Bigbank AS Annual Report 2020

Bigbank AS
Annual Report 2020

Business name	Bigbank AS
Registry	Commercial Register of the Republic of Estonia
Registration number	10183757
Date of entry	30 January 1997
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Reporting period	1 January 2020 – 31 December 2020
Chairman of the management board	Martin Länts
Core business line	Provision of loans and acceptance of deposits
Auditor	KPMG Baltics OÜ

This annual report of Bigbank AS consists of a letter from the chairman, a review of operations, a social responsibility and sustainability report, a corporate governance report and consolidated financial statements together with an independent auditors' report and a profit allocation proposal. The document contains 144 pages.

The reporting currency is the euro.

The annual report is available on the website of Bigbank AS at www.bigbank.ee. The English version of the annual report can be found at www.bigbank.eu.

Caring

We listen, understand as well as support our customers and each other.

Ave-Mari Lukk
Head of Estonian CRM & Business Development

Contents

Bigbank Group at a glance 6
Letter of the Chairman of the Management Board 9
Review of operations 12
Economic environment. 12
Overview of performance in 2020 16
Outlook for 2021 17
Key performance indicators 18
Explanations 19
About Bigbank Group. 19
Shareholders 20
Litigation 20
Employees 21
Social responsibility and sustainability report . . 29
Customers 29
Bigbank as a responsible employer 32
Responsible activities 33
Economic activities 33
Environmental activities 34
Community and society 34
Sponsorship and charitable activities 35
Membership in organisations 36
Corporate governance report. 38
Consolidated financial statements 48
Consolidated statement of financial position . . . 48
Consolidated statement of comprehensive income 49
Consolidated statement of cash flows 50
Consolidated statement of changes in equity 51
Notes to the consolidated financial statements 52
Note 1. General information and significant accounting policies 52
Note 2. Significant accounting estimates and assumptions 76
Note 3. Risk and capital management 77
Note 4. Cash and bank balances and cash equivalents 109
Note 5. Debt instruments .110
Note 6. Loans to customers 111
Note 7. Loss allowances for loan receivables . . .113
Note 8. Other receivables .115
Note 9. Prepayments 115
Note 10. Property and equipment 116
Note 11. Investment properties. 117
Note 12. Intangible assets .118
Note 13. Loans from central banks 118
Note 14. Deposits from customers 119
Note 15. Lease liabilities. 120
Note 16. Deferred income and tax liabilities . . . 120
Note 17. Other liabilities. 120
Note 18. Equity 120
Note 19. Interest income 122
Note 20. Interest expense. 122
Note 21. Other income. 122
Note 22. Salaries and associated charges 122
Note 23. Other operating expenses 123
Note 24. Other expenses. 123
Note 25. Operating leases. 123
Note 26. Assets pledged as collateral 124
Note 27. Contingent liabilities 124
Note 28. Income tax expense. 125
Note 29. Additional cash flow information 125
Note 30. Related parties 126
Note 31. Fair values of financial assets and financial liabilities 127
Note 32. Earnings per share 132
Note 33. Primary financial statements of the parent 133
Signatures 138
Independent auditor’s report 139
Profit allocation proposal 143

Development

We develop ourselves to deliver better value tomorrow than today.

Targo Raus
Head of Business Development Area

Bigbank Group at a glance

BIGBANK VALUES

Caring

We listen, understand as well as support our customers and each other.

Simplicity

We aim at simplicity in our solutions and in customer experience.

Development

We develop ourselves to deliver better value tomorrow than today.

Result-oriented

We are professional and committed to sustainable knowledge-based performance.

Courage

We embrace challenges by taking initiative, making smart decisions and being responsible.

Branch services

Cross-border services

Finland

Sweden

Estonia

Latvia

Lithuania

Netherlands

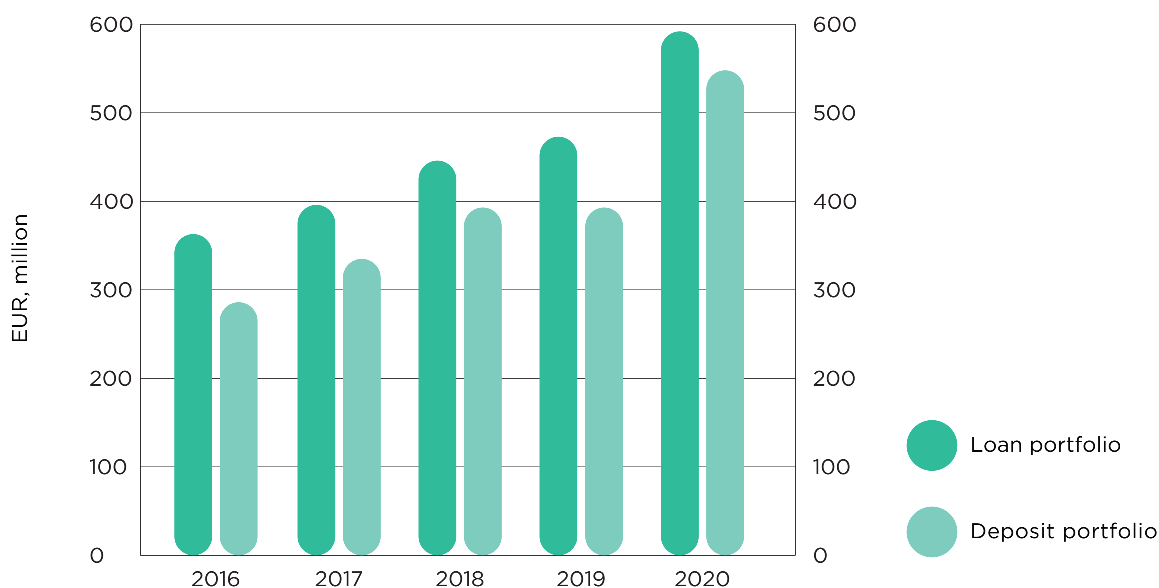
Germany

Austria

COUNTRIES OF OPERATION

	Estonia	Latvia	Lithuania	Finland	Sweden	Total
Start of operations	1992	1996	2007	2009	2012	
Loan portfolio, EUR million*	136.0	133.1	179.5	79.9	63.1	**591.6**
Number of loans, thousand*	25	34	37	11	9	**116**
Deposit portfolio, EUR million*	410.6	21.7	-	44.5	70.7	**547.5**
Number of deposits, thousand*	19	1	-	1	2	**23**
Number of employees*	230	63	69	14	7	**383**

* **As at 31 December 2020**



Letter of the Chairman of the Management Board

Martin Länts
Chairman of the Management Board

A year of growth

The year 2020 started out with great prospects and was highly promising until spring when the world was struck by a global crisis, which made us face new challenges.

Right at the beginning of the pandemic we decided to focus on supporting our customers by providing personalised solutions to those in settlement difficulties. Beyond that, our target was to revive our growth ambition by continuing to offer our customers financing options and launching new products. And our strategy paid off – both customer satisfaction and the Group's business results improved significantly during the year.

Our high service standard was reflected in the feedback received from the customer surveys. I am pleased to say that Bigbank's annual average Net Promoter Score increased from last year's 39 points to a record-high 42 for 2020. This shows that our customers value our products, our strategy of offering good terms and our excellent service.

Our performing loan portfolio grew significantly during 2020, passing the half-a-billion-euro threshold for the first time in Bigbank's history and reaching 572.6 million euros by the year-end. It should also be noted that rapid growth did not have an adverse impact on the quality of the loan portfolio. Loans past due for more than 90 days accounted for 3.2% of the total portfolio, remaining at the same level as the year earlier.

Strong business results and vigorous growth, especially in difficult times, are only possible thanks to our enthusiastic, caring and competent employees, whose contribution helps us to fulfil our mission: to enable people to improve their lives through seamless financial services. Thank you all!

Active product development

By the end of 2019 we had fully implemented our next-generation banking software Nest in all the countries where we operate. As expected, last year this enabled us to promptly respond to both the public health crisis as well as consumer needs and market expectations, and saw us launch more new products and functionalities than ever before.

The most significant new launches in 2020 were digital customer identification and contract signature in Latvia and Lithuania, corporate car and equipment lease in Estonia and Lithuania, savings deposits in Germany, Austria and the Netherlands, digital credit accounts in Sweden, refinancing loans and collateralised car loans in Finland and housing loans in Estonia.

Our efforts in banking software development have been recognised at the international Banking Technology Awards for four years in a row. Last year our development team made it to the world's top ten in the category Tech Team of the Year 2020.

Unique housing loans

Last year was an important milestone for Bigbank: we entered the Estonian home loan market. In addition to the ordinary housing loans with an annuity schedule, we started offering housing loans with a special schedule.

The special schedule, which is unique in Estonia, is aimed at families and enables customers to postpone settlement of loan principal for up to 20 years. This way, at the beginning of the loan term the family will make only interest payments, which allows keeping the monthly loan burden low and using the released funds to cover other expenditures such as car lease payments.

I am truly pleased to say that this innovative product has been warmly received in Bigbank's home market. Customers have been very

interested in the housing loans with a special schedule and to date a lot of Estonian families have been able to purchase their dream home with it.

Remarkable growth in corporate banking

The corporate banking loan and lease portfolio and sales volumes continued to grow rapidly in Estonia, Latvia and Lithuania in 2020. New loan sales grew by 84% year-on-year.

Growth was underpinned by the strengthening of sales teams, the improvement of product terms and conditions and financing new economic activities of customers – industry, manufacturing, and agriculture and forestry. In addition to commercial and residential real estate financing products, we launched a long-term investment loan for manufacturing companies and a loan with a term of up to 30 years for financing agricultural land.

More favourable sources of financing

We continued to expand our financing towards cheaper sources in 2020 by including savings deposits in Germany, Austria and the Netherlands in our product range and participating in the European Central Bank's targeted longer-term refinancing operation (TLTRO-III).

The savings deposit allows customers to use their deposited money at any time, which is why its price is somewhat cheaper for the bank. Due to the crisis, the European Central Bank repeatedly eased the terms of the third series of TLTROs in 2020 and, if the lending performance threshold is met, the borrowing rate for these operations can be even lower than the deposit facility rate.

Expansion to Bulgaria

Last year Bigbank obtained all the permits required to establish and operate a new branch in Bulgaria from both the Estonian Financial Supervision and Resolution Authority and the National Bank of Bulgaria. Our branch in Bulgaria was entered in the local commercial register on 19 November 2020.

In early 2021 we are going to offer private customers in Bulgaria fully digital consumer credit products, followed by deposits later in the year. We have set ourselves the goal of becoming the most recommended digital financial service provider in Bulgaria within the next five years.

Future outlook and growth prospects

The year 2021 is the last one in Bigbank's business strategy for the period 2017-2021. Our recent year's strong financial performance and continuous growth reflect that the strategy we chose has been the right one.

We will continue to implement our current strategy in 2021 with a focus on streamlining the bank's operations, introducing new products and building new partnerships so as to maintain organic growth in all the countries where we operate. All those strategic goals are now supported by our state-of-the-art banking system Nest.

Bigbank remains positive about the future outlook despite the global issues caused by the pandemic. The bank's financial position is strong and stable, with considerable capital buffers. This allows us to focus on what is most important – creating value for our customers and providing them with the best possible service – while working towards achieving our growth ambitions.

I wish everyone a positive and successful 2021.

Martin Länts
Chairman of the Management Board

Review of operations

ECONOMIC ENVIRONMENT

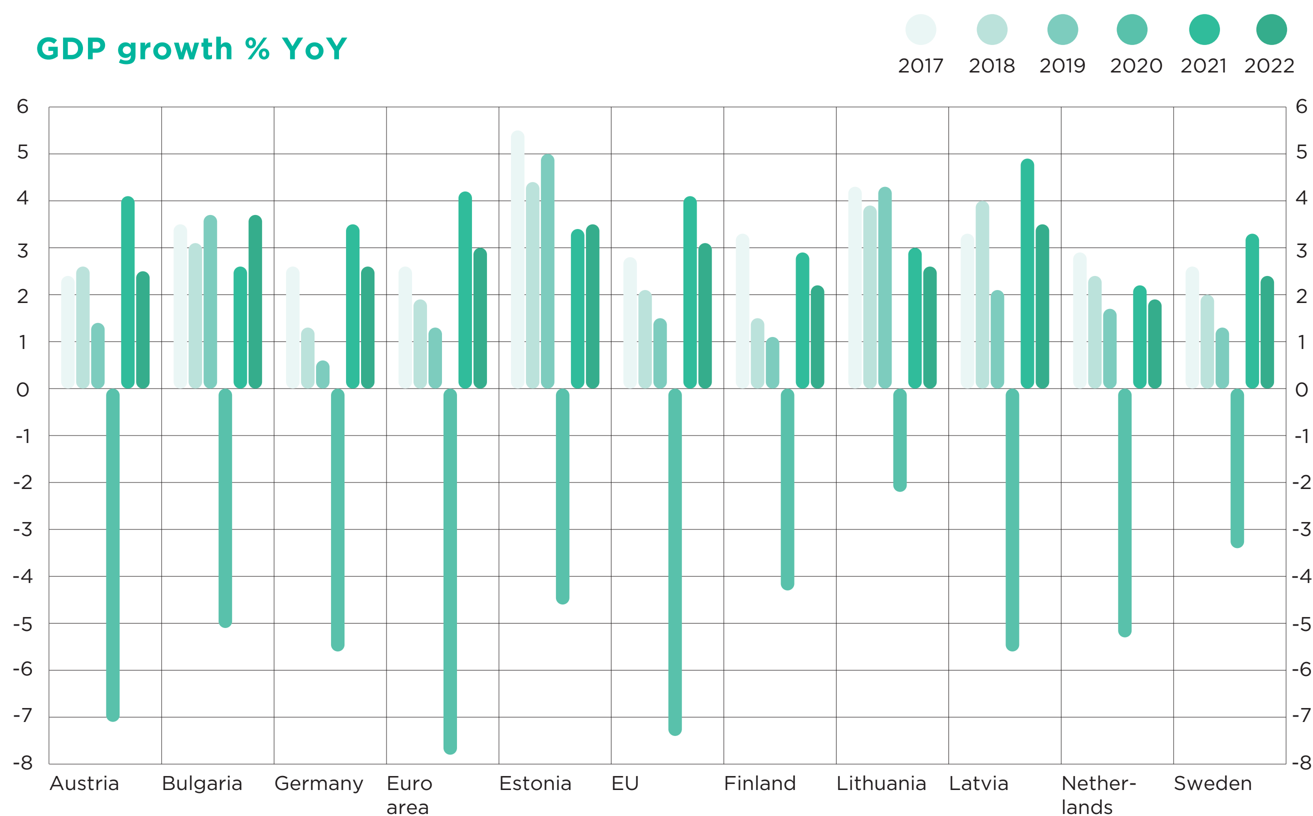
The COVID-19 pandemic caused an economic crisis unprecedented in its severity. In the first half of the year, COVID-19 severely disrupted economic activity in the euro area and the EU. However, when containment measures were eased across Europe, economic recovery was quick to materialise, underpinned by extensive support by governments and EU institutions and the overall impact of the crisis was less drastic than initially expected. The turnaround later in the year was as unprecedented as the collapse in economic activity in the second quarter.

The pandemic has affected large segments of the economy but due to the need for social distancing it has hit disproportionately hard labour-intensive and tourism related sectors. A combination of governments' containment measures, mobility restrictions, and fear of infection that caused changes in people's behaviour put a brake on several types of economic activity. This placed strain on the labour market but a bundle of supportive policy measures have helped cushion the negative near-term impact on employment and incomes.

Based on the European Commission (EC) 2020 autumn forecast, annual real GDP in the EU is expected to shrink in 2020 by -7.4%, before rebounding by 4.1% in 2021 and slowing to 3.1% in 2022. The depth of the recession in 2020 and the speed of the recovery in 2021 and 2022, however, are expected to vary widely across member states. This reflects differences not only in the severity of the pandemic and the stringency of the containment measures but also in the economic structures and the domestic policy responses.

The abrupt economic downturn has also left its mark on the labour market. However, the unemployment rate has increased only moderately compared with the fall in economic activity. This is partly attributable to the success of government support schemes and employment may encounter further losses when short-time work schemes are discontinued. Despite the expected economic rebound next year, the EU unemployment rate is set to rise further from 7.7% in 2020 to 8.6% in 2021 and to fall to only 8.0% in 2022 according to the EC forecast.

The uncertainties in the longer-term outlook continue to be high. The main risks relate to the evolution of the COVID-19 pandemic and the effectiveness of the vaccination process. A stronger than assumed spread of the pandemic as well as a more adverse economic impact could lower economic activity, slow the rebound or, in the worst case, even derail recovery for some time, which would lead to higher corporate defaults and growth in non-performing loans. On the upside, faster medical advances in the treatment and prevention of COVID-19, including fast and widespread deployment of vaccines, would accelerate the relaxation of distancing measures, improve confidence and result in a quicker return to a more normal economic situation. Also, the EU Recovery and Resilience Facility with over €670 billion in loans and grants should boost European economies with a focus on green and digital transition.



Source: European Commission

BALTIC COUNTRIES – ESTONIA, LATVIA AND LITHUANIA

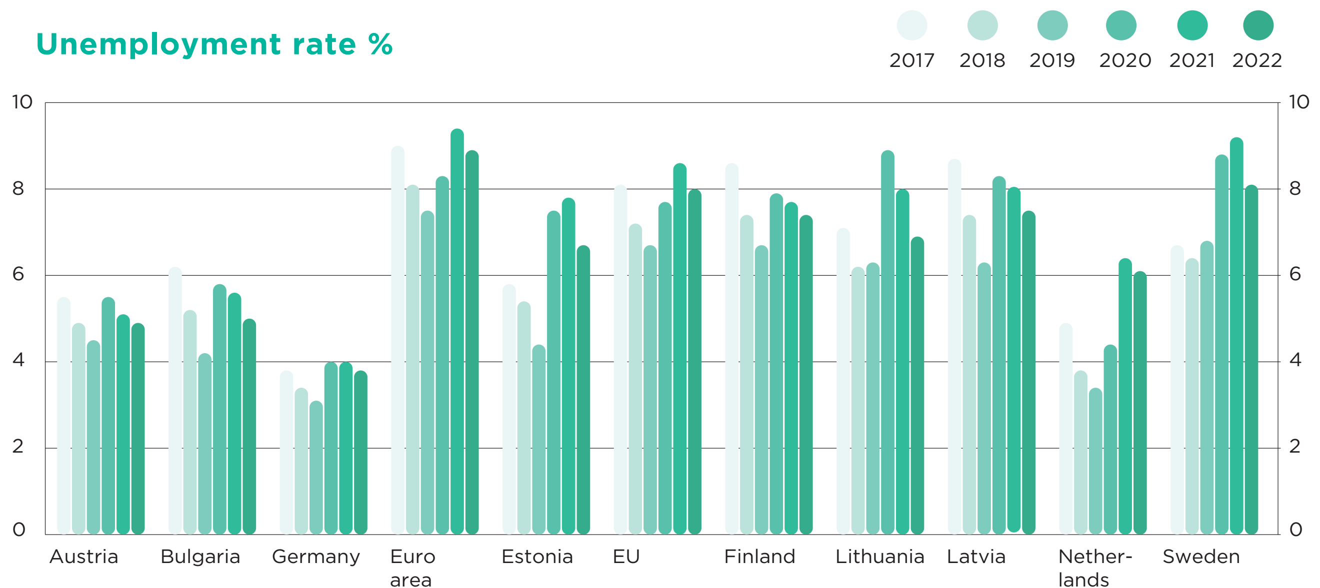
According to the EC autumn 2020 forecast, the COVID-19 induced halt affected the GDP of Baltic countries less than the euro area on average. While the eurozone economy is expected to contract by -7.8% in 2020 on average, the respective change in Estonia was -4.6%, in Latvia -5.6% and in Lithuania only -2.2%. The projected recovery in 2021 is 3.4% for Estonia, 3.0% for Lithuania and 4.9% for Latvia. Latvia is the only one exceeding the average eurozone recovery of 4.2%. It can be said that 2020 was bad, but not as bad as was expected initially at the start of the pandemic. From the three, Lithuania's economy withstood the initial blow of the COVID-19 pandemic relatively well, being helped by a significant stimulus package. Private consumption and investment suffered the most in all three countries, but the decline in economic activity was softened by sustained public expenditure and a large decrease in imports. Relatively high household savings, accumulated during the crisis, suggest that spending may resume once health related constraints disappear, adding boost to continued public investment and normalisation of private equipment investments.

Estonia's labour market has adjusted swiftly to the drop in demand, just as it did in recent recessions, tourism and related industries being hit the hardest this time. On an annual basis, the unemployment rate is forecasted to reach 7.5% in Estonia in 2020 and almost 8% in 2021, before falling below 7% in 2022. In Latvia the unemployment rate is expected to reach 8.3% in 2020 and 8.0% in 2021 and to fall to 7.5% in 2022. Even though GDP-wise Lithuania suffered less than others, mainly thanks to a sizeable stimulus package, its unemployment is still expected to reach 8.9% in 2020 and then to recover to 8.0% in 2021 and to 6.9% in 2022.

NORDIC COUNTRIES – FINLAND AND SWEDEN

In Finland strong government support measures and an effective containment response softened the impact of the COVID-19 pandemic on the economy, which in mid-2020 was among the lowest in the EU. Still, the economy took a heavy hit and recovery is expected to be only gradual, with the 2019 output level reached only by the end of 2022. All demand components, except government consumption, dropped in 2020. According to the EC forecast, GDP is expected to contract by 4.3% in 2020 and to grow by 2.9% in 2021 and by 2.2% in 2022. Th main driver of recovery is private consumption. Unemployment rose sharply in the first half of the year, with monthly layoffs peaking in April and increased to 7.9% by the end of 2020. It is expected to recover to 7.7% in 2021 and 7.4% in 2022.

Sweden chose a different approach to contain the COVID-19 pandemic, but still GDP contracted sharply. The economy is expected to fall by -3.4% in 2020 and to grow by 3.3% in 2021 and by 2.4% in 2022. Still, sizeable budgetary and financial support measures have cushioned the fall in GDP and further rise in unemployment. The pandemic has triggered a sharp deterioration in the labour market, particularly in the labour intensive service sectors that tend to employ workers on flexible and short-term contracts and workforce with a migrant background. Unemployment is projected to grow to 8.8% in 2020 and to a staggering 9.2% in 2021, and to recover to 8.1% in 2022, according to the EC forecast.



Source: European Commission

CENTRAL EUROPE AND BENELUX COUNTRIES – AUSTRIA, GERMANY AND THE NETHERLANDS

Germany's economy saw a historic recession in 2020 but this should be followed by a rebound in the next years, as capacity utilisation and activity recover. GDP is set to contract by 5.6% in 2020, albeit less than projected earlier thanks to strong growth in the third quarter. Still, the second wave of infections is expected to dampen the rebound to 3.5% in 2021 and 2.6% in 2022. The government has adopted measures of historic proportions to fight the COVID-19 pandemic and stabilise the economy and, thanks to the expansion of subsidised short-time work schemes, unemployment should stay at a relatively low 4.0% level in 2020 and 2021 and recover to 3.8% in 2022.

In Austria, the COVID-19 pandemic and related containment measures led to a strong economic contraction in the first half of 2020. The overall GDP contraction for the whole 2020 is expected to be -7.1%. The services and tourism sectors were particularly affected. According to the EC forecast, the economy will grow by 4.1% in 2021 and growth will moderate to 2.5% in 2022. The unemployment rate rose sharply in the first half of the year, but short-time work schemes helped to mitigate the effect. Overall, the unemployment rate is projected by the EC to increase from 4.5% in 2020 to around 5.5% in 2021, before falling to just below 5% in 2022.

In the Netherlands annual real GDP is forecasted by the EC to decline by -5.3% in 2020, before a recovery of 2.2% in 2021 and 1.9% in 2022.The annual unemployment rate is projected to increase to 4.4% on 2020, up from a pre-crisis record low of 2.9%, mainly thanks to the support measures. In 2021, the unemployment rate is forecasted by the EC to increase to 6.4%, peaking in the second half of the year after support is rolled back, and to decline gradually to 6.1% in 2022.

BULGARIA

Economic developments in Bulgaria have been marked by the adverse impacts of the COVID-19 pandemic. Containment measures have reduced supply in sectors directly affected by them while domestic demand and exports are set to contribute to growth in the coming years. For full year 2020, GDP is expected to contract by -5.1%. Recovery is projected to bring the economy back to its pre-crisis levels by the end of 2022, with GDP growth projected at 2.6% in 2021 and 3.7% in 2022. The unemployment rate has increased significantly since the onset of the COVID-19 pandemic and is expected to level off at 5.8% in 2020. A recovery in employment is projected by the EC for 2021 when the unemployment rate is expected to drop to 5.6% and for 2022 when the rate should fall to 5.0%.

OVERVIEW OF PERFORMANCE IN 2020

The year 2020 was successful for Bigbank AS (Bigbank, the Group) despite the complicated macroeconomic situation. The loan portfolio (loans to customers) grew by 25.7%, reaching a record level of 578 million euros by the year-end. Total assets grew to 758 million euros, 184 million euros (32.0%) up on a year earlier. Asset growth was mainly driven by growth of the loan portfolio.

Loans to customers showed the strongest growth at the Lithuanian branch where they increased by 46 million euros. In terms of branches, year-end loans to customers remained the largest at the Lithuanian branch where they extended to 184 million euros, accounting for nearly 32% of the Group's total loans to customers.

The Group's net profit for 2020 was 21 million euros, 3 million euros (12.7%) smaller than a year earlier. Net profit decreased mainly because of additional credit loss allowances recognised due to the public health crisis. Net loss allowances on loans and financial investments increased by 7 million euros (110.3%) to 14 million euros in 2020. Despite significant growth in loss allowances, the quality of the loan portfolio as at the end of 2020 may be considered good. At the year-end, non-performing loans accounted for 3.2% of total loans to customers. The figure was below 5% for all branches.

Thanks to strong net profit growth, the Group's equity increased by 10.8% to 156 million euros. The Group's capitalisation continues to be solid. Return on equity decreased to 14.4%, which is still close to our long-term target of 15%.

The year 2020 started very successfully for Bigbank. At the end of 2019 the bank completed transition to its internally generated state-of-the-art banking system Nest, which was undertaken to integrate all of the bank's core functions into a single system and thereby to support business growth. Largely thanks to the new system, the Group's first quarter sales were record-breaking.

Due to the onset of the public health crisis, at the end of the first quarter the Group reviewed all its plans and set new goals for 2020. In hindsight it can be said that the Group made the right choices, which ensured a strong annual result. The main goals for the year were to expand the product range, to increase sales of existing products and not to limit operating volumes. The most important products launched in 2020 were housing loan in Estonia, lease for corporate customers in Estonia and Lithuania, cross-border savings deposit in Germany, Austria and the Netherlands, car hire purchase in Finland and revolving credit product in Sweden.

Uninterrupted continuity of operations was ensured, among other factors, by high-level digitalization. Employees were sent to home offices quickly and the process was generally smooth.

In the context of a public health crisis, it was also reasonable to cut certain costs. Most business trips and training and motivational events were cancelled. Altogether, other operating expenses decreased by 0.6 million euros (5.2%) year on year to 11 million euros. The Group's clear strategy was not to cut payroll costs.

The Group's most important staffing change in 2020 was in the Swedish branch where a new country manager joined and started working in November.

OUTLOOK FOR 2021

Experts expect the economy to recover in 2021. Bigbank's own economic forecast for its home markets is even more optimistic. The Group expects to grow in all the markets where it operates, both in terms of existing products and new product launches.

The opening of a new branch in Bulgaria is going to be an important move. Preparations for the opening continued through 2020 and the new branch is expected to make its first transactions in the first half of 2021. Consumer loans and term deposits are the first products the Group will offer in the Bulgarian market, other products will be added over the year.

Interest rates are not expected to rise in any of our home markets. Accordingly, we are planning to expand the product range and increase the loan portfolio. We will continue to invest in technologies that support the digital lender's business model and improve the Group's operating efficiency.

There are several factors which provide assurance that our plans can be successfully implemented: the year 2020 which saw a health crisis ravage macroeconomy was still successful for Bigbank, the new banking software Nest which unlocks opportunities that we can increasingly use to our benefit, and a strong team which has demonstrated excellent team spirit in delivering results.

KEY PERFORMANCE INDICATORS

Financial position indicators *(in millions of euros)*	**31 Dec 2020**	**31 Dec 2019**
Total assets	757.8	574.2
Loans to customers	577.7	459.7
of which loan portfolio	591.6	473.5
of which interest receivable	13.5	10.5
of which loss allowances	-27.4	-24.3
Deposits from customers	547.5	392.8
Equity	156.2	141.1
Financial performance indicators		
Interest income	69.8	67.0
Interest expense	-7.0	-6.4
Salaries and associated charges	-14.1	-14.9
Other operating expenses	-11.1	-11.7
Net loss allowances on loans and financial investments	-14.0	-6.7
Profit for the year	21.3	24.5
For the year		
Average equity	148.6	131.1
Average assets	666.0	551.4
Average interest-earning assets	619.9	511.9
Average interest-bearing liabilities	497.7	403.0
Total income (gross)	76.4	72.4
Ratios		
Common equity Tier 1 capital ratio	21.1%	22.2%
Tier 1 capital ratio	21.1%	22.2%
Total capital ratio	21.9%	23.2%
Leverage ratio	17.2%	19.2%
Liquidity coverage ratio (LCR)	659%	644%
Net stable funding ratio (NSFR)	130%	133%
Minimum requirement for eligible liabilities (MREL)	18.7%	21.0%
Return on assets (ROA)	3.2%	4.4%
Return on equity (ROE)	14.4%	18.7%
Profit margin (PM)	27.9%	33.8%
Return on loans	13.1%	14.5%
Asset utilization ratio (AU)	11.5%	13.1%
Price difference (SPREAD)	9.8%	11.5%
Cost to income ratio (CIR)	45.7%	49.6%
Equity multiplier (EM)	4.5	4.2
Earnings per share (EPS), euros	266.78	305.66
Yield on interest-earning assets	11.3%	13.1%
Cost of interest-bearing liabilities	1.4%	1.6%

EXPLANATIONS

Average financial position indicators (equity, assets) are calculated as the arithmetic means of respective indicators, i.e. carrying value at end of previous reporting period + carrying value at end of current reporting period / 2

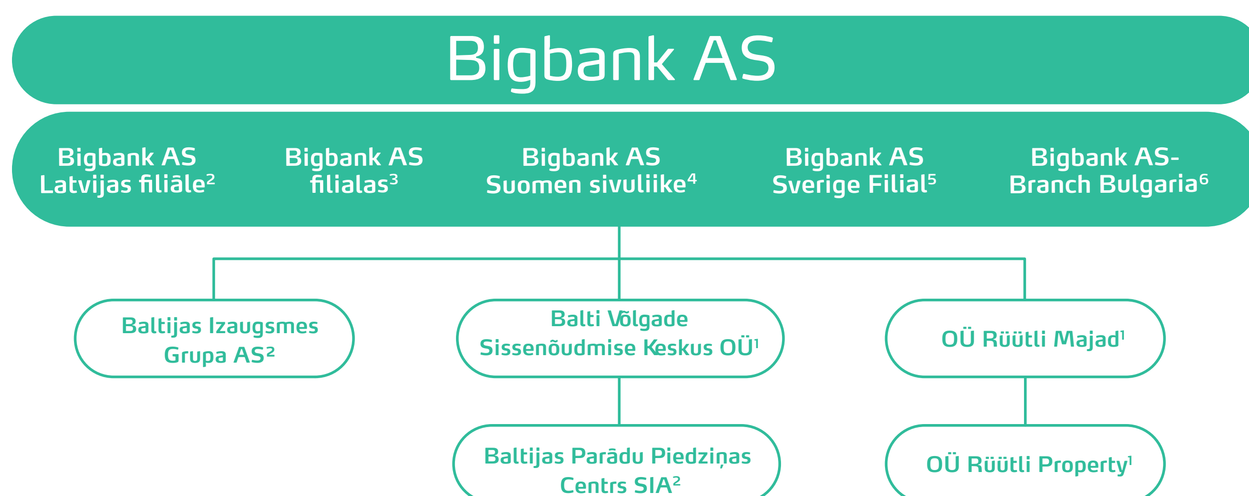
Average interest-earning assets are calculated as the arithmetic means of interest-earning assets in the statement of financial position i.e. carrying value of interest-earning assets at end of previous reporting period + carrying value of interest-earning assets at end of current reporting period / 2

Average interest-bearing liabilities are calculated as the arithmetic means of interest-bearing liabilities in the statement of financial position i.e. carrying value of interest-bearing liabilities at end of previous reporting period + carrying value of interest-bearing liabilities at end of current reporting period / 2

Common equity Tier 1 capital ratio (%) = common equity Tier 1 capital / total risk exposure amount * 100
Tier 1 capital ratio (%) = Tier 1 capital / total risk exposure amount * 100
Total capital ratio (%) = total own funds / total risk exposure amount * 100
Leverage ratio (%) = Tier 1 capital / total leverage ratio exposure * 100
Liquidity coverage ratio (LCR, %) = high-quality liquid assets / net cash outflows over the next 30 days * 100
Net stable funding ratio (NSFR, %) = stable funding / required stable funding * 100
Minimum requirement for eligible liabilities (MREL, %) = (total own funds + eligible liabilities) / total liabilities * 100
Return on assets (ROA, %) = profit for the year / average assets * 100
Return on equity (ROE, %) = profit for the year / average equity * 100
Profit margin (PM, %) = profit for the year / total income * 100
Return on loans = (interest income on loan portfolio + income from debt collection) / average loan portfolio
Asset utilisation ratio (AU) = total income / average assets
Price difference (SPREAD) = interest income / interest-earning assets – interest expense / interest-bearing liabilities
Cost to income ratio (CIR) = total operating costs to net income
Equity multiplier (EM) = average assets / average equity
Earnings per share (EPS) = profit for the year / period's average number of shares outstanding
Total income = interest income + fee and commission income + other income
Yield on interest-earning assets = interest income / average interest-earning assets
Cost of interest-bearing liabilities = interest expense / average interest-bearing liabilities

ABOUT BIGBANK GROUP

Bigbank AS was founded on 22 September 1992. A licence for operating as a credit institution was obtained on 27 September 2005. Bigbank's core services are the provision of loans and the acceptance of deposits.
The Group's structure at the reporting date:



1 registered in the Republic of Estonia
2 registered in the Republic of Latvia
3 registered in the Republic of Lithuania
4 registered in the Republic of Finland
5 registered in the Kingdom of Sweden
6 registered in the Republic of Bulgaria

The branches in Latvia, Lithuania, Finland and Sweden offer lending services similar to those of the parent. The parent and its Latvian, Finnish and Swedish branches also offer deposit services. In addition, Bigbank AS provides cross-border deposit services in Germany, the Netherlands and Austria. The core business of OÜ Rüütli Majad is managing real estate and its subsidiary OÜ Rüütli Property manages agricultural land. Baltijas Izaugsmes Grupa AS and Balti Võlgade Sissenõudmise Keskus along with its subsidiary are not engaged in active business operations.

The Spanish branch, Bigbank AS Consumer Finance Sucursal en España, was closed in 2019 and since then its remaining customers have been served on a cross-border basis by the parent bank in Estonia. At 31 December 2020, the Spanish branch was in liquidation, the liquidation of the branch was registered by Madrid Commercial Register on 8 February 2021.

SHAREHOLDERS

The shares in Bigbank AS are held by two individuals, each holding the same number of shares. At 31 December 2020, the shareholders were:

Shareholder	Number of shares	Interest
Parvel Pruunsild (chairman of the supervisory board)	40,000	50.0%
Vahur Voll (member of the supervisory board)	40,000	50.0%

The shares in Bigbank AS are registered in the Estonian Central Register of Securities. Use of voting power carried by the shares has not been restricted. The company is not aware of any shareholder agreements under which the shareholders pursue a joint policy by means of pooling their votes or otherwise restrict use of voting power. Except for shares, Bigbank AS has not issued any securities that grant control of the company.

LITIGATION

At 31 December 2020, the Group was not involved in any significant litigation; there was a pending lawsuit with a former employee but its impact on the Group is not significant.

EMPLOYEES

The Group's business growth and remarkable development in recent years have been achieved through the efforts of a committed and professional team of almost 400 employees.

EMPLOYEE PROFILE BY COUNTRY AS AT 31 DECEMBER 2020

Country	Number of employees	Number of male employees	Number of female employees	Share of male employees	Share of female employees	Average length of service	Average age
Estonia	230	103	127	45%	55%	52 months	35 years
Finland	14	7	7	50%	50%	60 months	38 years
Latvia	63	12	51	19%	81%	77 months	33 years
Lithuania	69	28	41	41%	59%	62 months	32 years
Sweden	7	3	4	60%	40%	34 months	35 years
Total	**383**	**153**	**230**	**40%**	**60%**	**57 months**	**35 years**

At 31 December 2020, the Group had 383 employees compared with 385 at the end of 2019. When planning the most important activities in human resource management in 2021, we take into account that a large part of our employees (37%) are under 30 and 31% have been with us for less than 23 months as well as the fact that technology staff are the second biggest (21%) group of our employees.

EMPLOYEE EXPERIENCE STRATEGY FOCUS AREAS FOR 2018-2021:

- Bigbank is an attractive employer and we apply value-based recruitment principles.
- We provide excellent support for new and internally rotating employees.
- We provide excellent management and leadership service to employees, including employees on long-term leave (e.g. parental leave).
- Our remuneration system works well.
- We ensure short- and long-term replacement staff for business-critical positions and functions.
- Our work environment and tools help employees do their job well and efficiently and stay healthy.

The main results of 2020 by focus areas were as follows:

Focus 1: Bigbank is an attractive employer and we apply value-based recruitment principles.

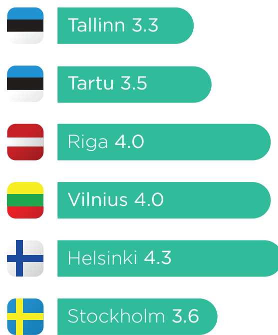
2020 was challenging year because we had to adapt our standard recruitment process to new, COVID-19 related restrictions and find a way to continue with value-based recruitment using a virtual approach. From March to September 2020, we hired 25 new highly qualified and engaged employees.

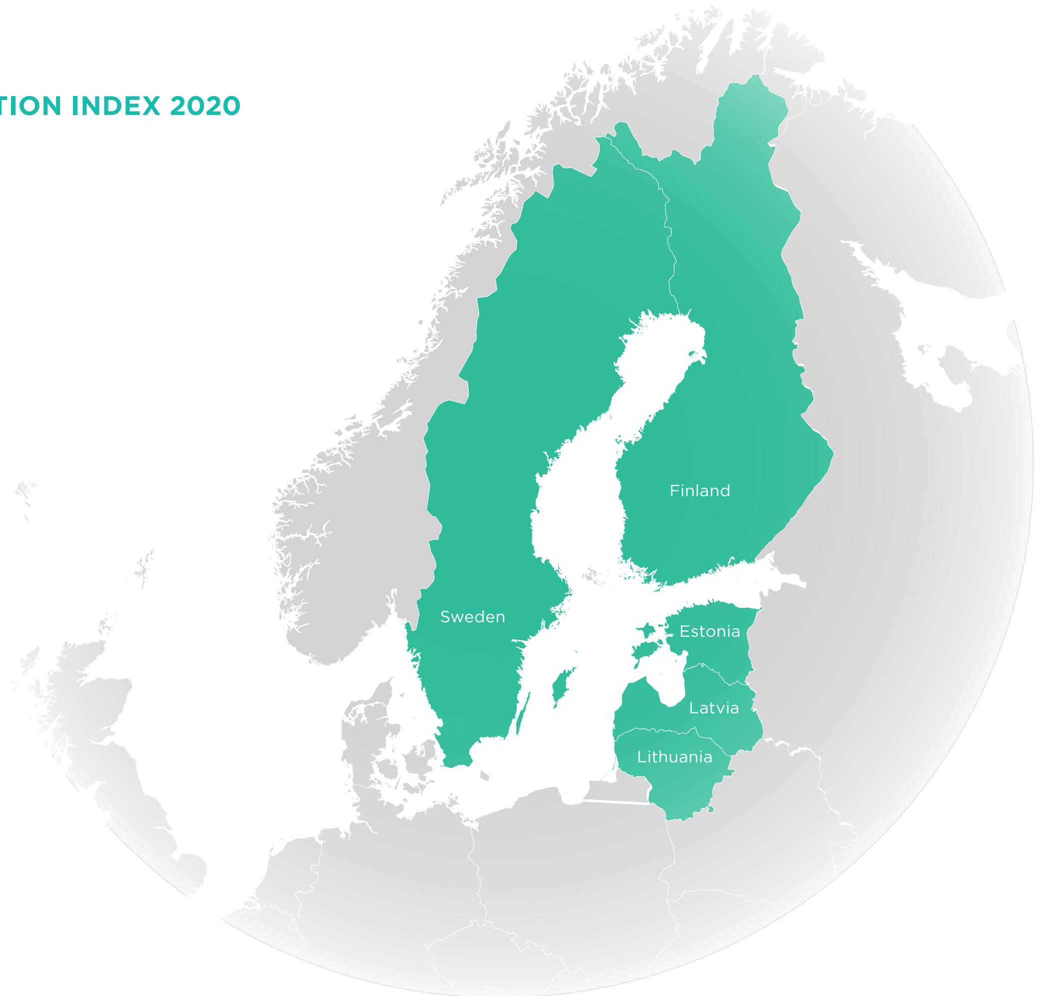
Our own employees' willingness to recommend Bigbank as an employer has long been and still is the most important factor in attracting new employees.

To understand and regularly monitor employee experience, we started collecting quarterly employee feedback in 2018 in all cities

where Bigbank has an office and staff. In the third quarter, the recommendation index was positive in all cities and we also saw its significant upswing at the Finnish and Swedish branches, which have previously lagged behind the Baltic countries.

EMPLOYEE RECOMMENDATION INDEX 2020





We fill vacancies by recruiting first from within the Group. A significant number of key positions at branches and group level units were also filled internally in 2020. This provides capable employees with an opportunity to move between different management levels, areas, countries and cities. We are proud to have a strong positive trend among Bigbank alumni who come back to us. Employees that had re-joined us after being away for 3 months to 5 years accounted for 7% of the workforce at 31 December 2020.

In the third quarter, we started to review the Bigbank value proposition to employees to link it more closely to our values and attract candidates who share the same values and will enjoy our way of working and our corporate culture. The updated value proposition will be approved and launched at the beginning of 2021.

We systematically introduced Bigbank's work culture and experience in the social media channels of our prospective employees. Our official pages (such as Lifeatbigbank on Instagram) offered visuals and stories about what makes us who we are today and our staff shared their #bigbankwow experiences through photos and stories in different social media channels.

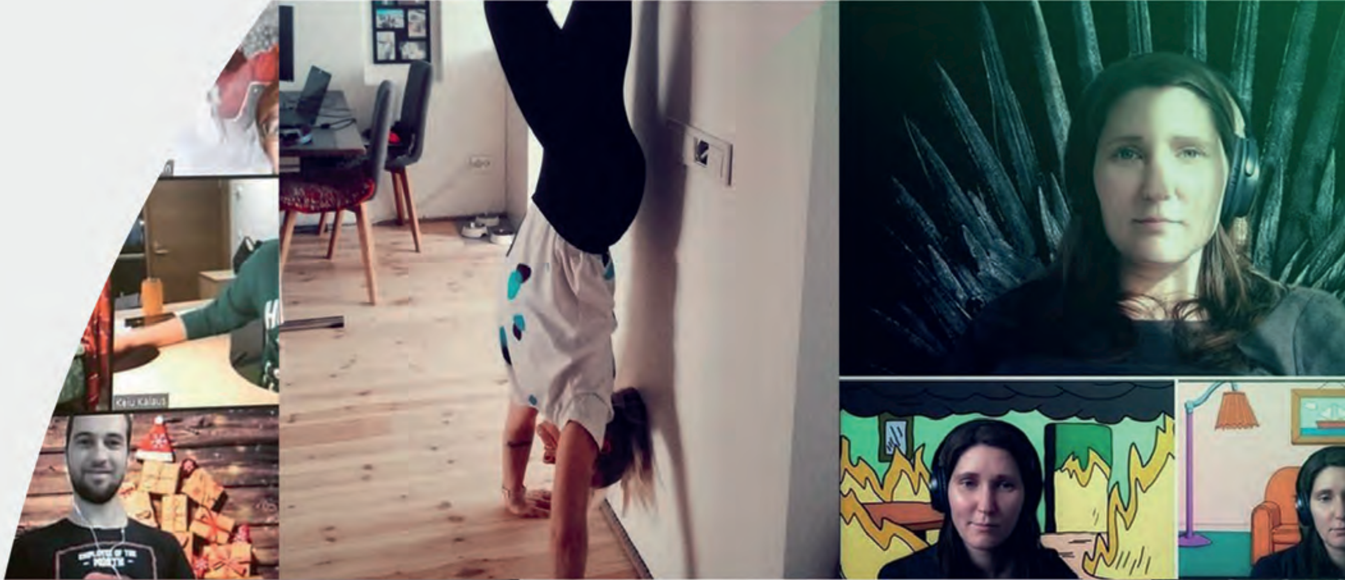
Our Instagram account and #bigbankwow stories shared by our employees

lifeatbigbank Following

655 posts 506 followers 310 following

Life at Bigbank
The world is full of stories which make us who we are today. Here are the stories of Bigbankers. Say hi to #bigbankwow
jobs.bigbank.eu

Followed by ksenijaniitmae, avemarilukk, bigbank_es + 5 more



Focus 2: We provide excellent support for new and internally rotating employees.

Due to the development of the organisation, the situation in the Baltic labour market and the COVID-19 restrictions implemented in 2020, supporting the induction of both new and rotating employees continued to be one of the main priorities of 2020.

Bigbank has an in-depth induction program, the content of which we adjust to each employee, based on his or her duties and background. As our vision is to become the most recommended digital service provider in the countries we operate, a case study of customer experience is an obligatory part of the induction programme for all employees. By that we make sure that all new employees get to know Bigbank's customers and become aware of their role in delivering excellent customer experience.

Although new employees' feedback to the recruitment process and induction programme has been highly positive, we want to improve it. In 2020 we made a new employee feedback form part of the induction programme and began requesting feedback from each new employee. In comparing our programme to that of their previous employers, new staff positively highlighted the employee-centric, well-planned and excellently organised nature of our approach.

Finland	"The fact that people (including the CEO) take the time to make me feel welcome." "A superb induction programme - I truly hope that this will be organised for all new employees!"
Sweden	"The induction programme was conducted very professionally and it was organised with colleagues investing time and effort in sharing information and making me feel welcome."
Latvia	"It seems that everything was really great, because I quickly gained the necessary knowledge and skills to start working at Bigbank successfully." "I was impressed by the modern premises and the helpful colleagues." "Responsive colleagues, very good communication and presentation of the new work environment." "Very friendly and helpful colleagues. A smooth start at work, which made it easier to fulfil the new responsibilities." "I had a great opportunity to learn from a long-term employee for two weeks, which was sufficient time to get to know all the skills needed for the job. The managers as well as all other colleagues were very helpful and friendly. THANK YOU!" "I can really only say the best words, because I enjoy the atmosphere in the office, I enjoy the colleagues, their support and help. I can always count on them in work matters and sometimes also in other matters."

Estonia	"The induction programme exceeded my expectations, it was well structured and logical." "For me, the programme is very thorough and includes everything that a new employee might need." "I was impressed with the first day when things were well planned and organised for me (hour by hour activities; a work place awaiting; IT access granted; lunch with the manager and introduction into the key topics). That was nice and made it easier to start in a new place." "Great induction despite the COVID situation and working from home." "I liked the video training a lot, there was time to listen and think about the subject and the questions raised by the presenter. I give credit to all speakers - they know their work and involve new colleagues to better understand their area :). Well done and hold the flag high!"

Some responses to the survey

Focus 3: We provide excellent management and leadership service to employees, including employees on long-term leave (e.g. parental leave).

For years, the main goal of improving management quality has been to improve Bigbank's performance through better focus, discipline, and regular and transparent information exchange across the organisation. To achieve this, the training focus for both managers and experienced specialists has been primarily on developing the competencies of execution (4 Disciplines of Execution) and efficiency (lean management, agile development process). In 2020, the Group's HR team and management board also focused on designing and implementing a leadership development programme to support the growth of other relevant leadership competencies.

To improve management quality, we carried on with a number of initiatives at all levels of management, including the following.

- In 2020, we had several external coaches who supported our top managers in their most challenging employee and leadership related topics.
- We started to develop an updated Bigbank leadership competency model which will be finalised and introduced at the beginning of 2021.
- Managers participated in external training events consistent with their development goals.
- We prepared and launched a new manager's induction programme, which covers the main leadership topics based on the manager's prior experience and individual needs.
- We prepared a 6-month in-house leadership training programme for managers who need support in leadership related topics.
- Once a quarter, we arrange execution seminars for top management, where we address financial performance as well as customer and employee experience issues. The focus of the development of management competencies is on the knowledge and skills required to manage change.
- We started with monthly information sessions for managers to keep them up to date with all important personnel related topics.

Improvement of leadership skills will continue to be a priority in our action plans for 2021.

Bigbank Annual
Seminar 2020
in Tallinn

Focus 4: Our remuneration system works well.

At the end of 2019, we reviewed and fully renewed our remuneration policy and principles to align them with trends within the company and in the labour market as well as legal requirements. The main changes were related to:

- budgeting the annual payroll;
- setting and evaluating professional development goals as an obligatory part of the performance development interviews for all employees;
- introducing new principles for agreeing salary increases with employees; and
- adjusting the criteria for some of the benefits.

Due to the changes, employee feedback on the clarity of the remuneration policy decreased slightly, dropping from 4.1 points in 2019 to 4.0 points in 2020, but the overall rating is still above average and "a competitive salary, interesting work and great development opportunities" are still highlighted as some of Bigbank's key strengths.

Focus 5: We ensure short- and long-term replacement staff for business-critical positions and functions.

Short- and long-term replacement is a topic we have been dealing with since 2018. Due to COVID-19, the issue became particularly important in 2020. This is one of the key factors in ensuring Bigbank's continuity of operations and improving employee experience. At the beginning of 2020 we reviewed the contingency plan for business critical positions in light of the crisis caused by the pandemic and the adjustments made have proven to be effective.

In 2020, employee feedback on substitution remained in the same range as in 2019 and was 4.2 points.

Focus 6: Our work environment and tools help employees do their job well and efficiently and stay healthy.

We monitor employee satisfaction with the work environment and regularly ask feedback at the country, city and specific office level. By doing so, we identified the key factors for improvement and, where reasonably possible, resolved them during the year.

Compared to previous years, we paid considerably more attention to raising employees' health awareness. We regularly shared information about how employees can protect themselves against viral infections and put a lot of effort into providing information and support for creating optimal working conditions at the home office. We supported employees by providing them with additional monitors, ergonomic office chairs and desks so that they could work from home safely and without damaging their health. In March 2020, we started online Group-wide Qigong/Asahi sessions to encourage our employees to knowingly use their breaks to improve their health and exercise without leaving the home/office.

Employee satisfaction with working conditions and the work environment did not change compared to the previous year. The result for 2020 was 3.8 points, which is the same as in 2019.

Simplicity

We aim at simplicity in our solutions and in customer experience.

Heidi Speck
Head of Estonian WOW Support Services

Social responsibility and sustainability report

Bigbank's social responsibility and sustainability report is based on the G4 Sustainability Reporting Guidelines (G4 Guidelines) of the Global Reporting Initiative (GRI). The G4 Guidelines offer two options for preparing a sustainability report: the comprehensive option and the core option. Bigbank has prepared its social responsibility and sustainability report using the core option.

CUSTOMERS

Bigbank's mission is to help people improve their lives through seamless financial services. The bank's core values are caring and simplicity. Therefore, we want to know how our customers like our services, what they think of us and what they say about us. We regularly ask our customers what we could do differently so that our customer experience would meet or exceed their expectations and would encourage them to recommend us to their family, friends and acquaintances. Customer feedback is read regularly by managers of all levels as well as the staff of business units. Each customer's experience and journey are important to us.

Bigbank has customers in the Baltic states, Finland, Sweden, Germany, Austria and the Netherlands. With each year of our current strategy period we have managed to increase our customers' trust and loyalty. This is clearly reflected in their positive feedback: our customers praise our service and fast and convenient processes, they are also increasingly willing to recommend us to others. Our customers know that we use their feedback to enhance our products and services so that they would better fit customer needs.

All our employees have at least one annual goal which is related to improving customer experience. This enables us to provide exceptional customer service that inspires our customers to tell positive stories.

Customer experience management

At Bigbank, our common goal is to deliver exceptional customer experience. Only together can we retain loyal customers who are willing to recommend our products and services. We want to meet our customers' expectations from the moment they take an interest in our products and services to the moment they cease using these products and services.

Bigbank's business strategy for the period 2017-2021 is focused on sustainable growth, which assumes, among other things, consistent improvement of customer experience. We developed Bigbank's customer experience strategy at the beginning of 2017 in partnership with our customers. In implementing the strategy in 2020, we focused on the following:

- To become better at what we do, we provided more customers with an opportunity to give feedback on our services. We started collecting input from customers that use the self-service

environment. Based on feedback obtained, we improved its functions and convenience, which increased customer satisfaction with both the functionality of the environment and the overall experience with Bigbank. During the year the Net Promoter Score rose by 19%.

- We improved customer experience at all touchpoints: communicating denial of a loan, signing a contract, one year after signing a contract, expiry of a contract, debt handling and customer service. As a result, in 2020 the Net Promoter Score for these touchpoints rose by 18%, 9%, 6%, 34%, 22% and 18%, respectively.
- We continued to analyse how many customers are referred to us by friends or acquaintances. In the Baltic states where Bigbank is well-known, the figure increased on average by 10% compared to 2019. The figure also increased in other countries: by 6% on average.
- We continued to share customer feedback and relevant statistics with all Bigbank employees. We thereby explained how we have increased the value provided to customers and highlighted what we could do even better.
- We continued to assess the quality of our customer communication. Both assessment results and customer feedback confirm that our communication is professional, friendly and supportive.
- We harmonised the rules of the automated feedback collection system to make sure that the information obtained on different countries would be comparable.
- We improved the functionality of our digital self-service environment by enabling customers to conveniently view their payments, contracts, personal offers and contract terms and conditions.
- We continued to invest in regular employee training and development with a particular focus on quality improvement and the implementation of lean work methods. In Latvia we carried out an Exceptional Service Marathon during which our customer service staff focused on offering the best customer experience and gaining praise from customers. It was a real success for the Latvian team – the Net Promoter Score surged to record heights.
- We maintained the efficiency of our customer service processes: our efficiency in responding to customer calls and e-mails remained as high as in previous years.
- We expanded the range of digital options offered to customers: in Estonia and Lithuania customers can now sign in to the self-service environment using their Smart-ID, in Latvia and Lithuania customers can sign their contracts digitally, in Lithuania customers can identify themselves via video and in Germany customers can identify themselves digitally.
- We attracted new customers with our new products: savings deposit in Austria, the Netherlands and Germany and housing loan in Estonia, car lease for corporate customers in the Baltic states, revolving credit product in Sweden and car hire purchase in Finland.
- We implemented an innovative digital assistant in debt handling. Based on customer feedback and payment behaviour we have understood that customers sometimes feel uncomfortable when they have to talk about their debts over the phone. We therefore implemented a new approach: the call is made by a digital assistant that uses previously recorded information. This makes notification of a debt personal and discreet.
- We mapped the opportunities resulting from the integration of our customer relationship management software and customer communication software for improving customer experience and streamlining customer service.

Monitoring and measuring customer experience

We collect and monitor customer feedback systematically to obtain a fair assessment of the service we provide and identify its strengths and weaknesses. Analysing feedback helps us understand what increases our customers' loyalty and what does not. Increasing customer satisfaction and loyalty is also important for our business partners.

To evaluate customer experience, we:

- regularly request feedback on different customer experience touchpoints through the Net Promoter Score, First Contact Resolution and Customer Satisfaction Index (around 3,000 respondents per month in 2020);
- measure the effectiveness of customer communication by analysing call centre statistics and assess our employees' communication quality;
- study Bigbank's general brand positioning and image in all markets where we operate through annual brand perception surveys and compare the results with those of our competitors (based on a representative sample of the adult population: around 1,000 respondents in each country);
- analyse the feedback provided by customers after they have contacted us by phone or e-mail.

With the above techniques we cover the main touchpoints of different customer groups' customer journeys and gain valuable insights into our customer service, products and pricing.

Customer complaints at Bigbank

Each customer is important to us. During the period under review, we responded to every complaint and analysed what we could do better to prevent the recurrence of issues of a similar nature. Customer complaints were filed at all branches and handled mainly by the front line staff.

Complaints which prevention requires major technological developments are passed on to the manager responsible for the area who determines a further action plan.

Responsible customer service

Responsible customer service, similarly to product quality, is a key element of quality customer relationships. The responsible nature of our customer service is primarily reflected in five aspects:

1. We communicate with the customer proactively. Before signing a product agreement, we inform our customers of their obligations and potential risks. We seek solutions together with the customer and prevent potential issues. We review communication quality based on our approved quality model and service standard. To make sure that our people have the knowledge they need, we provide training, invest in staff development and regularly test our employees' knowledge.

2. We systematically review and analyse customer experience. Based on customer feedback we prevent potential problems.

3. We continuously monitor complaints and problems. We observe the complaint handling procedure and make changes to our products, services and processes where necessary.

4. We keep our promises and provide

information effectively. We respond quickly to our customers' needs and inquiries.

5. We issue loans responsibly. During the state of emergency declared by the government we quickly changed our credit rules to prevent situations where we issue a loan at a time when the customer's solvency may have weakened. In addition, we started offering various solutions to existing customers to cope with payment difficulties.

CUSTOMER EXPERIENCE AS REFLECTED IN CUSTOMER FEEDBACK

In 2020, which was an exceptionally challenging year, we focused on providing a sense of security to our customers. We offered new products, better contract terms and conditions, support in facing settlement difficulties and personal advice to customers whose loan application had been rejected. Another focus area was excellent and fast customer service.

We take pride in positive feedback. Last year the most frequent keywords in customer feedback were again: fast, professional, friendly, convenient and good contract terms and conditions.

In 2020, the Net Promoter Score for all touchpoints of the customer journey improved throughout the year. The score for the contract expiry touchpoint increased the most. Our Net Promoter Score was strong in all countries, being the highest in Lithuania, Estonia and Sweden. Customer loyalty is the strongest immediately after the signature of a contract.
In implementing the new strategy developed in 2017, we have worked hard to offer better customer experience and increase customer loyalty. We maintained a customer-centric approach in 2020 and our customers' loyalty and trust increased compared to a year earlier.

Bigbank's vision is to be the most recommended digital financial service provider in the countries where it operates. The feedback received from our customers in 2020 reflects that we have taken a big step closer to achieving our vision. We are grateful to all our employees and customers.

BIGBANK AS A RESPONSIBLE EMPLOYER

In recent years, one of Bigbank's most important strategic objectives has been to become a company and an employer with a good reputation. We want to develop a strong brand both internally and externally. In 2020, we increased the diversity of our team by balancing the proportions of male and female employees as well as different age groups. To improve our employees' work-life balance, we offer, where necessary, flexible options to work from home and/or attend meetings via videoconferencing. We did it already before the COVID-19 restrictions were imposed, we are doing it now and we will continue doing it when the restrictions are lifted.

In 2020, we followed the Group-level processes which were put in place in 2018 to deliver quality employee services and better employee experience while improving the activities of the first line of defence in the areas of employment relationship management, recruitment, remuneration and professional development of employees.

At Bigbank, establishment of Group-level regulations related to employee services as well as relevant supervision and reporting is the responsibility of the head of the support services function.

At the end of 2020, Bigbank employed 383 people: 230 in Estonia, 63 in Latvia, 69 in Lithuania, 14 in Finland and 7 in Sweden. The annual average number of full-time employees was 378.

RESPONSIBLE ACTIVITIES

In recent years, we have consciously managed our activities as a responsible business, analysing our key stakeholder groups, increasing the benefits we provide to society, developing our employees and work environment and managing the company consistent with the values that are important to our main stakeholder groups. We believe that a commitment to sustainability, both in terms of mindset and plans and activities, is the bedrock of the success of the whole society.

Bigbank values social contribution and ethical conduct and acts based on the principle of responsibility to ensure that laws, regulations and best practices are followed. To implement this in Bigbank's everyday operations, we have developed policies and internal rules of procedure that govern the daily work of the organisation.

We observe all rules, legal and regulatory requirements, and best practice conventions which apply to the provision of credit including the principles of responsible lending. This way we make sure that the credit we provide meets the customer's needs and has been designed so that the customer can repay it on the agreed terms.

Our goal is to increase the consumers' awareness of the nature of credit products and the risks involved in borrowing. This will help consumers make informed and responsible decisions which are based on a review of different offers and take into account their personal preferences and needs. In practice, we always emphasise that borrowing decisions should not be made lightly and the need for a loan should be carefully considered. We also always recommend that our customers take loan offers from different service providers in order to find a solution that is the best for them. We approach all our customer individually and try to find solutions that fit them best – even when the customer has run into settlement difficulties.

Responsible lending, raising awareness of it, and improving general financial education are our daily priorities. In partnership with other leading banks operating in Estonia, we contribute to these causes through the activities of the financial education and communication committee of the Estonian Banking Association. As a member of FinanceEstonia, we are also actively involved in designing the Estonian financial services environment and developing financial technology. We participate in this organisation because we want our financial services market to have a diverse range of services and reasonable regulation.

Bigbank's customer service priorities include the prevention of money laundering and terrorist financing, and the implementation of all relevant requirements with a view to lowering the probability of the Estonian financial sector being used for criminal purposes, reducing systemic risks and increasing the stability, reliability and transparency of the financial sector.

ECONOMIC ACTIVITIES

Bigbank is a successful privately held credit institution with a strategy, which emphasises sustainable and profitable growth with a long-term target that return on equity (ROE) should

be above 15%. This level of profitability allows the Group to grow without additional capital injections. In 2017-2020 we invested heavily in the development of our core system to be a modern highly automated digital bank providing seamless financial services with a focus on lending and accepting term and savings deposits.

Bigbank is not listed on the stock exchange and holds no ratings by public rating agencies. Nevertheless, we value transparency and proper reporting. Thus, we prepare our public reports on the principle that they should be useful for the reader.

We have established the required internal regulations covering sourcing and outsourcing activities and carefully select our business partners and vendors.

According to Bigbank's dividend policy, the precondition for a dividend distribution is that all regulatory requirements are met. Every calendar year the Group may distribute a minimum of 3 million euros of its audited net profit as dividends, including income tax, but not more than 6 million euros. The dividend distributions for 2018 and 2019 were 5 million euros and 6 million euros, respectively (6 million euros is expected for 2020).

Bigbank operates through permanent establishments (branches) in five European countries, where it is registered as a local taxpayer. Bigbank pays all applicable taxes in all the countries where it operates.

ENVIRONMENTAL ACTIVITIES

We make continuous efforts to reduce the environmental impacts of our activities. We seek for ways to reduce business travel and encourage our staff to hold video conferences for both meeting and training purposes. We continue to optimise our processes, primarily through three methods:

- Agile Development, which means short development cycles and constant improvement;
- Lean Operations Management, which is aimed at minimising waste, standardising processes and offering highest value to the customer;
- 4 Disciplines of Execution, which helps maintain focus throughout the organisation.

Our products are digital but we use hardware to offer and provide them. To increase the environmental sustainability of our operations, we recycle our hardware to the maximum and keep its energy costs under control. For example, we have installed a program in our desktop computers which significantly reduces their electricity consumption at night time and weekends when no one is using them. In addition, we sort our waste as required by the building managers. For example, at our Tartu office, which has a class C energy efficiency certificate, we have set up waste sorting sections where our staff sort biodegradable and municipal waste as well as plastic, metal and glass packaging.

COMMUNITY AND SOCIETY

At Bigbank, we believe that each of us can help make the world a better place. We are dedicated and observe the principles of responsible lending in our daily work, contribute actively to the advancement of financial education in all the markets where we operate, and support initiatives important for society through sponsoring and charity work.

As a bank, we understand and recognise our

role in the communities where we operate and contribute to the development of those communities. We value healthy lifestyles, cultivation of the mind and the sustainability of the community. Accordingly, for years we have been supporting culture, sports, young people and large families through various charity and sponsoring projects.

SPONSORSHIP AND CHARITABLE ACTIVITIES

Bigbank's most significant and outstanding support activities in 2020 were as follows:

Supporting volleyball. Bigbank AS prolonged its partnership with the volleyball club SK Duo in August 2018, signing a new 3-year sponsorship contract of 450,000 euros. Bigbank has been the name sponsor of the Estonian men's volleyball team, **Bigbank Tartu** since 2012 and the name sponsor of the Estonian women's team **Tartu Ülikool/Bigbank** since 2018.

The purpose of our long-standing collaboration is to support the development of volleyball and Estonian sports. We are proud that during our partnership Estonian volleyball has developed rapidly. Within that time, the Estonian national men's team has repeatedly qualified for the European Volleyball Championship.

The year 2020 was challenging for sports as well. Nevertheless, Bigbank Tartu volleyball team was second in all major competitions: Estonian Cup, Baltic Champions League and Estonian Championships. In addition, in 2020 Bigbank Tartu won the first ever official Estonian Beach Volleyball 4x4 Championship for clubs.

Tartu Ülikool/Bigbank women's volleyball team came second in Estonian Championships and placed third in Estonian Cup and Baltic League.

Bigbank's Large Family Day. Since 2005, Bigbank has been working with the Estonian Association of Large Families to offer families with four or more children an opportunity to enjoy a special day full of fun activities. Additionally, every year we recognise an active large family that has made a positive impact on the community with the Large Family of the Year title and award. The winner of the Large Family of the Year 2020 title and an award of 7,000 euros put up by Bigbank was the Alev family from Võru county that has six children.

Animal shelter campaign. For the seventh consecutive year we organised the charitable social media campaign #laiBigbankziedo (#letBigbankDonate). The purpose of the project is to raise the public's awareness of animal welfare issues and support the Labās mājas animal shelter. We invited the users of Facebook and Instagram to post pictures of themselves with their pets using the hashtag #laiBigbankziedo. For each posted picture we supported the shelter with 1 euro. We raised 4,000 euros in 2020 which was donated to heat the shelter's 1,000 square metre premises during the winter season.

Bigbank's marathons in Latvia. In 2020, Bigbank sponsored the series of running events Bigbank Deer Buck 2020. The events were held from August to October in three beautiful places in Latvia: Amata, Ergli and Milzkalns. The aim of the trail race series is not only to promote sports spirit but also to discover the most beautiful and scenic places in Latvia. During the year, the series attracted over 12,000 active lifestyle supporters from all age groups.

Volunteering for a Salvation Army fundraiser. The Christmas Cauldron is an annual charity fundraiser organised by the Salvation Army in Finland to help families in need. Cauldron-shaped containers placed on streets have been symbols of help for the entire nearly 130-year history of the Salvation Army and have become a prominent

part of the Finnish Christmas tradition. There are collection points all over Finland where people can leave their donations. Also, presents such as clothes and toys are welcome. The employees of our Finnish branch contributed to the fundraiser by helping receive donations in several shifts on five days before Christmas.

MEMBERSHIP IN ORGANISATIONS

Bigbank's strategy is to build a strong international reputation and gain recognition as a valuable financial partner. This includes participating in professional organisations and contributing to their work.

Bigbank is a long-term member of the Estonian Chamber of Commerce and Industry and FinanceEstonia. Bigbank is also a member of the Estonian Banking Association and participates actively its working groups. In addition, the Group is a member of the Estonian Association of Information Technology and Telecommunications.

In connection with launching lease products, in 2020 the Group also joined the Estonian Leasing Association.

Bigbank is a member of the payment system SWIFT (the Society for Worldwide Interbank Financial Telecommunication) and the cross border settlement system in Euro TARGET2 (the Trans-European Automated Real-time Gross Settlement Express Transfer system) managed by Eesti Pank (the central bank of Estonia). Bigbank has joined the SEPA (Single Euro Payments Area) Credit Transfer and Instant Credit Transfer scheme as an indirect member.

Courage

We embrace challenges by taking initiative, making smart decisions and being responsible.

Aimar Roosalu
Head of Corporate Banking Unit Estonia

Corporate governance report

Bigbank complies with the Corporate Governance Recommendations promulgated by the Estonian Financial Supervision and Resolution Authority consistent with the principle of proportionality. The Corporate Governance Recommendations (CGR) are advisory guidelines which are primarily intended for listed companies and companies with a large number of shareholders.

As a credit institution, Bigbank AS is subject to the supervision of the Estonian Financial Supervision and Resolution Authority. In addition to other legislation, the Group's operations are governed by the Credit Institutions Act, which sets out requirements for the Group's management, governance and reporting. The Group's governing bodies are the general meeting, the supervisory board and the management board.

The sections below provide an overview of the governance of Bigbank AS and the guidance of the CGR that is currently not complied with together with relevant explanations. Most of the explanations are related to the shareholder structure of Bigbank AS and resulting differences.

GENERAL MEETING

The shareholders' general meeting is the highest governing body of Bigbank AS. The powers of the general meeting are based on legislation and the articles of association.

General meetings are called by the management board. Shareholders must be given at least three weeks' notice of an annual general meeting and at least one week's notice of an extraordinary general meeting. Notice of a general meeting is sent to a shareholder by registered mail to the address entered in the share register. Notice of a general meeting may also be sent by regular mail, electronically or by fax, provided that the letter or electronic or fax message includes a note requiring prompt acknowledgment of receipt. The shareholders of Bigbank AS have the right to adopt decisions without calling a general meeting.

The shareholders had one annual general meeting and four extraordinary general meetings in 2020. Two decisions were adopted without calling a general meeting.

Bigbank AS does not comply with the article of the CGR according to which a notice of a general meeting should include the address where shareholders can send questions regarding agenda items (article 1.1.1). Neither does Bigbank AS comply with the articles of the CGR according to which a notice of a general meeting should be published on the corporate website (article 1.2.1) along with reasons for calling the general meeting and explanations of agenda items relating to significant changes (article 1.2.2), essential information related to the agenda should be published on the corporate website (article 1.2.3) and the proposals of the supervisory board and shareholders regarding agenda items should be published on the corporate website (article 1.2.4).

The above requirements are not relevant to the Group as it has only two shareholders who are also members of the supervisory board and thus continuously informed about the Group's activities.

Bigbank AS partially complies with article 1.3.2 of the CGR according to which the members of the management board, the chairman of the supervisory board and, if necessary, the

members of the supervisory board should attend the general meeting. The attendance of the above persons depends on the matters to be decided at the meeting. Bigbank AS does not make observing a general meeting possible by means of communication equipment (article 1.3.3.) because all shareholders can vote on agenda items electronically.

MANAGEMENT BOARD

The responsibilities of the management board are regulated by the articles of association of Bigbank AS and the Commercial Code and the Credit Institutions Act of the Republic of Estonia. The management board makes everyday management decisions, taking into account the best interests of the bank and the shareholders, and makes sure that the company develops sustainably and in accordance with the goals set and the strategy approved by the supervisory board.

The supervisory board elects the members of the management board and appoints the chairperson of the management board. The suitability of management board members, including their education, qualifications and previous professional experience, is assessed based on the internal rules of Bigbank AS. Upon the appointment of a member of the management board, the supervisory board defines the member's area of responsibility and powers in the contract of service signed with the member of the management board. The term of office of a member of the management board is three years and a member of the management board can be re-elected. The management board prepares the strategy and budget of Bigbank AS and submits both to the supervisory board for approval.

The management board of Bigbank AS has four members (according to the articles of association, three to five members):

Martin Länts chairman of the management board
Sven Raba member of the management board
Mart Veskimägi member of the management board
Argo Kiltsmann member of the management board

The members of the management board submit a declaration of economic interests on an annual basis. At 31 December 2020, the members of the parent company's management board were represented in the governing bodies of the Group's subsidiaries as follows:

- Argo Kiltsmann - chairman of the supervisory board of Baltijas Izaudzmes Grupa AS
- Martin Länts - member of the supervisory board of Baltijas Izaudzmes Grupa AS
- Mart Veskimägi - member of the supervisory board of Baltijas Izaugsmes Grupa AS

The remuneration principles for members of the management board are described in the section Principles of remuneration for members of the management board and employees of this report. In 2020, Bigbank AS did not comply with article 2.2.7 of the CGR according to which the benefits and bonus schemes of a member of the management board should be disclosed on the corporate website and in the corporate governance report and the principles of remuneration of the members of the management board should be explained at the general meeting. Bigbank AS discloses summarised information about the remuneration of the members of the Group's management board in its annual report and transactions with related parties are disclosed in note 30.

SUPERVISORY BOARD

The activities of the supervisory board of Bigbank AS are regulated by the articles of association of Bigbank AS and the Commercial Code and the Credit Institutions Act of the Republic of Estonia, which set out the requirements for members of the supervisory board, the cooperation between the supervisory board and the management board and the controls to be established by the supervisory board.

The supervisory board is responsible for regularly overseeing the activities of the management board of Bigbank AS. The supervisory board gives instructions to the management board for organising the management of Bigbank AS and participates in the adoption of important decisions related to the operation of Bigbank AS. The supervisory board, in cooperation with the management board, ensures long-term planning of Bigbank's activities. The work of the supervisory board is coordinated by the chairman of the supervisory board who is elected by the members of the supervisory board from among themselves.

The members of the supervisory board are elected by the general meeting for a term of two years. The supervisory board of Bigbank AS has five members (according to the articles of association, five to seven members):

Parvel Pruunsild chairman of the supervisory board
Vahur Voll member of the supervisory board
Andres Koern member of the supervisory board
Juhani Jaeger member of the supervisory board
Raul Eamets member of the supervisory board

The supervisory board had five scheduled meetings in 2020 and on 16 occasions decisions were adopted electronically. All members of the supervisory board attended at least half of the meetings held in 2020.

The general meeting decides on the remuneration of the supervisory board. The remuneration of members of the supervisory board consists of fixed remuneration. Bigbank AS does not deem it necessary to comply with article 3.2.5 of the CGR according to which the company should disclose detailed information about the remuneration of each member of the supervisory board because the impact of the remuneration of the supervisory board on the Group's financial results is not significant. Transactions with related parties are disclosed in note 30.

Two of the five members of the supervisory board of Bigbank AS are shareholders, each holding 50% of the shares. Bigbank is of the opinion that these connections do not involve a significant risk of a conflict of interest that could lead to the adoption of decisions detrimental to Bigbank AS and that the independence of the supervisory board is ensured. Other members of the supervisory board are independent as required by article 3.2.2 of the CGR.

AUDIT COMMITTEE

The audit committee is a functional body established by the supervisory board that is responsible for advising the supervisory board in matters related to accounting, auditing, risk management, internal control and internal audit, budgeting and legal and regulatory compliance. The committee monitors the statutory audit process of the company's annual report and consolidated financial statements and the independence of the

external auditor. The audit committee has two members: Raul Eamets is the chairman of the committee and Parvel Pruunsild is the member of the committee. Members of the audit committee are not remunerated.

The audit committee had five meetings in 2020.

Bigbank AS does not disclose the committees established by the supervisory board and their tasks, composition and place in the organisation on the corporate website (GCG article 3.1.3). Considering that the audit committee is appointed by the supervisory board whose members include the shareholders and that the members of the audit committee are elected from among the members of the supervisory board, disclosure of the above information on the corporate website is not relevant to the interests of shareholders and investors.

COOPERATION BETWEEN THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

The management board and the supervisory board work closely to best protect the interests of Bigbank AS. Their co-operation is, above all, based on an open exchange of opinions between and within the management board and the supervisory board. At least once a quarter, the members of the management board of Bigbank AS attend the meetings of the supervisory board where the supervisory board reviews, among other things, the Groups' financial performance. Also, the members of the management board are generally invited to other meetings of the supervisory board to discuss issues related to the Group's operation.

The division of responsibilities between the supervisory board and the management board is described in the articles of association of Bigbank AS. In cases not covered by the articles of association, the governance of Bigbank AS is primarily based on the provisions of the Commercial Code. The management board notifies the supervisory board of significant events related to Bigbank AS's management and activities also outside meetings to ensure that the supervisory board receives all necessary and relevant information without delay. The management board provides the information which requires sufficient time for decision-making (e.g. reports to be approved) to members of the supervisory board before the meeting of the supervisory board. In managing Bigbank AS, the management board observes the strategic instructions of the supervisory board and regularly discusses strategic management issues with the supervisory board.

DIVERSITY AND INCLUSION POLICY

Bigbank AS did not apply a diversity policy in 2020 because in selecting both managers and employees Bigbank is guided by the best interests of the Group and in selecting of the members of the governing bodies Bigbank also observes the requirements and the selection procedure for the members of the governing bodies set out in the Credit Institutions Act.

When assessing the suitability of members of the governing bodies, Bigbank AS relies on relevant internal rules and, among other factors, takes into account the candidate's education, qualifications and previous professional experience. The candidate's reputation, experience, competencies and skills, management experience, other management-related criteria and other relevant known factors are also considered when assessing suitability. Thereby the Group observes the principle of avoiding gender-based or other discrimination of candidates.

DISCLOSURE OF INFORMATION

Bigbank AS treats all shareholders equally and notifies shareholders of all relevant circumstances, first and foremost, by e-mail. Bigbank AS makes its reports available on the corporate website. The Group's annual reports and interim reports are disclosed in Estonian and English in compliance within the time-limits provided by law.

In 2020, Bigbank AS did not publish a financial calendar (CGR article 5.2.) because the regularity of reporting is also established by the Credit Institutions Act. Also, Bigbank AS did not make responses to analysts' and shareholders' questions (CGR article 5.5.) or the dates of meetings with analysts, investors and the press (CGR article 5.6.) available on the corporate website, as this is not relevant in view of the small number of shareholders and the fact that they are well informed.

FINANCIAL REPORTING AND AUDITING

Bigbank AS publishes an annual report every year and quarterly reports during the financial year and makes them available on its website. The annual report of Bigbank AS is audited.

Bigbank AS submits to the general meeting an annual report that has been signed by the members of the management board. Contrary to the guidance of the CGR, the members of the supervisory board do not sign the annual report. Their position is included in the supervisory board's written report on the annual report and the annual report is approved by the supervisory board (CGR article 6.1.1.). Also, the auditor of Bigbank AS does not attend the approval of the annual report (CGR article 6.1.1.).

The auditor is appointed by the general meeting. In choosing the auditor, the company considers the candidate's competence and earlier experience in the field of financial services. The auditor is appointed for up to five years. Bigbank AS complies with the auditor rotation requirement. In autumn 2019, the management board organised tender for audit services. Based on the outcome, KPMG Baltics OÜ (registry code 10096082) was chosen and appointed as the auditor of the Group by shareholders' decision of 3 June 2020. A three-year contract was signed with KPMG Baltics OÜ for auditing the Group's annual reports for the years 2020-2022. The lead auditor is Eero Kaup.

During the reporting period, the auditor did not inform the supervisory board of any significant circumstances that had come to its attention and could affect the work of the supervisory board and the management of the Group. In addition to the statutory audit, in the reporting period the auditor provided some non-audit services permitted by the Auditors Activities Act, including translation services and other assurance services such as the anti-money laundering audit service.

RISK MANAGEMENT AND CONTROL FUNCTIONS

The Group's supervisory board carries out ultimate supervision of the Group's activities by enacting the general risk management principles and strategy required for the proper functioning of the Group's risk organisation and by providing a basis for an adequate internal control system.

The internal control system is a management tool that covers the activities of the entire Group and is an integral part of the Group's internal processes. The management board

is responsible for the establishment and functioning of an effective internal control system. The need for and the scope of controls is determined by the extent and nature of the risks. The management board has to ensure that the Group's organisation and administration are appropriate and that the Group's operations are in compliance with external and internal rules. The management board reports regularly to the supervisory board on developments in the Group's risk exposure.

The primary objectives of the risk control functions are to protect the Group's financial strength and limit the impact of potential adverse events on the Group's capital, liquidity and financial results.

The Group uses the three lines of defence model, where the first line of defence is the business units and branches. Managers of all levels are responsible for the effectiveness of risk controls in their units, branches and areas. The second line of defence is the functions and units responsible for overseeing the Group's risk management: the risk management and credit risk area and the compliance unit. The Group's internal audit department provides independent assurance and is the third line of defence.

The compliance unit is responsible for ensuring that the Group complies with all applicable laws, rules and regulations, because failure to comply may result in regulatory sanctions (including restrictions on business activities, fines or additional reporting requirements) and financial and/or reputational damage. The compliance function acts proactively to assure the Group's compliance through information, advice, control and follow-up. The compliance unit reports directly to the management board.

The credit risk area is responsible for managing the credit approval process, ensuring sound day-to-day credit risk management and acting as a second line of defence in credit risk taking (the Group's head of credit and local credit risk officers). Local credit risk officers report regularly to country credit committees which have the power to veto credit decisions and to approve loans which are beyond the authority of lower levels. The highest level decisions are made by the Group's credit committee, which has the ultimate right to veto credit decisions. The Group's credit committee is formed by the supervisory board. The head of the credit risk area reports regularly to the management board.

The risk management area's responsibility is to develop and implement the Group's risk management framework; assist risk owners and management in developing processes and controls to manage and assess risks; facilitate and monitor implementation of risk management practices by risk owners; conduct independent risk identification, assessment, monitoring and reporting; provide guidance and training on risk management processes for raising risk awareness; and identify risk-related issues.

The risk management area consists of the operational risk control unit, the quality control unit, the financial crime prevention unit, the information security unit and the risk reporting and financial risk control unit. The heads of the units of the risk management area report regularly to the management board on the Group's risk profile and overall developments in the risk level.

Within the risk management area, the financial crime prevention unit's (FCPU) role is to ensure that the Group fulfils its obligations in relation to anti-money laundering, terrorist financing prevention and monitoring politically exposed persons as required by the law and internal regulations and to facilitate the development of controls that support the detection and

prevention of fraud. The FCPU reports directly to the management board.

The objectives and principles of risk management are described in more detail in note 3.

The internal audit unit is a structural unit of the Group, which is directly accountable to the Group's supervisory board and is therefore independent of the Group's management board. The unit consists of two internal auditors and the head of the unit. Internal audit is an independent, objective assurance and consulting activity designed to add value to and improve the Group's operations by using a systematic and disciplined approach to evaluate the efficiency and effectiveness of the risk management, governance and control processes. Internal audit adds value if it is in concordance with the Group's strategic objectives, focuses on important business risks, operates proactively and proficiently, and meets the expectations of the stakeholders. The internal audit unit acts on the basis of the statute approved by the Group's supervisory board. The statute of the internal audit unit describes the requirements to the internal audit with regard to independence, proficiency, authority, tasks, and scope of activities as well as the principles of quality assurance. The internal audit unit's work plan is approved by the Group's supervisory board.

WHISTLEBLOWING HOTLINE

The whistleblowing hotline is part of the Group's corporate governance culture and its aim is to support the enforcement of the Group's values and agreed code of conduct and to promote openness and consideration of other employees.

Bigbank's employees can notify of possible internal misconduct, which may include breaches of the general rules of conduct established by the Group and procedures regulating internal work organisation as well as violation of legislation and neglect of the principles of good banking practice.

The whistleblowing hotline is coordinated by the head of the internal audit unit, who reports directly to the supervisory board of Bigbank AS.

PRINCIPLES OF REMUNERATION FOR MEMBERS OF THE MANAGEMENT BOARD AND EMPLOYEES

The Group's remuneration policy is established by the supervisory board and its purpose is to ensure a fair and transparent remuneration system that would be in compliance with prudent and efficient risk management principles and that would support achievement of the Group's long-term objective – to be recognised as the best financial services provider by customers, effective risk management and the Group's strong reputation as an employer in all countries where Bigbank's branches and subsidiaries operate. The purpose is to ensure that remuneration decisions deliver sustainable value growth for all key stakeholders, including customers, shareholders and employees; to promote desired performance, conduct and value-based behaviour and to ensure that the manner of remuneration does not impede employees' honest, fair, transparent and professional behaviour, taking into account the rights and interests of customers; and to prevent the risk that the remuneration drives excessive risk taking and conflicts of interest. The remuneration system ensures equal treatment of employees as rewards are

based on the employee's performance and professional development during the year.

The supervisory board approves the Group's remuneration policy and reviews it annually in the fourth quarter or as needed. According to the policy, the management board approves the remuneration principles, including the principles for establishing annual key performance indicators (KPIs), evaluating employee performance and reviewing fixed pay. Remuneration principles also include guidelines for establishing principles for performance related pay at the branch or function level. Branch- and area-specific remuneration decisions are made by heads of branches and areas in line with the Group's policy and rules. The management board monitors the implementation of the remuneration principles, asking feedback from employees at least once a year in December.

The core principle of the remuneration system is to ensure a good balance between individual and team performance and quality risk management which takes into account capital adequacy and liquidity requirements along with trends in the economic environment.

The remuneration provided by the Group consists of two parts:

- Fixed remuneration including:
  - a basic monthly salary fixed in the employment contract, which is determined based on the employee's responsibilities and competence and reviewed annually based on the employee's performance and the trends prevailing in the labour market of the country involved;
  - benefits provided by the Group to all employees in all countries at the same rate, for example sports benefits, compensated absences for taking care of health, birth benefits etc.;
  - benefits arising from local legislation or collective agreements.

- Variable remuneration including:
  - performance related pay agreed with the employee, which depends on the achievement of the Group's long-term objectives and fulfilment of relevant, measurable and balanced criteria;
  - performance related pay paid on objective grounds and generally on a one-off basis, based on extraordinary results and/or engagement of the employee, timely fulfilment of specific projects and other similar situations.

The establishment of a separate remuneration committee is not deemed to be necessary, and the role of the remuneration committee is fulfilled by Bigbank's supervisory board which is responsible for approving and supervising the group-wide remuneration policy and adopting decisions related to the remuneration of the members of the management board, the internal audit function and material risk takers. The remuneration policy is reviewed by the supervisory board at least once a year. Preparation of the policy and related group-wide internal regulations is the responsibility of the head of support services who makes amendment proposals to the management board, which submits relevant amendment proposals for approval by the supervisory board.

The Group's internal audit unit evaluates the implementation of the remuneration system annually and presents the results to the Group's supervisory board.

As required by the law, Bigbank has defined material risk takers which include the senior management (members of the supervisory and management boards); employees responsible for control functions; employees

who have a significant impact on the Group's risk profile; and staff whose remuneration equals or exceeds the lowest remuneration of the members of the Group's management board. Self-assessment is performed on a consolidated level and includes all branches and subsidiaries of the bank. The list of material risk takers is reviewed at least once a year or whenever changes in the Group's structure or the establishment of new positions affect the list of material risk takers. The supervisory board approves the list of material risk takers based on the proposal of the management board. In 2020, the list included 31 material risk takers. The principles underlying the fixed remuneration of material risk takers are the same as for the rest of the Group's employees. The share of performance related pay in the total annual remuneration may not exceed 100% of annual fixed remuneration which should ensure carefully calculated risk-taking. The Group may withhold performance related pay either in full or in part, reduce performance related pay, or demand partial or full repayment of disbursed performance related pay when the Group's results do not meet the target.

In 2020, the remuneration (excluding social security charges) provided to material risk takers of the Group and its subsidiaries totalled 2.1 million euros, the figure consisting of fixed remuneration of 1.6 million euros and performance related pay of 0.5 million euros. No severance benefits were paid during the financial year. The performance related pay allocated for performance in 2020, will be determined at the end of the first quarter of the following financial year, and according to management's estimate the amount of the provision made at 31 December 2020 is sufficient. At the year-end, there was no performance related pay awarded but not paid for performance in 2020.

Result oriented

We are professional and committed to sustainable knowledge-based performance.

Ingo Põder
Head of Corporate Banking Area

Consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December *(in thousands of euros)*	**Note**	**2020**	**2019**
Assets			
Cash balances at central banks	4	48,336	32,855
Due from other banks	4	27,074	21,085
Debt instruments at fair value through other comprehensive income	5	45,845	31,390
Loans to customers	6, 7	577,712	459,656
Other receivables	8	1,105	1,738
Prepayments	9	1,249	1,265
Property and equipment	10	4,424	5,157
Investment properties	11	27,181	1,781
Intangible assets	12	24,213	19,254
Assets classified as held for sale		650	12
Total assets		**757,789**	**574,193**
Liabilities			
Loans from central banks	13	36,500	23,000
Deposits from customers	14	547,549	392,838
Subordinated notes		4,970	4,965
Lease liabilities	15	2,099	2,096
Provisions		1,516	2,137
Deferred income and tax liabilities	16	1,023	986
Other liabilities	17	7,894	7,118
Total liabilities		**601,551**	**433,140**
Equity	18		
Paid-in share capital		8,000	8,000
Capital reserve		800	800
Other reserves		1,075	1,232
Retained earnings		146,363	131,021
Total equity		**156,238**	**141,053**
Total liabilities and equity		**757,789**	**574,193**

The notes on pages 52 to 136 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)	Note	2020	2019
Interest income	19	69,751	66,950
Interest expense	20	-6,996	-6,390
Net interest income		**62,755**	**60,560**
Fee and commission income		5,228	4,287
Fee and commission expense		-235	-240
Net fee and commission income		**4,993**	**4,047**
Losses on derecognition of debt instruments at FVOCI		-213	-
Net gain/loss on exchange differences		279	-194
Net loss on derecognition of non-financial assets		-34	-13
Other income	21	**1,401**	**1,190**
Total income		**69,181**	**65,590**
Salaries and associated charges	22	-14,125	-14,917
Other operating expenses	23	-11,116	-11,722
Depreciation and amortisation expense	10, 12	-3,456	-3,298
Provision expenses		622	-304
Net impairment losses on loans and financial investments		-14,037	-6,675
Gains/losses resulting from changes in the fair value of investment properties	11	-364	100
Other expenses	24	-2,923	-2,591
Profit from assets classified as held for sale		-	23
Total expenses		**-45,399**	**-39,384**
Profit before income tax		**23,782**	**26,206**
Income tax	28	-2,440	-1,753
Profit for the year		**21,342**	**24,453**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		-272	181
Changes in the fair value of debt instruments at FVOCI		51	4
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	18	**-221**	**185**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of land and buildings		64	241
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	18	**64**	**241**
Other comprehensive income for the year		**-157**	**426**
Total comprehensive income for the year		**21,185**	**24,879**
Basic earnings per share (EUR)	32	267	306
Diluted earnings per share (EUR)	32	267	306

The notes on pages 52 to 136 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of euros)	Note	2020	2019
Cash flows from operating activities			
Interest received		65,592	60,406
Interest paid		-5,137	-5,586
Salary and other operating expenses paid		-31,458	-33,124
Other income and fees received		7,305	6,535
Recoveries of receivables previously written off		10,071	25,479
Received for other assets		112	-
Loans provided		-364,944	-266,377
Repayment of loans provided		231,537	209,155
Change in mandatory reserves with central banks and related interest receivables	4	-808	371
Proceeds from customer deposits		340,409	94,327
Paid on redemption of deposits		-190,135	-91,662
Income tax paid		-1,682	-2,006
Effect of movements in exchange rates		-186	-112
Net cash from / used in operating activities		**60,676**	**-2,594**
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets	10, 12	-7,224	-8,624
Proceeds from sale of property and equipment		9	92
Acquisition of investment properties	11, 30	-23,907	-
Proceeds from sale of investment properties		141	138
Net cash from acquisition of a subsidiary	30	38	-
Acquisition of financial instruments	5	-15,784	-21,824
Proceeds from redemption of financial instruments	5	1,868	4,177
Net cash used in investing activities		**-44,859**	**-26,041**
Cash flows from financing activities			
Interest paid on subordinated bonds	29	-330	-330
Proceeds from loans from central banks	13, 29	13,500	23,000
Repayment of loan from shareholders		-2,000	-
Payment of principal portion of lease liabilities	15, 29	-680	-723
Dividends paid	18	-6,000	-5,000
Net cash from financing activities		**4,490**	**16,947**
Effect of exchange rate fluctuations		363	47
Increase / decrease in cash and cash equivalents		**20,670**	**-11,641**
Cash and cash equivalents at beginning of year	4	52,980	64,621
Cash and cash equivalents at end of year	4	**73,650**	**52,980**

The notes on pages 52 to 136 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of euros)	Attributable to equity holders of the parent				
	Paid-in share capital	Capital reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2019	**8,000**	**800**	**806**	**111,568**	**121,174**
Profit for the year	**-**	**-**	**-**	**24,453**	**24,453**
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	181	-	181
Net change in fair value of debt instruments at FVOCI	-	-	4	-	4
Revaluation of land and buildings	-	-	241	-	241
Total other comprehensive income	**-**	**-**	**426**	**-**	**426**
Total comprehensive income for the year	**-**	**-**	**426**	**24,453**	**24,879**
Dividend distribution	-	-	-	-5,000	-5,000
Total transactions with shareholders	**-**	**-**	**-**	**-5,000**	**-5,000**
Balance at 31 December 2019	**8,000**	**800**	**1,232**	**131,021**	**141,053**
Balance at 1 January 2020	**8,000**	**800**	**1,232**	**131,021**	**141,053**
Profit for the year	-	-	-	**21,342**	**21,342**
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	-272	-	-272
Net change in fair value of debt instruments at FVOCI	-	-	51	-	51
Revaluation of land and buildings	**-**	-	64	**-**	64
Total other comprehensive income	**-**	**-**	**-157**	**-**	**-157**
Total comprehensive income for the year	**-**	**-**	**-157**	**21,342**	**21,185**
Dividend distribution	-	-	-	-6,000	-6,000
Total transactions with shareholders	**-**	**-**	**-**	**-6,000**	**-6,000**
Balance at 31 December 2020	**8,000**	**800**	**1,075**	**146,363**	**156,238**

Please refer to note 18.
The notes on pages 52 to 136 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

NOTE 1. GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

1.1 GENERAL INFORMATION

Bigbank AS is a credit institution incorporated and domiciled in Estonia. The consolidated financial statements as at and for the year ended 31 December 2020 comprise Bigbank AS (also referred to as the 'parent company'), its Latvian, Lithuanian, Finnish and Swedish branches and its subsidiaries AS Baltijas Izaugsmes Grupa, OÜ Rüütli Majad, the subsidiary of OÜ Rüütli Majad - OÜ Rüütli Property, Balti Võlgade Sissenõudmise Keskus OÜ and the subsidiary of Balti Võlgade Sissenõudmise Keskus OÜ - SIA Baltijas Paradu Piedzinas Centrs (together referred to as the 'Group'). A branch registered in Bulgaria in November 2020 had not yet started operating by the reporting date.

STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) as adopted by the European Union (IFRS EU). The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except where indicated otherwise.

Under the Estonian Commercial Code, final approval of the annual report including the consolidated financial statements that has been prepared by the management board and approved by the supervisory board rests with the general meeting. Shareholders may decide not to approve the annual report that has been prepared and submitted by the management board and may demand preparation of a new annual report.

These consolidated financial statements include the primary statements of the parent company (see note 33) in addition to required part prepared under International Financial Reporting Standards as adopted by the European Union because it is required by the Estonian Accounting Act and capital ratios (see note 3) for regulatory purposes that have been prepared in accordance with Regulation (EU) no 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms. These parent company primary statements are not separate financial statements as defined in IAS 27.

The management board of Bigbank AS has prepared these consolidated financial statements and authorised them for issue on 28 February 2021. The group annual report, which has been authorised for issue by the management board, needs to be approved by the supervisory board and the shareholders. The shareholders may decide not to approve the group annual report but they have never done so and there is no reason to expect that they will.

BASIS OF PREPARATION

The figures reported in the financial statements are presented in thousands of euros. The consolidated financial statements are prepared on the historical cost basis except that some assets and liabilities are measured at their fair values (financial instruments categorised at fair value through other comprehensive income (FVOCI) and investment properties) and on the revaluation method basis (land and buildings). Group entities apply uniform accounting policies. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

In accordance with the Estonian Accounting Act, the parent company's primary financial statements (statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity) are disclosed in the notes to the consolidated financial statements. The financial statements of Bigbank AS are presented in note 33 *Primary financial statements of the parent.* The parent company's financial statements are prepared using the same accounting policies and measurement bases as those applied on the preparation of the consolidated financial statements except that in the unconsolidated financial statements investments in subsidiaries and associates are measured at cost.

1.2 SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

Branches

A branch is an economic entity established for offering services on behalf of a company. A branch is not an independent legal person. The company is liable for the obligations arising from the activities of its branch. The company has to maintain separate accounts concerning its foreign branches. The financial statements of a branch with separately maintained accounts are included in the consolidated financial statements from the date the activity of the branch commences until the date the activity of the branch ceases.

Subsidiaries

Subsidiaries are all entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Subsidiary	Country of incorporation	Ownership interest 2020	Ownership interest 2019
AS Baltijas Izaugsmes Grupa	Republic of Latvia	100%	100%
OÜ Rüütli Majad	Republic of Estonia	100%	100%
OÜ Rüütli Property	Republic of Estonia	100%	100%
Balti Võlgade Sissenõudmise Keskus OÜ	Republic of Estonia	100%	100%
SIA Baltijas Paradu Piedzinas Centrs	Republic of Latvia	100%	100%

Transactions eliminated on consolidation

In preparing consolidated financial statements, the financial statements of all entities controlled by the parent (except for subsidiaries acquired for resale) are combined with those of the parent line by line. Intra-group balances and transactions and any unrealised income and expenses and gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements but only to the extent that there is no evidence of impairment. Group entities apply uniform accounting policies. Where necessary, the accounting policies of subsidiaries and branches are adjusted to conform to those adopted for the consolidated financial statements.

FOREIGN CURRENCY

Foreign currency transactions

A transaction in a foreign currency is recorded in the functional currency by applying the exchange rate quoted by the central bank at the date of the transaction. In the statement of financial position, monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the central bank exchange rates ruling at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on retranslation are recognised in the statement of comprehensive income within *Net gain/loss on financial transactions.*

Financial statements of the Group's foreign operations

The financial statements of each Group entity are prepared in the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in thousands of euros, which is the Group's presentation currency. Accordingly, the assets and liabilities of foreign operations, including fair value adjustments, are translated to euros at the foreign exchange rates of the European Central Bank ruling at the reporting date. The revenues and expenses of foreign operations are translated to euros using the average foreign exchange rate for the period. Exchange differences arising on translating foreign operations are recognised in *Other*

reserves in equity and in the statement of comprehensive income, in *Exchange differences on translating foreign operations* in other comprehensive income.

OFFSETTING

Financial assets and financial liabilities are set off and the net amount is presented in the consolidated statement of financial position only when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

FINANCIAL INSTRUMENTS

Financial instruments – key measurement terms

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The quoted market price used to value financial assets is the current bid price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place.

Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost (AC) is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest

expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired (POCI financial assets) at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Financial instruments – initial recognition

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories

The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

The business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio.

Financial assets – reclassification

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

Financial assets – write-off

Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets – derecognition

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial assets – modification of the contractual terms

The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a significant increase in credit risk (SICR) has occurred. The Group also assesses whether the new loan or debt instrument meets the solely payments of principal and interest (SPPI) criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group compares the original and revised expected cash flows to assess whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

Payment holidays granted by the Group in response to the COVID-19 pandemic are treated as modifications of the terms of related loans and advances.

Financial liabilities – measurement categories

Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition

of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. The statement of cash flows is prepared using the direct method.

Mandatory reserve deposits with the central banks. Mandatory reserve deposits with the central banks are carried at AC and represent non-interest bearing mandatory reserve deposits, which are not available to finance the Group's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks.

Investments in debt securities

Based on the business model and the cash flow characteristics, the Group classifies investments in debt securities as carried at FVOCI. Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss. Interest income from these financial assets is included in *Interest income.*

The Group's debt instruments at FVOCI comprised solely of quoted bonds that are graded in the top investment category by Moody's Investors Service and, therefore, are considered to be in stage 1 as low credit risk investments. It is the Group's policy to measure such instruments on a 12-month ECL basis. In all cases, the Group assumes that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. At 31 December 2020, there were no instruments that would have had to be classified to stages 2 or 3.

Loans to customers

Loans and advances to customers are recorded when the Group advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Group classifies loans and advances to customers into AC measurement category: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL. Loss allowances are determined based on the forward-looking ECL models.

Impairment of financial assets

The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Group measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

For *Loans to customers and Debt instruments at FVOCI*, the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

For *Other receivables*, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience.

Recognition of loss allowances for impaired receivables

A receivable is impaired when there is objective evidence, such as an identified event and/or observable data, that an event or events has or have adversely affected the amount and timing of the future cash flows of the customer to the extent that repayment of the entire receivable by the customer, taking into account the collateral, is unlikely and the receivable has been identified as impaired during impairment assessment.

Receivables are assessed for impairment and loss allowances are recognised by reference to credit risk parameters Probability of Default (PD) and Loss Given Default (LGD), which are updated at least once a year or whenever there is a significant change in risk assessments.
Homogenous receivables have similar characteristics such as historical payment behaviour, collateral, or other features. Individual impairment assessment is applied to receivables from companies, receivables exceeding 100,000 euros and other receivables that have not been grouped. Specific impairment allowances are created for an individual receivable or a group of receivables that has or have been found to be impaired, i.e. for impairment losses incurred. The Group assesses receivables for impairment both on an individual and collective basis. Collective impairment assessment is applied to all homogenous groups of receivables whose amount is not individually significant and whose individual assessment would be unreasonable.

Specific impairment assessments are made and specific loss allowances are established using three principal methods:

- the discounted cash flow method, which is used to assess homogenous group of unsecured retail receivables;
- evaluation of the net realisable value of collateral, which is used to assess retail receivables secured with real estate or other assets;
- the combined method, which is used to assess receivables from companies.

Unsecured retail receivables are assessed for impairment by comparing the nominal carrying amount of the item or group of items prior to the recognition of impairment with the present value of the expected future cash flows of the item or group of items, discounted at the effective interest rate.

An impairment loss for a receivable or a group of receivables is identified when the total discounted present value of the expected future cash flows of the receivable or group of receivables is less than the carrying amount of the receivable or group of receivables. The difference between carrying value and the present value of expected future cash flows is recognised as the impairment of the receivable or group of receivables. The effective interest rate applied is the original interest rate of the receivable or the weighted average original interest rate of the group of receivables (the rate recorded in the agreement before its termination or expiry).

Impairment methodology for financial assets, including unsecured retail receivables

The Group assesses and accounts for unsecured retail receivables using a three-stage approach, which depends on whether the claim is performing (the debtor is meeting obligations) or not and if the claim is performing, whether there any signs that credit risk has increased compared to its initial measurement at the issuance of a loan. The methodology is based on Expected Credit Loss (ECL) formula which is calculated by multiplying the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The Group has implemented country-specific PD and LGD estimates by different product types where sufficient statistical data is available. For product types where sufficient statistical data is not yet available the PD and LGD estimates are calculated using estimates of closest similar product type(s).

PD and LGD values were re-calculated in the third quarter based on the Group's relevant statistical data. PD estimates are adjusted for a forward-looking component which takes into the account macroeconomic scenarios in the countries where the Group has credit risk exposures. The approach is summarized as follows:

Stage 1 – 12-month ECL applies to all claims, which have no signs of a material increase in credit risk. The ECL will be computed using a 12-month PD that represents the probability of default occurring over the next 12 months. For those assets with a remaining maturity of less than 12 months, a PD is used that corresponds to remaining maturity.

Stage 2 – applies to claims which have sign(s) of a material increase in credit risk demonstrated by a payment of delay of more than 30 days at the reporting date or in the last six months prior to the reporting date. Computation of ECL is based on a lifetime PD that represents the probability of default occurring over the remaining estimated life of the financial asset.

Stage 3 – applies to doubtful, defaulted and uncollectible claims as well as claims which

are restructured due to financial difficulties of a counterparty. Similarly to stage 2, the allowance for credit losses will continue to capture lifetime expected credit losses where the PD is equal to 100%.

Financial assets that are credit-impaired upon initial recognition (POCI) are categorised within stage 3 with a carrying value already reflecting the lifetime expected credit losses.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

Signs of a significant increase in risk may include, but are not limited to a delay of 30 or more days in the settlement of a claim of more than 10 euros in the last six months of a reporting period. A settlement delay of 30 or more days is assessed based on their actual occurrence. The rest of the signs of increased risk and their impact are analysed case by case and the change in a customer's risk level is made based on management's judgement. This assessment is dynamic in nature, allowing the financial assets to move back to stage 1 if the increase in credit risk has decreased since origination and there is no evidence of an increase in credit risk in the last six-month period.

Definition of default and write-off

Any of the following events regarding a customer imply a payment default resulting in insolvency or the possibility of it occurring in the future, in which case the contract is to be classified as non-performing:

i. A claim of over 10 euros is more than 90 days past due.
ii. A claim of over 100 euros for retail loans and a claim of over 500 euros for corporate loans that accounts for more than 1% of the total amount of the underlying loan is more than 90 consecutive days past due
iii. A letter of contract termination, including a demand for payment, has been sent to the customer.
iv. The customer is, or recently was, in financial difficulties and is now being restructured.
v. The customer is bankrupt or deceased or bankruptcy, liquidation or debt restructuring proceedings have been initiated against the customer.
vi. dentity theft, i.e. misuse of the credit receiver's identity has been identified.

If a claim is uncollectible or it is not possible or economically practical to implement measures for collecting it, the claim may be written off the statement of financial position.

Impairment methodology for receivables secured with collateral

Receivables secured with real estate or other assets are assessed for impairment using evaluation of the net realisable value of collateral. The net realisable value of collateral is calculated based on the market value of the collateral at the date of assessment, the right of claim and the forced sale costs. Where the carrying amount of the receivable exceeds the net realisable value of collateral, the difference (the unsecured portion) is recognised as an impairment loss and loss allowances are recorded.

Combined method

Receivables from companies are assessed for impairment using the combined method. First, the unsecured portion is determined by evaluating the net realisable value of collateral. After that the impairment loss on the unsecured portion is identified using the discounted cash flow method. The discount

rate is the effective interest rate of the loan. Any accruals associated with a loan assessed for impairment individually are applied the same impairment rate that is assigned to the underlying loan.

Receivables are written off the statement of financial position when all reasonable restructuring and collection procedures have been performed and further recovery is unlikely. When a loan receivable is written off in the statement of financial position, the carrying amount of the loan portfolio and the loss allowance are reduced accordingly. Recoveries of items written off the statement of financial position are accounted for on a cash basis and are presented in the statement of comprehensive income in Net impairment losses on loans and financial investments.

Loss allowances, changes in loss allowances and reversals of loss allowances on loan receivables are recognised in the statement of financial position in Loans to customers and in the statement of comprehensive income in Net impairment losses on loans and financial investments.

PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

Items of property and equipment, excluding land and buildings, are carried at historical cost less any accumulated depreciation and any accumulated impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

When the recoverable amount of an item of property and equipment decreases below its carrying amount, the item is written down to its recoverable amount. Impairment losses are recognised as an expense as incurred. Changes in the expected useful life are accounted for by changing the amortisation period or methodology, as appropriate, and treated as changes in accounting estimates.

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful life of each part of an item of property and equipment. Depreciation commences as of the acquisition of the item.

Right-of-use assets are presented together with property and equipment in the statement of financial position. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The estimated useful lives assigned to asset classes are as follows:

Asset class	Useful life
Land and buildings	
Land	Is not depreciated
Buildings	25–50 years
Other items of property and equipment	
Office equipment, furniture and other fixtures and fittings	5 years
Computers	3–4 years

The assets' residual values and useful lives are reviewed at each reporting date and whenever circumstances arise, which may have a significant impact on the useful life of an asset or asset class, and adjusted if appropriate. The effect of changes in estimates is recognised in the current and subsequent periods.

Land and buildings are measured at fair value at the date of the latest revaluation less any subsequent deprecation on buildings and impairment losses. Fair value is based on the market value determined by external valuers or management's estimates. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in other comprehensive income and credited to the Other reserves in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. When an item of land and buildings is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold or reclassified is transferred to retained earnings. Revaluation reserve is used only when the asset is derecognised.

Depreciation expense is recognised in Depreciation and amortisation expense in the statement of comprehensive income.

INTANGIBLE ASSETS

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

The Group's intangible assets primarily include capitalised information and banking technology solution called Nest and other capitalised computer software. Intangible assets are carried at cost less any accumulated amortisation and any impairment losses. Intangible assets are amortised on a straight line basis over their expected useful lives, which extend from 5 to 15 years. Amortisation expense is recognised in *Depreciation and amortisation expense* in the statement of comprehensive income.

IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, management assesses whether there is any indication that an asset may be impaired. If there is such indication, the asset is tested for impairment and its recoverable amount is identified. The recoverable amount is the higher of the asset's fair value (less costs to sell) and value in use that is found using the discounted cash flow method. Where tests indicate that the recoverable amount of an asset is lower than its carrying amount, the asset is written down to the recoverable amount. Where the recoverable amount of an asset cannot be identified, the recoverable amount of the smallest group of assets it belongs to (its cash-generating unit) is determined. Impairment losses are expensed as incurred.

If tests of the recoverable amount indicate that an impairment loss recognised for an asset in prior years no longer exists or has decreased, the former write-down is reversed and the asset's carrying amount is increased. The increased carrying amount cannot exceed the carrying amount that would have been determined (considering normal depreciation or amortisation) had no impairment loss been recognised.

For information on the impairment of financial assets, please refer to subsection *Financial assets.*

INVESTMENT PROPERTIES

Investment properties are land and buildings held to earn rental income or for capital appreciation, or both and which are not occupied by the Group. An investment property is initially recognised at cost, including transaction costs. After initial recognition, an investment property is measured to fair value at each reporting date. Gains and losses arising from changes in the fair value of an investment property are recognised in profit or loss in the period in which they arise and presented under *Gains/losses resulting from changes in the fair value of investment properties.* Fair values are determined on an annual valuation performed by the management and/or professional appraisers.

Rental income earned is recorded in the profit or loss for the year under *Other income.*

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. Gains and losses arising from derecognition of an investment property are recognised in profit or loss in the period of derecognition.

NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE (OR DISPOSAL GROUPS)

Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as *Assets held for sale* if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within 12 months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Non-current assets are assets that include amounts expected to be recovered or collected more than 12 months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale premises and equipment are not depreciated or amortised. Reclassified non-current financial instruments are not subject to write down to the lower of their carrying amount and fair value less costs to sell.

FAIR VALUE MEASUREMENT

The Group measures financial instruments at fair value at each reporting date. The fair values of financial instruments measured at amortised cost are also disclosed in note 31.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure

fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

The Group's management determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted financial assets, and for non-recurring measurement, such as assets PPE (land and buildings). External valuers are involved for valuation of significant assets, such as land and buildings.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The management, in conjunction with the Group's external valuers, also compares each change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

LEASES

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Rent concessions granted to the lessee in connection with COVID-19 are accounted as lease modifications.

The Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets
The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. Right-of-use assets are presented together with property and equipment in the statement of financial position.

Right-of-use assets are presented in note 10 *Property and equipment* and are subject to impairment in line with the Group's policy which is described in note 1 Impairment of non-financial assets.

Lease liabilities
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

The Group leases commercial premises. Rental contracts are typically made for fixed periods of 3 to 10 years and, as a rule, include extension and termination options. Leases are negotiated on an individual basis and may contain different terms and conditions.

The Group applied the IFRS 16 COVID-19 related rent concessions amendment which regulates rent concessions granted by lessors for the period March - April 2020. The concessions were recognised as a reduction of the lease liability and variable rent in the period in which they were granted.

The Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

FINANCIAL LIABILITIES

Financial liabilities comprise deposits from customers, liabilities arising from securities, bank loans, accrued expenses and other liabilities. Deposits and subordinated notes are the Group's sources of debt capital.

On initial recognition, a financial liability is measured at fair value minus directly attributable transaction costs. Subsequently a financial liability is measured at its amortised cost using the effective interest method. A financial liability is removed from the statement of financial position when it is discharged or cancelled or expires.

Subordinated notes

A note is classified as a subordinated note if on the winding up or bankruptcy of the credit institution the note is to be satisfied after the justified claims of all other creditors have been satisfied.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A restructuring provision is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Provisions are not recognised for future operating losses.

A provision for an onerous contract is recognised when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. A provision for an onerous contract is measured at the lower of the present value of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees are initially recognised at their fair value, which is amortised over the life of the financial guarantee. Provisions for expected credit losses are done in accordance with the Group's policies for calculating ECL, as brought out above. Credit limits are only offered to corporate customers and are fully secured by a mortgage. Unused but committed credit limits can be used if the customer fulfils all the credit conditions including the customer does not have any overdue payments to the Group. Therefore, the credit risk of unused credit limits is assessed as low.

Financial guarantees issued and loan commitments are accounted off the statement of financial position. Provisions for expected credit losses are recognised in the income statement.

STATUTORY CAPITAL RESERVE

In accordance with the Commercial Code of the Republic of Estonia, the capital reserve of a company may not amount to less than one tenth of its share capital. Thus, every year when profits are allocated, the parent company has to transfer at least one twentieth of its net profit for the year to the statutory capital reserve until the required level is achieved. The capital reserve may not be distributed to shareholders but it may be used for covering losses if the latter cannot be covered with unrestricted equity and for increasing share capital through a bonus issue.

INTEREST INCOME AND INTEREST EXPENSE RECOGNITION

Interest income and interest expense are recognised using the effective interest rates of the underlying assets and liabilities.

Interest income and interest expense include interest and similar income and expense respectively. Income and expenses similar to interest include items related to the contractual/ redemption term of an asset or liability or the size of the asset or liability. Such items are recognised over the effective term of the asset or liability. Interest income and expense are recognised using the original effective interest rate that is used to discount the estimated future cash flows of the asset or liability. The original effective interest rate calculation takes into account all costs and income that are directly related to the transaction, including contract and arrangement fees, etc.

FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income comprises various fees received from customers during the reporting period such as monthly loan management fees, fees charged for changing customer details, amending contracts and terminating contracts early, fees for issuing statements of accounts and similar charges. Fee and commission expense comprises fees paid to other credit institutions including transfer fees. Fee and commission income is recognised at the fair value of the consideration received or receivable for the services provided in the ordinary course of the Group's activities. Fee and commission income and expense are

recognised on an accrual basis: as a rule, at the point in time when the performance obligation is satisfied, which is usually the time when the transaction is conducted. Fee and commission income on loans (less directly attributable expenses) is included in the calculation of the effective interest rate.

OTHER INCOME

Other income comprises:

- income from debt collection and recovery proceedings (late payment interest, fines, etc.), which is recognised on an accrual basis as relevant services are rendered;
- gain from early redemption of the Group's liabilities, which is recognised at the date of redemption;
- miscellaneous income that includes income from the sale of goods, which is recognised when the goods are sold to the customer, and income on the sale services, which is recognised in the accounting period in which the services are rendered; and
- dividend income (in the parent's financial statements), which is recognised when the right to receive payment is established.

OTHER EXPENSES

Other expenses comprise:

- expenses related to enforcement proceedings (including notaries' fees, bailiffs' and debt collection charges, state fees and levies);
- regulatory and supervision charges (contributions to the Guarantee Fund and supervision charges);
- costs of registry inquiries and similar items;
- expenses related to investment properties; and;
- expenses related to securities.

Other expenses are recognised when the service has been rendered and the liability has been incurred.

EMPLOYEE BENEFITS

Short-term employee benefits are measured on an undiscounted basis and they are recognised as an expense when the service has been rendered. The Group recognises liabilities (provisions) and costs related to employee bonus schemes if the bonuses are clearly fixed and are related to the accounting period.

INCOME TAX

Income tax is recognised in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. Income tax comprises current tax and is recognised in profit or loss for the year, unless it is recognised directly in equity because it relates to transactions that in the same or different period are also recognised directly in equity. Current tax is the amount expected to be paid, or recovered, in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised for issue prior to the filing of relevant tax returns. Taxes other than income tax are recorded within *Salaries and associated charges* and *Other operating expenses.*

Advance payments of income tax, charged at the rate of 14% of quarterly profit before tax, which credit institutions have been required

to make in Estonia since 2018, are recorded as tax expense. In accordance with the Estonian Income Tax Act, corporate income tax is not levied on profit earned but on profit distributed as dividends. The standard tax rate is 20% (20/80 of the amount distributed as the net dividend). Regularly distributed dividends are eligible to a reduced, 14% tax rate. This rate may be applied to a dividend extending to up to three previous calendar years' average dividend distribution on which income tax has been paid (2018 is the first year included in the calculation). The income tax payable on dividends is reduced by the amount of any advance payments made. Corporate income tax payable on dividends is recognised as an expense in the period in which the dividends are declared, irrespective of when the dividends are distributed. Because of the specific nature of the taxation system, companies registered in Estonia do not acquire deferred tax assets or incur deferred tax liabilities on temporary differences between the carrying amounts and tax bases of their assets and liabilities. Since 2018, the Latvian corporate income tax legislation has been similar to the Estonian one: profit is taxed when it is distributed and deferred tax assets and liabilities do not arise. The tax rate is 20% (the rate is applied to the gross taxable amount).

The profits earned in Lithuania, Finland and Sweden that have been adjusted for permanent and temporary differences as permitted by local tax laws are subject to income tax.

Corporate income tax rates

	2021	2020	2019
Estonia*	14.0%	14.0%	14.0%
Latvia	-	-	-
Lithuania	15.0–20.0%	15.0–20.0%	15.0%
Finland	20.0%	20.0%	20.0%
Sweden	20.6%	21.4%	21.4%

*** In Estonia, corporate income tax is not levied on profit earned but on profit distributed as dividends (the standard tax rate is 20% and the amount of tax payable is calculated as 20/80 of the amount distributed as the net dividend). Credit institutions are required to make advance payments of income tax on profit earned at the rate of 14%.**

At foreign entities, deferred tax is recognised whereby the deferred tax assets and liabilities arising from temporary differences between the carrying amounts and tax bases of assets and liabilities are recognised in the statement of financial position. In the consolidated financial statements, deferred tax liabilities are recognised in the statement of financial position in *Deferred tax liabilities.* A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

In the second half of 2020, the IFRS Interpretations Committee (IFRIC) decided not to accept the 20-year income tax deferral logic in Estonia, which is why all companies that prepare consolidated financial statements in accordance with IFRS EU must recognise a deferred tax liability in the statement of financial position for future dividend payments, unless specific criteria are met. This constitutes a change in the accounting principles.

In accordance with paragraph 39 of IAS 12, an enterprise recognises a deferred tax liability

for all investments in subsidiaries, associates, joint ventures and branches that give rise to temporary taxable differences, unless: (a) the entity is able to control the timing of the reversal of the temporary difference; and (b) it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is not recognised if the investment meets both criteria (a) and (b) above. To meet criterion (a), an enterprise must have control over its investment. Control generally exists over subsidiaries and branches. In the case of associates and joint ventures, there is generally no control, so the temporary taxable differences in these investments are usually subject to the income tax liability. To meet criterion (b), the company must be able to demonstrate that the temporary difference will not reverse in the foreseeable future. Cancellation refers to transactions such as the distribution of profits, the sale of a business, liquidation or the like. The near future is not explained in the standard, but the common view is that 12 months from the balance sheet date and planned transactions after that date should be taken into account.

The Group's management analysed the investments made in the subsidiaries and branches and decided that in those subsidiaries and branches where there is a temporary taxable difference in the investment, both exclusion criteria (a) and (b) are met at the same time and a deferred income tax liability should not be recognised as at 31 December 2020.

EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit for the year by the weighted average number of ordinary shares outstanding during the period.

For the purposes of calculating diluted earnings per share, the net profit attributable to ordinary equity holders and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares. The Group has not issued any financial instruments that could dilute earnings per share. Therefore, basic and diluted earnings per share are equal.

The Group is not listed on a stock exchange. Therefore, the information presented in note 32 to the financial statements is voluntary.

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE

The following new standards, interpretations and amendments were not yet effective for the annual reporting period ended 31 December 2020 and have therefore not been applied in preparing these financial statements. The Group plans to adopt these pronouncements when they become effective and have been adopted by the EU. Unless indicated otherwise in the text below, the new standards, interpretations and amendments are not expected to have a significant impact on the Group's consolidated financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – *Interest Rate Benchmark Reform (IBOR) (Phase two)*

Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. Early application is permitted.

The amendments address issues that might affect financial reporting as a result of the interest rate benchmark reform, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark

with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

- changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and
- hedge accounting.

Change in basis for determining cash flows:

The amendments will require the Group to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

Hedge accounting:
The amendments provide exceptions to the hedge accounting requirements in the following areas:

- Allow amendment of the designation of a hedging relationship to reflect changes that are required by the reform. This amendment will not result in a discontinuation of the hedge or designation of a new hedging relationship.
- When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the reform, the hedged items are allocated to sub-groups based on the benchmark rates being hedged.
- If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it can designate the rate as a non-contractually specified risk component if it is not separately identifiable at the designation date.

Disclosure
The amendments will require the Group to disclose additional information to enable users to understand the effect of interest rate benchmark reform on the Group's financial instruments, including information about the Group's exposure to risks arising from interest rate benchmark reform and related risk management activities.

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

The European Commission has decided to defer the endorsement of the amendments indefinitely. The amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

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 are not yet endorsed by the EU. 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.

Amendments to IFRS 3 *Business Combinations*

Effective for annual periods beginning on or after 1 January 2022. Early application is permitted. The amendments are not yet endorsed by the EU. The amendments to IFRS 3 update a reference in IFRS 3 to the 2018 Conceptual Framework for Financial Reporting instead of the 1989 Framework. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

Amendments to IAS 16 *Property, Plant and Equipment*

Effective for annual periods beginning on or after 1 January 2022; to be applied retrospectively. Early application is permitted. The amendments are not yet endorsed by the EU.

The amendments to IAS 16 require that the proceeds from selling items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended must be recognised, together with the cost of those items, in profit or loss and that the entity must measure the cost of those items applying the measurement requirements of IAS 2. The amendments must be applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The cumulative effect of initially applying the amendments will be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented (if necessary).

Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

Effective for annual periods beginning on or after 1 January 2022; to be applied retrospectively. Early application is permitted. The amendments are not yet endorsed by the EU.

In determining costs of fulfilling a contract, the amendments require an entity to include all costs that relate directly to a contract. The amendments clarify that the cost of fulfilling a contract comprises both: the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. An entity must apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The entity will not restate comparative information. Instead, the entity will recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

Annual improvements to IFRS standards 2018-2020

Effective for annual periods beginning on or after 1 January 2022. Early application is permitted. The amendments are not yet endorsed by the EU.

Improvements to IFRS (2018-2020) include three amendments to the standards:

- the amendments to IFRS 9 Financial instruments clarify that, when assessing whether an exchange of debt instruments between an existing borrower and lender is on terms that are substantially different, the fees to include together with the discounted present value of the cash flows under the new terms include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
- the amendments IFRS 16 Leases remove illustrative example 13 accompanying IFRS 16, which in practice creates confusion in accounting for leasehold improvements for both lessee and lessor. The purpose of the amendment is to remove the illustrative example that creates confusion.
- the amendments to IAS 41 Agriculture removes the requirement to use pre-tax cash flows to measure fair value of agriculture assets. Previously, IAS 41 had required an entity to use pre-tax cash flows when measuring fair value but did not require the use of a pre-tax discount rate to discount those cash flows.

NOTE 2. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS EU requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making estimates about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The impact of management's estimates is most critical regarding loss allowances for loans and interest receivables. The measurement of expected credit loss (ECL) allowance for financial assets measured at amortised cost and FVOCI is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in note 1 (see the section Financial assets impairment) and the loss allowances in note 7. The following components have a major impact on credit loss allowance: definition of default, determining criteria for significant increase in credit risk, probability of default (PD), exposure at default (EAD), and loss given default (LGD), establishing groups of similar financial assets for the purpose of measuring ECL, as well as models of macro-economic scenarios. The Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. The Group used supportable forward looking information for measurement of ECL, primarily an outcome of its own macro-economic forecasting model.

The carrying amounts of property and equipment are identified by applying internally established depreciation rates. Depreciation

rates are determined by reference to the items' estimated useful lives (see the section Property and equipment in note 1). Land and buildings are initially recognised at the acquisition cost and subsequently measured at revalued amount. The management uses the estimate of an asset's market value provided by an independent expert as a basis for fair value estimation, if needed (see note 31).

Fair value of investment properties is measured on a yearly basis, and book values adjusted to reflect any changes in market values (see the section Investment properties in note 1 and notes 11 and 31).

The carrying amounts of intangible assets are identified by applying internally established amortisation rates. Amortisation rates are determined by reference to the items' estimated useful lives (see the section Intangible assets in note 1) which is generally 5 years.

At the end of each reporting period management assesses whether there is any indication of impairment of intangible assets. If any such indication exists, management estimates the recoverable amount.

The Group capitalises the costs of developing information and banking technology solution Nest. Initial capitalisation of the costs is based on management's judgement that the technological and economic feasibility is certain. This usually occurs when the development phase has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits, which for Nest is 15 years. If the expected period of benefits of the asset were 5 years, as it is for other software, the carrying amount of the asset as at the reporting date would be 26% smaller and depreciation expense for 2020 would be 227% larger.

Since the Group operates in a complex multinational environment, management considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The tax filings of Bigbank and its branches and subsidiaries in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge the tax treatments.

Management has determined, based on the Group's tax compliance and transfer pricing principles, that it is probable that the Group's tax treatments (including those for the branches) would be accepted by the tax authorities if the Group has appropriate transfer pricing documentation to support its approach.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

NOTE 3. RISK AND CAPITAL MANAGEMENT

RISK AND CAPITAL MANAGEMENT PRINCIPLES

Risk is defined as a potential unexpected change in loss or income or in the value of assets, which can be described by probability distribution.

Effective risk and capital management is an essential component of the Group's management. It has a crucial impact on the long term results and sustainability of the business model. The aim of risk and capital management is to manage volatility in financial performance and to maintain confidence

among the customers, shareholders and regulators.

The following principles are followed in risk and capital management:

- **Well-balanced portfolio.** The Group maintains a well-diversified credit portfolio and takes limited risk in financial markets. Since uncertain changes in any individual position may seriously affect Group's overall risk position, over-reliance on single counterparties and concentrations of risk are avoided.
- **Risk profile by significant countries of operation and significant product groups.** The credit portfolio is reasonably balanced between different countries of operation and products. The management board determines at least annually the maximum exposure limits for individual countries of operation and significant product groups. Any target risk profile change must take into account established limits and potential effects. The actual risk profile is regularly measured against such limits.
- **Quality of assets.** Any changes in the target risk profile that may significantly affect the quality of assets are properly analysed and assessed before the changes are made.
- **Strong liquidity position.** The Group maintains a conservative liquidity risk profile and a sufficient portfolio of liquid assets at all times. Concentrations of funding and liquid assets are avoided.
- **Adequate capital.** The Group maintains a strong and rather conservative capitalisation level (capital adequacy). The Group makes sure that it has adequate capital to cover its risks and comply with regulatory (Pillar 1) and internal capital requirements (Pillar 2) as well as the minimum capital requirement. Detailed capital requirements are outlined in the *Own funds and capital* section of this note.
- **Reasonable risk level.** The Group does not accept unreasonably high risk even when there is potential for exceptionally high profit as a result of risk taking. Risks which the Group cannot assess or manage adequately or for which it does not have sufficient experience or knowledge are avoided.
- **Low tolerance to specified types of risks.** The Group has low tolerance to certain risk types as specified in the policies for individual risks. Target risk profiles which increase such risks are avoided.
- **Reliable structure of the statement of financial position.** The Group is not required to maintain a specific structure of the statement of financial position but any target risk profile that may have a significant impact on the structure of the statement of financial position is carefully assessed (the impacts of the changes in the structure of the statement of financial position are analysed) and changed, where necessary, before it is approved.

The primary objectives of risk management are to protect the Group's financial strength and limit the impact of potential adverse events on the Group's capital, liquidity and financial results.

Risk management principles for the Group are established in the risk policy approved by the supervisory board of Bigbank AS. Risk taking is an unavoidable part of the Group's business activities and risk management supports business activities and decision making, ensuring that there is as clear information as possible about the risk and reward of different choices. Risk management is an integral part of the strategic decision making and daily business decision making process. The primary goals of risk management are to ensure that the outcomes of risk-taking activities are consistent with the Group's strategies and

risk appetite, and that there is an appropriate balance between risk and reward.

The main risk the Group has identified in its operations is credit risk, which arises in lending to customers. Other material risks are market risk (including IRRBB, i.e. interest rate risk in the banking book), liquidity risk, operational risk, reputational risk, business and strategic risk. In order to cover these risks Group holds a capital buffer and liquidity reserves for unforeseen events. The Group assesses and identifies the risks continuously, as a part of its internal capital adequacy assessment process (ICAAP) and internal liquidity assessment process (ILAAP).

RISK MANAGEMENT FRAMEWORK

The supervisory board of Bigbank AS has established the Group's risk management framework, which is set out in the risk policy. The Group's risk management framework consists of four key elements: 1) risk culture, 2) risk governance, 3) risk appetite and 4) risk management.

Fig. Risk management framework

Risk culture

Risk culture means norms, attitudes and behaviours related to risk awareness, risk-taking and risk management, and the controls that shape decisions on risks in the Group. Risk culture influences the decisions of management and employees during the day-to-day activities and has an impact on the risks they assume. A sound and consistent risk culture should be a key element of the Group's effective risk management and should enable to make sound and informed decisions. Risk culture is developed through policies, communication and staff training regarding the Group's activities, strategy and risk profile. Employees should be fully aware of their responsibilities relating to risk management. Risk management should not be confined to risk specialists or internal control functions. Business units are primarily responsible for managing risks on a day-to-day basis in line with the Group's policies, procedures and controls, taking into account the Group's risk appetite and risk capacity.

A strong risk culture includes:

- Tone from the top – the management board is responsible for setting and communicating the Group's core values and expectations. Group's management, including key function holders, should contribute to the internal communication of core values and expectations to employees.
- Accountability – relevant employees at all levels should know and understand the core values of the Group and, to the extent necessary for their role, its risk appetite and risk capacity. They should be capable of performing their roles and be aware

that they will be held accountable for their actions in relation to the Group's risk-taking behaviour.

- Effective communication and challenge – a sound risk culture should promote an environment of open communication and effective challenge in which decision-making processes encourage a broad range of views, allow for testing of current practices, stimulate a constructive critical attitude among employees, and promote an environment of open and constructive engagement throughout the entire organisation.
- Incentives – appropriate incentives should play a key role in aligning risk-taking behaviour with the Group's risk profile and its long-term interest.

Risk governance

The Group's risk governance structure is described with a focus on the key responsibilities relating to risk-taking decisions and oversight.

The general risk governance structure is based on the three lines of defence model. Under the concept, all employees of the Group are responsible for managing risk, but all have their specific roles and responsibilities. The functions are separated into three lines as follows:

- First line of defence - functions that own and manage risks (risk owners)
- Second line of defence - functions that oversee risks (risk management and compliance functions)
- Third line of defence - functions that provide independent assurance (internal audit and audit committee)

Each line of defence has specific roles and responsibilities for risk management and risk control.

Fig. Three lines of defence model

First line of defence, the operational management (all business and support units), is accountable for managing risks within their areas of responsibility (risk owners). They have primary responsibility for day-to-day risk management within their scope of responsibilities. Risk owners have operational focus, they embed risk management framework and sound risk management practices into standard operating procedures, monitor risk management performance and are responsible for its effectiveness.

Second line of defence includes the risk management function and the compliance function. These functions have to ensure that

the first line of defence is properly designed, operating as intended and risks are properly managed.

Third line of defence is the internal audit function, which provides independent assurance, reviews of the first two lines of defence and the effectiveness of risk management practices, confirms the level of compliance, recommends improvements and enforces corrective actions where necessary.

Group has three main levels where risk management decisions are made:

1) the supervisory board;
2) the management board; and
3) credit committees.

Based on general-level decisions and the authorities granted, operational decisions are made by risk owners and operational units. The Group keeps the functions of risk management, decision-making and monitoring processes as separate and independent as possible. Due to the size of the Group some of the above functions may be mixed, however the Group's organisational structure is designed so that it ensures the segregation of duties between operational and monitoring/control functions in order to prevent conflicts of interest.

The supervisory board defines the risk appetite based on the business strategy, approves the risk and capital management policy and the policies for other material risk types.

The management board is responsible for implementing and maintaining risk management procedures, processes and systems for all of the Group's material products, activities, processes and systems, consistent with the Group's risk appetite and tolerance. The management board identifies and assesses regularly all risks involved in the Group's activities, to make sure that the risks are monitored and controlled. The management board is responsible for implementing an internal control system and a risk limit system and ensuring the sound functioning of ICAAP and ILAAP.

The system of credit committees consists of the Group's credit committee, country credit committees and their sub-committees. The Group's credit committee is the highest level decision-making body which is responsible for supervising country credit committees and adopting lending decisions exceeding 1 million euros.

The purpose of the risk committee is to support the management board in fulfilling its risk management responsibilities. In particular, the committee deals with the discussion, coordination and agreement of strategic issues related to operational risks (including information security and compliance risks). The committee includes the representatives of both the first and the second line of defence to ensure adequate representation and effective coordination and communication of risks within the Group. The members of the risk committee are appointed and its rules of procedure are approved by the management board.

Risk appetite

Risk appetite expresses the level of aggregated risks that the Group is willing to take according to the business model and within the risk tolerance in order to achieve strategical goals. The Group has defined its risk appetite for all main risk categories that have been identified and has established processes and measures for how the actual risk profile is assessed and managed. Risk appetite is forward-looking, in line with the strategic planning horizon and regularly reviewed.

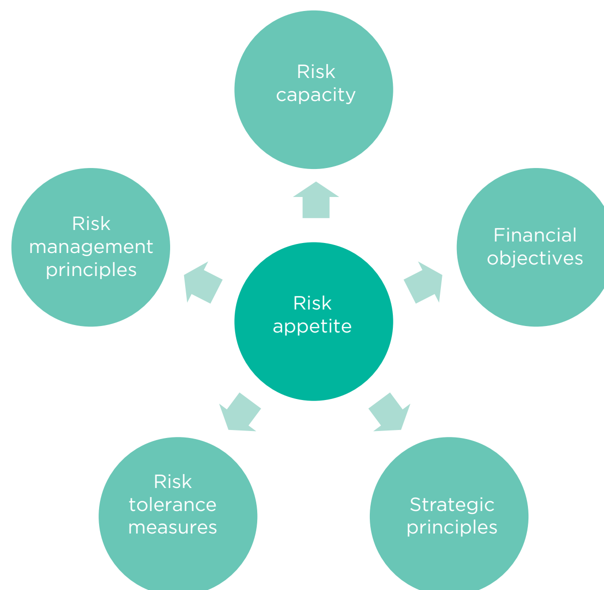


Fig. Elements of risk appetite

Risk appetite comprises the following elements:

- **Financial objectives.** Risk management must support the achievement of financial objectives as long as these objectives include sustainable growth in earnings, maintenance of capital adequate for the Group's risk profile, and the availability of financial resources for meeting financial obligations on a timely basis and at reasonable prices.
- **Strategic principles.** Risk strategy and the target risk profile are based on the overall strategy, however risk management and risk capacity are inherent in the strategy making process. The Group's strategy takes into account risks and capital as well as the risk strategy and is regularly reviewed and updated to reflect changes in strategic plans.
- **Risk tolerance measures.** Risk tolerance is the maximum risk level the Group can accept within particular risk category taking into account the capital, risk management and risk control capacity and regulatory restrictions. Risk tolerance is established based on quantitative metrics.
- **Risk management principles**. Applicable external regulations, best practice and risk management principles specified in the Group's internal regulations provide the qualitative foundation for the risk tolerance framework. Business needs may not override risk management principles.
- **Risk capacity.** Risk capacity is defined as the maximum level of risk that the Group can assume in both normal and distressed situations before breaching regulatory constraints and obligations to stakeholders.

Risk management

Effective risk management includes techniques that are guided by the risk framework and integrated into the Group's strategies and business planning process. The risk management process consists of the following activities:

- risk identification;
- risk assessment;
- risk monitoring;
- risk control;
- risk measurement; and
- risk reporting.

Fig. Risk management process

Risk identification. Risk identification is a regular process the Group uses to identify risks that are or might be material for the Group. The risk identification is expected to be comprehensive and take both normative and economic perspectives into account.

Risk assessment. A risk assessment of new products and systems must be performed before they are implemented. The principles of proportionality and efficiency apply – the extent of assessment must be in accordance with the potential impact and importance of risk in the aggregated risk profile of the Group. The actual risk profile is regularly assessed against the Group's risk appetite.

Risk monitoring. A regular monitoring system ensures that business activities are within approved limits and in line with regulations, and are aligned with the Group's strategies and target risk profile. Any breaches of limits or regulations must be immediately reported by the head of the respective unit and escalated to the senior management, committees, management board and/or the supervisory board depending on the limit or internal regulation. The Group has in place system of risk indicators (including escalation levels) addressing all identified material risk categories and regular monitoring of key financial and non-financial risk indicators to monitor changes in the financial condition and risk profile of the Group.

Risk control. A significant part of risk management is risk control – the framework of internal procedures, processes and limits. The necessity for internal rules arises from internal needs for proper risk management and from regulatory minimum requirements. All identified material risks and related processes are covered with internal rules, limits and the control system. All internal regulations are guided by the Group's general risk management principles and target risk profile, and set the limits and controls within which the Group and its subsidiaries can operate. The development of internal rules is actively coordinated on Group level. However, the head of each area, branch and subsidiary is fully responsible for compliance with local regulations in their areas of responsibility or country of operations. All internal regulations must comply with the

principles for the establishment of Group level internal regulations.

Key risk policies and general risk management strategies, principles, risk governance and general limits are approved by the supervisory board. Management level general risk procedures are approved by the management board. Risk management policies are reviewed and updated once a year.

Risk measurement. The risk management area is responsible for developing and maintaining an appropriate suite of risk measurement techniques to support the operations of the various business lines (risk owners), and measurement of capital adequacy on a Group-wide basis. All material risks are measured using quantitative metrics and regularly monitored. The management board reviews and approves the risk measurement principles annually.

Stress testing, sensitivity analysis and scenario analysis are proactive methods used for evaluating the impact of various factors on the risk profile and respective capital needs. Stress testing is integrated with the Group's risk management framework and capital adequacy assessment process and it enables to evaluate the possible impact of relevant business and strategic decisions. Stress testing of material risks is performed at least once every year or more frequently and results are reported to the management board and supervisory board.

Risk reporting. Risks are monitored and reported by all material risk types, by products and by all branches. The head of the risk management area is responsible for implementing appropriate work arrangements, policies, procedures and systems to ensure that risks are measured, evaluated, aggregated, analysed and regularly reported to the management board. The chairman of the management board and the head of risk management area inform the supervisory board about the development of the Group's overall risk situation as well as other risk related matters on a quarterly basis.

RISK APPETITE AND TARGET RISK PROFILE

The target risk profile is based on the risk appetite and it includes the level and types of risks the Group is willing to take within its risk capacity and in line with its business model to achieve its strategic objectives. The Group describes in its target risk profile the nature and level of each material risk identified. Determination and updating of the target risk profile is an integral part of annual strategic planning during the budgeting process.

The Group uses a four-step scale to determine the levels of risk appetite:

- Low (1) – Safe and proven solutions. Low risk and minimal return.
- Moderate (2) - Reactive. Moderate risk level and potentially lower return.
- Above average (3) - Proactive. Above average risk with high profit potential. Decisions made based on the balance of risk and return.
- High (4) – Priority on business needs. High risk of loss which can be tolerated only in the case of very high profit potential.

The actual risk profile is assessed and compared with the target profile at least quarterly. The assessment results are reported to the management board and supervisory board within regular risk reports.

Credit risk

Credit risk is the risk that the counterparty to a transaction is not capable or willing to perform its contractual obligations and the bank will incur a credit loss. Credit risk arises from the Group's direct lending operations and its investment and trading activities where counterparties have repayment or other obligations to the Group. The Group distinguishes between credit risk arising from (i) the loan portfolio (including items accounted for off the statement of financial position); (ii) money market operations; and (iii) the bond portfolio.

Credit risk of the loan portfolio is the most significant risk for the Group and the most significant driver of risk weighted assets.

The Group determines the credit risk levels in the loan portfolio based on the ECL estimates as follows:

- Low risk – ECL not higher than 2%
- Moderate risk – ECL higher than 2% and not higher than 6%
- Above average risk – ECL higher than 6% and not higher than 10%
- High risk – ECL higher than 10%

The Group's appetite for credit risk is moderate. However, sub-profiles within the loan portfolio are carefully distinguished and the sub-profiles of risk for different products or countries differ significantly, ranging from low (1) to above average (3), depending on the strategic plans and risk analysis.

The Group controls the credit risk of the loan portfolio by:

- using highly predictive credit risk assessment and fraud detection models in the selection of customers, which minimises losses and the risk of crediting customers in the above average risk class;
- using automated lending procedures and inquiries to external databases to ensure standardised, compliant and efficient decision-making;
- focusing only on creditworthy private customers and companies with a proven track record;
- determining credit risk limits and risk indicators;
- implementing processes to systematic monitor and control credit risk limits and risk indicators on a country, product, partner and customer level.

In providing credit, the Group observes responsible lending principles, good banking practice and high ethical standards. The Group makes sure that its activities do not compromise any generally accepted ethical, environmental or legal principles. The Group does not enter into transactions with counterparties whose ethical or moral standards are questionable.

The Group has not implemented specific techniques to mitigate credit risk in the calculation of regulatory capital requirements.
Credit risk of money market operations arises from the Group's payment services and money market activities through exposures to credit institutions. The credit risk of payment services results from holding liquid assets and supporting the Group's main activities with payment solutions.

The risk is managed by diverse counterparties, high credit rating standards, counterparty exposure limits and regular monitoring/reviews to minimise the probability of the default of any single counterparty.

The credit risk of money market operations is managed at Group level. All branches and subsidiaries observe Group-level principles,

rules and limits. The finance area is the first line of defence in managing money market credit risk. The second line of defence is the risk management function.

Credit risk of the bond portfolio arises from debt instruments. The strategy and risk appetite for the credit risk of the bond portfolio is set, managed and monitored as part of liquidity and market risk management. The credit risk of the bond portfolio is handled by the finance area as the first line of defence. Risk management area acts as the second line of defence.

Within credit risk the Group has identified the following risks:

- **Concentration risk** - the risk resulting from a large risk exposure to a counterparty, or connected counterparties, or connected counterparties that are affected by a common risk factor or when there is a strong positive correlation between risks.
- **Country risk** - the risk resulting from the economic, political or social situation in the country where the counterparty is located.
- **Collateral risk** - the risk arising from the type, value, form, and methods of disposing of the asset pledged as collateral for a transaction.

Concentration risk

Concentration risk is the risk of being significantly exposed to a single counterparty or related counterparties or counterparties that are influenced by the same risk factor.

The Group determines concentration risk taking into account exposures to a single counterparty or related counterparties as well as exposures to a single industry, region or risk factor. The Group's loan portfolio concentration risk strategy is to avoid a significant impact of the default of any single counterparty by maintaining a well-diversified loan portfolio, where the majority of single customer or related customers' concentrations are below 0.1% of the total loan portfolio.

The Group has established the following concentration risk limits:

- Maximum loan amount per single contract or project (corporate loans);
- Maximum exposure to a counterparty or related counterparties (corporate loans);
- Maximum exposure to a counterparty (consumer loans);
- Maximum share of a specific country in the Group's credit portfolio;
- Maximum share of corporate and real estate loans in the Group's credit portfolio;
- Maximum unsecured exposure to a counterparty or related counterparties (corporate loans).

At 31 December 2020 and at 31 December 2019, the Group did not have any customers with a high risk concentration, i.e. customers whose liability to the Group would have accounted for more than 10% of the Group's net own funds (for own funds, see the section *Own funds and capital).*

In addition to credit risk management techniques, concentration risk is managed by applying the following measures:

- In its business operations, the Group focuses on serving individuals and small and medium-sized enterprises.
- Customers are identified with due care and using due procedure.

- Companies' ultimate beneficial owners and relationships with other companies are identified by determining relationships of ownership and control.
- The Group monitors the concentration of its credit risk exposure to any single factor and limits, where necessary, exposure to any customer group that is related to or impacted by that factor.

Country risk

Country risk is the risk resulting from the economic, political or social situation in the country where the counterparty is located or the probability of the occurrence of an environmental, political or social event, which may lead to a default by a large group of debtors (collective debtor risk). The Group's strategy is to have a well-balanced portfolio across the countries of operation. Over-concentration on one particular country is avoided by setting limits to single country exposures, new sales per country and the credit quality of single country portfolios. At 31 December 2020, the limit for a maximum share of a country was 40% of the total credit portfolio.

Collateral risk

Collateral risk is the risk arising from the type, value, form, and methods of disposing of the asset pledged as collateral for a transaction.
The Group consciously limits its collateral risk, assuming that its lending policies and volumes mitigate credit risk more effectively than receipt of collateral and associated cash flows.
The Group monitors the effects of fluctuations in the market value of collateral.

Collateral risk is managed using the following principles:

- Consumer loans do not require asset collaterals but can be additionally guaranteed by suretyship from a natural person.
- Requirements for collateral depend on the type of the loan. As rule, real estate and business loans have to be secured with physical collateral (real estate collateral under the law of property such as a mortgage of immovable property). Home loans are fully collateralised by real estate. Consumer loans and small business loans may be secured with suretyship from a natural person. In making financing decisions, the Group does not rely simply on the borrower's business plan or economic activities and demands additional collateral or security.
- Loans are granted in accordance with the limits established by the Group, taking into account the size of the loan and the ratio of the loan amount to the value of the collateral.
- The sufficiency and value of acceptable real or other collateral is determined based on its current value considering the changes that will occur over time. Where necessary, the value of collateral is determined with the assistance of experts (e.g. real estate appraisers).
- The Group accepts as loan collateral only such immovable properties in respect of which there is a written valuation report issued by an appropriately qualified real estate company and expert. In addition to valuation reports prepared by real estate companies, collateral risk is assessed based on the Group's subjective estimates.
- To issue loans secured with real estate, the

Group has established maximum limits to the ratio of the loan amount and the market value of the collateral (loan-to-value ratio). The limits have been established taking into account the condition and location of the real estate.
- Acceptable real estate collaterals predominantly include mortgages of the first ranking entered in the land register, which should ensure full satisfaction of the Group's claims even when the market value of the collateral decreases.
- Real estate collateral has to be insured throughout the loan term with an insurance company accepted by the Group at least to the extent of the replacement cost of the property.

The Group pledges its assets only if it is required by the terms of financing contracts.

Credit risk management

The Group's credit risk strategy and risk profile are developed using the input and risk assessments from all countries and branches that know local market conditions. The overall risk profile of the loan portfolio is managed at Group level. Group-level credit risk limits are approved by the supervisory board, country-level limits are approved by the management board. All branches and subsidiaries must follow Group-level principles and approved credit risk limits and risk indicators. In case of breach of a limit, an action plan to restore the target level must immediately be presented to the management board. Breaches of Group-level limits are escalated to the supervisory board.

Customers are selected using credit risk assessment and fraud detection models, which minimises losses and the risk of crediting high-risk or insolvent customers. The Group's goal is to automate as many credit decisions as possible.

Each lending decision made by the Group has to be based on a prior loan analysis. During loan analysis, the Group identifies, on the basis of available information, whether there are any circumstances which undermine the customer's ability and/or willingness to duly service the credit, which may cause the Group to suffer a loss.

Each branch and business unit is fully responsible for performing loan analyses and evaluating the credit risk of each transaction even if the final decision is taken at a higher level. Credit committees, underwriters, and sales staff who are involved in making credit decisions and heads of branches are the first line of defence in managing credit risk. The Group's credit risk area is the second line of defence in managing the credit risk of the loan portfolio. Adherence to internal processes and decision-making authorities is regularly monitored by the internal credit controller.

The Group manages its credit risk in accordance with the provisions of the Credit Institutions Act, the regulations issued by the Governor of Eesti Pank, the Financial Supervision and Resolution Authority and other regulatory bodies in Estonia and other countries where the Group operates, and its own credit policy.

The Group's credit policy and relevant procedures for analysing and providing loans are regularly reviewed and updated to reflect changes in the economic environment, the Group's credit risk appetite and the counterparties' payment behaviour.

Risk-taking decisions are made collectively by the credit committees or relevantly authorised employees in keeping with the limits and

restrictions set by the Group's supervisory and management boards.

An important component of the Group's credit risk profile is risk mitigation through a well-diversified loan portfolio, avoiding concentrations of risks related to a single counterparty, single product or single country and controlling risk-taking and changes in the risk profile. Large unsecured credit risk exposures are avoided by limiting maximum credit amounts and credit risk is mitigated through a strong collateral position, which is ensured by accepting liquid and typical assets which are easy to foreclose.

The Group's credit policy relies on the following risk management approach:

- Loans are mostly provided to individuals. At 31 December 2020, loans to individuals accounted for 90.3% of the loan portfolio. The solvency of individuals is by nature more stable than that of companies and less influenced by the stress scenarios of the economic environment than that of enterprises.
- Loans are granted under carefully drafted legal agreements and recovery proceedings are conducted in full compliance with applicable law. According to the Group's assessment, there are currently no features in the Baltic, Scandinavian and Spanish legislation or legal practice that might exert a significant additional negative impact on the recovery of loan receivables.
- The Group applies proactive and flexible debt management and results-oriented recovery proceedings.
- Risks are controlled by maintaining a highly diversified loan portfolio. At 31 December 2020, the average loan balance was 5,190 euros and 100 largest loans accounted for 10.4% of the total loan portfolio. Smaller receivables are generally easier to recover even in the circumstances of a severe economic downturn because the borrower's settlement power is not weakened by the scarcity of (re)financing opportunities and the Group's receivables can usually be settled with regular monthly income.

In its lending operations, the Group focuses on consumer loans and hire-purchase services which are income based. In addition, in Estonia, Latvia and Lithuania, the Group provides loans to small and medium-sized enterprises. At 31 December 2020, loans to companies accounted for 9.7% of the Group's loan portfolio.

The maximum limit for a single customer group is 8 million euros in Estonia and Lithuania and 5 million euros in Latvia. Business loans cannot exceed 33% of the total loan portfolio in those countries.

To obtain an overview of exposures at the level of the total loan portfolio, the credit risk department monitors the development of the loan portfolio, the customers' payment behaviour and credit risk, and conducts regular stress tests that focus on assessing the effects that various possible though not probable events may have on the Group's financial performance and capital. Such events include growth in settlement arrears due to adverse changes in the macroeconomic environment, specific developments and changes in the dynamics of settlement defaults.

Impacts of COVID-19

The Group has implemented various measures in connection with the COVID-19 pandemic in order to mitigate and recognise credit risks and to manage the non-performing (past due) loan portfolio more effectively. Among other things, the Group has:

- changed the terms and conditions of providing consumer credit, lowered the credit risk limits for customers with increased risk characteristics and adopted more stringent due diligence measures;
- adjusted its internal scoring models to reflect changes in the outlook of the economic environment;
- revised the estimates for probability of default and loss given default in the expected credit loss model. Through the one-off effect of the revisions, the expected credit loss allowance increased by 2,386 thousand euros;
- in the area of debt handling, improved the efficiency of debt collection procedures, widened the range of payment holidays offered to customers, enhanced IT functionality and used internal resources to increase relevant workforce.

The Group has managed its past due portfolio by actively selling past due items. At 31 December 2019, the Group had standing sales agreements in Estonia, Lithuania, Finland and Sweden. In 2020 the Group terminated the sales agreements in all countries except Sweden because of COVID-19 and a price decrease that had emerged earlier. In the second half of the year, the market recovered and during the period September-December, the Group sold past due items in Estonia, Latvia, Lithuania and Spain through one-off transactions of 11,330 thousand euros in total (full-year 2020: past due items of 11,713 thousand euros were sold through one-off transactions).

According to the Group's assessment, the COVID-19 pandemic did not have a significant adverse effect on the quality of its credit portfolio because preventive measures were implemented on a timely basis and the efficiency of debt handling processes was duly improved. The share of the past due portfolio in the total credit portfolio decreased from 5.2% at 31 December 2019 to 4.3% at 31 December 2020 and the total expected credit loss allowance decreased from 5.5% in 2019 to 4.8% in 2020.

Measurement and classification of credit risk

Loan customers' credit risk is measured in a quantifiable manner through the Group's internal scoring models (at the moment of credit origination) and rating models (during the lifetime of the credit). A customer's credit rating is embedded in the Group's risk management system and it is used for assessing the customer's payment ability and the probability of default, creating loss allowances, assigning credit limits, measuring receivables and determining the frequency of credit risk assessments and the principles of monitoring credit risk.

A credit rating is an assessment characterising the counterparty in a transaction or the credit risk of a receivable that is used to grade customers or receivables based on the extent of the credit risk exposure. The system of credit ratings differentiates customers and receivables according to their risk level, based on the probability of default in light of the customer's financial position, creditworthiness, value and marketability of collateral (security) and other circumstances that may influence the customers' ability to meet their obligations to the Group.

Each customer is assigned a credit rating at the time the loan application is reviewed. The rating is revised when monitoring indicates that circumstances underlying the credit rating have changed. Circumstances are reviewed monthly. The frequency of changing a rating depends on the features of the group of loans and the loan class. The ratings of companies are updated at least once a year or whenever there is reason to believe that the borrower's credit risk has changed; in the case of non-performing loans the rating is reviewed once a quarter. The ratings of retail customers are updated whenever there is a significant change in the borrower's credit risk.

The main parameters the Group uses in assessing credit risk are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). The probability of default reflects how high is the probability that the loan customer will experience a settlement default of more than 90 days within the next 12 months after the assessment. Loss given default reflects the economic loss that may occur in the event of default of more than 90 days on the basis of country- and product-specific loss rates identified using historical loss statistics, which have been, if needed, adjusted to reflect expert opinions. The exposure is equal to the carrying amount of the receivable. Credit risk is assessed using the expected credit loss (ECL) formula where ECL = PD * LGD * EAD. LGD and PD estimates are updated at least once per year.

A loan is classified as non-performing on the occurrence of any of the following events associated with the customer, which will or may lead to imminent or future insolvency:

- Low probability of collecting payments. The loan (agreement) is performing but on the basis of objective evidence it is reasonable to assume that the customer is unable to meet the existing financial obligations (loan principal, associated interest and contract fee) in full and the situation cannot be resolved in a satisfactory manner.
- Default on meeting a significant financial obligation. A loan is classified as non-performing when a) the customer is over 90 days in default on the obligation to make a principal or interest payment of more than 10 euros; b) a retail customer is over 90 consecutive days in default on the obligation to make a principal and/or interest payment of more than 100 euros (500 euros in the case of corporate loans) and the debt accounts for more than 1% of the total amount of the underlying loan; or c) the loan is materially restructured so that the remaining balance of loan principal or the accrued interest that has been recognised in the statement of financial position is reduced and the circumstances causing the customer's financial difficulty have not been eliminated.

To better evaluate credit risk, the Group divides receivables into five major classes using an internal rating system for determining their quality:

- *Very good.* The customer's ability to pay and factual payment behaviour are very good. There is no evidence suggesting that weaknesses could emerge.
- *Satisfactory.* The customer's estimated ability and willingness to pay and factual payment behaviour are good. The Group is not aware of any circumstances that could cause the receivable not to be settled in accordance with the originally agreed terms and the customer's credit risk is low or moderate.
- *Weak.* The customer has clearly identifiable economic weaknesses. The customer is making payments but there may occur up to 90-day defaults, which is why the receivable may need to be restructured.

The customer's credit risk is above average.

- *Inadequate.* The customer is more than 90 days in default on significant commitments or there has been restructuring of the receivable without which the customer would be in default. Settlement of the entire receivable is unlikely if the situation does not change.
- *Irrecoverable.* The customer is insolvent, repayment is unrealistic and the Group does not have economically effective measures for collecting the receivable or the customer has been declared bankrupt.

Loan portfolio by internal rating classes

As at 31 December	2020	2019
Very good	400,132	239,391
Satisfactory	130,216	176,213
Weak	38,576	36,146
Inadequate	22,173	21,541
Irrecoverable	462	164
Total	**591,559**	**473,455**

Loans whose principal or interest payments are in arrears break down as follows:

Loss allowances by ageing of loans as at 31 December 2020

	Loan receivable	Loss allowance	Risk exposure
Loan portfolio not past due	534,062	-11,197	522,865
Loan portfolio past due	57,497	-14,381	43,116
Total	**591,559**	**-25,578**	**565,981**
Past due portfolio according to days past due:			
Up to 30 days	28,892	-1,702	27,190
31–60 days	6,258	-1,875	4,383
61–90 days	3,400	-1,306	2,094
Over 90 days	18,947	-9,498	9,449
Total past due portfolio	**57,497**	**-14,381**	**43,116**

Loss allowances by ageing of loans as at 31 December 2019

	Loan receivable	Loss allowance	Risk exposure
Loan portfolio not past due	398,456	-8,206	390,250
Loan portfolio past due	74,999	-14,094	60,905
Total	**473,455**	**-22,300**	**451,155**
Past due portfolio according to days past due:			
Up to 30 days	45,654	-1,729	43,925
31–60 days	9,513	-2,054	7,459
61–90 days	4,457	-1,334	3,123
Over 90 days	15,375	-8,977	6,398
Total past due portfolio	**74,999**	**-14,094**	**60,905**

Policy for creation of loss allowances
The policies for creating loss allowances for loans are described in note 1.

The Group creates loss allowances to mitigate the risk of a decline in the value of its loan receivables, i.e. their impairment. To mitigate the risks associated with the customers' payment behaviour and to cover credit losses, the Group has created loss allowances, which at 31 December 2020 totalled 25,578 thousand euros, accounting for 4.3% of the total loan portfolio (31 December 2019: 23,300 thousand euros, 4.7%). Further information on impairment allowances is presented in note 7.

Macro scenarios used to adjust the assessments of probability of default
The Group's impairment methodology includes a forward-looking component, which takes into account macro scenarios. The macroeconomic projections of the European Central Bank have been used. To ensure an impartial estimation of expected credit losses, two scenarios are used: the baseline scenario and the adverse scenario. The baseline scenario reflects the most probable outcome.

Probability of realisation of macro scenarios

	2020	2019
Baseline scenario	75%	85%
Adverse scenario	25%	15%

Macro scenarios are renewed at least once a year. The key macroeconomic indicators, which are used in the calculation of the forward-looking component are GDP growth, inflation and the unemployment rate. Different macroeconomic indicators are used for different countries. The indicators to be used are determined based on statistical analysis and expert opinions.

	2019	2020	2021	2022
Estonia – unemployment rate				
Baseline scenario	4.40%	4.40%	4.40%	4.34%
Adverse scenario	4.40%	8.80%	6.60%	4.78%
Latvia – unemployment rate				
Baseline scenario	6.30%	6.30%	6.30%	6.22%
Adverse scenario	6.30%	12.60%	9.45%	6.84%
Lithuania – unemployment rate				
Baseline scenario	6.28%	6.28%	6.28%	6.20%
Adverse scenario	6.28%	12.57%	9.43%	6.82%
Finland – inflation rate				
Baseline scenario	1.72%	1.40%	1.60%	1.81%
Adverse scenario	1.72%	1.02%	0.80%	0.91%
Sweden – inflation rate				
Baseline scenario	1.14%	1.40%	1.60%	1.81%
Adverse scenario	1.14%	1.02%	0.80%	0.91%

Sensitivity analysis of macroeconomic indicators

If macroeconomic indicators deteriorated, that is in the case of the adverse scenario, expected credit risk allowances would increase. In the case of the baseline scenario, expected credit risk allowances would decrease.

The sensitivity analysis has been performed on the assumption that each scenario is weighted 100%. On the application of the baseline scenario, expected credit loss allowances as at 31 December 2020 would decrease by -4%. In the case of the adverse scenario, expected credit loss allowances as at 31 December 2020 would increase by +11%.

	ECL allowances resulting from 100% scenario	Difference of ECL allowances from ECL allowances resulting from the scenarios, %
Baseline scenario	26,486	-4%
Adverse scenario	30,667	+11%

Cash and bank balances by the banks' credit ratings

According to management's assessment, the exposure of cash and cash equivalents held at central banks and other banks has low credit risk. All loans to and receivables from central banks and credit institutions have been serviced and settled on time. In depositing liquid funds, the Group's risk management policy prefers credit institutions that have larger equity and a high credit rating.

Credit institutions without a rating are local credit institutions which do not have an external credit rating. Based on available market information, the Group assesses that the credit quality of those credit institutions is good.

At 31 December 2020 and 31 December 2019, the Group's receivables from central banks and credit institutions were not past due. The receivables were either due on demand or had a maturity of less than 3 months. Taking this into account, the expected credit loss on the receivables from central banks and credit institutions is immaterial and therefore no allowances for them have been recognised on the balance sheet.

The Group uses Moody's Investors Service as the external credit assessment institution (ECAI) in the calculation of its risk-weighted exposure amounts in accordance with the rules laid down in Regulation (EU) 575/2013. The Group uses the ECAI for the following exposure classes: (i) exposures to central governments or central banks; (ii) exposures to regional or local governments; (iii) exposures to public sector entities; (iv) exposures to multilateral development banks; (v) exposures to international organisations; (vi) exposures to institutions (credit institutions and investment firms).

The cash balances at banks, including central banks, based on Moody's Investors Service ratings or their equivalents, are as follows:

As at 31 December	2020	2019
P-1	61,718	44,627
P-2	9,692	6,612
Without a rating	4,000	2,701
Total	**75,410**	**53,940**

Ratings are based on the ratings of the banks or their parent companies.

Cash balances with the central banks, including mandatory reserve deposits in the amount of 48,336 thousand euros have low credit risk and therefore they have been assigned the rating P-1.

Debt instruments at fair value through other comprehensive income by ratings

The debt instruments at fair value through other comprehensive income (see note 5), based on Moody's Investors Service ratings or their equivalents, are as follows:

As at 31 December	2020	2019
Aaa–Aa3	7,589	5,754
A1–A3	23,729	11,966
Baa1–Baa3	10,518	13,670
Ba1–Ba3	4,009	-
Total	**45,845**	**31,390**

Exposure to counterparty credit risk

Counterparty risk arises in cases where a counterparty in a FX, interest, equity, credit or commodity derivative transaction defaults and fails to meet its financial obligations and the collateral that has been received is insufficient to cover the claim. The financial loss in this case is the replacement cost, that is, the cost of replacing an existing transaction by a new transaction with similar characteristics but at current market prices. The Group had no exposure to counterparty credit risk as at 31 December 2020 and as at 31 December 2019.

Market risk

Market risk is the risk of loss resulting from changes in market prices and rates which are unfavourable for the Group (including changes in interest rates, credit spreads, equity prices, foreign exchange rates and commodity prices), the correlations between them and volatility. Within market risk the Group has identified foreign currency risk (FX risk) and interest rate risk. The Group does not accept commodity risk. The Group did not have any risk positions stemming from the equity instruments as at 31 December 2020 and at 31 December 2019.

Market risk may arise from the Group's activity in the financial markets and from the majority of the Group's products (loans, deposits). Market risk predominantly arises from the Group's core business activities, taking market risk is not the main activity. The Group avoids concentrations of market risk. The Group's market risk strategy is conservative and the Group's general market risk appetite is at a moderate level.

The supervisory board approves the strategy, risk appetite and risk policy for market risk management. The treasury unit is responsible for managing market risk. The management board approves market risk limits and detailed regulations for the market risk management. The risk reporting and financial risk control unit is responsible for measuring, monitoring and reporting on the market risk, also for independent verification of the valuations of debt instruments held at fair value. All violations of early-warning indicators and limits are escalated to a higher level as required by the market risk policy.

Foreign currency risk is the risk of loss due to changes in spot or forward prices and the volatility of currency exchange rates. The risk appetite of foreign currency risk is at a low level. Foreign currency risk management is based on the principle that net open currency positions must not exceed 2% of net own funds and taking speculative positions is avoided.

Foreign currency risk is measured by the FX single and aggregated position level.

The Group's foreign currency position in Swedish krona arises from services provided to customers at the Swedish branch, the currency position in Bulgarian levs is related to the opening of a branch in Bulgaria.

Net currency positions as at 31 December 2020

	Position in the statement of financial position		Off-balance sheet position		Net position
	Assets	Liabilities	Assets	Liabilities*	
EUR (euro)	673,299	530,173	-	42,892	100,234
SEK (Swedish krona)	71,995	71,354	-	1,825	-1,184
BGN (Bulgarian lev)	-	5	-	5	-10
USD (American dollar)	-	19	-	-	-19

Net currency positions as at 31 December 2019

	Position in the statement of financial position		Off-balance sheet position		Net position
	Assets	Liabilities	Assets	Liabilities*	
EUR (euro)	500,771	379,646	-	21,001	100,124
SEK (Swedish krona)	54,168	53,494	-	-	674

* For liabilities included in the position off the statement of financial position, see note 27.

Foreign currency risk is measured additionally by using sensitivity analysis. The following tables reflect the potential impact of positions exposed to currency risk on the Group's profit and equity. If the reporting-date exchange rates of the foreign currencies against the euro had strengthened/weakened by 10%, the impact would have been as follows:

Effect of a potential exchange rate change on profit and equity as at 31 December 2020

	Exposure	Monetary impact	% of equity
SEK (Swedish krona)	-1184	-118	0.1%
BGN (Bulgarian lev)	-10	-1	0.0%
USD (American dollar)	-19	-2	0.0%
Total	**-1,213**	**-121**	**0.1%**

Effect of a potential exchange rate change on profit and equity as at 31 December 2019

	Exposure	Monetary impact	% of equity
SEK (Swedish krona)	-674	67	0.0%
Total	**-674**	**67**	**0.0%**

Interest rate risk is the risk that the value of the Group's assets and liabilities could be negatively affected by changes in interest rates. Interest rate risk stemming from the bond portfolio is a risk to the earnings or market value of the bond portfolio due to uncertain future interest rates.

Group's interest rate risk appetite for bond portfolio is at a moderate level. Market risk stemming from the bond portfolio is driven by the Group's goal to maintain a strong liquidity position. The secondary purpose of holding the bond portfolio is to support the Group's profitability, but profit expectations cannot override liquidity requirements. The Group does not take speculative trading positions and does not offer trading services to customers.

Interest rate risk stemming from the bond portfolio is measured by using stress tests and scenario analyses which are performed at least on a quarterly basis. The Group tests its bond portfolio by applying historical scenarios (extreme movements in market factors which have been observed in the past) and also hypothetical scenarios (extreme movements that could potentially happen in the future).

Interest rate risk of the banking book (IRRBB) is the current or prospective risk to both the earnings and the economic value of the Group arising from adverse movements in interest rates that affect interest rate sensitive instruments, including gap risk and option risk. IRRBB is a significant risk for the Group. The main sources of structural IRRBB are adverse changes in loan and/or deposits interest rates.

In the target risk profile, the Group's appetite for this risk is at a moderate level. Risk versus return considerations are applied. The basis of the Group's IRRBB strategy is to maintain a balanced position in the short-term (next 12-24 months) perspective and a controlled open risk position in the longer perspective by active management of the structure and maturities of interest-sensitive assets and liabilities.

During the assessment of IRRBB, as a first step all sources of risk arising from interest-rate-sensitive positions are identified. At least on a quarterly basis Group measures interest rate risk which may be arising from:

- the timing mismatch in the maturity and repricing of assets and liabilities and off-balance sheet short and long-term positions (repricing risk);
- changes in the slope and shape of the yield curve (yield curve risk);
- options, including embedded options, e.g. consumers redeeming fixed-rate products when market rates change (option risk).

The Group measures its IRRBB exposure in terms of both potential changes in the economic value of equity (EVE) and changes in the expected 12-month net interest income (NII). Due to the reason that consumer loans are frequently repaid before contractual maturity, the Group uses behavioural cash flows instead of contractual cash flows when calculating and analysing interest rate risk.

The Group uses different sensitivity analyses and scenarios to assess the interest rate risk arising from the banking book, i.e. the supervisory shock scenario as well as other scenarios taking into account changes in the yield curve and individual risk profile. As at 31 December 2020, the impact of the supervisory shock scenario (200 bps parallel increase) on 12-month net interest income (NII) was -343 thousand euros and on the economic value (EVE) -7,048 thousand euros.

Sensitivity of net interest income and the economic value of equity to changes in market interest rates

	200 bps parallel increase	200 bps parallel decrease
At 31 December 2020		
Sensitivity of net interest income	-343	343
Sensitivity of the economic value of equity	-7,048	288
At 31 December 2019		
Sensitivity of net interest income	718	-718
Sensitivity of the economic value of equity	-4,852	255

The Group did not use hedging instruments to hedge market risk as at 31 December 2020.

Liquidity risk

Liquidity risk is the risk that the Group is unable to fulfil its obligations in a timely manner or in the full extent without incurring significant costs.

Within liquidity risk the Group has identified funding risk, which is the risk of being unable to raise resources without negatively affecting the daily activities or financial position.

The liquidity risk framework covers both liquidity management in standard conditions and in the event of a liquidity crisis. The Group's liquidity risk strategy is to maintain a conservative liquidity risk profile and sufficient liquidity reserves. Maintaining a strong liquidity position is one of the Group's main priorities. At all times, the Group must ensure its ability to meet its obligations on time and in full both in normal conditions and in a crisis situation for as long as possible.

The main objective of the Group's funding strategy is to ensure sufficient and stable funding of the core activities using the Group's own capital and external financing. The secondary objective of funding management is optimisation of the costs, size and composition of external resources raised, but cost savings may not override sufficient, stable and conservative funding requirements.

The Group's funding is primarily based on retail deposits, the product range of which was expanded in 2020 with savings deposits, which are initially offered in the cross-border markets in Germany, Austria and the Netherlands. Since 2019, the Group has been taking part in the ECB's targeted long term refinancing operations (TLTRO-III).

Diversification is a key part of the Group's overall funding and liquidity management strategy. Funding strategy is closely related to the management of asset quality and structure. The structure and maturities of assets must match the funding structure and assets must not be based on very short-term funding resources. The Group avoids concentrations in funding.

In the Group's target risk profile, the appetite for liquidity risk is at a low level and the appetite for taking funding risk is at a moderate level.

The supervisory board approves the liquidity risk management strategy and liquidity risk appetite in the liquidity risk policy. The management board approves the liquidity risk limits and detailed procedures for liquidity risk management. Liquidity risk management is the responsibility of the treasury and the reporting unit. The risk reporting and

financial risk control unit is responsible for risk control, measurement and reporting to the management. Requirements for liquidity risk reporting (recipients, content of reports, frequency) and measurement are established in the liquidity risk policy. Liquidity risk reports are submitted to the management board and supervisory board is at least on a quarterly basis, risk level is monitored on a daily basis. The liquidity risk profile is conservative and it must be maintained within the limits set by the management board. The management board has established a set of early warning indicators to identify the emergence of increased risks or vulnerabilities in the bank's liquidity position or potential funding needs. Any breaches of limits and key risk indicators' thresholds are escalated according to the requirements set out in the policy.

The Group measures liquidity risk using different ratios. The regulatory measure LCR (liquidity coverage ratio) indicates whether the Group has sufficient liquid assets to cover short-term liabilities that correspond to net cash flow during 30 days under stress. Liquidity risk is also measured on the basis of the tolerance period which is the time period under stress conditions during which the Group is able to continue its ordinary business activities and fulfil its obligations without raising additional resources or changing its action plans. Regulatory NSFR (net stable funding ratio) is defined as the amount of available stable funding relative to the amount of required stable funding.

Liquidity risk management measures

	31 Dec 2020	31 Dec 2019
Liquidity coverage ratio (LCR)	659%	644%
Tolerance period (in months)	3.4	3.6
Net stable funding ratio (NSFR)	130%	133%
Loan to deposit ratio	106%	117%
Liquidity reserve and assets ratio	10%	10%
Long term (over 1 year) funding to total funding ratio	44%	60%

The Group conducts regular liquidity risk stress tests (at least semi-annually) as a part of its overall stress testing programme, to understand the impact of adverse events on its risk exposure and on the quantitative and qualitative adequacy of its liquid assets, and to determine whether the Group's liquidity buffer is sufficient to react or cover risks that may crystallise during different types of stress scenarios and/or to address risks posed by control, governance or other deficiencies. Stress tests are conducted using at least three different scenarios – idiosyncratic, market-wide and combined scenario.

The outcome of stress testing is integrated into the Group's strategic planning process for liquidity and funding and used to increase the effectiveness of liquidity management in the event of a crisis, including the Group's recovery planning. Stress testing results are used to determine the minimum size and composition of the liquidity buffer. Stress test results are reported to the management board and supervisory board.

Management of the Group's liquidity and funding is centralised, funding of the subsidiaries and branches is provided at Group level. The Bank regularly assesses that there are no material restrictions and hindrances to intragroup transfer of liquidity.

The Group has a contingency plan in place which defines the actions to be taken should the Group encounter a liquidity shortfall in

a stressed emergency situation. The plan describes the strategy, policy and activity plan for coping with liquidity crises of different magnitude, and stipulates a clear chain of command and escalation procedures. The contingency plan is tested regularly.

The Group constantly monitors the situation in financial markets and opportunities of alternative funding instruments. In order to mitigate liquidity risk the Group may consider various measures, such as partial sale of claims, participation in the loan programs of the European Central Bank, money market placements from other credit institutions and credit lines from other credit institutions.

COVID-19 did not have a negative impact on funding and in 2020 the volume of deposits grew according to plan.

Remaining maturities of financial assets and liabilities as at 31 December 2020

	Past due	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets							
Cash and bank balances	-	71,410	4,000	-	-	-	75,410
Loans to customers	19,864	9,189	25,044	94,000	326,404	103,211	577,712
Of which loan portfolio	8,133	9,189	25,044	94,000	326,404	103,211	565,981
Of which interest receivables	11,731	-	-	-	-	-	11,731
Debt instruments at fair value through other comprehensive income	-	667	-	3,977	37,948	3,253	45,845
Other receivables	260	726	-	119	-	-	1,105
Total financial assets	**20,124**	**81,992**	**29,044**	**98,096**	**364,352**	**106,464**	**700,072**
Financial liabilities							
Loans from central banks	-	-	-	-	36,500	-	36,500
Deposits from customers	-	84,720	30,961	173,427	217,849	40,592	547,549
Subordinated notes	-	-	-	-	-	4,970	4,970
Lease liabilities	-	53	106	464	1,121	355	2,099
Total financial liabilities	**-**	**84,773**	**31,067**	**173,891**	**255,470**	**45,917**	**591,118**
Maturity gap of financial assets and liabilities	**20,124**	**-2,781**	**-2,023**	**-75,795**	**108,882**	**60,547**	**108,954**

Remaining maturities of financial assets and liabilities as at 31 December 2019

	Past due	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets							
Cash and bank balances	-	51,240	2,700	-	-	-	53,940
Loans to customers	13,046	10,468	19,027	89,097	268,710	59,308	459,656
Of which loan portfolio	4,545	10,468	19,027	89,097	268,710	59,308	451,155
Of which interest receivables	8,501	-	0	-	-	-	8,501
Debt instruments at fair value through other comprehensive income	-	-	-	1,300	26,358	3,732	31,390
Other receivables	113	1,373	252	-	-	-	1,738
Total financial assets	**13,159**	**63,081**	**21,979**	**90,397**	**295,068**	**63,040**	**546,724**
Financial liabilities							
Loans from central banks	-	-	-	-	23,000	-	23,000
Deposits from customers	-	20,658	24,147	126,148	191,522	30,363	392,838
Subordinated notes	-	-	-	-	-	4,965	4,965
Lease liabilities	-	61	122	451	1,100	362	2,096
Total financial liabilities	**-**	**20,719**	**24,269**	**126,599**	**215,622**	**35,690**	**422,899**
Maturity gap of financial assets and liabilities	**13,159**	**42,362**	**-2,290**	**-36,202**	**79,446**	**27,350**	**123,825**

The assets and liabilities in the above table are presented by their contractual maturities and the amounts reflect contractual cash flows. The negative mismatch between assets and liabilities with maturities of up to 12 months has increased, i.e. the amount of maturing deposits exceeds the amount of the short-term loan portfolio. Although savings deposits are included in the *Less than 1 month category*, their actual term (based on behaviour) exceeds 12 months. The Group monitors on an ongoing bases that there is a sufficient amount of liquid assets to cover net cash outflows from deposits.

Expected undiscounted future cash flows of the Group's financial liabilities as at 31 December 2020

	Carrying amount	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Payables to suppliers (note 17)	**405**	399	6	-	-	-	405
Loans from central banks (note 13)	**36,500**	-	-	-	36,500	-	36,500
Deposits from customers (note 14)	**547,549**	84,973	31,446	176,496	226,134	43,022	562,071
Subordinated notes	**4,970**	-	-	330	1,319	5,659	7,308
Lease liabilities	**2,099**	55	110	478	1,150	359	2,152
Loan commitments (note 27)	**44 717**	1 833	231	6 456	39 197	-	47 717
Total liabilities	**636,240**	**87,260**	**31,793**	**183,760**	**304,300**	**49,040**	**656,153**

Expected undiscounted future cash flows of the Group's financial liabilities as at 31 December 2019

	Carrying amount	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Payables to suppliers (note 17)	**778**	778	-	-	-	-	778
Loans from central banks (note 13)	**23,000**	-	-	-	23,000	-	23,000
Deposits from customers (note 14)	**392,838**	21,064	24,882	130,167	202,887	32,972	411,972
Subordinated notes	**4,965**	-	-	330	1,319	5,989	7,638
Lease liabilities	**2,096**	63	125	467	1,138	367	2,160
Loan commitments (note 27)	**21 001**	102	130	3 301	17 468	-	21 001
Total liabilities	**444,678**	**22,007**	**25,137**	**134,265**	**245,812**	**39,328**	**466,549**

Operational risk

Operational risk is the risk of loss caused by inadequate or failed internal processes or systems, people or external events.

The sub-risks of operational risk are legal risk, compliance risk (including money laundering and terrorist financing risk), information security risk and information and communication technology risk. The definition of operational risk excludes strategic and reputational risk.

The sub-risks of operational risk are defined as follows:

- Legal risk is the risk that the Group is not in compliance with or misinterprets the requirements of laws and regulations, contracts, agreements, best practice and ethical standards. Legal risk may

accompany any of the aforementioned risks, as the Group may become subject to claims or proceedings due to its contractual or other legal obligations.

- Compliance risk is the risk that failure to fully meet the requirements of laws, regulations and internal rules as well as obligations to customers, employees and other stakeholders may damage the Group's business model, reputation and financial position.
- Money laundering and terrorist financing risk, which is part of compliance risk, is the risk that the Group is used for money laundering or terrorist financing due to weaknesses or non-compliances in its internal processes.
- Information and communication technology risk is the risk of losses arising from inadequate technical infrastructure, including hardware and software failures, which may compromise the availability, integrity, accessibility and security of the technical infrastructure or the data collected.
- Information security risk is risk of losses arising from the loss of confidentiality, integrity or availability of data.

Operational risk management strategy and processes are defined in the Group's operational risk policy, which is established by the supervisory board. The Group's strategy is to maintain operational risk at a level which is as low as reasonably possible and to minimise operational risks and potential losses to the extent this is possible in view of the Group's strategic objectives and the principle of economic efficiency. In the policies regulating the Group's target risk profile, the Group's appetite for operational risk is set to low but the principle of economic efficiency is also observed.

Overall operational risk management is carried out at Group level: all branches and subsidiaries must comply with the principles, rules and limits which are established at Group level. However, every branch or country manager is responsible for operational risk management at the level of the branch or country. The Group makes sure that its subsidiaries, country units and branches take steps to ensure that their operations comply with local laws and regulations.

Incident handling. The Group has adopted a uniform methodology and developed a supporting information system to make sure that all structural units report and handle incidents and loss events in the same way. Incidents and loss events which have above average impact (level 3 and 4 on a scale of 1 to 4) are escalated to the Group's management board, the management of the branch and/or the country-level executive board. Incidents and loss events which have a high impact (level 4 on a scale of 1 to 4) are immediately escalated to the Group's supervisory board. Detailed information about incidents and loss events with an above-average or high impact (levels 3 or 4 on a scale of 1 to 4) is presented to the Group's management board on a quarterly basis.

Risk assessment. All structural units are involved in the annual risk and control self-assessment (RCSA) process to identify and assess risks and controls, and to implement adequate risk mitigation measures where relevant.

The risks arising from change (e.g. the launch of new products or services, the opening of new business lines, outsourcing, etc.) are mitigated with quantitative risk assessment.

Business continuity management. The Group has established a business continuity management framework to ensure the continuity or recovery of its operations,

including the provision of services to customers in the event of a significant service interruption and to manage incidents of low probability but high impacts (IT system failures, natural disasters, pandemics, etc.)

The year 2020 brought pandemic risks of a completely new level and the need to adjust business continuity plans accordingly. Thanks to the capability of its IT systems the Group was able to ensure all employees with an opportunity to work from home and by continuously adapting its business continuity plans to changes in the situation in its countries of operation, the Group was able to prevent outbreaks of the disease among its employees. This ensured uninterrupted continuity of the Group's operations throughout the COVID-19 crisis.

The capital requirement for operational risk is identified using the standardised approach.

Other material risks

Other material risks include reputational risk, business and strategic risks.

Reputational risk is the current or prospective risk to the Group's earnings, own funds or liquidity arising from damage to the Group's reputation.

Business risk is the risk that inadequate business decisions or inadequate implementation of decisions or changes in customer expectations or inadequate implementation of new technologies will result in loss or significantly reduced revenues.

Strategic risk is the risk resulting from an inadequate strategy or inadequate implementation of the strategy.

Reputational risk and strategic risk are an essential part of the business model which are analysed as part of strategic and operational planning.

The Group's risk appetite for reputational risk in the target risk profile is at a low level while the target risk profile for business and strategic risk is at a moderate level.

Strategic risk is managed by implementing a suitable strategy, which corresponds to the current economic environment and is based on a comprehensive planning process, and by responding adequately and in a timely manner to changes. The Group's strategy for reputational risk management is to avoid situations that could potentially have a negative impact on its reputation and cause a decrease in revenue or loss of trust. Reputation building begins with customer experience management and controlled creation of public opinion. Business and control units identify, manage, and assess internal and external factors that could impede achievement of strategic objectives or may have a negative impact on reputation on an ongoing basis.

OWN FUNDS AND CAPITAL

Bigbank's ability to take risk depends on its risk-bearing capacity. A key factor which determines risk-bearing capacity is stable earnings. These allow to build a strong capital base which can be used to absorb potential risks and (unexpected) losses. The Group holds at all times capital adequate for covering all of its material risks and regulatory requirements.

The methods used by the Group for calculating own funds are stipulated in regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms

(CRR) and Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD 4) as transposed into Estonian law.

The Group classifies items as own funds based on relevant regulatory requirements. The most important components of the Group's own funds are:

- **Common Equity Tier 1 Capital (CET1)** including:
  - **Paid-in share capital.** The Group's paid-in share capital amounts to 8,000 thousand euros.
  - **Capital reserve** (other reserves according to Article 4 (117) of EU Regulation 575/2013). In line with the requirements of the Commercial Code, the Group has created a statutory capital reserve which at 31 December 2020 amounted to 800 thousand euros.
  - **Prior years retained earnings.** Profits retained in previous years have been audited by an independent external auditor. The figure has been determined by taking into account all relevant taxes and dividend distributions. At 31 December 2020, the Group's prior period retained earnings totalled 125,021 thousand euros.
  - **Other accumulated comprehensive income.** The Group's other accumulated comprehensive income as at 31 December 2020 amounted to 1,075 thousand euros.
  - **Profit eligible.** Net profit for the first nine months of the financial year of 9,815 thousand euros, which has been verified by an independent external auditor, from which foreseeable dividends have been deducted and which has been approved by the Financial Supervision and Resolution Authority.
- **Tier 2 Capital,** including:
  - **Subordinated bonds.** As of 31 December 2020 Group had issued subordinated bonds of 5,000 thousand euros with a maturity of 10 years.

The Group deducts from CET1 intangible assets provisions which have not been verified by an independent external auditor in the review of financial information and other items specified by law.

In 2017, the Group issued 5,000 thousand euros worth of 10-year subordinated bonds which are treated as Tier 2 capital. There are no other Tier 2 capital instruments outstanding.

At 31 December 2020, the Group's total own funds amounted to 137,171 thousand euros.

As at 31 December	2020	2019
Paid-in share capital	8,000	8,000
Capital reserve	800	800
Prior years retained earnings	125,021	106,568
Other accumulated comprehensive income	1,075	1,231
Other intangible assets	-12,495	-19,254
Profit eligible	9,815	11,537
Adjustments to CET1 due to prudential filters	-45	-31
Common equity Tier 1 capital	**132,171**	**108,851**
Tier 1 capital	**132,171**	**108,851**
Tier 2 capital	**5,000**	**5,000**
Deductions	-	-
Total own funds	**137,171**	**113,851**

Total risk exposure

The methods used by the Group for calculating the total risk exposure and single risk positions are stipulated in CRR. The Group uses the standardised approach in calculating capital requirements for credit risk, market risk and operational risk.

As at 31 December	2020	2019
Risk weighted exposure amounts for credit and counterparty credit risks (standardised approach)		
Institutions	12,865	3,260
Corporates	52,950	22,886
Retail	375,796	312,757
Secured by mortgages on immovable property	17,525	4,586
Exposures in default	12,835	14,926
Claims on institutions and corporates with a short-term credit assessment	2,499	2,393
Other items	46,327	9,910
Total risk weighted exposure amounts for credit and counterparty credit risks (standardised approach)	**520,797**	**370,718**
Total risk exposure amount for position, foreign exchange and commodities risks	**-**	**18,821**
Total risk exposure amount for operational risk (standardised approach)	**104,404**	**101,632**
Total risk exposure amount for credit valuation adjustment (standardised approach)	**-**	**-**
Total risk exposure amount	**625,201**	**491,171**

Capital ratios

As at 31 December	2020	2019
CET1 Capital ratio	21.1%	22.2%
T1 Capital ratio	21.1%	22.2%
Total capital ratio	21.9%	23.2%
Leverage ratio	17.2%	19.2%
Minimum requirement for eligible liabilities (MREL)	18.7%	21.0%

Total capital ratio has been calculated for Bigbank AS Group. At 31 December 2020, total capital ratio at the level of the parent company was 21.3% (31 December 2019: 22.2%).

The composition of the Group's own funds, their treatment and the calculation of capital ratios are in accordance with the CRR.

The definition of a consolidated group for the purposes of calculating capital adequacy does not differ from the definition of a consolidated group for the purposes of preparing financial statements.

The Estonian Financial Supervision and Resolution Authority has set the Group's minimum requirement for eligible liabilities (MREL) at 12.5% of total liabilities and own funds. At 31 December 2020 the Group's MREL ratio was 18.7%.

Capital management

The capital management objectives are to ensure that the Group has an optimal structure of assets and liabilities and adequate capital to cover, at all times, all identified material risks and risk-related activities (capital adequacy) and that the Group complies with all capital adequacy requirements.

The main tools for capital management are continuous internal capital adequacy assessment process (ICAAP), regular capital planning and capital allocation.

The main principles of the Group's capital management are as follows:

- Ensuring capital adequacy is an integral part of strategic and daily business decision-making as well as an integral part of the daily risk management process.
- The Group evaluates and estimates the risk level and the capital need for covering all identified material risks on a continuous basis.
- The Group's capital must, at all times, be adequate for covering all of its material risks (must at all times exceed its aggregated risks).
- The Group assesses continuously possible future capital requirements (capital planning) for ensuring a prudent level of capitalisation, taking into account additional capital needs (planned growth, strategic plans), dividend policy, potential changes in the regulatory environment as well as possible macroeconomic downturns.
- The Group performs capital adequacy assessment both on a solo and consolidated basis.
- The Group defines the minimum capital requirement and the target capital requirement needed for ensuring the sustainability of its operations.

- The Group does not accept any risk, if its capital is inadequate for covering future losses resulting from the materialisation of this risk.

Internal capital adequacy assessment process

Internal capital adequacy assessment is an ongoing process aimed at assessing the risk profile of the Group and the corresponding capital requirement. The output of the process is a quantitative assessment of the Group's risks and the adequacy of capital needed to cover them. The ICAAP capital requirement is defined as the sum of own funds needed to cover risks or risk elements not covered by Pillar I.

The outcome of yearly ICAAP is approved by the Group's management board and submitted to the Financial Supervision and Resolution Authority, which reviews and assesses the capital requirement determined by the internal capital adequacy assessment in the course of the supervisory review and evaluation process (SREP). As a result of a SREP assessment the authorities determine the capital requirements level the Group is required to hold over the regulatory capital requirement until otherwise directed.

The additional Pillar II capital requirement according to SREP assessment, as determined by the Financial Supervision and Resolution Authority (valid as at 31 December 2020) was 3.4% of the total risk position, of which at least 1.4% should be covered by CET1 and 1.9% by Tier 1 capital.

Minimum regulatory capital requirement as at 31 December 2020

	Common equity Tier 1 capital ratio	Tier 1 capital ratio	Total capital ratio
Base capital requirement	4.5%	6.0%	8.0%
Pillar 2 capital charge	1.4%	1.9%	3.4%
Total SREP capital requirement (TSCR)	5.9%	7.9%	11.4%
Capital conservation buffer	2.5%	2.5%	2.5%
Systemic risk buffer	0.0%	0.0%	0.0%
Countercyclical risk buffer	0.0%	0.0%	0.0%
Overall capital requirement (OCR)	**8.4%**	**10.4%**	**13.9%**

Due to economic losses related to the spread and containment of the COVID-19 pandemic and increased uncertainty, in 2020 Eesti Pank decided to reduce the buffer requirements for commercial banks. The countercyclical buffer requirement for credit risk exposures in Estonia and the systemic risk buffer requirement for all exposures in Estonia were 0% at 31 December 2020.

The Group's target was to maintain the total capital ratio as at 31 December 2020 at or above 13.9% plus the internal capital buffer ratio at 1%.

The Group's total capital ratio as at 31 December 2020 was 21.9%, which exceeds the regulatory requirement. The Group's CET1 capital ratio and Tier 1 capital ratio were

21.1%. At 31 December 2020, the Group was in compliance with the overall regulatory capital requirement.

NOTE 4. CASH AND BANK BALANCES AND CASH EQUIVALENTS

Cash and balances at banks as at 31 December 2020

	Estonia	Latvia	Lithuania	Finland	Sweden	Total
Cash balances at central banks	**43,656**	**-**	**-**	**4,680**	**-**	**48,336**
Of which mandatory reserve deposits*	1,648	-	-	119	-	1,767
Of which surplus on mandatory reserves	42,014	-	-	4,562	-	46,576
Of which interest receivable from central banks	-6	-	-	-1	-	-7
Due from other banks	**10,474**	**2,967**	**2,799**	**1,531**	**9,303**	**27,074**
Of which cash balances at banks	6,474	2,967	2,799	1,531	9,303	23,074
Of which term deposits at banks	4,000	-	-	-	-	4,000
Total	**54,130**	**2,967**	**2,799**	**6,211**	**9,303**	**75,410**
of which cash and cash equivalents	**52,488**	**2,967**	**2,799**	**6,093**	**9,303**	**73,650**

Cash and balances at banks as at 31 December 2019

	Estonia	Latvia	Lithuania	Finland	Sweden	Total
Cash balances at central banks	**29,354**	**1,000**	**-**	**2,501**	**-**	**32,855**
Of which mandatory reserve deposits*	810	-	-	149	-	959
Of which surplus on mandatory reserves	28,544	1,000	-	2,352	-	31,896
Due from other banks	**6,278**	**2,147**	**1,937**	**732**	**9,991**	**21,085**
Of which cash balances at banks	3,577	2,147	1,937	732	9,991	18,384
Of which term deposits at banks	2,700	-	-	-	-	2,700
Of which interest receivable from banks	1	-	-	-	-	1
Total	**35,632**	**3,147**	**1,937**	**3,233**	**9,991**	**53,940**
of which cash and cash equivalents	**34,821**	**3,147**	**1,937**	**3,084**	**9,991**	**52,980**

* The mandatory reserve requirement is fulfilled in accordance with the Regulation (EC) No. 1745/2003 of the ECB of 12 September 2003 on the application of minimum reserves (ECB/2003/9). The mandatory reserve rate is 1% of deposits and borrowings with maturities up to 2 years, after allowed deductions, filled by average of period set by the European Central Bank, by depositing the appropriate amount of euros on TARGET2 account with Eesti Pank.

Cash and cash equivalents

As at 31 December	2020	2019
Demand and overnight deposits with credit institutions	23,074	18,384
Term deposits with credit institutions with maturity of less than 3 months	4,000	2,700
Surplus on the mandatory reserves with central banks	46,576	31,896
Total cash and cash equivalents	**73,650**	**52,980**

NOTE 5. DEBT INSTRUMENTS

As at 31 December	2020	2019
Debt instruments by issuer		
General governments' bonds	4,197	4,759
Credit institutions' bonds	16,432	6,583
Other financial corporations' bonds	2,065	2,083
Non-financial corporations' bonds	23,151	17,965
Total debt instruments	**45,845**	**31,390**
Debt instruments by currency		
EUR (euro)	43,181	28,841
SEK (Swedish krona)	2,664	2,549

Debt securities in the amount of 39,883 thousand euros were pledged as collateral at 31 December 2020 (see note 26).

A reconciliation of changes in the fair value of debt instruments measured at FVOCI is as follows:

As at 31 December	2020	2019
Opening balance	31,390	13,484
Cash flow items:		
Acquisition of new financial instruments	15,784	21,824
Redemption of financial instruments	-1,868	-4,177
Non-cash flow items:		
Changes in fair value	-162	3
Accrued interest	605	277
Foreign exchange differences	96	-21
Balance at 31 December	**45,845**	**31,390**

NOTE 6. LOANS TO CUSTOMERS

Loans to customers as at 31 December 2020

	Estonia	Latvia	Lithuania	Finland	Sweden	Total
Loan receivables from customers	135,985	133,097	179,507	79,849	63,120	591,559
Loss allowance for loans	-5,968	-7,065	-3,735	-5,176	-3,634	-25,578
Interest receivable from customers	2,367	1,986	8,045	788	318	13,504
Loss allowances for interest receivables	-784	-643	-121	-141	-84	-1,773
Total loans to customers, incl. interest and allowances	**131,600**	**127,375**	**183,696**	**75,320**	**59,720**	**577,712**
Share of region	22.8%	22.1%	31.8%	13.0%	10.3%	100.0%

Loans to customers as at 31 December 2019

	Estonia	Latvia	Lithuania	Finland	Sweden	Total
Loan receivables from customers	102,257	115,495	135,956	76,076	43,671	473,455
Loss allowance for loans	-5,181	-6,419	-2,802	-5,169	-2,729	-22,300
Interest receivable from customers	2,215	2,417	4,789	824	249	10,494
Loss allowances for interest receivables	-901	-865	-43	-139	-45	-1,993
Total loans to customers, incl. interest and allowances	**98,390**	**110,628**	**137,900**	**71,592**	**41,146**	**459,656**
Share of region	21.4%	24.1%	30.0%	15.6%	8.9%	100.0%

Loan receivables from customers* by loan type

As at 31 December	2020	2019
Unsecured loans	515,393	436,288
Surety loans	3,017	2,378
Loans secured with real estate	71,412	34,778
Loans against other collaterals	1,737	11
Total loan receivables from customers	**591,559**	**473,455**

* Loan receivables from customers comprise loan principal.

Loan receivables from customers* by contractual currency

As at 31 December	2020	2019
EUR (euro)	528,439	429,784
SEK (Swedish kronor)	63,120	43,671
Total loan receivables from customers	**591,559**	**473,455**

* Loan receivables from customers comprise loan principal.

Ageing analysis as at 31 December 2020*

	Not past due	30 days or less	31-60 days	61-90 days	Over 90 days	Total
Unsecured loans						
Loan portfolio	463,463	24,808	6,161	3,265	17,696	515,393
Loss allowance	-10,935	-1,695	-1,870	-1,305	-8,908	-24,713
Surety loans						
Loan portfolio	2,619	76	36	2	284	3,017
Loss allowance	-253	-4	-2	-1	-195	-455
Loans secured with real estate						
Loan portfolio	66,300	3,951	61	133	967	71,412
Loss allowance	-7	-3	-3	-	-395	-408
Loans against other collaterals						
Loan portfolio	1,680	57	-	-	-	1,737
Loss allowance	-2	-	-	-	-	-2
Total loan portfolio	**534,062**	**28,892**	**6,258**	**3,400**	**18,947**	**591,559**
Total loss allowance	**-11,197**	**-1,702**	**-1,875**	**-1,306**	**-9,498**	**-25,578**

Ageing analysis as at 31 December 2019*

	Not past due	30 days or less	31-60 days	61-90 days	Over 90 days	Total
Unsecured loans						
Loan portfolio	365,629	42,818	9,038	4,219	14,584	436,288
Loss allowance	-7,928	-1,640	-2,034	-1,334	-8,687	-21,623
Surety loans						
Loan portfolio	1,854	188	109	2	225	2,378
Loss allowance	-8	-3	-10	-1	-160	-182
Loans secured with real estate						
Loan portfolio	30,964	2,648	366	235	565	34,778
Loss allowance	-269	-87	-10	-	-129	-495
Loans against other collaterals						
Loan portfolio	10	1	-	-	-	11
Loss allowance	-	-	-	-	-	-
Total loan portfolio	**398,457**	**45,655**	**9,513**	**4,456**	**15,374**	**473,455**
Total loss allowance	**-8,205**	**-1,730**	**-2,054**	**-1,335**	**-8,976**	**-22,300**

* Loan principal only, does not include interest receivable.

NOTE 7. LOSS ALLOWANCES FOR LOAN RECEIVABLES

Classification of loan receivables into stages as at 31 December 2020

Loan receivables by age	Stage 1	Stage 2	Stage 3	Total
Not past due	523,820	9,334	908	534,062
Up to 30 days past due	21,446	6,738	708	28,892
31–60 days past due	-	5,224	1,034	6,258
61–90 days past due	-	2,371	1,029	3,400
Over 90 days past due	-	-	18,947	18,947
Gross amount of loan receivables	545,266	23,667	22,626	591,559
Loss allowance	-10,397	-3,965	-11,216	-25,578
Carrying amount of loan receivables	**534,869**	**19,702**	**11,410**	**565,981**

Classification of loan receivables into stages as at 31 December 2019

Loan receivables by age	Stage 1	Stage 2	Stage 3	Total
Not past due	383,073	10,599	4,784	398,456
Up to 30 days past due	34,317	9,925	1,412	45,654
31–60 days past due	-	9,446	67	9,513
61–90 days past due	-	4,393	64	4,457
Over 90 days past due	-	-	15,375	15,375
Gross amount of loan receivables	417,390	34,363	21,702	473,455
Loss allowance	-7,722	-5,070	-9,508	-22,300
Carrying amount of loan receivables	**409,668**	**29,293**	**12,194**	**451,155**

Loss allowances as at 31 December 2020

	Loan receivables	Interest receivables	Total receiv-ables subject to impairment	Total loss allowances
Stage 1	545,266	9,666	554,932	-10,397
Stage 2	23,667	642	24,309	-3,965
Stage 3	22,626	3,196	25,822	-12,989
Total	**591,559**	**13,504**	**605,063**	**-27,351**

Loss allowances as at 31 December 2019

	Loan receivables	Interest receivables	Total receivables subject to impairment	Total loss allowances
Stage 1	417,390	6,215	423,605	-7,721
Stage 2	34,363	1,073	35,436	-5,070
Stage 3	21,702	3,206	24,908	-11,502
Total	**473,455**	**10,494**	**483,949**	**-24,293**

Development of allowances in 2020

	Opening balance	Increase due to recognition	Decrease due to derecognition, repayment and disposal	Change due to change in credit risk (net)	Decrease due to write-off	Closing balance
Stage 1	-7,721	-5,793	1,340	1,594	183	-10,397
Stage 2	-5,070	-1,142	497	310	1,440	-3,965
Stage 3	-11,502	-1,500	747	-7,475	6,741	-12,989
Total	**-24,293**	**-8,435**	**2,584**	**-5,571**	**8,364**	**-27,351**

Development of allowances in 2019

	Opening balance	Increase due to recognition	Decrease due to derecognition, repayment and disposal	Change due to change in credit risk (net)	Decrease due to write-off	Closing balance
Stage 1	-8,514	-3,892	1,826	2,544	315	-7,721
Stage 2	-5,639	-1,274	581	-815	2,077	-5,070
Stage 3	-9,684	-1,514	1,412	-5,694	3,978	-11,502
Total	**-23,837**	**-6,680**	**3,819**	**-3,965**	**6,370**	**-24,293**

Loss allowances by loan assessment category as at 31 December 2020

	Loan receivables	Interest receivables	Total receivables subject to impairment	Total loss allowances
Collectively assessed items	516,514	12,895	529,409	-26,444
Individually assessed items	75,045	609	75,654	-907
Total	**591,559**	**13,504**	**605,063**	**-27,351**

Loss allowances by loan assessment category as at 31 December 2019

	Loan receivables	Interest receivables	Total receiv-ables subject to impairment	Total loss allowances
Collectively assessed items	436,822	10,144	446,966	-23,686
Individually assessed items	36,633	350	36,983	-607
Total	**473,455**	**10,494**	**483,949**	**-24,293**

Collectively assessed items include homogenous groups of receivables whose individual amount is not significant, historical settlement pattern and collateralisation or other features are similar and which are not assessed for impairment individually.

Individually assessed items include receivables from companies, receivables exceeding 100,000 euros and other receivables that have not been collectively assessed.

NOTE 8. OTHER RECEIVABLES

As at 31 December	2020	2019
Customer receivables and other miscellaneous receivables	849	1,625
Collection, recovery and other charges receivable	468	358
Impairment allowance for other receivables	-212	-245
Total	**1,105**	**1,738**

NOTE 9. PREPAYMENTS

As at 31 December	2020	2019
Income tax prepayments	439	620
Prepayments of other taxes	16	5
Prepayments to suppliers and prepaid expenses	794	640
Total	**1,249**	**1,265**

NOTE 10. PROPERTY AND EQUIPMENT

	Land and buildings	Right-of-use assets: commercial premises	Other items*	Total
Cost				
Balance at 1 January 2019	1,514	-	4,426	5,940
IFRS 16 initial adoption	-	2,776	-	2,776
Purchases	-	-	430	430
Sales	-	-	-271	-271
Write-off	-	-	-354	-354
Revaluation and price adjustment	-	46	-	46
Revaluation recognised in other comprehensive income	76	-	-	76
Effect of movements in exchange rates	-	-2	-1	-3
Balance at 31 December 2019	**1,590**	**2,820**	**4,230**	**8,640**
Purchases and additions to right-of-use assets	-	213	83	296
Sales	-	-	-49	-49
Write-off	-	-306	-54	-360
Revaluation and price adjustment	-	519	-	519
Revaluation recognised in other comprehensive income	-8	-	-	-8
Effect of movements in exchange rates	-	-	1	1
Balance at 31 December 2020	**1,582**	**3,246**	**4,211**	**9,039**
Depreciation				
Balance at 1 January 2019	-117	-	-2,198	-2,315
Depreciation charge for the year	-59	-733	-1,091	-1,883
Sales	-	-	214	214
Write-off	-	-	335	335
Transfer**	166	-	-	166
Balance at 31 December 2019	**-10**	**-733**	**-2,740**	**-3,483**
Depreciation charge for the year	-62	-689	-796	-1,547
Sales	-	-	31	31
Write-off	-	260	53	313
Transfer**	72	-	-	72
Effect of movements in exchange rates	-	-	-1	-1
Balance at 31 December 2020	**-**	**-1,162**	**-3,453**	**-4,615**
Carrying amount		-	2 228	3 625
Balance at 1 January 2019	1,397	-	2,228	3,625
Balance at 31 December 2019	1,580	2,087	1,490	5,157
Balance at 31 December 2020	**1,582**	**2,084**	**758**	**4,424**

* Other items of property and equipment comprise computers, office equipment and furniture and other fixtures and fittings.

** Land and buildings are measured using the revaluation model. Accumulated depreciation as at the revaluation date was eliminated against the gross carrying amount of the revalued assets, see note 31.

For lease payments for right-of-use assets, see note 15, and for depreciation and interest expense, see note 25.

If land and buildings were measured using the cost model, the carrying amounts would be as follows:

As at 31 December	2020	2019
Cost	1,869	1,869
Depreciation	-1,238	-1,163
Net carrying amount	**631**	**706**

NOTE 11. INVESTMENT PROPERTIES

	2020	2019
Opening balance at 1 January	**1,781**	**1,866**
Additions	25,849	-
Sales	-85	-185
Net gain/loss from fair value adjustment (note 31)	-364	100
Closing balance at 31 December	**27,181**	**1,781**

In 2020, the Group made several significant investments in investment properties: a building in Tallinn, at Narva mnt 11, was acquired in October and OÜ Rüütli Property, a subsidiary of OÜ Rüütli Majad acquired in the reporting period, invested in agricultural land. In addition, investment properties include a building in Tartu and some plots, houses and apartments originally pledged by customers as loan collateral and later acquired by the Group through auctions.

The Group's rental income from investment properties was 418 thousand euros in 2020 (2019: 96 thousand euros). Property management expenses were 223 thousand euros (2019: 54 thousand euros) (see note 25).

The Group has no restrictions on the realisation of its investment properties and no contractual obligations to purchase, construct or develop investment properties or to invest in repairs, maintenance or enhancements.

NOTE 12. INTANGIBLE ASSETS

	2020	2019
Cost at beginning of year	**23,268**	**15,002**
Purchased and developed software*	6,926	8,288
Of which purchases	3,846	4,113
Of which capitalised payroll costs	3,080	4,175
Write-off	-246	-22
Cost at end of year	**29,948**	**23,268**
Amortisation at beginning of year	**-4,014**	**-2,621**
Amortisation charge for the year	-1,909	-1,415
Write-off	188	22
Amortisation at end of year	**-5,735**	**-4,014**
Carrying amount at beginning of year	19,254	12,381
Carrying amount at end of year	**24,213**	**19,254**

*** The Group's intangible assets comprise various software.**

In recent years, the Group has made substantial investments in the information and banking technology solution Nest. Purchased and developed software also includes capitalised payroll costs and associated taxes for employees who were directly involved in the development of Nest of 3,080 thousand euros (2019: 4,175 thousand euros), see note 22. The carrying amount of Nest as at 31 December 2020 was 23,747 thousand euros (31 December 2019: 18,429 thousand euros).

NOTE 13. LOANS FROM CENTRAL BANKS

In 2020, the Group received 13,500 thousand euros of financing under TLTRO-III. Previously, in December 2019, the Group obtained from ECB's third series of targeted longer-term refinancing operations (TLTRO-III) financing of 23,000 thousand euros. The initial maturity of the financing was 3 years. The financing received from ECB is secured with debt securities. As at 31 December 2020, loans from central banks amounted to 36,500 thousand euros.

The targeted longer-term refinancing operations (TLTROs) are Eurosystem operations that provide financing to credit institutions. By offering banks long-term funding on attractive terms they preserve favourable borrowing conditions for banks and stimulate bank lending to the real economy. The third TLTRO programme consists of a series of ten targeted longer-term refinancing operations, each with a maturity of three years, starting in September 2019 at a quarterly frequency. Borrowing rates in these operations can be lower than the average interest rate on the deposit facility. The Group's interest income from financing was 16 thousand euros in the reporting year.

NOTE 14. DEPOSITS FROM CUSTOMERS

As at 31 December	2020	2019
Deposits from customers	**547,549**	**392,838**
Deposits by customer type		
Individuals	540,592	380,321
Legal persons	6,957	12,517
Deposits by currency		
EUR (euro)	476,789	339,857
SEK (Swedish kronor)	70,760	52,981
Deposits by maturity		
On demand	68,643	-
Maturing within 1 months	16,078	20,658
Maturing between 1 and 6 months	96,084	58,158
Maturing between 6 and 12 months	108,713	92,137
Maturing between 12 and 18 months	54,047	34,535
Maturing between 18 and 24 months	48,689	59,481
Maturing between 24 and 36 months	63,196	57,909
Maturing between 36 and 48 months	27,365	27,319
Maturing between 48 and 60 months	24,178	12,278
Maturing in over 60 months	40,556	30,363

Annual interest rates of deposits offered to customers as at 31 December 2020

Interest rates of deposits offered to customers depend on the country as well as the deposit term, currency and amount, and interest payment method. The terms of term deposits offered by the Group range from 1 month to 10 years. In addition, the Group offers savings deposits, which the customer can start using at short notice. Respective interest rates range from 0.3% to 2.3% per year (2019: the same). Deposits with the shortest term of 1 month are offered in Estonia, Latvia, Finland, Austria and Germany. In Sweden, the shortest term for deposits is 6 months and in the Netherlands 12 months. Savings deposits are offered in Germany, Austria and the Netherlands. The minimum amount for a term deposit is 500 euros or 10,000 Swedish krona. The median amount of customer deposits was 39 thousand euros.

NOTE 15. LEASE LIABILITIES

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2020	2019
Balance at 1 January 2020	2,096	-
As at 1 January – effect of adoption of IFRS 16	-	2,776
Accretion of interest (note 20)	26	30
Additions	732	46
Early termination	-45	-
Payments	-706	-753
Effect of movements in exchange rates	-4	-3
Carrying amount at end of year	**2,099**	**2,096**

For right-of-use assets related to the lease liabilities, see note 10.

NOTE 16. DEFERRED INCOME AND TAX LIABILITIES

As at 31 December	2020	2019
Income tax payable (note 28)	348	313
Other taxes payable	669	671
Prepayments from customers	6	2
Total deferred income and tax liabilities	**1,023**	**986**

NOTE 17. OTHER LIABILITIES

As at 31 December	2020	2019
Received surplus payments	4,785	4,188
Payables to employees	1,709	1,619
Supplier payables	405	778
Other payables	995	533
Total other liabilities	**7,894**	**7,118**

Received surplus payments include amounts received from customers that have been paid before the due date and have not yet been matched to particular loan contracts due to the uncertain nature of these payments.

NOTE 18. EQUITY

Share capital

Bigbank AS is a limited company, whose minimum and maximum authorised share capital amount to 5,113 thousand euros and 12,782 thousand euros respectively. Share

capital as at 31 December 2020 and 31 December 2019 consists of 80,000 fully paid in ordinary shares with a par value of one hundred euros each. Each share carries one vote at meetings of the company, granting the holder the right to participate in the management of the company, the distribution of profits and the distribution of residual assets on the dissolution of the company.

Statutory capital reserve

The capital reserve is established in accordance with the Estonian Commercial Code. Under the latter, the capital reserve is established using annual net profit transfers. Each year, the parent company has to transfer at least one twentieth of net profit for the year to the capital reserve until the reserve amounts to one tenth of share capital. The capital reserve may be used for covering losses and increasing share capital. The capital reserve may not be used for making distributions to shareholders.

Other reserves

Other reserves comprise:

- Exchange differences on translating foreign operations. This item comprises foreign currency differences arising from the translation of the financial statements of the Group's foreign operations that use functional currencies other than the Group's functional currency.
- Asset revaluation reserve comprises the increase in the carrying value of land and buildings classified as Property and equipment as a result of revaluation. The revaluation reserve cannot be used to make profit distributions to shareholders.
- Changes in the fair value of debt instruments measured at FVOCI.

As at 31 December	2020	Change	2019	Change	2018
Exchange differences on translating foreign operations	602	-272	874	181	693
Asset revaluation reserve	609	64	545	241	304
Fair value changes of debt instruments measured at FVOCI	-136	51	-187	4	-191
Total other reserves	**1,075**	**-157**	**1,232**	**426**	**806**

Unrestricted equity

At 31 December 2020, the Group's unrestricted equity amounted to 146,363 thousand euros (31 December 2019: 131,021 thousand euros).

Dividends

The company has made the following dividend distributions:

- 2020: 75.00 euros per share, i.e. 6,000 thousand euros in aggregate; and
- 2019: 62.50 euros per share, i.e. 5,000 thousand euros in aggregate.

NOTE 19. INTEREST INCOME

	2020	2019
Interest income on loans to customers	69,122	66,593
Interest income on debt instruments	605	277
Interest income on deposits	8	17
Other interest income	16	63
Total interest income	**69,751**	**66,950**

NOTE 20. INTEREST EXPENSE

	2020	2019
Interest expense on deposits	6,495	5,956
Interest expense on bonds	335	334
Interest expense on lease liabilities	26	30
Other interest expense	140	70
Total interest expense	**6,996**	**6,390**

NOTE 21. OTHER INCOME

	2020	2019
Income from debt recovery proceedings*	573	771
Miscellaneous income	828	419
Total other income	**1,401**	**1,190**

*** Income from debt recovery proceedings and reimbursements of related costs.**

NOTE 22. SALARIES AND ASSOCIATED CHARGES

	2020	2019
Salaries	11,042	11,581
Social security charges	2,842	2,994
Employee health costs and fringe benefits including associated taxes	241	342
Total salaries and associated charges	**14,125**	**14,917**

*** In accordance with the local labour tax legislation, the social security costs of some branches are marginal and are included in salaries.**

Salaries and associated charges include capitalised payroll costs and associated taxes related to the development of Nest in the amount of 3,080 thousand euros (see note 12).

The annual average number of full-time employees was 378 (2019: 399).

NOTE 23. OTHER OPERATING EXPENSES

	2020	2019
Marketing expenses	7,268	6,938
Short-term leases	50	118
Office and other similar administrative expenses	410	472
Other personnel-related expenses	450	1,119
Software licensing and other information technology costs	1,346	1,336
Other services	499	386
Postal supplies and charges	403	467
Telephone and other communications expenses	443	499
Miscellaneous operating expenses	247	387
Total other operating expenses	**11,116**	**11,722**

NOTE 24. OTHER EXPENSES

	2020	2019
Expenses related to registry inquires	1,133	1,116
Expenses related to enforcement proceedings	578	406
Legal regulation charges	640	629
Expenses from investment properties	163	53
Miscellaneous expenses	409	387
Total other expenses	**2,923**	**2,591**

NOTE 25. OPERATING LEASES

The Group as a lessee

The Group has lease contracts for office premises. Lease terms mostly fall between 3 and 10 years. Leases of office premises can be cancelled by giving one month's to 10 years' notice, fixed-term lease contracts can be extended on market terms. The Group also has certain leases of office premises with terms of 12 months or less and leases of office equipment of low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions to these leases. Expenses on short-term leases included in Other operating expenses totalled 50 thousand euros in 2020 (2019: 118 thousand euros).

The Group recognised depreciation expense on the right-of-use assets of office premises of 689 thousand euros (2019: 733 thousand euros) and interest expense on lease liabilities of 26 thousand (2019: 30 thousand euros), see notes 1, 10 and 20. For changes in lease liabilities, see note 15.

Rent concessions related to COVID-19 were received in the form of reduction of lease payments in spring 2020 in the total amount of 1 thousand euros. The concessions were recognised as lease modifications.

The Group as a lessor

Minimum non-cancellable operating lease rentals receivable in subsequent periods

As at 31 December	2020	2019
Up to 1 year	361	36
1 to 5 years	3	45

For rental income and management expenses, see note 11.

NOTE 26. ASSETS PLEDGED AS COLLATERAL

Assets are encumbered in connection with loans and other financing received against collateral. At 31 December 2020, debt securities of 39,883 thousand euros (31 December 2019: 25,767 thousand euros) were pledged as a collateral to obtain targeted longer-term refinancing operations (TLTRO) low cost funding through Eurosystem's open market operations. For debt instruments, see note 5.

NOTE 27. CONTINGENT LIABILITIES

At 31 December 2020, the unused portions of the credit lines and loans totalled 44,717 thousand euros (31 December 2019: 21,001 thousand euros), guarantees issued totalled 5 thousand euros (31 December 2019: -).

Contingent income tax liabilities

At 31 December 2020, the Group's retained earnings totalled 146,363 thousand euros (31 December 2019: 131,021 thousand euros).

Under the Estonian Income Tax Act, in 2020 profit distributions, including dividend distributions, were subject to income tax calculated as 20/80 of the net distribution. The maximum income tax liability that could arise if all of the undistributed profits were distributed as dividends amounts to 29,273 thousand euros. Thus, the maximum amount that could be distributed as the net dividend is 117,090 thousand euros.

The income tax payable on dividends is calculated by reducing the tax base by the profits attributed to foreign permanent establishments (branches) and reducing the tax payable by advance payments of income tax that credit institutions are required to make in Estonia. The Group's actual expected maximum income tax liability that could arise if all of the undistributed profits were distributed as dividends amounts to 16,253 thousand euros and the maximum amount that could be distributed as the net dividend is 117,090 thousand euros. The income tax liability includes the deferred income tax calculated on Latvian distributable profits.

The maximum contingent income tax liability has been calculated on the assumption that the net dividend and the dividend tax expense reported in the statement of comprehensive income for 2020 cannot exceed total distributable profits as at 31 December 2020.

NOTE 28. INCOME TAX EXPENSE

Income tax expense

	2020	2019
Current income tax expense	2,440	1,753

Current tax expense has been calculated on net profit earned in Lithuania, Finland and Sweden and it includes advance payments of income tax that credit institutions are required to make in Estonia. The income tax expense payable on the distribution of profits earned in Latvia would be 6,378 thousand euros and it is recognised off the statement of financial position.

Dividend distributions to shareholders had no income tax consequences in 2020 and 2019.

Reconciliation of accounting profit and income tax expense

	2020	2019
Consolidated profit before tax	23,782	26,206
Parent company's domestic tax	388	521
Effect of tax rates in foreign jurisdictions	2,058	1,232
Effect of income tax of previous years	-6	-
Income tax expense reported in statement of comprehensive income	**2,440**	**1,753**

NOTE 29. ADDITIONAL CASH FLOW INFORMATION

Changes in liabilities arising from financing activities in 2020

	Subordinated notes	Loans from central banks	Lease liabilities
Opening balance	4,965	23,000	2,096
Cash flow items:			
Receipts	-	13,500	-
Payments	-330	-	-684
Non-cash flow items:			
Accrued interest, revaluations and increase in lease liabilities	335	-	731
Early termination	-	-	-45
Effect of movements in exchange rates	-	-	1
Balance at 31 December 2020	**4,970**	**36,500**	**2,099**

Changes in liabilities arising from financing activities in 2019

	Subordinated notes	Loans from central banks	Lease liabilities
Opening balance	4,960	-	2,776*
Cash flow items:			
Receipts	-	23,000	-
Payments	-330	-	-723
Non-cash flow items:			
Accrued interest and revaluations	335	-	46
Effect of movements in exchange rates	-	-	-3
Balance at 31 December 2019	**4,965**	**23,000**	**2,096**

* Lease liabilities were recognised on 1 January 2019.

NOTE 30. RELATED PARTIES

For the purposes of these financial statements, parties are related if one controls the other or exerts significant influence on the other's business decisions. Related parties include:

- shareholders of Bigbank AS;
- members of Group companies' management and supervisory boards;
- close family members of the above;
- companies connected with the above persons, except where the persons cannot exert significant influence on the company's business decisions.

On 26 March 2020, the Group acquired from the shareholders of Bigbank AS a subsidiary, OÜ Rüütli Property, which invests in agricultural land. At the acquisition date the assets and liabilities of OÜ Rüütli Property amounted to 1,991 thousand euros and 2,017 thousand euros, respectively. The Group paid the shareholders 3 thousand euros for the acquisition of the subsidiary. As a result of the transaction, the Group's assets increased by 1,988 thousand euros and liabilities increased by 2,029 thousand euros.

The assets and liabilities recognised as a result of the acquisition are as follows:

Assets

• Cash balances at banks	38
• Prepayments	8
• Investment property	1,942

Liabilities

• Liabilities to shareholders	2,000
• Deferred income and tax liabilities	29

In 2020, the remuneration of the members of the Group's management and supervisory boards including relevant taxes amounted to 1,246 thousand euros (2019: 1,069 thousand euros) and 70 thousand euros (2019: 70 thousand euros) respectively. No severance benefits were paid during the financial year.

As at 31 December 2020, the Group had a receivable from related parties of 39 thousand euros *(Loans to customers)* (31 December 2019: 44 thousand euros), interest income on the receivable amounted to 2 thousand euros in 2020 (2019: 2 thousand euros). Loans are granted to related parties on market terms.

The Group finances subsidiaries and branches with long-term loans. Such loans are eliminated from the consolidated financial statements.

NOTE 31. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Management believes that the fair values of the assets and liabilities reported in the consolidated statement of financial position as at 31 December 2020 and 31 December 2019 do not differ significantly from their carrying amounts.

	Carrying amount		Fair value	
Financial assets as at 31 December	**2020**	**2019**	**2020**	**2019**
Cash and balances at central banks (note 4)	48,336	32,855	48,336	32,855
Cash and balances at banks (note 4)	27,074	21,085	27,074	21,085
Debt instruments at fair value through other comprehensive income (note 5)	45,845	31,390	45,845	31,390
Loans to customers (note 6, 7)	577,712	459,656	577,712	459,656
Other financial receivables (note 8)	1,105	1,738	1,105	1,738
Total financial assets	**700,072**	**546,724**	**700,072**	**546,724**

	Carrying amount		Fair value	
Financial liabilities as at 31 December	**2020**	**2019**	**2020**	**2019**
Loans from central banks (note 13)	36,500	-	36,500	-
Deposits from customers (note 14)	547,549	392,838	547,549	392,838
Subordinated notes	4,970	4,965	4,970	4,965
Other financial liabilities (note 17)	7,894	7,118	7,894	7,118
Total	**560,413**	**404,921**	**560,413**	**404,921**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Fair value hierarchy as at 31 December 2020

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Debt instruments at fair value through other comprehensive income (note 5)	45,845	-	-	45,845
Land and buildings (note 10)	-	-	1,582	1,582
Investment properties (note 11)	-	-	27,181	27,181
Assets for which fair values are disclosed				
Loans to customers (note 6, 7)	-	-	577,712	577,712
Other financial receivables (note 8)	-	-	1,105	1,105
Total assets	**45,845**	**-**	**607,580**	**653,425**
Liabilities measured at fair value				
Liabilities for which fair values are disclosed				
Loans from central banks (note 13)	-	-	36,500	36,500
Deposits from customers (note 14)	-	-	547,549	547,549
Subordinated notes	-	-	4,970	4,970
Lease liabilities	-	-	2,099	2,099
Other financial liabilities (note 17)	-	-	7,894	7,894
Total liabilities	**-**	**-**	**599,012**	**599,012**

Fair value hierarchy as at 31 December 2019

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Debt instruments at fair value through other comprehensive income (note 5)	31,390	-	-	31,390
Land and buildings (note 10)	-	-	1,580	1,580
Investment properties (note 11)	-	-	1,781	1,781
Assets for which fair values are disclosed				
Loans to customers (note 6, 7)	-	-	459,656	459,656
Other financial receivables (note 8)	-	-	1,738	1,738
Total assets	**31,390**	**-**	**464,755**	**496,145**

	Level 1	Level 2	Level 3	Total
Liabilities measured at fair value				
Liabilities for which fair values are disclosed				
Loans from central banks (note 13)	-	-	23,000	23,000
Deposits from customers (note 14)	-	-	392,838	392,838
Subordinated notes	-	-	4,965	4,965
Lease liabilities	-	-	2,096	2,096
Other financial liabilities (note 17)	-	-	7,118	7,118
Total liabilities	**-**	**-**	**430,017**	**430,017**

There were no transfers between level 1 and level 2 during 2020 and 2019.

The level 3 loans to customers that amount to 577,712 thousand euros are measured at amortised cost using the effective interest method, i.e. less any loss allowances. For measuring fair value, estimated cash flows have been discounted at the prevailing market interest rates, the result being not materially different from that recognised under the amortised cost method using the effective interest rate.

The Group's accounting policy on loans to customer is discussed in notes 1 (the section *Financial assets*) and 3. Management estimates that the accounting policy selected for loans reflects the fair value of loans to customers.

The level 3 land and buildings that amount to 1,582 thousand euros consist of real estate used by the Group in Tallinn (see note 10).

The properties in Tallinn are measured using the income approach and market comparison approach.

The market comparison approach means that valuations performed by the valuer are based on active market prices, significantly adjusted for differences in the nature, location or condition of the specific property. The valuer based the valuation of the property in Tallinn on the prices per square metre of residential space in Tallinn that were in the range of 2,995 – 3,147 euros.

Under the discounted cash flow method, fair value is estimated using assumptions about the benefits and liabilities of ownership over the asset's life including the exit or terminal value. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. For commercial property in Tallinn the estimated rental income per square meter per month is 11 euros, rental growth rate is 1%, long-term vacancy rate is 5%, the vacancy rate for the first year is 40% and the discount rate is 8%.

Valuations are performed with sufficient frequency to ensure that the fair value of an asset does not differ materially from its carrying amount (see note 1, the section *Property and equipment* and *Fair value measurement,* and note 2). Management assessed, based on an expert's opinion, that fair value had changed and therefore a new valuation was performed in 2020.

The level 3 investment properties that amount to 27,181 thousand euros consist of office

buildings in Tartu and Tallinn as well as land plots, houses, apartments and agricultural land originally pledged by customers as loan collateral and later acquired by the Group through auctions (see note 11). Investment properties are measured at their fair value in the statement of financial position and valuations are performed by the management using the market comparison approach.

The investment property in Tartu is valued using the residual value method based on the highest and best use of the property. The residual value method takes into account the profit that can be achieved if the existing property were developed and sold as an apartment building. The following inputs were used for the valuation of the property in Tartu: the price per square metre of flats in Tartu old town of 2,761 euros and development costs per square metre of 906 euros.

Management measured the value of the investment property which was acquired in Tallinn in October 2020 as at the reporting date and, based on the fact that the asset was exchanged in an arm's length transaction between independent parties and that the time between the date of acquisition and the reporting date was very short, management concluded that the property was reported at fair value at the reporting date.

Valuations of agricultural land are performed using the market comparison approach. Based on valuation reports, the best use of the land is the existing use for agricultural purposes.

Valuations of investment property are performed at each reporting date to make sure that the assets are measured at fair value (see note 1, the section *Investment properties* and *Fair value measurement*, and note 2). The Group engaged an independent valuation expert to assess the fair values of its investment properties, land and buildings at 31 December 2020 and based on the valuation, the assets were remeasured in 2020.

Valuation inputs and relationship to fair value

The following table summarises the quantitative information about the significant observable inputs used in repeated level 3 fair value measurements (for information about valuation techniques, see above):

Asset	Fair value 31 Dec 2020	Fair value 31 Dec 2019	Significant unobservable inputs	Estimated for unobservable inputs 2020	Estimated for unobservable inputs 2019	Relationship of unobservable inputs to fair value
Land and buildings (note 10)	1,582	1,580	Price (EUR/m²)	2,995-3,147	3,020-3,102	The higher the price per square metre, the higher the fair value
			Rental income per square metre per month	11	11	The higher the rental income, the market value of a square metre of rentable premises and the growth rate of rental income, the higher the fair value
			Market value of a square metre of rentable premises	1,639	1,614	
			Growth rate of rental income	1%	2%	
			Expected vacancy rate	5%	5%	The higher the vacancy rate and the discount rate, the lower the fair value
			Discount rate	8%	9%	
Investment property (note 11)						
Buildings*	11,974	1,781	Average market price of similar premises (EUR/m²)	2,750	2,500	The higher the price and the development value, the higher fair value
			Development value of a square metre of total net area (EUR/m²)	1,127	1,080	
Agricultural land	15,207		Weighted average price per hectare	3,015-4,555		The higher the price, the higher the fair value

NOTE 32. EARNINGS PER SHARE

	2020	2019
Net profit for the year, in thousands of euros	21,342	24,453
Number of shares at beginning of year	80,000	80,000
Number of shares at end of year	80,000	80,000
Weighted average number of ordinary shares outstanding	80,000	80,000
Earnings per share, in euros	**267**	**306**

At the end of 2020 and 2019 the Group did not have any potential dilutive ordinary shares. Therefore, diluted earnings per share equal basic earnings per share.

NOTE 33. PRIMARY FINANCIAL STATEMENTS OF THE PARENT

The parent company's primary financial statements have been prepared in accordance with the Accounting Act of the Republic of Estonia, and do not constitute the parent company's separate financial statements in the meaning of IAS 27 *Separate Financial Statements.*

Statement of financial position

As at 31 December *(in thousands of euros)*	2020	2019
Assets		
Cash and balances at central banks	48,336	32,855
Cash balances at banks	25,566	20,328
Debt instruments at fair value through other comprehensive income	45,845	31,390
Loans to customers	577,712	459,656
Receivables from subsidiaries	27,223	864
Investments in subsidiaries	579	579
Other receivables	1,084	1,731
Prepayments	1,233	1,263
Property and equipment	3,258	3,963
Investment properties	71	98
Intangible assets	24,213	19,254
Assets classified as held for sale	638	-
Total assets	**755,758**	**571,981**
Liabilities		
Loans from central banks	36,500	23,000
Deposits from customers	547,549	392,838
Liabilities to subsidiaries	1,792	1,792
Subordinated notes	4,970	4,965
Lease liabilities	2,099	2,070
Provisions	1,516	2,137
Deferred income and tax liabilities	1,017	959
Other liabilities	7,840	7,095
Total liabilities	**603,283**	**434,856**
Equity		
Paid-in share capital	8,000	8,000
Capital reserve	800	800
Other reserves	788	997
Retained earnings	142,887	127,328
Total equity	**152,475**	**137,125**
Total liabilities and equity	**755,758**	**571,981**

Statement of comprehensive income

(in thousands of euros)	2020	2019
Interest income	69,869	66,965
Interest expense	-7,029	-6,423
Net interest income	**62,840**	**60,542**
Net fee and commission income	4,993	4,047
Losses on derecognition of debt instruments at FVOCI	-213	-
Net gain/loss on exchange differences	279	-194
Net loss on derecognition of non-financial assets	-41	-14
Other income	961	1,068
Total income	**68,819**	**65,449**
Salaries and associated charges	-14,045	-14,526
Other operating expenses	-11,077	-11,765
Depreciation and amortisation expense	-3,409	-3,238
Provision expenses	622	-304
Net impairment losses on loans and financial investments	-14,078	-6,737
Other expenses	-2,833	-2,874
Total expenses	**-44,820**	**-39,444**
Profit before income tax	**23,999**	**26,005**
Income tax	-2,440	-1,750
Profit for the year	**21,559**	**24,255**
Other comprehensive income/expense		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations	-272	181
Changes in the fair value of debt instruments at FVOCI	51	4
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**-221**	**185**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Revaluation of land and buildings	12	42
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**12**	**42**
Other comprehensive income for the year	**-209**	**227**
Total comprehensive income for the year	**21,350**	**24,482**

Statement of cash flows

(in thousands of euros)	2020	2019
Cash flows from operating activities		
Interest received	65,701	60,422
Interest paid	-5,170	-5,621
Salary and other operating expenses paid	-31,211	-33,039
Other income and fees received	6,818	6,398
Recoveries of receivables previously written off	10,020	25,408
Received for other assets	112	-
Loans granted	-391,294	-266,377
Repayment of loans granted	231,537	209,133
Change in mandatory reserves with central banks and related interest receivables	-808	371
Proceeds from customer deposits	340,409	94,327
Paid on redemption of deposits	-190,135	-91,662
Income tax paid	-1,681	-2,004
Effect of movements in exchange rates	-186	-112
Net cash from / used in operating activities	**34,112**	**-2,756**
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	-7,224	-8,624
Proceeds from sale of property and equipment	9	92
Proceeds from sale of investment properties	82	119
Acquisition of financial instruments	-15,784	-21,824
Proceeds from redemption of financial instruments	1,868	4,177
Net cash used in investing activities	**-21,049**	**-26,060**
Cash flows from financing activities		
Interest paid on subordinated bonds	-330	-330
Received loans from central banks	13,500	23,000
Repayment of other loans	-	-74
Payment of principal portion of lease liabilities	-680	-711
Dividends paid	-6,000	-5,000
Net cash from financing activities	**6,490**	**16,885**
Effect of exchange rate fluctuations	364	47
Increase / decrease in cash and cash equivalents	**19,917**	**-11,884**
Cash and cash equivalents at beginning of period	52,225	64,109
Cash and cash equivalents at end of period	**72,142**	**52,225**

Cash and cash equivalents

As at 31 December *(in thousands of euros)*	2020	2019
Demand and overnight deposits with banks	21,566	17,628
Term deposits with banks	4,000	2,701
Surplus on mandatory reserves with central banks	46,576	31,896
Total	**72,142**	**52,225**

Statement of changes in equity

(in thousands of euros)	Share capital	Statutory capital reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2019	**8,000**	**800**	**770**	**108,073**	**117,643**
Profit for the year	-	-	-	24,255	24,255
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	181	-	181
Net change in fair value of debt instruments at FVOCI	-	-	4	-	4
Total other comprehensive income	**-**	**-**	**227**	**-**	**227**
Total comprehensive income for the year	**-**	**-**	**227**	**24,255**	**24,482**
Dividend distribution	-	-	-	-5,000	-5,000
Total transactions with shareholders	**-**	**-**	**-**	**-5,000**	**-5,000**
Balance at 31 December 2019	**8,000**	**800**	**997**	**127,328**	**137,125**
Balance at 1 January 2020	**8,000**	**800**	**997**	**127,328**	**137,125**
Profit for the year	-	-	-	21,559	21,559
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	-272	-	-272
Net change in fair value of debt instruments at FVOCI	-	-	51	-	51
Revaluation of land and buildings	-	-	12	-	12
Total other comprehensive income	**-**	**-**	**-209**	**-**	**-209**
Total comprehensive income for the year	**-**	**-**	**-209**	**21,559**	**21,350**
Dividend distribution	-	-	-	-6,000	-6,000
Total transactions with shareholders	**-**	**-**	**-**	**-6,000**	**-6,000**
Balance at 31 December 2020	**8,000**	**800**	**788**	**142,887**	**152,475**

As at 31 December	31.12.2020	31.12.2019
Unconsolidated equity at end of period	**152,475**	**137,125**
Investments in subsidiaries:		
Carrying value	-579	-579
Carrying value under the equity method	4,342	4,507
Adjusted unconsolidated equity at end of period	**156,238**	**141,053**

Signatures

The management board has prepared the review of operations and the financial statements of Bigbank AS for 2020.

Martin Länts		
Chairman of the Management Board	28 February 2021	*[signed digitally]*
Sven Raba		
Member of the Management Board	28 February 2021	*[signed digitally]*
Mart Veskimägi		
Member of the Management Board	28 February 2021	*[signed digitally]*
Argo Kiltsmann		
Member of the Management Board	28 February 2021	*[signed digitally]*

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Independent Auditors' Report

(Translation of the Estonian original)

To the Shareholders of AS Bigbank

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of AS Bigbank and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statements of profit or loss and other comprehensive income, 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 accompanied consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia) (ISAs (EE)). 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 Group 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the (consolidated) financial statements of the current period. These matters were addressed in the context of our audit of the (consolidated) financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans to customers	
Refer to Notes 1,2,3, 6 and 7 in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
The carrying amount of loan receivables as at 31 December 2020 amounted to EUR 577,712	In this area, we conducted, among others, the following audit procedures:

KPMG Baltics OÜ, an Estonian limited liability group and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Reg no 10096082.

thousand which corresponds to 76% of the Group's assets.
 	
Impairment of loans is a subjective area due to the level of judgement applied by the management in determining the extent of credit losses which is dependent on the credit risk related to such loans and receivables. Significant management judgement is applied in determining the economic scenarios used and the probability weightings applied to them especially when considering the current uncertain economic environment as a result of COVID-19 pandemic.
 	
The use of different modelling techniques and assumptions around the calculation of the expected credit losses (ECL) could produce significantly different estimates of loss allowance. These models require the significant judgment of management regarding appropriate segmentation, the identification of significant changes in credit risk, the inclusion of forward-looking elements as well as the application of management overlays to reflect on circumstances beyond the modelling capabilities.
 	
The Group is applying the expected credit loss model as required by IFRS 9. The Group's impairment allowance policy is presented in the accounting policies section in Note 1 subsection Financial assets impairment to the consolidated financial statements. Critical accounting estimates and judgments are set out in Note 2 Significant accounting estimates and assumptions to the consolidated financial statements.
 	
Given the complexity and judgements related particularly to the calculation of expected credit losses, the impairment allowance for loans to customers is considered a key audit matter.
	• We assessed the Group's accounting policies and methodology applied for the calculation of impairment of loans and advances to customers in relation to the requirements set under IFRS 9. We involved KPMG IFRS 9 specialists to assess the compliance with the requirements of IFRS 9;
	• We gained an understanding of loan issuance, recording and impairment provisioning process, identifying the related controls. We tested the key controls and performed analytical procedures. We also tested the compliance of the loan agreements and the information reflected in the system to ensure the correctness of the inputs used in the credit loss models;
	• We performed detailed testing over:
	  • the completeness and accuracy of data used in the ECL calculation system;
	  • the compliance of key inputs used in the ECL calculation system with IFRS 9 methodology;
	  • the accuracy and compliance of 12-month and lifetime ECL calculations with IFRS 9 methodology;
	  • the correctness of discounting in ECL model;
	  • the accuracy and completeness of data used for staging of loans;
	  • the correctness of applying the criteria to determine significant increase in credit risk;
	  • the internal assignment of credit ratings for corporate loan customers, which serve as inputs into the corporate loan ECL model;
	  • the correctness of information on collaterals and their values in the loan systems, which serve as an input into the ECL model; and
	  • the completeness of loans subject to stage 3 assessment and related ECL calculations.
	• We have assessed the reasonableness of key assumptions made by management, which serve as critical inputs in the ECL model, such as weights of different scenarios, loan portfolio point in time PD estimate, key forecasts of macroeconomic information and multipliers used for different scenarios. We challenged the reasonableness of management estimates regarding ECL model inputs taking into

	account the uncertain economic environment caused by COVID-19 pandemic. • Furthermore, we assessed the adequacy of disclosures related to ECL.

Other Information

Management is responsible for the other information contained in the Group's consolidated annual report in addition to the consolidated financial statements and our auditors' report thereon.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the (consolidated) financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 (consolidated) financial statements.

As part of an audit in accordance with International 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 (consolidated) financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of

not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 3 June 2020 to audit the financial statements of AS Bigbank for the year ended 31 December 2020. Our total uninterrupted period of engagement is 1 year, covering the period ending 31 December 2020.

We confirm that our audit opinion is consistent with the additional report presented to the Audit Committee of the Group and that we have not provided to the Group the prohibited non-audit services (NASs) referred to in Article 5(1) of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

(signed digitally)

KPMG Baltics OÜ
Licence No 17

Eero Kaup
Certified Public Accountant, Licence No 459

Tallinn, 28 February 2021

Profit allocation proposal

The total consolidated retained earnings of Bigbank AS at 31 December 2020 comprise of:

Earnings retained in prior years as at 31 December 2020	125,021	thousand euros
Net profit for 2020	21,342	thousand euros
Total retained earnings as at 31 December 2020	**146,363**	**thousand euros**

The management board of Bigbank AS proposes that the general meeting distribute the profit for the year ended 31 December 2020 as follows:

1.	Dividend distribution (75.00 euros per share)	6,000	thousand euros;
2.	Transfer to retained earnings	15,342	thousand euros;
Balance of retained earnings after allocations		**140,363**	**thousand euros.**

Martin Länts

Chairman of the Management Board 28 February 2021 *[signed digitally]*

Sven Raba

Member of the Management Board 28 February 2021 *[signed digitally]*

Mart Veskimägi

Member of the Management Board 28 February 2021 *[signed digitally]*

Argo Kiltsmann

Member of the Management Board 28 February 2021 *[signed digitally]*

Bigbank