances on financial assets written-off and repaid during the current financial year*

Loan portfolio total	**Stage 1**	**Stage 2**	**Stage 3**		
	12-months ECL	**Lifetime ECL for SICR**	**Lifetime ECL for credit impaired**	**Purchased credit-impaired**	**Total**
Loss allowance as at 1 January 2019	**0**	**0**	**0**	**0**	**0**
Loss allowance as at 31 December 2019	**59 955**	**44 633**	**56 796**	**20 486**	**181 870**

The following table explain the changes in the loss allowance by product groups:

Refinancing	**Stage 1**	**Stage 2**	**Stage 3**		
	12-months ECL	**Lifetime ECL for SICR**	**Lifetime ECL for credit impaired**	**Purchased or originated credit-impaired**	**Total**
Adjusted loss allowance as at 1 January 2020*	**42 835**	**9 816**	**32 278**	**0**	**84 929**
Movements with P&L impact					
Transfers:					
Transfer from Stage 1 to Stage 2	-4 536	4 536	0	0	**0**
Transfer from Stage 1 to Stage 3	-6 537	0	6 537	0	**0**
Transfer from Stage 2 to Stage 3	0	0	0	0	**0**
Transfer from Stage 2 to Stage 1	0	0	0	0	**0**
Transfer from Stage 3 to Stage 1	595	0	-595	0	**0**
Transfer from Stage 3 to Stage 2	0	0	0	0	**0**
New financial assets originated or purchased**	31 809	4 617	80 152	0	**116 578**
Changes in PDs/LGDs/EADs	1 410	855	109 338	0	**111 603**
Total net P&L charge during the period	**22 741**	**10 008**	**195 432**	**0**	**228 181**
Other movements with no P&L impact					
Write-offs and repayments***	-16 784	-9 817	-104 342	0	**-130 943**
Loss allowance as at 31 December 2020	**48 792**	**10 007**	**123 368**	**0**	**182 167**

**Adjusted due to change in classification to stages by overdue days in 2020 vs 2019*
***New financial asset allowances are shown given their stage at the end of the year, the transfers between stages does not show the transfers for loans originated during the current financial year*
****Allowances on financial assets written-off and repaid during the current financial year*

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The following table explain the changes in the loss allowance by product groups:

Consumer credits	Stage 1 12-months ECL	Stage 2 Lifetime ECL for SICR	Stage 3 Lifetime ECL for credit impaired	Purchased or originated credit-impaired	Total
Adjusted loss allowance as at 1 January 2020*	**24 385**	**3 092**	**4 028**	**0**	**31 505**
Movements with P&L impact					
Transfers:					
Transfer from Stage 1 to Stage 2	-2 047	2 047	0	0	**0**
Transfer from Stage 1 to Stage 3	-2 801	0	2 801	0	**0**
Transfer from Stage 2 to Stage 3	0	-160	160	0	**0**
Transfer from Stage 2 to Stage 1	183	-183	0	0	**0**
Transfer from Stage 3 to Stage 1	0	0	0	0	**0**
Transfer from Stage 3 to Stage 2	0	0	0	0	**0**
New financial assets originated or purchased**	5 179	1 064	6 847	0	**13 090**
Changes in PDs/LGDs/EADs	1 610	972	184 499	0	**187 081**
Total net P&L charge during the period	**2 124**	**3 740**	**194 307**	**0**	**200 171**
Other movements with no P&L impact					
Write-offs and repayments***	-14 158	-2 748	-171 343	0	**-188 249**
Loss allowance as at 31 December 2020	**12 351**	**4 084**	**26 992**	**0**	**43 427**

**Adjusted due to change in classification to stages by overdue days in 2020 vs 2019*
***New financial asset allowances are shown given their stage at the end of the year, the transfers between stages does not show the transfers for loans originated during the current financial year*
****Allowances on financial assets written-off and repaid during the current financial year*

The following table explain the changes in the loss allowance by product groups:

Mortgage loans	**Stage 1**	**Stage 2**	**Stage 3**		
	12-months ECL	**Lifetime ECL for SICR**	**Lifetime ECL for credit impaired**	**Purchased or originated credit-impaired**	**Total**
Adjusted loss allowance as at 1 January 2020*	**4 005**	**414**	**20 611**	**24 590**	**49 620**
Movements with P&L impact					
Transfers:					
Transfer from Stage 1 to Stage 2	0	0	0	0	**0**
Transfer from Stage 1 to Stage 3	-245	0	245	0	**0**
Transfer from Stage 2 to Stage 3	0	-414	414	0	**0**
Transfer from Stage 2 to Stage 1	0	0	0	0	**0**
Transfer from Stage 3 to Stage 1	994	0	-994	0	**0**
Transfer from Stage 3 to Stage 2	0	290	-290	0	**0**
New financial assets originated or purchased**	0	0	0	0	**0**
Changes in PDs/LGDs/EADs	2 536	-201	6 231	32 648	**41 214**
Total net P&L charge during the period	**3 285**	**-325**	**5 606**	**32 648**	**41 214**
Other movements with no P&L impact					
Write-offs and repayments***	-1 879	0	11 842	-9 969	**-6**
Loss allowance as at 31 December 2020	**5 411**	**89**	**38 059**	**47 269**	**90 828**

**Adjusted due to change in classification to stages by overdue days in 2020 vs 2019*
***New financial asset allowances are shown given their stage at the end of the year, the transfers between stages does not show the transfers for loans originated during the current financial year*
****Allowances on financial assets written-off and repaid during the current financial year*

The following table explain the changes in the loss allowance by product groups:

Leases	**Stage 1**	**Stage 2**	**Stage 3**		
	12-months ECL	**Lifetime ECL for SICR**	**Lifetime ECL for credit impaired**	**Purchased or originated credit-impaired**	**Total**
Adjusted loss allowance as at 1 January 2020*	**3 813**	**449**	**3 447**	**0**	**7 709**
Movements with P&L impact					
Transfers:					
Transfer from Stage 1 to Stage 2	-126	126	0	0	**0**
Transfer from Stage 1 to Stage 3	-96	0	96	0	**0**
Transfer from Stage 2 to Stage 3	0	0	0	0	**0**
Transfer from Stage 2 to Stage 1	99	-99	0	0	**0**
Transfer from Stage 3 to Stage 1	0	0	0	0	**0**
Transfer from Stage 3 to Stage 2	0	0	0	0	**0**
New financial assets originated or purchased**	0	0	0	0	**0**
Changes in PDs/LGDs/EADs	-1 520	-63	53 516	15 012	**66 945**
Total net P&L charge during the period	**-1 643**	**-36**	**53 612**	**15 012**	**66 945**
Other movements with no P&L impact					
Write-offs and repayments***	-1 628	-350	-56 798	0	**-58 776**
Loss allowance as at 31 December 2020	**542**	**63**	**261**	**15 012**	**15 878**

**Adjusted due to change in classification to stages by overdue days in 2020 vs 2019*
***New financial asset allowances are shown given their stage at the end of the year, the transfers between stages does not show the transfers for loans originated during the current financial year*
****Allowances on financial assets written-off and repaid during the current financial year*

The following table explain the changes in the loss allowance by product groups:

Other	Stage 1	Stage 2	Stage 3		
	12-months ECL	**Lifetime ECL for SICR**	**Lifetime ECL for credit impaired**	**Purchased or originated credit-impaired**	**Total**
Adjusted loss allowance as at 1 January 2020*	**8 107**	**0**	**0**	**0**	**8 107**
Movements with P&L impact					
Transfers:					
Transfer from Stage 1 to Stage 2	0	0	0	0	**0**
Transfer from Stage 1 to Stage 3	-5 727	0	5 727	0	**0**
Transfer from Stage 2 to Stage 3	0	0	0	0	**0**
Transfer from Stage 2 to Stage 1	0	0	0	0	**0**
Transfer from Stage 3 to Stage 1	0	0	0	0	**0**
Transfer from Stage 3 to Stage 2	0	0	0	0	**0**
New financial assets originated or purchased**	0	0	0	0	**0**
Changes in PDs/LGDs/EADs	725	0	27 512	0	**28 237**
Total net P&L charge during the period	**-5 002**	**0**	**33 239**	**0**	**28 237**
Other movements with no P&L impact					
Write-offs and repayments***	94	0	-8 201	-5000	**-13 107**
Loss allowance as at 31 December 2020	**3 199**	**0**	**25 038**	**-5 000**	**23 237**

**Adjusted due to change in classification to stages by overdue days in 2020 vs 2019*
***New financial asset allowances are shown given their stage at the end of the year, the transfers between stages does not show the transfers for loans originated during the current financial year*
****Allowances on financial assets written-off and repaid during the current financial year*

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The following table further explains changes in the gross carrying amount to help explain their significance to the changes in the loss allowance for the total portfolio.

Loan portfolio total	Stage 1	Stage 2	Stage 3		
	12-months ECL	**Lifetime ECL for SICR**	**Lifetime ECL for credit impaired**	**Purchased or originated credit-impaired**	**Total**
Gross carrying amount as at 1 January 2020	**2 186 256**	**660 093**	**426 631**	**671 591**	**3 944 571**
Adjusted gross carrying amount as at 1 January 2020*	**2 519 295**	**217 824**	**528 043**	**679 409**	**3 944 571**
Transfers:					
Transfer from Stage 1 to Stage 2	-198 648	198 648	0	0	**0**
Transfer from Stage 1 to Stage 3	-334 198	0	334 198	0	**0**
Transfer from Stage 2 to Stage 3	0	-32 305	32 305	0	**0**
Transfer from Stage 2 to Stage 1	5 981	-5 981	0	0	**0**
Transfer from Stage 3 to Stage 1	17 208	0	-17 208	0	**0**
Transfer from Stage 3 to Stage 2	0	2 742	-2 742	0	**0**
New financial assets originated or purchased**	937 171	128 967	305 260	0	**1 371 398**
Write-offs and repayments***	-1 226 262	-193 230	-483 547	-408 338	**-2 311 377**
Gross carrying amount as at 31 December 2020	**1 720 547**	**316 665**	**696 309**	**271 071**	**3 004 592**

**Adjusted due to change in classification to stages by overdue days in 2020 vs 2019*
***New financial asset balances are shown given their stage at the end of the year, the transfers between stages does not show the transfers for loans originated during the current financial year*
****Financial assets written-off and repaid during the current financial year*

Loan portfolio total	Stage 1	Stage 2	Stage 3		
	12-months ECL	**Lifetime ECL for SICR**	**Lifetime ECL for credit impaired**	**Purchased or originated credit-impaired**	**Total**
Gross carrying amount as at 1 January 2019	**300 000**	**0**	**0**	**0**	**300 000**
New financial assets originated or purchased	3 480 666	0	0	1 516 531	**4 997 197**
Transfers:					
Transfer from Stage 1 to Stage 2	-660 093	660 093	0	0	**0**
Transfer from Stage 1 to Stage 3	-426 631	0	426 631	0	**0**
Financial assets derecognised during the period other than write-offs	-543 230	-33 853	-9 974	-900 363	**-1 487 420**
Changes in interest accrual	35 544	33 853	9 974	55 423	**134 794**
Gross carrying amount as at 31 December 2019	**2 186 256**	**660 093**	**426 631**	**671 591**	**3 944 571**

The following table further explains changes in the gross carrying amount by product groups to help explain their significance to the changes in the loss allowance for the total portfolio.

Refinancing	**Stage 1**	**Stage 2**	**Stage 3**		
	12-months ECL	**Lifetime ECL for SICR**	**Lifetime ECL for credit impaired**	**Purchased or originated credit-impaired**	**Total**
Gross carrying amount as at 1 January 2020	**1 072 266**	**306 382**	**102 503**	**0**	**1 481 151**
Adjusted gross carrying amount as at 1 January 2020*	**1 217 120**	**112 334**	**151 697**	**0**	**1 481 151**
Transfers:					
Transfer from Stage 1 to Stage 2	-127 634	127 634	0	0	**0**
Transfer from Stage 1 to Stage 3	-179 342	0	179 342	0	**0**
Transfer from Stage 2 to Stage 3	0	0	0	0	**0**
Transfer from Stage 2 to Stage 1	0	0	0	0	**0**
Transfer from Stage 3 to Stage 1	7 816	0	-7 816	0	**0**
Transfer from Stage 3 to Stage 2	0	0	0	0	**0**
New financial assets originated or purchased**	818 586	106 637	270 603	0	**1 195 826**
Write-offs and repayments***	-447 658	-118 390	-169 771	0	**-735 819**
Gross carrying amount as at 31 December 2020	**1 288 888**	**228 215**	**424 055**	**0**	**1 941 158**

**Adjusted due to change in classification to stages by overdue days in 2020 vs 2019*
***New financial asset balances are shown given their stage at the end of the year, the transfers between stages does not show the transfers for loans originated during the current financial year*
****Financial assets written-off and repaid during the current financial year*

The following table further explains changes in the gross carrying amount by product groups to help explain their significance to the changes in the loss allowance for the total portfolio.

Consumer credits	**Stage 1**	**Stage 2**	**Stage 3**		
	12-months ECL	**Lifetime ECL for SICR**	**Lifetime ECL for credit impaired**	**Purchased or originated credit-impaired**	**Total**
Gross carrying amount as at 1 January 2020	660 657	255 329	10 354	346 973	1 273 313
Adjusted gross carrying amount as at 1 January 2020*	**810 512**	**67 712**	**48 116**	**346 973**	**1 273 313**
Transfers:					
Transfer from Stage 1 to Stage 2	-68 289	68 289	0	0	**0**
Transfer from Stage 1 to Stage 3	-90 304	0	90 304	0	**0**
Transfer from Stage 2 to Stage 3	0	-3 505	3 505	0	**0**
Transfer from Stage 2 to Stage 1	3 997	-3 997	0	0	**0**
Transfer from Stage 3 to Stage 1	0	0	0	0	**0**
Transfer from Stage 3 to Stage 2	0	0	0	0	**0**
New financial assets originated or purchased**	118 585	22 330	34 657	0	**175 572**
Write-offs and repayments***	-491 690	-65 151	-50 548	-184 621	**-792 010**
Gross carrying amount as at 31 December 2020	**282 811**	**85 678**	**126 034**	**162 352**	**656 875**

**Adjusted due to change in classification to stages by overdue days in 2020 vs 2019*
***New financial asset balances are shown given their stage at the end of the year, the transfers between stages does not show the transfers for loans originated during the current financial year*
****Financial assets written-off and repaid during the current financial year*

The following table further explains changes in the gross carrying amount by product groups to help explain their significance to the changes in the loss allowance for the total portfolio.

Mortgage loans	**Stage 1**	**Stage 2**	**Stage 3**		
	12-months ECL	**Lifetime ECL for SICR**	**Lifetime ECL for credit impaired**	**Purchased or originated credit-impaired**	**Total**
Gross carrying amount as at 1 January 2020	253 947	73 735	276 541	252 388	856 611
Adjusted gross carrying amount as at 1 January 2020*	**287 832**	**28 800**	**287 548**	**252 431**	**856 611**
Transfers:					
Transfer from Stage 1 to Stage 2	0	0	0	0	**0**
Transfer from Stage 1 to Stage 3	-17 509	0	17 509	0	**0**
Transfer from Stage 2 to Stage 3	0	-28 800	28 800	0	**0**
Transfer from Stage 2 to Stage 1	0	0	0	0	**0**
Transfer from Stage 3 to Stage 1	9 392	0	-9 392	0	**0**
Transfer from Stage 3 to Stage 2	0	2 742	-2 742	0	**0**
New financial assets originated or purchased**	0	0	0	0	**0**
Write-offs and repayments***	-173 840	-1 286	-217 986	-165 782	**-558 894**
Gross carrying amount as at 31 December 2020	**105 875**	**1 456**	**103 737**	**86 649**	**297 717**

**Adjusted due to change in classification to stages by overdue days in 2020 vs 2019*
***New financial asset balances are shown given their stage at the end of the year, the transfers between stages does not show the transfers for loans originated during the current financial year*
****Financial assets written-off and repaid during the current financial year*

The following table further explains changes in the gross carrying amount by product groups to help explain their significance to the changes in the loss allowance for the total portfolio.

Leases	Stage 1	Stage 2	Stage 3		
	12-months ECL	Lifetime ECL for SICR	Lifetime ECL for credit impaired	Purchased or originated credit-impaired	Total
Gross carrying amount as at 1 January 2020	87 872	14 752	37 233	72 230	212 087
Adjusted gross carrying amount as at 1 January 2020*	**82 422**	**8 978**	**40 682**	**80 005**	**212 087**
Transfers:					
Transfer from Stage 1 to Stage 2	-2 725	2 725	0	0	**0**
Transfer from Stage 1 to Stage 3	-2 085	0	2 085	0	**0**
Transfer from Stage 2 to Stage 3	0	0	0	0	**0**
Transfer from Stage 2 to Stage 1	1 984	-1 984	0	0	**0**
Transfer from Stage 3 to Stage 1	0	0	0	0	**0**
Transfer from Stage 3 to Stage 2	0	0	0	0	**0**
New financial assets originated or purchased**	0	0	0	0	**0**
Write-offs and repayments***	-67 305	-8 403	-41 706	-57 935	**-175 349**
Gross carrying amount as at 31 December 2020	**12 291**	**1 316**	**1 061**	**22 070**	**36 738**

**Adjusted due to change in classification to stages by overdue days in 2020 vs 2019*
***New financial asset balances are shown given their stage at the end of the year, the transfers between stages does not show the transfers for loans originated during the current financial year*
****Financial assets written-off and repaid during the current financial year*

The following table further explains changes in the gross carrying amount by product groups to help explain their significance to the changes in the loss allowance for the total portfolio.

Other	**Stage 1**	**Stage 2**	**Stage 3**		
	12-months ECL	**Lifetime ECL for SICR**	**Lifetime ECL for credit impaired**	**Purchased or originated credit-impaired**	**Total**
Gross carrying amount as at 1 January 2020	111 514	9 895	0	0	121 409
Adjusted gross carrying amount as at 1 January 2020*	**121 409**	**0**	**0**	**0**	**121 409**
Transfers:					
Transfer from Stage 1 to Stage 2	0	0	0	0	**0**
Transfer from Stage 1 to Stage 3	-44 958	0	44 958	0	**0**
Transfer from Stage 2 to Stage 3	0	0	0	0	**0**
Transfer from Stage 2 to Stage 1	0	0	0	0	**0**
Transfer from Stage 3 to Stage 1	0	0	0	0	**0**
Transfer from Stage 3 to Stage 2	0	0	0	0	**0**
New financial assets originated or purchased**	0	0	0	0	**0**
Write-offs and repayments***	-45 769	0	-3 536	0	**-49 305**
Gross carrying amount as at 31 December 2020	**30 682**	**0**	**41 422**	**0**	**72 104**

**Adjusted due to change in classification to stages by overdue days in 2020 vs 2019*
***New financial asset balances are shown given their stage at the end of the year, the transfers between stages does not show the transfers for loans originated during the current financial year*
****Financial assets written-off and repaid during the current financial year*

Collateral

The following is description of collateral held for loans carried at amortised cost:

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
As at 31.12.2020				
Loans carried at amortised cost				
• Refinancing	1 941 158	-182 167	1 758 991	N/A
• Consumer credits	656 875	-43 427	613 448	N/A
• Mortgage loans	297 717	-90 827	206 890	*Sufficient**
• Leases	36 738	-15 879	20 859	N/A
• Other	72 104	-23 237	48 867	N/A
Total credit-impaired assets	**3 004 592**	**-355 537**	**2 649 055**	**2 004 256**

**Collateral value is at least 1.5 of loan issued amount, considered sufficient*

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
As at 31.12.2019				
Loans carried at amortised cost				
• Refinancing	1 481 151	-84 929	1 396 222	N/A
• Consumer credits	1 273 313	-31 505	1 241 808	N/A
• Mortgage loans	856 611	-49 620	806 991	*Sufficient**
• Leases	212 087	-7 709	204 378	N/A
• Other	121 409	-8 107	113 302	N/A
Total credit-impaired assets	**3 944 571**	**-181 870**	**3 762 701**	**3 132 895**

**Collateral value is at least 1.5 of loan issued amount, considered sufficient*

Information about collaterals of loans

The collaterals assigned on specific credit products consist of personal suretyships, mortgages, register pledges and other similar collaterals. The collaterals are agreed with clients according to product-based risk analysis and internal regulations. As a rule, the collateral is set up to minimise the risks on acceptable level for the Group.

Upon the initial recognition of loans to customers, the fair value of collateral is based on the valuation techniques commonly used for the corresponding types of collateral. Market values (or purchase price, whichever is lower) are used for real estate and movable assets serving as collateral. The value of collateral should be reconsidered periodically. The frequency and conditions mostly depend on the performing / non-performing status and exposure size. The value of residential real estate is recalculated periodically by applying the indices. Guarantees and warranties issued by other parties (private individuals, legal entities), although they mitigate the risk, are considered immaterial and are not disclosed here. If exposure is secured by several different types of collateral, priority in recognition of a collateral is based on its liquidity. Securities, cash, and guarantees are treated as the types of collateral with the highest liquidity, followed by residential real estate and then other real estate. Movable assets like transport vehicles, equipment and other assets are treated as having the lowest liquidity.

Valuation of collaterals

Fair value evaluations based on the statistical revaluation (indexing) of residential real estate collaterals is performed according to needs and at least once annually in Estonia and in Latvia and Lithuania and covers houses, apartments and residential land plots, pledged against all types of credit products of private individuals. All assets that are pledged to or leased from the Group must be evaluated at least once a year. Exceptions can be approved by ultimate decision-making authority including a reason for the exception.

As at 31 December 2020 mortgage loans are the only collateralized loan instruments in Groups portfolio. The total amount of credit impaired (over 90 days overdue) mortgage loans was 182 188 euros of which 44% (80 015 euros) is under collateralized. The total collateral value on these loans amounted to 1 163 290 euros.

The following table shows the distribution of LTV ratios for the Group's mortgage portfolio as at 31 December 2020:

Mortgage portfolio – LTV distribution	Gross carrying amount
Lower than 50%	117 470
50 to 60%	17 345
60 to 70%	27 246
70 to 80%	0
90 to 100%	26 046
Higher than 100%	36 725
No collateral	72 885
Total	**297 717**

Concentration risk

Concentration risk, as an integral part of credit risk, arises from large exposures to individual counterparty, to groups of connected counterparties or groups of unrelated counterparties, whose risk is affected by a common risk factor. Under concentration risk, the Group considers the assets of one counterparty, related counterparties as well as those associated with one industry, geographical territory, or risk factor.

In its everyday business activities, the Group avoids taking a concentration risk, focusing mainly on small and medium loans to avoid large exposure. The Group does not rule out issuing large loans in the existence of sufficient collateral or compliance with other required conditions. As at 31 December 2020 and 31 December 2019, the Group had no significant concentration risks. The majority of issued credits portfolio consist of loans to private individuals (91.5% as at 31 December 2020) and there are no individually significant credit amounts to single counterparties.

Here below are presented geographical risk concentrations within the customer loan portfolio in gross carrying amounts:

31.12.2020	**Estonia**	**Latvia**	**Lithuania**	**Total**
Loan portfolios				
• Refinancing	1 176 790	362 467	401 901	1 941 158
• Customer credits	481 853	162 352	12 670	656 875
• Mortgage loans	297 717	0	0	297 717
• Leases	0	36 738	0	36 738
• Other	72 104	0	0	72 104
Total loan portfolios	**2 028 464**	**561 557**	**414 571**	**3 004 592**
Total allowance	**-253 775**	**-50 158**	**-51 604**	**-355 537**
Total net carrying amount	**1 774 689**	**511 399**	**362 967**	**2 649 055**

Credit quality

The Group reviews systematically the credit quality of loans to corporate customers carried at amortised cost. Customer's payment behaviour is monitored regularly on a weekly basis and activities are aggregated according to the internal rules based on the debt days. Debtors are divided into five blocks:

(i) debt 1 to 15 days (stage 1),

(ii) debt 16 to 30 days (stage1),

(iii) debt 31 to 60 days (stage 2),

(iv) debt 61 to 89 days (stage 3),

(v) debt over 90 days (stage 3).

The Credit Portfolio is distributed between the quality classes. Credit classification is based on probability of default, client's financial situation, solvency, LTI (loan to income) and other facts that may affect client's ability to repay the loan. Despite the Credit Risk rating based on the Internal Risk Rating System result all new Credits and Clients are regarded as low class or medium class Credits.

In case there some indications of non-payment have occurred, and the deficiencies are not eliminated for minimum 30 days, the Creditor prepares the review document in respect to individual Client or Connected Client Group with proposal of follow-up plan or work out plan (including the sale to the collection companies).

The above mentioned activities corresponds with the IFRS stages for which the balance sheet values are shown in the **„analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised“** table on page 26 of this document.

b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial liabilities as they fall due. The Group's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due. To avoid liquidity risk, management concludes detailed cash flow prognoses and plans carefully the timing of investments.

The table below analyses the Group's financial liabilities and assets into relevant maturity groupings based on the settlement terms. The amounts disclosed in the table below are shown at the undiscounted gross amounts.

As at		Notes	Less than 1 year	From 1 to 5 years	Over 5 years	TOTAL
31.12.2020	**Liabilities**					
	Borrowings	**19**	6 533	7 664 560	0	**7 671 093**
	Trade and other payables	**18**	131 900	0	0	**131 900**
	Liabilities total		**138 433**	**7 664 560**	**0**	**7 802 993**
	Assets					
	Trade and other receivables	**10**	119 502	0	0	**119 502**
	Loans and advances to customers	**11, 12**	1 199 573	3 132 145	426 473	**4 758 191**
	Assets total		**1 319 075**	**3 132 145**	**426 473**	**4 877 693**
	Maturity gap		**1 180 642**	**-4 532 415**	**426 473**	**-2 925 300**
31.12.2019	**Liabilities**					
	Borrowings	**19**	2 184	7 597 809	0	**7 599 993**
	Trade and other payables	**18**	171 715	0	0	**171 715**
	Liabilities total		**173 899**	**7 579 809**	**0**	**7 771 708**
	Assets					
	Trade and other receivables	**10**	35 424	0	0	**35 424**
	Loans and advances to customers	**11, 12**	1 485 896	4 193 973	564 163	**6 244 032**
	Assets total		**1 521 320**	**4 193 973**	**564 163**	**6 279 456**
	Maturity gap		**1 347 421**	**-3 403 836**	**564 163**	**-1 492 252**

The liquidity gaps will be covered with the operating revenues and with the financing from parent entity.

See also liquidity risk information disclosed in **Chapter 4 d) "Capital management"** and **Note 24 "Going concern"** for info.

c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises mainly of interest rate risk. Financial instruments affected by market risk include borrowings.

The table below analyses the Group's financial liabilities and assets into relevant geographical location groupings based on the settlement terms. The amounts disclosed in the table below are shown at the balance sheet carrying amounts.

As at		Notes	Estonia	Latvia	Lithuania	Total
31.12.2020	**Liabilities**					
	Borrowings	**19**	5 614 694	0	32 979	**5 647 673**
	Trade and other payables	**18**	95 749	13 515	22 636	**131 900**
	Liabilities total		**5 710 443**	**13 515**	**55 615**	**5 779 573**
	Assets					
	Cash and cash equivalents	**9**	63 265	25 953	12 388	**101 606**
	Trade and other receivables	**10**	16 352	91 559	11 591	**119 502**
	Loans and advances to customers	**11, 12**	1 774 689	511 399	362 967	**2 649 055**
	Goodwill	**14, 15**	190 666	0	0	**190 666**
	Property, plant and equipment		4 990	0	32 750	**37 740**
	Assets total		**2 049 962**	**628 911**	**419 696**	**3 098 569**
31.12.2019	**Liabilities**					
	Borrowings	**19**	5 230 145	0	0	**5 230 145**
	Trade and other payables	**18**	133 402	16 085	22 228	**171 715**
	Liabilities total		**5 363 547**	**16 085**	**22 228**	**5 401 860**
	Assets					
	Cash and cash equivalents	**9**	9 555	85 478	48 332	**143 365**
	Trade and other receivables	**10**	1 368	33 399	657	**35 424**
	Loans and advances to customers	**11, 12**	2 873 180	605 790	283 731	**3 762 701**
	Goodwill	**14, 15**	190 666	0	0	**190 666**
	Property, plant and equipment		6 493	0	0	**6 493**
	Assets total		**3 081 262**	**724 667**	**332 720**	**4 138 649**

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings raised.

As of 31.12.2020 and 31.12.2019 the Group did not have any interest-bearing loan obligations with variable interest rates from which the interest rate risk would arise.

The existing interest-bearing loans raised have fixed interest rates.

d) Capital management

The Group uses risk-based capital planning which ensures that all risks are adequately covered by own funds at any given time. Capital is defined as the Group's equity.

The primary objective of the Group's capital management is to ensure that the Group maintains its credit rating and equity ratios, in order to support the Group's business activities and maximize shareholder value.

The Group's capital includes borrowings and equity. No changes were made in the objectives, policies, or processes for managing capital during the years ended 31 December 2020 and 2019.

The Group monitors the equity ratio calculated by dividing equity by total assets, target is to keep the ratio above 30%. The Group's equity includes issued share capital, legal reserve, and retained earnings.

See liquidity risk information disclosed in **Chapter 4 b) "Liquidity risk"** and **Note 24 "Going concern"** for related details.

	31.12.2020	**31.12.2019**
Total equity*	-2 681 004	-1 263 211
Total assets	3 098 569	4 138 649
Capital Ratio	**-86.52%**	**-30.52%**

**Equity is negative as at 31.12.2020 and 31.12.2019*

The total equity as at 31.12.2020 and 31.12.2019 did not meet the requirements of Commercial Code of the Republic of Estonia. See further information in **Note 24**.

5. Interest income and expense

	2020	2019
Interest income calculated using the effective interest method		
Refinancing	431 955	92 902
Consumer credits	370 456	83 389
Mortgage loans	66 646	78 618
Other	13 097	19 971
Total interest income calculated using the effective interest method	**882 154**	**274 880**
Other similar income		
Leases	14 558	53 910
Total other similar income	**14 558**	**53 910**
Total interest income	**896 712**	**328 790**
Interest income by markets:		
Estonia	535 528	235 434
Latvia	272 989	78 187
Lithuania	88 195	15 169
Total interest income by markets	**896 712**	**328 790**
Interest and other similar expense		
Interest expense on interest-bearing loans	-687 564	-286 783
Total interest and other similar expenses	**-687 564**	**-286 783**
Net margin on interest and similar income (expense)	**209 148**	**42 007**
Other operating income		
Penalties and fees	55 094	36 410
Other	1 786	5 571
Total other operating income	**56 880**	**41 981**
Total operating income (expense)	**266 028**	**83 988**

6. Administrative and operating expenses

	2020	2019
Portfolio management costs	101 033	85 172
Fees, taxes, and insurance	8 802	20 672
Travel and transportation	20 381	28 971
Telecommunication and data	66 456	57 873
Premises and furnishings	2 525	94
Equipment and supplies	2 320	9 436
Marketing and development	57 480	68 602
Personnel and trainings	23 768	21 127
Professional services	132 545	135 400
Other miscellaneous operating expenses	3 752	360
Depreciation and amortisation	6 253	1 169
Consultations and compliance	51	0
Other operating expenses	20	0
Total administrative and operating expenses	**425 386**	**428 876**

7. Salary expense

	2020	2019
Wages and salaries	553 659	465 479
Social security costs	147 329	120 412
Total salary expense	**700 988**	**585 891**
Average number of employees	21	17

8. Other financial income and expense

	2020	2019
Loss on equity method investment (Note 13)	0	-172 978
Financial income from subsidiaries (Note 14)	0	1 721
Other financial income	7 301	12
Total other financial income and expense	**7 301**	**-171 245**

9. Cash and cash equivalents

	31.12.2020	31.12.2019
Cash at bank	101 606	143 365
Total	**101 606**	**143 365**

10. Trade and other receivables

	31.12.2020	31.12.2019
Prepaid and refundable taxes (**Note 20**)	241	39
Prepayments	56 337	16 349
Other receivables	62 924	19 036
Total, including:	**119 502**	**35 424**
Current:	*119 502*	*35 424*
Non-current:	*0*	*0*

Prepayments as at 31.12.2020 and 31.12.2019 include prepayments for operating activities (including prepayments for rent, media, services and other similar activities. Other receivables are related to other operating services.

Trade and other receivables include receivables against related parties as at 31 December 2020 for 26 848 euros (31.12.2019: 19 035 euros), see more detailed info in **Note 22**).

11. Loans and advances to customers

	31.12.2020	31.12.2019
Refinancing	1 941 158	1 481 151
Consumer credits	656 875	1 273 313
Mortgage loans	297 717	856 611
Leases*	36 738	212 087
Other	72 104	121 409
Total	**3 004 592**	**3 944 571**
Allowance	**-355 537**	**-181 870**
Total, including:	**2 649 055**	**3 762 701**
Current portion:	*741 398*	*1 089 162*
Non-current portion:	*1 907 657*	*2 673 539*

Leases portfolio consist of lease agreement portfolio acquired as a result of acquisition of Latvian subsidiary, see more details in* ***Note 12* *and* ***Note 14****.*

12. Lease gross and net investments

31.12.2020	Gross investment in leases	Unearned interest revenue	Net present book value of leases
Scheduled payments within one year	35 039	-2 702	**32 337**
Scheduled payments within second year	2 411	-968	**1 443**
Scheduled payments within third year	2 560	-569	**1 991**
Scheduled payments within fourth year	943	-201	**742**
Scheduled payments within fifth year	237	-12	**225**
Total	**41 190**	**-4 452**	**36 738**

31.12.2019	Gross investment in leases	Unearned interest revenue	Net present book value of leases
Scheduled payments within one year	217 265	-28 477	**188 788**
Scheduled payments in 1 – 5 years	25 359	-2 060	**23 299**
Total	**242 624**	**-30 537**	**212 087**

13. Investments in equity securities

In financial year 2019, in relation to an investment in an entity registered in Estonia with the purpose to develop credit issuance activities, a loss for EUR 172 978 was recognised. Control was taken over the investment object since 1 June 2019 (see also **Note 14** for more information). For investment the step-acquisition principles were applied, deriving from which the calculated loss from applying this method in the amount of 172 978 euros was recognised in financial year 2019.

14. Business Combination

Group parent entity Fresh Finance Group OÜ (former business name Forward View OÜ as at the acquisition transaction date) acquired as at 1 June 2019 (considered as the date of taking over the control over the acquired entity) 89.952% of shares of an entity Fresh Finance OÜ (registered in Estonia, former business name SigmaCapital OÜ), a licensed credit issuer in Estonia.

Group parent entity Fresh Finance Group OÜ (former business name Forward View OÜ as at the acquisition transaction date) acquired as at 1 March 2019 (considered as the date of taking over the control over the acquired entity) 100% of shares of an entity Fresh Finance AS (registered in Latvia, former business name AS (akciju sabiedrības) Motoro Leasing), a licensed credit issuer in Latvia.

Group parent entity Fresh Finance Group OÜ (former business name Forward View OÜ as at the acquisition transaction date) acquired as at 1 January 2019 (considered as the date of taking over the control over the acquired entity) 100% of shares (belonging to the Group parent entity AS PlusPlus Capital) of an entity Fresh Finance UAB (registered in Lithuania, former business name PlusPlus Finance UAB), a licensed credit issuer in Lithuania.

As at control taking date the carrying values of acquired entities' total assets, total liabilities and net assets were as follows:

Acquired entity	Country of incorporation	Taking control date	Acquisition information as at taking control date		
			Total assets	Total liabilities	Net assets
Fresh Finance OÜ	Estonia	1 June 2019	1 085 805	609 449	476 356
Fresh Finance AS	Latvia	1 March 2019	460 733	226 706	234 027
Fresh Finance UAB	Lithuania	1 January 2019	31 863	5 141	26 722
Total			**1 578 401**	**841 296**	**737 105**

No business combinations were taken place in financial year 2020.

See accounting policies applied for acquisition accounting in **Note 2 “Accounting policies”** section **a) “Basis of consolidation”**.

Financial statement lines	Fair value at acquisition		
	Fresh Finance OÜ	Fresh Finance AS	Fresh Finance UAB
Cash and cash equivalents	116 983	7 247	793
Trade and other receivables	1 388	12 955	0
Loans and advances to customers	959 772	310 585	31 070
Property, plant, and equipment	7 662	0	0
Trade and other payables	-5 736	-4 586	-141
Borrowings*	-603 713	0	-5 000
Total net assets	**476 356**	**326 201**	**26 722**
Acquired shareholding	89.952%	100.000%	100.000%
Total acquired net assets	**428 492**	**326 201**	**26 722**
Paid for the shareholding	**-600 000**	**-326 201**	**-25 000**
Goodwill (negative goodwill)	**-190 666**	**0**	**1 721**
Interest and other similar income earned by the Group in 2019 since acquisition of shareholding till year-end 2019	**235 434**	**24 278**	**15 169**
Potential effect on profit (loss)	**0**	**0**	**0**
Interest and other similar revenue in 2019, which would have been earned by the Group, in case the entity would have been acquired since 01.01.2019	**247 811**	**36 452**	**15 169**
Potential effect on profit (loss)	**12 377**	**12 174**	**0**
Total effect on profit (loss)	**12 377**	**12 174**	**0**

*Fresh Finance AS liabilities are eliminated in consolidation of Group, whereas these were acquired by Group in business combination.

Potentially the total effect on profit (loss) for 2019, in case the acquirees were acquired since 1 January 2019, would have amounted to EUR 24 551 - from Fresh Finance OÜ EUR 12 377, from Fresh Finance AS EUR 12 174, and from Fresh Finance UAB 0 EUR, see details in the table above.

As a result of the acquisitions in 2019 a goodwill in the amount of EUR 190 666 was recognised.

Acquisition of Fresh Finance UAB resulted in 1 721 EUR recognised among other financial income and expense in total EUR 1 733, see also **Note 8**.

15. Goodwill

Goodwill in the amount of 190 666 euros resulted from the business combination with entity Fresh Finance OÜ (registered in Estonia, former business name SigmaCapital OÜ), 89.952% of its shares were acquired in financial year 2019, control over acquiree was taken as at 1 June 2019, see additional info in **Note14**.

The primary reason for the business combination was strategic decision do acquire licensed credit issuers in all markets where the Group is active (currently Estonia, Latvia, Lithuania). The acquirer obtained control over the acquiree by acquiring 100% of its shares, the transaction was reviewed and accepted in May 2019 by the Financial Supervision Authority in Estonia.

The qualitative factors that make up the goodwill recognised, were the expected synergies from combining operations of the acquiree and the acquirer, and intangible assets acquired that do not qualify for separate recognition.

As at the acquisition-date the fair value of each major class of the assets and liabilities acquired, including the fair value of receivables and estimations related to the contractual cash-flows expected, and the total fair value of the consideration transferred is disclosed in detail in **Note 14**.

In recoverable value testing as at the end of financial year 2020 (and in 2019) the cashflows from the acquired underlying assets were presumed and the collateral assets valued were considered. Detailed review of collateral assets was performed and considerations of collateral value to loan residual (LTV) were analysed. As a result of the recoverable value testing no significant impairment of the acquired goodwill was identified.

In the recoverable value testing the acquired entity was considered as the cash generating unit. The testing was projected for five years and discount rate of 10% (2019: 11%) was used. The assumptions in the sensitivity testing were the changes in interest rate, net loan losses and operating expenses by 1 - 3 percentage points which are based on past experience. As a result of the sensitivity testing no significant impairment of the acquired goodwill was identified.

There were no material fully amortised intangible assets in the Group as at 31.12.2020 and 31.12.2019.

16. Share capital

	Ordinary shares	
	31.12.2020	**31.12.2019**
Share capital	50 000	50 000
Number of ordinary shares	500	500
Nominal value per share	100	100

In 2018 the share capital was increased by EUR 47 500 up to EUR 50 000 by capital paid in.

	31 December 2020		**31 December 2019**	
Shareholder	**Number of shares held**	**Percentage**	**Number of shares held**	**Percentage**
Aktsiaselts PlusPlus Capital	500	100%	500	100%
Total	**500**	**100%**	**500**	**100%**

17. Distributions made and proposed

As there are no positive retained earnings, no dividends were declared for 2020 and 2019. Proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability as at 31 December 2020 and 2019 respectively.

As at 31 December 2020 the maximum possible income tax liability that could arise upon the payment of all the retained earnings as dividends would be 0 EUR (31.12.2019: 0 EUR) and therefore 0 EUR could be paid out as net dividends (31.12.2019: 0 EUR), as there are no positive retainer earnings. See info related to equity restoration in **Note 24**.

18. Trade and other payables

	31.12.2020	**31.12.2019**
Trade payables	17 727	29 918
Payables to employees	68 361	59 152
Taxes payable (**Note 20**)	39 524	59 306
Other payables (**Note 22**)	6 288	23 339
Total	**131 900**	**171 715**

The trade and other payables include payables to related parties (see **Note 22**) as at 31 December 2020 for 5 988 euros (31.12.2019: 1 157 euros). Trade and other payables are due in the course of normal operating cycle of the Group (normally within twelve months).

19. Borrowings

	31.12.2020	Due in 12 months	Due in 1-5 years	Interest rate	Maturity date
Other loans*	5 611 004	0	5 611 004	12%	2023
Interest payable*	3 689	0	3 689		
Leases	32 980	5 544	27 436	3%	2025
Total obligation	**5 647 673**	**5 544**	**5 642 129**		

	31.12.2019	Due in 12 months	Due in 1-5 years	Interest rate	Maturity date
Other loans*	4 937 184	2 184	4 935 000	12%	2023
Interest payable*	292 961	0	292 961		
Total obligation	**5 230 145**	**2 184**	**5 227 961**		

*Other loans are raised from the Group parent entity Aktsiaselts PlusPlus Capital, see info of related parties' transactions and balances in **Note 22**. Interest payable is interest accrued for the abovementioned loans raised and due to the Group parent entity Aktsiaselts PlusPlus Capital.

In 2020, the following changes occurred in borrowing balances:

Borrowings	Balance as at 31.12.2019	Loans raised during period	Loan repaid during period	Balance as at 31.12.2020
Other loans*	4 937 184	940 000	-266 180	5 611 004
Interest payable*	292 961	686 732	-976 004	3 689
Leases	0	37 949	-4 969	32 980
Total	**5 230 145**	**1 664 681**	**-1 247 153**	**5 647 673**

In 2019, the following changes occurred in borrowing balances:

Borrowings	Balance as at 31.12.2018	Loans raised during period	Loan repaid during period	Balance as at 31.12.2019
Other loans*	840 000	4 097 184	0	4 937 184
Interest payable*	10 770	282 191	0	292 961
Total	**850 770**	**4 379 375**	**0**	**5 230 145**

*Other loans are raised from the Group parent entity Aktsiaselts PlusPlus Capital, see info of related parties' transactions and balances in **Note 22**. Interest payable is interest accrued for the abovementioned loans raised and due to the Group parent entity Aktsiaselts PlusPlus Capital.

Total interest expense, interest paid and interest settled between counterparties related to the balances in above tables were as follows: accrued as at 31.12.2020 in total for EUR 3 689, and as at 31.12.2019 in total for EUR 292 961, interest paid in toal for 976 004 EUR in 2020, 0 EUR in 2019 and no settlements in 2020 nor in 2019 were made.

20. Tax liabilities and prepayments

	31.12.2020		31.12.2019	
	Tax prepayment	Tax liabilities	Tax prepayment	Tax liabilities
Value added tax	0	606	0	11 151
Personal income tax	0	13 897	0	24 382
Income tax from fringe benefits	0	56	0	155
Social security tax	0	22 861	0	21 778
Pension tax	0	1 109	0	751
Unemployment tax	0	995	0	1 089
Prepayment account balance	241	0	39	0
Total tax liabilities and prepayments (**Note10**, **Note 18**)	**241**	**39 524**	**39**	**59 306**

21. Commitments and contingencies

Considerations related to potential tax audit

Estonia
The tax authorities have neither started nor performed any tax audits or individual case audits in any of the Group companies. The tax authorities have the right to verify the company's tax records up to 5 years from the time of filing the tax return and upon finding errors, impose additional taxes, interest, and fines. The management estimates that there are not any circumstances, which may lead the tax authorities to impose additional significant taxes on the Group.

Latvia and Lithuania
The management estimates that there are not any circumstances, which may lead the tax authorities to impose additional significant taxes on the Group.

22. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The ultimate controlling parent entity of the Group is Aktsiaselts PlusPlus Capital. The major commitment to the related parties consists of the loans raised from Aktsiaselts PlusPlus Capital (see details in **Note 19**). There were no discounts made for balances with related parties, including parent entity and management.

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

• owners that have significant impact on the Group and the entities related to them;

• members of the management board and legal entities controlled by them (together referred to as management);

• close relatives of the persons mentioned above and the entities related to them.

Note 1 provides the information about the Group's structure including the details of the subsidiaries and the holding company. The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

	31.12.2020		**31.12.2019**	
	Receivables	**Payables**	**Receivables**	**Payables**
Holding entity	10 895	5 614 694	0	5 251 732
Management board and investors with significant ownership interest; owners that have significant impact on the Group and the entities related to them, under their control or significant influence	26 848	5 988	19 035	1 157
Total	**37 743**	**5 620 682**	**19 035**	**5 252 889**

	2020		**2019**	
	Purchases	**Sales**	**Purchases**	**Sales**
Holding entity	0	1 199 555	12 287	0
Management board and investors with significant ownership interest; owners that have significant impact on the Group and the entities related to them, under their control or significant influence	320 597	507 409	922 217	542 623
Total	**320 597**	**1 706 964**	**934 504**	**542 623**

Key management benefits

	2020	**2019**
Salaries and remuneration	226 709	127 285
Total	**226 709**	**127 285**

There are termination benefits agreed with the members of board, in total amount of 17 thousand EUR.

23. COVID-19 impact and subsequent events

Due the COVID 19 the economic environment has become unstable, and the Group's subsidiaries have been reprioritizing the projects, strengthened credit risk management, continuously improving organizational infrastructure, and building a solid groundwork for future growth.

We have considered the outbreak of the COVID-19 (Coronavirus) pandemic and its current and future potential effects on the Group. As the situation is still developing, management considers it impracticable to provide a quantitative estimate of the potential impact of this outbreak on the Group.

However, the management of the Group estimates that in short-term (within 12 months since composition of the current annual report) the impact on Group's cash-flows could be significant and the potential effect on the loan portfolios could be within the value ranges of the sensitivity analysis disclosed in **Chapter 4** section **"Sensitivity analysis"**.

By the end of the first quarter of 2021 the Company established in Estonian subsidiary the voluntary equity reserve and paid 350 000 EUR (three hundred and fifty thousand euros) in kind to meet the requirements of Commercial Code of the Republic of Estonia.

During the period of preparation of the financial statements since balance sheet date 31 December 2020 there have been no other significant subsequent events which would significantly affect the current financial statements. Regarding the potential impact of the above described economic situation evolved in 2020 and continuously in year 2021 subsequent to the balance sheet date to the Group please refer to the **Chapter 4 "Financial risk management"** sections **a) "Credit risk"**, **b) "Liquidity risk"**, **c) "Market risk"**, and **d) "Capital management"** and to the **Note 24 "Going Concern**.

24. Going concern

The Group had a net loss of -1 417 793 EUR (31.12.2019: -1 251 840 EUR) for the year ended 31 December 2020 and as at 31.12.2020 the Group's equity is negative in the amount of -2 681 004 EUR (31.12.2019: -1 263 211 EUR). Thus, the Group's equity does not meet the requirements of the Estonian Commercial Code and there is a material uncertainty related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

After the balance sheet date, the parent company Aktsiaselts PlusPlus Capital has agreed to provide financial support to the Group if necessary. The parent company Aktsiaselts PlusPlus Capital also agreed to adopt a resolution on measures necessary for ensuring that the equity of the Group will be in accordance with the Estonian Commercial Code.

The Management of the Group maintains that negative equity does not cause going concern issues during 2021 and onwards. The Group intends to restore the equity in accordance with the requirements of the Estonian Commercial Code in due course of the operating activities and with additional equity contributions as needed (see also Note 23).

25. Unconsolidated primary financial statements of the Parent Company

Statement of profit or loss and other comprehensive income of the Parent Company

	2020	2019
Operating income		
Interest income calculated using the effective interest method	479 379	151 249
Total interest income	**479 379**	**151 249**
Interest expense	-686 733	-282 268
Net interest income (expense)	**-207 354**	**-131 019**
Other operating income	0	250
Operating expense		
Operating expenses	-213 685	-224 456
Salary expense	-355 341	-309 754
Total operating expense	**-569 026**	**-534 210**
Operating loss	**-776 380**	**-664 979**
Finance income	0	134 299
Share of net profit (loss) of subsidiaries accounted for using the equity method	-407 936	-198 522
Loss before income tax	**-1 184 316**	**-729 202**
Income tax	0	0
Loss for the year	**-1 184 316**	**-729 202**
Total comprehensive loss	**-1 184 316**	**-729 202**
Loss attributable to the owners of the entity	-1 184 316	-792 202

Statement of financial position for the Parent Company

	31.12.2020	31.12.2019
ASSETS		
Cash and cash equivalents	9 013	6 673
Trade and other receivables	21 343	1 297
Loans and advances to customers	3 136 275	3 584 015
Investments	584 742	992 679
Total assets	**3 751 373**	**4 584 664**
EQUITY AND LIABILITIES		
Equity		
Share capital	50 000	50 000
Retained earnings	-1 974 889	-790 573
Total equity	**-1 924 889**	**-740 573**
Liabilities		
Trade and other payables	61 569	97 276
Borrowings	5 614 694	5 227 961
Total liabilities	**5 676 263**	**5 325 237**
Total equity and liabilities	**3 751 373**	**4 584 664**

Statement of cash flows for the Parent Company

	2020	2019
Cash flows from operating activities		
Profit before income tax	-1 184 316	-729 202
Changes in working capital:		
Change in trade and other receivables	-20 045	1 760
Change in trade and other payables	-35 708	67 465
Change in loans and advances to customers	447 740	-3 584 015
Other adjustments:		
Interest expense	686 733	282 191
Share of net profit (loss) of subsidiaries accounted for using the equity method	407 936	198 522
Net cash generated from operating activities	**302 340**	**-3 763 279**
Cash flows from investing activities		
Payment for acquisition of subsidiary	0	-351 201
Net cash used in investing activities	**0**	**-351 201**
Cash flows from financing activities		
Loans received	940 000	4 095 000
Repayments of loans received	-263 996	0
Interest paid on loans	-976 004	0
Net cash used in financing activities	**-300 000**	**4 095 000**
Net increase in cash and cash equivalents	2 340	-19 480
Cash and cash equivalents at the beginning of the year	**6 673**	**26 153**
Cash and cash equivalents at the end of the year	**9 013**	**6 673**

Statement of changes in equity for the Parent Company

In euros	Share capital	Retained earnings	Total
As at 31 December 2018	**50 000**	**-61 371**	**-11 371**
Increase of share capital	0	0	**0**
Total transactions with owners	**0**	**0**	**0**
Net profit for the year	0	-729 202	**-729 202**
Total comprehensive income	**0**	**-729 202**	**-729 202**
As at 31 December 2019	**50 000**	**-790 573**	**-740 573**
Increase of share capital	0	0	**0**
Total transactions with owners	**0**	**0**	**0**
Net profit for the year	0	-1 184 316	**-1 184 316**
Total comprehensive income	**0**	**-1 184 316**	**-1 184 316**
As at 31 December 2020	**50 000**	**-1 974 889**	**-1 924 889**

The adjusted unconsolidated equity of the parent is as follows as at:

	31.12.2020	**31.12.2019**
Parent company's unconsolidated equity	-1 924 889	-740 573
Less carrying amount of subsidiaries in the unconsolidated financial position	-584 742	-992 679
Add carrying amount of subsidiaries under equity method	584 742	992 679
Total	**-1 924 889**	**-740 573**

Signatures of the management board to the Consolidated Annual Report 2020

The Management Board has prepared the management report and the financial statements of Fresh Finance Group OÜ for the financial year ended on 31 December 2020.

The financial statements present a true and fair view of the financial position, the results of operations and the cash flows of the Group.

Member of the Management Board
Tanel Rõõm

Tallinn, 14 May 2021

Independent Auditor's Report

To the Shareholder of Fresh Finance Group OÜ

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Fresh Finance Group OÜ and its subsidiaries (together "the Group") as at 31 December 2020, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:
- the consolidated statement of profit or loss and other comprehensive income for the year ended as at 31 December 2020;
- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Emphasis of matter - negative equity

We draw attention to the matter that the equity of the Group as at 31 December 2020 does not meet the requirements of the Commercial Code. The management has disclosed its activity plan to restore the compliance of equity with the Commercial Code in Note 24 of the financial statements. Our opinion is not modified in respect of this matter.

Other information

The Management Board is responsible for the other information. The other information comprises the Management report and Allocation of sales revenue by fields of activities according to the Estonian Classification of Economic Activities (EMTAK) EMTA classificators (but does not include the consolidated financial statements and our auditor's report thereon).

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

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

Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

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

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

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

AS PricewaterhouseCoopers

Lauri Past
Auditor's certificate no. 567

Rando Rand
Auditor's certificate no. 617

14 May 2021
Tallinn, Estonia

Profit (loss) allocation proposal

The Management Board of Fresh Finance Group OÜ proposes to the General Meeting of Shareholders to distribute the profit (loss) as follows (in euros):

Retained earnings (loss) as at 31.12.2019	-1 313 211
Profit (loss) for 2020	-1 417 793
Allocation of profit (loss) for 2020 to retained earnings	-1 417 793
Retained earnings after allocation	-2 731 004

Member of the Management Board
Tanel Rööm

Tallinn, 14 May 2021

Allocation of sales revenue by fields of activities according to the Estonian Classification of Economic Activities (EMTAK) EMTA classificators

The sales revenue of Fresh Finance Group OÜ for financial year 2020 is allocated by fields of activities according to the Estonian Classification of Economic Activities (EMTAK) as follows:

Field of activity	EMTAK code	Income (EUR)	Income (%)	Main activity
Other credit issuance, except for lombarding	64929	953 592	100%	Yes

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