Annual Report 2022

We´re building the future of commerce.

General information

Company name – ESTO AS

Legal form - Limited company (AS)

License - Creditor authorization from the Estonian Financial Supervision Authority

Registry code - 14180709 (Commercial Register of the Republic of Estonia)

VAT number – EE102137143

Address – Harju County, Tallinn 10111, Laeva Street 2

Telephone - +372 622 5252

E-mail - info@esto.ee

Website - www.esto.ee

Reporting period – 1 January 2022 – 31 December 2022

Independent auditor – KPMG Baltics OÜ

The reporting currency is the euro (EUR), with units presented in thousands.

ESTO AS Annual Report 2022 has been audited.

Contents

Business highlights

ESTO Estonia is an ESTO Group Estonian operating entity which is offering ESTO Group´s commerce platform products and services for Estonian users and partners. ESTO Estonia is currently the largest and most successful market for ESTO Group.

Gross merchandise volume	Gross merchandise growth	Users growth	Business partnerships growth
92m	74%	32%	27%

ESTO Group was founded in 2017 in a small artsy coffee shop in downtown Tallinn (Estonia) with a vision to become the most preferred place to shop locally in any place globally. Today ESTO powers hundreds of thousands of people and businesses internationally with our all-in-one commerce platform.

We are very good at helping businesses to sell and people to buy, simple as that.

Management report

Key financial indicators (in thousands of euros)

Total income 2022/2021	Net profit 2022/2021	Total assets 2022/2021
15,988/11,878	**3,748**/3,299	**45,467**/31,553

Loan portfolio 2022/2021	Equity plus subordinated loans 2022/2021	Equity 2022/2021
44,855/30,109	**12,055**/7,307	**8,055**/4,307

Ratios and loans originated

Return on equity	Return on assets	Cost/income ratio
61%	**10%**	**18%**

Equity to loan portfolio	Loan losses to loan portfolio	Loans originated during 2022
27%	**1%**	**~50m**

Formulas

Return on equity: net profit / average equity

Return on assets: net profit / average assets

Cost to income: operating expenses / total revenue

Equity to loan portfolio: equity including subordinated loans / loan portfolio

Loan losses to loan portfolio: credit impairment loss / loan portfolio

ESTO Estonia is the Estonian operating entity of the ESTO group, which offers the products and services of the ESTO group's commerce platform to the people and merchants of Estonia. ESTO Estonia is currently the largest and most successful market of the ESTO group.

Despite the difficult economic environment, we have maintained our growth trajectory, where our platform's gross merchandise volume (GMV) has increased by 74% to 92 million in 2022. Our revenue also grew significantly, 35% to 16 million, driven by increased demand for our services. ESTO Estonia showed a strong financial result in 2022, relying on the inertia created in previous years and investing into new products. We increased market share, demonstrated strong cost discipline by continuing to invest in our business, and maintained a strong balance sheet of 45 million euros, of which 12 million euros is equity.

Ultimately, our operations allowed us to remain profitable on the growth path and earn 7 million euros of EBITDA and 3.8 million euros of net profit.

Looking to the future, we believe that ESTO is in a good position to seize significant growth opportunities in the Estonian commerce, payment and in consumer financing markets. We are excited to continue to provide innovative solutions that benefit both consumers and merchants and we remain committed to building a sustainable and profitable long-term business.

As always, I would like to thank our dedicated team members, supportive investors, and our loyal customers for their continued trust and support. Together we are building a better future for the world of commerce.

Martin Ustaal
ESTO Estonia board member

Financial statements

Statement of financial position

(in thousands of euros)

	Note no	31.12.2022	31.12.2021
ASSETS			
Current assets			
Cash and cash equivalents		387	706
Loans and advances to customers	7	41,352	26,614
Prepayments		624	681
Other assets	9	360	496
Total current assets		**42,724**	**28,496**
Non-current assets			
Loans and advances to customers	7	2,602	2,901
Property and equipment		56	65
Intangible assets	8	85	92
Total non-current assets		**2,743**	**3,057**
TOTAL ASSETS		**45,467**	**31,553**
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities			
Loans and borrowings	10	7,296	7,768
Trade payables and other payables	11	1,938	753
Tax liabilities	12	41	57
Total current liabilities		**9,276**	**8,578**
Non- current liabilities			
Loans and borrowings	10	28,136	18,669
Total non- current liabilities		**28,136**	**18,669**
TOTAL LIABILITIES		**37,412**	**27,246**
Equity			
Share capital	13	100	100

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	Note No	31.12.2022	31.12.2021
Share premium	13	155	155
Statutory legal reserve	13	11	11
Retained earnings		4,041	743
Total comprehensive income		3,748	3,299
Total equity		**8,055**	**4,307**
TOTAL EQUITY AND LIABILITIES		**45,467**	**31,553**

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02. 05. 2023
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Income statement

(in thousands of euros)

	Note no	2022	2021
Interest income	5	11,211	7,923
Interest expense	5	(3,206)	(2,794)
Net interest income		**8,005**	**5,129**
Fee and commission income	6	1,660	2,297
Fee and commission expense	6	(957)	(623)
Net fee and commission income		**703**	**1,674**
Finance income		-	36
Other income		164	53
Net loss arising from derecognition of financial assets measured at amortised cost		(1,815)	(966)
Impairment losses on financial instruments	3	(306)	(191)
Other operating expenses	14	(2,111)	(1,584)
Personnel expenses	15	(740)	(551)
Depreciation and amortisation	8	(55)	(36)
Other expenses		(96)	(68)
Profit before income tax		**3,748**	**3,496**
Income tax		-	(198)
Profit for the period		**3,748**	**3,299**

Statement of other comprehensive income

(in thousands of euros)

	2022	2021
Other comprehensive income (expense)	-	-
Profit (loss) for the period	3,748	3,299
Total comprehensive income	**3,748**	**3,299**

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Statement of cash flows

(in thousands of euros)

	Note no	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (loss)		**3,748**	**3,299**
Adjustments or changes for:		**(2,323)**	**(841)**
– Interest income		(588)	(386)
– Interest expense		1,048	97
– Net impairment loss on loans and advances	3	306	191
– Net loss arising from derecognition of financial assets measured at amortised cost		(1,815)	(966)
– Depreciation and amortisation	8	55	36
– Other adjustments		(1,330)	188
Total adjustments or changes		**1,425**	**2,452**
Changes in:			
– Other assets and prepayments		193	(885)
– Trade and other payables		1,169	308
– Loans and advances to customers		(12,038)	(8,751)
Total changes		**(10,676)**	**(9,328)**
NET CASH USED IN OPERATING ACTIVITIES		**(9,251)**	**(6,870)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment		(27)	(53)
Acquisition of intangible assets	8	(44)	(165)
Sale of intangible assets		-	585
NET CASH FROM/ (USED IN) INVESTING ACTIVITIES		**(71)**	**368**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		22,925	35,498
Repayment of borrowings		(13,920)	(29,069)
Dividends paid		-	(812)
NET CASH FROM FINANCING ACTIVITIES		**9,004**	**5,616**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**(319)**	**(886)**
Cash and cash equivalents at beginning of period		**706**	**1,592**

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02. 05. 2023

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	Note no	2022	2021
Cash and cash equivalents at end of period		387	706

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02. 05. 2023

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Statement of changes in equity

2022

(in thousands of euros)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
Balance at 31.12.2021	100	155	11	4,041	4,307
Balance at 1 January 2022	100	155	11	4,041	4,307
Total comprehensive income for the period	-	-	-	3,748	3,748
Profit for the period	-	-	-	3,748	3,748
Balance at 31.12.2022	100	155	11	7,789	8,055

2021

(in thousands of euros)

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
Balance at 31.12.2020	100	155	11	1,555	1,821
Balance at 1 January 2021	100	155	11	1,555	1,821
Total comprehensive income for the period	-	-	-	3,299	3,299
Profit for the period	-	-	-	3,299	3,299
Transactions with owners of the Company Contributions and distributions					
Issue of share capital	-	-	-	-	-
Dividends	-	-	-	(812)	(812)

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02. 05. 2023

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	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
Total contributions and distributions	-	-	-	(812)	(812)
Balance at 31.12.2021	100	155	11	4,041	4,307

Additional information on equity is provided in Note 13.

The notes on pages 13 to 48 are an integral part of these financial statements.

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02. 05. 2023
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Notes to the financial statements

Note 1. General information

ESTO AS (from hereafter also ESTO or the Company) is a company domiciled in Estonia, established on 06.01.2017. The company's legal address is Estonia, Harju County, Tallinn 10111, Laeva Street 2. The Company's main business line is issuance of consumer credit loans granted via ESTO's merchant network or directly to consumers.

Note 2. Significant accounting policies

Note 1.1. Basis of accounting

The financial statements of the Company for the financial year 2022 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union.

The accounting and reporting principles described have been applied consistently to all periods presented.

These financial statements have been authorised for issue by the Company's management board on 28.04.2023. Under the Estonian Commercial Code, the annual report including the financial statements that have been prepared by the management board must also be approved by the Council and in the general meeting of shareholders.

Note 2.2 Adoption and interpretation of new revised standards and new accounting policies

The accounting policies adopted are consistent with those of the previous financial year. In the reporting period the Company has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments that became effective for financial year 2022:

- Amendments to IAS 37 Onerous contracts - Cost of Fulfilling a Contract
- Annual improvements to IFRS standards 2018-2020
- Amendments to IAS 16 Property, Plant and Equipment
- Amendments to IFRS 3 Business Combinations
- Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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02. 05. 2023
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Note 2.3 Standards issued but not yet effective and not early adopted

The following new standards, interpretations and amendments are not yet effective for the annual reporting period ended 31 December 2022 and have not been applied in preparing these financial statements. The Company plans to adopt these pronouncements when they become effective.

Amendments to IAS 1 Presentation of Financial Statements

(Effective for annual periods beginning on or after 1 January 2023; to be applied retrospectively. Early application is permitted)

The amendments clarify that the classification of liabilities as current or non-current is based solely on the entity's right to defer settlement at the end of the reporting period. The company's right to defer settlement for at least 12 months from the reporting date need not be unconditional but must have substance. The classification is not affected by management's intentions or expectations about whether and when the entity will exercise its right. The amendments also clarify the situations that are considered settlement of a liability. These amendments have not yet endorsed by the EU.

The Company does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IAS 8 Definition of Accounting Estimates

(Effective for annual periods beginning on or after 1 January 2023; to be applied prospectively. Early application is permitted.)

The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

Developing an accounting estimate includes both:

• selecting a measurement technique (estimation or valuation technique) - e.g., an estimation technique used to measure allowance for expected credit losses when applying IFRS 9 Financial Instruments; and

• choosing the inputs to be used when applying the chosen measurement technique - e.g., the expected cash outflows for determining a provision for warranty obligations when applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The effects of changes in such inputs or measurement techniques are changes in accounting estimates. The definition of accounting policies remains unchanged.

The Company does not expect the amendments to have a material impact on its financial statements when initially applied.

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02. 05. 2023
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Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies

(Effective for annual periods beginning on or after 1 January 2023. Early application is permitted.)

The amendments include guidance for applying the concept of materiality to disclose of accounting policies.

The key amendments to IAS 1 include:

• requiring companies to disclose their material accounting policies rather than their significant accounting policies;

• clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and

• clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The Company does not expect the amendments to have a material impact on its financial statements when initially applied.

All other new standards and amendments do not have impact to the financial statements.

Note 2.4. Functional and presentation currency

These financial statements are presented in (thousands of) euros, which is the Company's functional currency.

Note 2.5. Use of judgements and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities and income and expenses. Although these estimates have been made to the best of management's knowledge and their judgement of current events, the actual outcome may ultimately not coincide with them and may significantly differ from these estimates.

Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances. Changes in management's estimates are reported prospectively.

Judgements

Information about judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

Note 3: establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the

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02. 05. 2023
Signature / allkiri ....
KPMG, Tallinn

methodology for incorporating forward-looking information into the measurement of ECL and selection and approval of models used to measure ECL.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2022 is included in the following notes.

- **Note 2.6. section "Financial assets and financial liabilities" and note 3:** impairment of financial instruments: determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.
- **Note 4:** fair value of financial instruments: determining the fair value of assets and liabilities.

Note 2.6. Accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below. The accounting policies described have been applied consistently, unless otherwise stated in the following text.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position and in the statement of cash flows comprise deposits with banks.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

In the statement of cash flows the operating cash flows are presented using the indirect method. The financing cash flows and investing cash flows are presented using the direct method.

Interest

i. Effective interest rate

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

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02. 05. 2023

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ii. Amortised cost and gross carrying amount

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for an expected credit loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

iii. Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date on which amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired after initial recognition interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

iv. Presentation

Interest income calculated using the effective interest method presented in the income statement and OCI includes interest on financial assets and financial liabilities measured at amortised cost.

Interest expense presented in the income statement and OCI includes financial liabilities measured at amortised cost.

Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income (e.g., account servicing fees) are recognized as the related services are performed.

Other fee and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

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02. 05. 2023

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Financial assets and financial liabilities

i. Recognition and initial measurement

The Company initially recognizes loans and advances on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

A financial asset or a financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

ii. Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

— the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the

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02. 05. 2023

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financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;

— how the performance of the portfolio is evaluated and reported to the Company's management;

— the risks that affect the performance of the business model and its strategy for how those risks are managed;

— the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. This information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

The Company's retail business comprises of loans to customers that are held for collecting contractual cash flows. In the retail business the loans comprise of hire purchase, overdraft and credit agreements.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin. In assessing whether the contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet his condition. In making the assessment, the Company considers:

— contingent events that would change the amount and timing of cash flows;
— leverage features;
— prepayment and extension terms;
— terms that limit the Company's claim to cash flows from specified assets; and
— features that modify consideration of the time value of money.

All financial assets of the Company meet the SPPI criterion.

Reclassifications

Financial assets are not reclassified after their initial recognition, except in the period after the Company changes its business model for managing financial assets.

iii. Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of financial asset.

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02. 05. 2023
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On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

In transactions in which the Company transfers assets recognised in its financial statements but retains all or significant risks and rewards of the transferred assets, the Company does not derecognise the transferred assets.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

iv. Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Company evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized, and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Company plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Company first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred, and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see "impairment" section below), then the gain or loss is presented together with the impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

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02. 05. 2023

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Financial liabilities

The Company derecognises a financial liability when the contractual terms are modified and the new cash flows from the financial liability are substantially different. In that case the, the new financial liability based on the amended terms is recognised at fair value. The difference between the carrying amount of the financial liability terminated or the financial liability (or part of a financial liability) transferred to another party and the consideration paid, including any non-monetary assets transferred or liabilities assumed, is recognised in profit or loss.

If the modification of a financial liability is not accounted for as derecognition. then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

v. Offsetting

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS Standards.

vi. 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 in the principal or. in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would consider in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price — i.e., the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the

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02. 05. 2023

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financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The Company recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

vii. Impairment

The Company recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- financial instruments on which credit risk has not increased significantly since their initial recognition.

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month ECL are recognized are referred to as "Stage 1 financial instruments". Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognized but that are not credit-impaired are referred to as "Stage 2 financial instruments". Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit impaired.

Financial instruments for which lifetime ECL are recognized and that are credit-impaired are referred to as "Stage 3 financial instruments".

Measurement of ECL

ECL are probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows.

When discounting future cash flows, the following discount rates are used:

- *financial assets:* the original effective interest rate or an approximation thereof.

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02. 05. 2023
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Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit impaired referred to as "Stage 3 financial assets". A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower;
- a breach of contract such as default or past-due event of 90 days or more;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortised cost:* as a deduction from the gross carrying amount of the assets.

Write-off

Loans are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Recoveries of amounts previously written off are recognized when cash is received and are included in "impairment losses on financial instruments" in the income statement and OCI.

Property and equipment

i. Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognized within other income in profit or loss.

ii. Subsequent costs

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

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Allkirjastatud identifitseerimiseks

02. 05. 2023

Signature / allkiri ....
KPMG, Tallinn

iii. Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognized in profit or loss.

The estimated useful lives of property and equipment for the current and comparative periods are as follows:

- computers and computer equipment 3-5 years
- other tangible fixed assets 5 year

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets

i. Recognition and measurement

Intangible assets acquired by the Company are measured at cost less accumulated amortization and any accumulated impairment losses.

ii. Subsequent costs

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as it is incurred.

iii. Amortisation

Intangible assets are amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life for intangible assets is 5 to 10 years for the current and comparative periods.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
02. 05. 2023
Signature / allkiri ....
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Impairment losses are recognized in profit or loss.

Employee benefits

Short-term employee benefits include salary and social security contributions, benefits related to the temporary suspension of employment (holiday pay or other similar benefits) if the temporary suspension is expected to occur within 12 months after the end of the period in which the employee worked.

Provisions

Provision is recognised when the Company has a legal or constructive obligation at the reporting date because of a past event, it is probable that the Company will be required to transfer economic benefits in settlement and the amount of the obligation can be estimated reliably.

Provisions are recognised at the present value of the expenditure required to settle the obligation using an interest rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the amount of the provision due to the time value of money is recognised as a financial expense.

If the realisation of a contingent liability is less probable than non-realisation or related costs cannot be determined reliably, that in certain circumstances may become obligations, then this amount is disclosed in the notes to the financial statements as contingent liability.

Income tax

Under the Income Tax Act, in Estonia income tax is not levied on corporate profit. Income tax is paid on dividends, employee benefits, gifts, donations, entertainment expenses, non-business payments and transfer price adjustments. Dividends paid out of retained earnings are generally taxed at an income tax rate of 20/80 of the net amount of dividends distributed (equal to 20% of the gross amount of distributable profits). Regularly paid dividends will be taxed at the rate of 14/86 of the net amount of dividends from 2022. Dividend payments are considered regular if the amount of distributable profit does not exceed the average distributed profit of the company for the last three years, on which income tax has been paid in Estonia. Thus, a company could apply a lower tax rate of 14/86 and 20/80 when taxing dividends.

Related parties

The Company considers parties to be related if one controls the other or exerts significant influence on the other's operating decisions. Related parties include:

- owners;
- members of the company's management and supervisory boards;
- close family members of and companies related to the above persons.

Events after the reporting period

The annual financial statements reflect all significant events affecting the valuation of assets and liabilities that became evident between the reporting date and the date on which

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Allkirjastatud identifitseerimiseks

02. 05. 2023

Signature / allkiri ....
KPMG, Tallinn

the financial statements were authorised for issue but are related to the reporting or prior periods.

Subsequent events that are indicative of conditions that arose after the reporting date, but which will have a significant effect on the result of the next financial year are disclosed in the notes to the annual financial statements.

Note 3. Financial risk management and review

Introduction and overview

The Company has exposure to the following risks from financial instruments:

- credit risk;
- liquidity risk;
- market risks; and
- operational risk.

Credit risk

Credit risk reflects the potential loss, which arises from the counterparty's inability or unwillingness to meet its contractual obligations towards ESTO. Credit risk arises primarily from the loans and receivables issued to households, and to some extent, also to corporates and credit institutions.

ESTO issues loans in three countries: Estonia, Lithuania, Latvia. Credit risk management of ESTO in all its countries of operation is primarily governed by the various legal acts and guidelines established in accordance to the EU Consumer Credit Directive, as well as the corresponding internal provisions of ESTO, the core principle of which is responsible lending. ESTO also considers concentration risk and country credit risk, as part of credit risk. ESTO's credit risk management focuses on the avoidance of excessive risk and risk mitigation, using the following measures:

1. below average contract maturity of issued loans;
2. significantly below average amounts of issued loans;
3. well diversified portfolio and limited risk exposures;
4. optimal risk/return ratio for issued loans;
5. taking of controlled risks and continuous risk profile monitoring;
6. regularly carried out stress tests and scenario analyses.

Risk management function provides the Management Board of ESTO AS with at least monthly reviews of compliance with credit risk limits. Any limit breaches are escalated immediately.

- Credit risk committee is appointed once for each financial year.

- Management board appoints the members of the credit risk committee.

i. Credit quality analysis

The following tables set out information about the credit quality of financial assets measured at amortised cost without considering collateral or other credit enhancement (if

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Allkirjastatud identifitseerimiseks

02. 05. 2023

Signature / allkiri ....

KPMG, Tallinn

any). Unless specifically indicated, for financial assets the amounts in the table represent gross carrying amounts.

Explanation of the terms "Stage 1", "Stage 2" and "Stage 3" is included in Note 2.6 "Financial assets and financial liabilities" subsection "Impairment".

(in thousands of euros)

	31.12.2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortised cost				
Gross carrying amount	42,534	1,698	576	44,809
Loss allowance	(313)	(381)	(206)	(901)
Carrying amount	**42,221**	**1,317**	**370**	**43,908**

	31.12.2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortised cost				
Gross carrying amount	28,759	871	433	30,063
Loss allowance	(209)	(215)	(171)	(595)
Carrying amount	**28,550**	**655**	**262**	**29,468**

Cash and cash equivalents

The Company held cash and cash equivalents of € 387 thousand at 31 December 2022 (2021: €706 thousand). The cash and cash equivalents are held with financial institution counterparties that are rated at least A based on Standard & Poor's ratings.

ii. Amounts arising from ECL

Inputs, assumptions, and techniques used for estimating impairment

See accounting policy in Note 2.6. "Financial assets and financial liabilities" subsection "Impairment".

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure.

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks

02. 05. 2023

Signature / allkiri ....
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The Company uses the following criteria for determining whether there has been a significant increase in credit risk:

- qualitative and quantitative indicators; and
- a backstop of 30 days past due.

Determining whether credit risk has increased significantly

The Company assesses whether credit risk has increased significantly since initial recognition at each reporting date.

A significant increase in credit risk is generally not evident on an individual instrument basis before the financial instrument becomes past due. This is because there is little or no updated information that is routinely obtained and monitored on an individual instrument until a customer breaches the contractual terms. This is applicable for retail loans offered by the Company. For these loans, an assessment of whether there has been a significant increase in credit risk on an individual basis would not faithfully represent changes in credit risk since initial recognition. Therefore, Company does significant increase assessment on a collective basis.

To assessing significant increases in credit risk on a collective basis, financial instruments are grouped based on shared credit risk characteristics.

- instrument type;
- geographic location of the borrower.

The aggregation of financial instruments may change over time as new information becomes available.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

Definition of default

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Company.
- It is becoming probable that the borrower will restructure the asset because of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Company considers indicators that are:

- qualitative: e.g., breaches of contract terms;
- based on internally developed data.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

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Allkirjastatud identifitseerimiseks
02. 05. 2023
Signature / allkiri ....
KPMG, Tallinn

Incorporation of forward-looking information

The Company incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and using an analysis of historical data.

According to detailed IFRS guidance, a forward-looking expected credit loss calculation should be based on an accurate estimation of current and future probability of default (PD). However, there is no evidence that we have statistically significant dependency between ESTO PDs and macroeconomic key drivers (P value of 0.05). It can reflect that continuously evolving decision engine policy has significantly more impact than macroeconomic based data analysis. The company continuously measures if macroeconomic variables have an impact on the expected default rates and statistically tests their significance. To date, the Company has not found correlation between macroeconomic data and PD's. The company will continue to test chosen and other macroeconomics criteria and if significant correlation is observed the macro variables will be included in the forecast.

Modified assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan which terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in accounting policy "Financial assets and financial liabilities" subsection "Modifications of financial assets and financial liabilities".

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Company renegotiates loans to customers in financial difficulties (forbearance activities) to maximise collection opportunities and minimise the risk of default. Under the Company's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments, and amending the terms of loan covenants.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that it falls withing the 12-month PD ranges for the asset to be considered Stage 1.

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
02. 05. 2023
Signature / allkiri ....
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Measurement of ECL

The key inputs into the measurement of ECL are the term structure and the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 are calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL are calculated by multiplying the lifetime PD by LGD and EAD.

PD is an estimate of the likelihood of default over a given time horizon. The PD is grouped by product type, days past due and by length of exposure. PD is estimated based on the Markov chain model, where the transition matrices of the previous 6-month period are used to predict the probabilities of future cumulative transitions.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted customers. LGD estimates are recalibrated for different economic scenarios. LGD are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Company measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. The maximum contractual period extends to the date of which the Company has the right to require repayment of an advance or terminate a loan commitment.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, which may include:

- instrument type;
- credit risk grade;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. The basis for determining transfers due to changes in credit risk is set out in accounting policy.

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Allkirjastatud identifitseerimiseks

02. 05. 2023

Signature / allkiri ....
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(In thousands of euros)

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortised cost				
Balance at 1 January	209	215	171	595
Net remeasurement of loss allowance	1	37	13	51
Additions	426	518	280	1,224
Financial assets that have been derecognized and subsequently collected	(355)	(430)	(280)	(1,065)
Write-offs	33	41	22	96
Balance at 31 December	**313**	**381**	**206**	**901**

(in thousands of euros)	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortised cost				
Balance at 1 January	143	162	100	404
Net remeasurement of loss allowance	-	13	28	42
Additions	276	258	216	751
Financial assets that have been derecognized and subsequently collected	(229)	(236)	(187)	(653)
Write-offs	18	19	14	51
Balance at 31 December	**209**	**215**	**171**	**595**

Liquidity risk

Liquidity risk is defined as a risk that ESTO's solvency is not sufficient to meet the contractual obligations within the time limit set without incurring significant costs, i.e. ESTO's companies cannot finance their activities sustainably and in a timely manner or they cannot liquidate their positions for fulfilment of their contractual obligations.

The key measure used to manage ESTO's liquidity position is the approach based on the analysis of maturity mismatch of assets and liabilities. In addition, liquidity risk is mitigated by maintaining liquidity reserves in order to be able to manage imbalances in the duration. Within the liquidity risk management framework, also the main liquidity ratios as well as the proportions of assets and liabilities maturity dates are regularly fixed. ESTO conducts stress tests on a regular basis and has established an effective contingency plan for addressing liquidity shortfalls in crisis situations. Liquidity risk management methodologies are based on liquidity risk policy and other internal regulations.

The company maintains internal limits for all key liquidity indicators.

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Allkirjastatud identifitseerimiseks
02. 05. 2023
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Risk management function provides the Management Board of ESTO AS with at least monthly reviews of compliance with liquidity risk limits. Any limit breaches are escalated immediately.

- Liquidity risk committee is appointed once for each financial year.

- Management board appoints the members of the liquidity risk committee.

i. Maturity analysis for financial liabilities and financial assets

The following tables set out the remaining contractual maturities of the Company's financial liabilities and financial assets.

(In thousands of euros)

	Contractual cash flows			
As at 31.12.2022	**Up to 3 months**	**3-12 months**	**1-5 years**	**Carrying amount**
Financial liability by type				
Loans and borrowings (Note 10)	-	7,959	33,075	35,432
Trade payables (Note 11)	-	553	-	553
Other payables (Note 11)	61	1,324	-	1,385
Total	**61**	**9,836**	**33,075**	**37,370**
Financial asset by type				
Cash and cash equivalents	387	-	-	387
Loans and advances to customers (Note 7)	-	41,352	2,602	43,955
Other assets (Note 9)	360	-	-	360
Total	**747**	**41,352**	**2,602**	**44,702**
Net position	**(686)**	**(31,516)**	**30,473**	**(7,332)**

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02. 05. 2023
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KPMG, Tallinn

(in thousands of euros)

	Contractual cash flows			
As at 31.12.2021	**Up to 3 months**	**3-12 months**	**1-5 years**	**Carrying amount**
Financial liability by type				
Loans and borrowings (Note 10)	-	7,771	24,412	26,436
Trade payables (Note 11)	-	422	-	422
Other payables (Note 11)	54	276	-	331
Total	**54**	**8,466**	**24,412**	**27,189**
Financial asset by type				
Cash and cash equivalents	706	-	-	706
Loans and advances to customers (Note 7)	-	26,614	2,901	29,514
Other assets (Note 9)	-	496	-	496
Total	**706**	**27,110**	**2,901**	**30,716**
Net position	**(652)**	**(18,644)**	**21,511**	**(3,527)**

The amounts in the table above have been compiled as follows.

Type of financial instrument	Basis on which amounts are complied
Financial liabilities and financial assets	Undiscounted cash flows, which include estimated interest payments

The following table sets out the carrying amounts of financial assets and financial liabilities expected to be recovered or settled less than 12 months after the reporting date.

(in thousands of euros)

	Note no.	31.12.2022	31.12.2021
Financial assets			
Loans and advances to customers	7	41,352	26,614
Financial liabilities			
Loans and borrowings	10	7,296	7,768

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02. 05. 2023

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The following table sets out carrying amounts of financial assets and financial liabilities expected to be recovered or settled more than 12 months after the reporting date.

(in thousands of euros)

	Note no.	31.12.2022	31.12.2021
Financial assets			
Loans and advances to customers	7	2,602	2,901
Financial liabilities			
Loans and borrowings	10	28,136	18,669

ii. Liquidity reserves

As part of the management of liquidity risk arising from financial liabilities, the Company ESTO holds liquid assets comprising cash and cash equivalents. The ESTO mitigates liquidity risk via liquidity risk committee, which has regular once a month meetings.

The ESTO maintains internal limits for all key liquidity indicators (liquidity ratios):

- Equity ratio: no less than 20% to loan book
  - Upkeep of equity ratio helps the ESTO to keep its own capital in its risk assets hence making the ESTO more attractive debt capital investment prospect for external creditors.
- ICR no less than 2.0
  - Upkeep of ICR helps the ESTO to keep control on the cost of capital and cost of operating expenses, which in turn makes the ESTO more attractive debt capital investment prospect for external creditors.
- Cash buffer to loan book: no less than 2%
  - Upkeep of cash buffer helps the ESTO to manage the volatility of cash flows derived from portfolio and external creditors.

Market risks

In general, market risk arises from the core business activities of the ESTO, taking market risks is not a core activity of the ESTO. The nature of the ESTO's business activities implies that it has no commodity risk and equity risk exposures. Thus, the only types of market risk that the ESTO is exposed to as a result of its current business activities, are the interest rate risk and currency risk.

Market risk is the risk that changes in market prices - e.g., interest rates, foreign exchange rates - will affect the ESTO income or the value of its holdings of financial instruments. The objective of the ESTO market risk management is to manage and control market risk exposures within acceptable parameters to ensure the ESTO's solvency while optimizing the return on risk.

Currency risk could arise from the change in price of one currency in relation to another. Exchange rate risk in the Company is minimal since it operates only in markets using the same currency as ESTO's operational currency - euros.

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
02. 05. 2023
Signature / allkiri ....
KPMG, Tallinn

i. Interest rate risk

Interest rate risk is a current or potential risk that unfavourable changes in the interest rates of ESTO's assets and liabilities may negatively affect its profit and equity. ESTO is exposed to interest rate risk if the timings of revaluation of its main assets and liabilities as well as the maturity dates are different, if the interest rates of assets and liabilities can be adjusted at different time intervals or if the structure of assets and liabilities differs in currencies. ESTO strives to secure low interest rate risk through limiting and matching the structure and maturities of interest-sensitive assets and liabilities. Interest income from issued loans significantly exceeds the interest expense paid for received loans, which allows to offset the potential adverse effect of interest rate risk to ESTO. ESTO monitors and manages the interest rate risk pursuant to internal limits set by the Liquidity committee of ESTO AS. To comply with the limits, ESTO can adjust the rates on its loans or enter into hedging instruments such as interest rate swaps. ESTO calculates and monitors its interest rate risk on a continuous basis.

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.

Operational risk

Operational risk is a risk of incurring a loss from the inadequacy of internal processes, people or systems not operating in the manner expected or from external events. Operational risk includes additionally legal risk, compliance risk and personnel risk.

The main operational risks that ESTO faces are associated with the ESTO's significant growth. An increasing number of employees, growing volume of transactions and introduction of new products mean a constant need for new structures and processes as well as development of systems. Operational risk management includes the identification of key business processes and the key risks in each process, the implementation of adequate controls and their follow-up checks. ESTO has implemented processes to manage incidents and approve new products as well as established a business continuity plan for crisis situations.

The rrisk management function provides the Management board of ESTO AS with at least monthly reviews of compliance with operational risk limits. Any limit breaches are escalated immediately.

- Operational & Compliance risk committee is appointed once for each financial year.

- Management board appoints the members of the operational & compliance risk committee.

Capital management

ESTO's own funds provide the capacity to absorb unexpected losses that cannot be avoided or mitigated, and ensure that at all times a sufficient buffer of financial resources exist to meet obligations to stakeholders. In this way, ESTO's capital functions as a last resort protection against risk.

The company's capital management runs on three pillars:

1. Strong liquidity – cash position at least 10% to loan book

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Allkirjastatud identifitseerimiseks

02. 05. 2023

Signature / allkiri ....

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2. Strong equity – equity position at least 20% to loan book
3. Diverse and long term capital sources

ESTO is not obliged to keep capital reserves outside of the capital requirements imposed by the Estonian Commercial Code.

The Supervisory Board of ESTO AS is responsible for the overall planning of the capital structure. Relevant capital planning contributes to ESTO be well-equipped to meet a situation that requires additional capital, and to provide an adequate buffer to support growth in existing markets as well as to enter new markets. ESTO's capital planning takes into consideration the following factors:

- the minimum capital required by laws and regulations, including buffers;
- the level of capital that is needed to cope with contingencies and stress situations;
- the shareholders' required rate of return and effective capital management;
- the level of capital required for counterparts to consider ESTO a reliable partner and to ensure a more efficient access to the funding market.

Note 4. Fair value of financial instruments

Measurement of fair values

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- *Level 1:* quoted prices (unadjusted) in active markets for identical instruments
- *Level 2:* inputs other than quoted prices included in Level 1 that are observable for the instruments, either directly or indirectly. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- *Level 3:* inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable, and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques for the Company currently include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exists and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond prices, foreign currency exchange rates and expected price volatilities and correlations.

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The objective of valuation techniques is to arrive at fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Classification of financial instruments and their fair values

All the Company's financial assets and liabilities are recognised in the statement of financial position or as contingent assets or liabilities in the notes to the financial statements. Items included in the statement of financial position include loans and advances to customers, other accrued income, cash and cash equivalents, borrowings, trade payables, payables to employees and other liabilities.

The fair value of the borrowings is, in the opinion of the Company's management, equal to their carrying amount, as the applicable interest rates of the agreements correspond to market interest rates.

The following table analyses carrying amounts and fair values of financial assets and liabilities, including their fair value levels.

(in thousands of euros)

	Carrying amount		Fair value	
	31.12.2022	**31.12.2021**	**31.12.2022**	**31.12.2021**
Financial assets measured at amortised cost				
Loans and advances to customers (Note 7)	43,955	29,514	43,955	29,514
Other assets (Note 9)	360	496	360	496
Cash and cash equivalents	387	706	387	706
Total financial assets at amortised cost	**44,702**	**30,716**	**44,702**	**30,716**
Financial liabilities at amortised cost				
Loans and borrowings (Note 10)	35,432	26,436	35,432	26,436
Trade payables (Note 11)	553	422	553	422
Other payables (Note 11)	1,385	331	1,385	331
Total financial liabilities at amortised cost	**37,370**	**27,189**	**37,370**	**27,189**

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02. 05. 2023
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Note 5. Net interest income

(in thousands of euros)

	2022	2021
Interest income		
Loans and advances to customers	11,211	7,923
Total interest income	**11,211**	**7,923**
Interest expense		
Interest amount due to creditors	(3,206)	(2,794)
Total interest expense	**(3,206)**	**(2,794)**
Net interest income	**8,005**	**5,129**

Note 6. Net fee and commission income

Disaggregation of fee and commission income

In the following table, fee, and commission income from contracts with customers in the scope of IFRS 15 is disaggregated by service lines.

(in thousands of euros)

	2022	2021
Service lines		
Income from contract fees on loans	72	315
Income from management fees on loans	373	483
Other income on loans	1,215	1,498
Total fee and commission income from contracts with customers	**1,660**	**2,297**
Fee and commission expense	(957)	(623)
Net fee and commission income	**703**	**1,674**

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Company recognizes revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

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02. 05. 2023
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Service line	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Contract and management services	The Company provides contract and management services for customers. Fees for ongoing account management are charged to the customer's account monthly. Servicing fees are charged monthly and are based on fixed rates.	Revenue from account service and servicing fees is recognized over time as the services are provided. Revenue related to transactions is recognized at the point in time when the transaction takes place.

Note 7. Loans and advances to customers

(in thousands of euros)

	31.12.2022	31.12.2021
Loans and advances to customers	44,855	30,109
Less impairment loss allowance	(901)	(595)
Total	**43,955**	**29,514**

Loans and advances to customers at amortised cost

(in thousands of euros)

	31.12.2022			31.12.2021		
	Gross carrying amount	ECL allowance	Carrying amount	Gross carrying amount	ECL allowance	Carrying amount
Retail customers	-	-	-	-	-	-
Hire purchase	9,556	(94)	9,463	9,166	(104)	9,062
Overdraft	46	-	46	46	-	46
Credit agreements	35,252	(807)	34,446	20,897	(491)	20,406
Total	**44,855**	**(901)**	**43,955**	**30,109**	**(595)**	**29,514**

More information is disclosed in Note 3.

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02. 05. 2023
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Note 8. Intangible assets

(in thousands of euros)

	Other intangible assets	Development costs	Total
Carrying amounts at 01.01.2021	**479**	**45**	**524**
Additions	53	9	62
Amortisation	-	-	-
Disposals	(462)	-	(462)
Other changes	1	(18)	(17)
Cost at 31.12.2021	71	36	108
Accumulated amortisation at 31.12.2021	(15)	-	(15)
Carrying amounts at 31.12.2021	**56**	**36**	**92**
Additions	44	-	44
Amortisation	-	-	-
Disposals	-	-	-
Other changes	3	(36)	(32)
Cost at 31.12.2022	104	-	104
Accumulated amortisation at 31.12.2022	(19)	-	(19)
Carrying amounts at 31.12.2022	**85**	**-**	**85**

Note 9. Other assets

(in thousands of euros)

	31.12.2022	31.12.2021
Trade receivables	360	496
Total	**360**	**496**

More information is disclosed in Note 3.

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02. 05. 2023
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Note 10. Loans and borrowings

The terms and conditions of outstanding loans are as follows:

(in thousands of euros)

2022

		Repayment schedule				
	31.12.2022	**Current loans** (Within 12 months)	**Non-current loans** (Within 1-5 years)	**Interest rate**	**Currency**	**Due date**
Loan agreement	28,125	3,989	24,136	7.5-12%	EUR	2023-2024
Marketplace loan	3,307	3,307	-	7-11%	EUR	2023
Subordinated loan agreement	4,000	-	4,000	12%	EUR	2024
Total	**35,432**	**7,296**	**28,136**	-	-	-

2021

		Repayment schedule				
	31.12.2021	**Current loans** (Within 12 months)	**Non-current loans** (Within 1-5 years)	**Interest rate**	**Currency**	**Due date**
Loan agreement	15,729	60	15,669	12%	EUR	2022-2023
Marketplace loan	7,708	7,708	-	7-11%	EUR	2022
Subordinated loan agreement	3,000	-	3,000	12%	EUR	2023
Total	**26,436**	**7,768**	**18,669**	-	-	-

More information is disclosed in Note 3.

The carrying amount of loans and borrowings as at 2022.12.31 was €35,432 thousand.

The Company has pledged part of its consumer credit portfolio to guarantee the obligations of the creditors.

Due to marketplace loan agreement and bank credit loan agreement, Company is a subject to the financial covenants on quarterly basis: interest coverage ratio should not be less than 1.5 and equity ratio can not be less than 20%. As at 2022.12.31 and 2021.12.31, the financial covenants are met by the Company.

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02. 05. 2023
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Note 11. Trade payables and other payables

(in thousands of euros)

	31.12.2022	31.12.2021
Trade payables	553	422
Total trade payables	**553**	**422**
Payables to employees	61	54
Interest payables	1,310	264
Other accrued expenses	14	12
Total other payables	**1,385**	**331**
Total trade payables and other payables	**1,938**	**753**
Short-term	1,938	753
Long-term	-	-
Total	**1,938**	**753**

More information is disclosed in Note 3.

Note 12. Tax liabilities

(in thousands of euros)

	31.12.2022	31.12.2021
Personal income tax	-	-
Corporate income tax	9	33
Social tax	-	-
Pension contribution	19	13
Unemployment insurance contribution	1	1
Other tax liabilities	1	1
Total	**11**	**10**

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02. 05. 2023
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Note 13. Share capital and reserves

Share capital

Share capital in amount of € 99.8 thousand (31.12.2021: € 99.8 thousand) is divided into 99800 ordinary shares (31.12.2021: 99800 ordinary shares) with a nominal value of 1 euro (31.12.2021: 1 euro) per share.

Dividends

Information on the Company's retained earnings and contingent income tax liability is provided in Note 17.

Reserves

Reserves included in the equity are as follows:

(in thousands of euros)

	31.12.2022	31.12.2021
Statutory legal reserve	11	11
Share premium	155	155
Total	**166**	**166**

Statutory legal reserve

Statutory legal reserve is formed from annual net profit allocations and other transfers entered in the legal reserve pursuant to law or the articles of association. The size of the statutory legal reserve is prescribed by the articles of association and may not be less than 1/10 of the share capital. Statutory legal reserve complied with the requirements arising from the Estonian Commercial Code on 31.12.2022 and 31.12.2021. At least 1/20 of the net profit must be transferred to the reserve capital in each financial year. If the reserve capital reaches the amount prescribed in the articles of association, the increase of the statutory legal reserve shall be ceased.

By the decision of the general meeting of shareholders, statutory legal reserve may be used to cover a loss, or to increase share capital, if it is not possible to cover it from the Company's unrestricted equity. Payments to shareholders from statutory reserve are not allowed.

Share premium

Share premium of the Company as at 31.12.2022 consisted of € 155 thousand (31.12.2021: € 155 thousand).

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02. 05. 2023
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Note 14. Other operating expenses

(in thousands of euros)

	2022	2021
Rent expenses	(112)	(89)
Advertising and marketing expenses	(743)	(614)
IT expenses	(567)	(357)
Training, consultancy and auditing costs	(419)	(312)
Communication and postage	(11)	(9)
Transport costs	(19)	(18)
Other labour costs	(68)	(31)
Other expenses	(74)	(70)
VAT	(97)	(84)
Total	**(2,111)**	**(1,584)**

Note 15. Personnel expenses

(in thousands of euros)

	2022	2021
Wages, salaries and bonuses	(555)	(412)
Social security contributions and other taxes	(186)	(139)
Total	**(740)**	**(551)**

Average number of employees reduced to full-time equivalents	21	26
Average number of employees by type of employment	**21**	**26**
A person employed under the employment contract	21	26

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02.05.2023

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Note 16. Related party disclosures

Balances with related parties

(in thousands of euros)

	31.12.2022		31.12.2021	
	Liabilities	**Receivables**	**Liabilities**	**Receivables**
Owners (legal entities) with a qualifying interest and entities under their control or significant influence	29,275	56	18,130	65
Close family members of members of the executive and higher management and owners (private individuals) with a qualifying interest, and entities under their control or significant influence	231	-	231	-

Loans

2022

(in thousands of euros)

	Loans received	Repayment of loans received	Interest paid	Interest rate	Currency
Owners (legal entities) with a qualifying interest and entities under their control or significant influence	13,300	3,344	1,378	12-13.5%	EUR
Loans received and repayments	**13,300**	**3,344**	**1,378**	**12-13.5%**	**EUR**
Close family members of members of the executive and higher management and owners (private individuals) with a qualifying interest, and entities under their control or significant influence	-	-	28	12%	EUR
Loans received and repayments	-	-	28	12%	EUR

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02. 05. 2023
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2021

(in thousands of euros)

	Loans received	Repayment of loans received	Interest paid	Interest rate	Currency
Owners (legal entities) with a qualifying interest and entities under their control or significant influence	14,450	1,315	542	12%	EUR
Loans received and repayments	**14,450**	**1,315**	**542**	**12%**	**EUR**
Close family members of members of the executive and higher management and owners (private individuals) with a qualifying interest, and entities under their control or significant influence	55	-	23	12%	EUR
Loans received and repayments	**55**	**-**	**23**	**12%**	**EUR**

More information is provided in the Note 10.

Remuneration and other significant benefits provided to the executive and higher management

(in thousands of euros)

	2022	2021
Remuneration	**36**	**31**

The Company considers parties to be related if one controls the other or exerts significant influence on the other's operating decisions. Transactions with related parties include transactions with shareholders, members of the company's management and supervisory boards, and close family members of and companies related to the above persons.

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02. 05. 2023
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Note 17. Contingent liabilities

The Company's retained earnings at the end of the reporting period amounted to €7,789 thousand (31.12.2021: €4,042 thousand euros). The maximum possible amount of income tax liability that may result from the payment of all retained earnings as dividends is €1,480 thousand (31.12.2021: €768 thousand), so it would be possible to pay out €6,309 thousand as a net dividend (31.12.2021: €3,274 thousand euros).

The calculation of the maximum possible income tax liability assumes that the amount of distributable net dividends and income tax on dividends recognised in profit and loss for 2022 may not exceed the distributable profit at the end of the reporting period.

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Signatures of the management board to the annual report

The management board has prepared the management report and the financial statements of ESTO AS for the financial year ended 31 December 2022.

The management board confirms that the management report provides a true and fair view of the business operations, financial results and financial condition of the company.

The management board confirms that according to their best knowledge the financial report presents a fair view of the assets, liabilities, financial position and profit or loss of the company according to the International Financial Reporting Standards.

28.04.2023

Martin Ustaal

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Independent Auditors' Report

To the shareholders of ESTO AS

Opinion

We have audited the financial statements of ESTO AS (the Company), which comprise the balance sheet as at 31 December 2022, the income statement, the statement of other comprehensive income, the statements of cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the financial statements presented on pages from 7 to 48 present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the management report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, our responsibility is to state whether the information presented in the management report has been prepared in accordance with the applicable legal and regulatory requirements.

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 and we state that the information presented in the management report is materially consistent with the financial statements and in accordance with the applicable legal and regulatory requirements.

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

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

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

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

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 International Standards on Auditing (Estonia) 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 financial statements.

As part of an audit in accordance with Standards on Auditing (Estonia), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Tallinn, 02 May 2023

Eero Kaup

Certified Public Accountant, Licence No. 459

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