Bigbank

Bigbank AS
Annual report
2018

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Business name	Bigbank AS
Registry	Commercial Register of the Republic of Estonia
Registration number	10183757
Date of entry	30 January 1997
LEI code	5493007SWCCN9S3J2748
Address	Riia 2, 51004 Tartu, Estonia
Telephone	+372 737 7570
E-mail	bigbank@bigbank.ee
Corporate website	www.bigbank.ee
Reporting period	1 January 2018 – 31 December 2018
Chairman of the management board	Sven Raba
Core business line	Provision of consumer loans and acceptance of deposits
Auditor	Ernst & Young Baltic AS

This annual report of Bigbank AS consists of a chairman's statement, review of operations, social responsibility and sustainability report, corporate governance report and consolidated financial statements together with an independent auditors' report and a profit allocation proposal. The document contains 143 pages.

The reporting currency is the euro and numerical financial data is presented in thousands of euros.

The annual report will be 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.

DEVELOPMENT
We develop ourselves to deliver better value tomorrow than today.

Martin, Sven, Mart and Pāvels,
members of the Management Board

Contents

Our mission is to enable people to improve their lives through seamless financial services.

Our vision is to be the most recommended digital financial service provider in the countries we operate.

Executive team of Bigbank

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

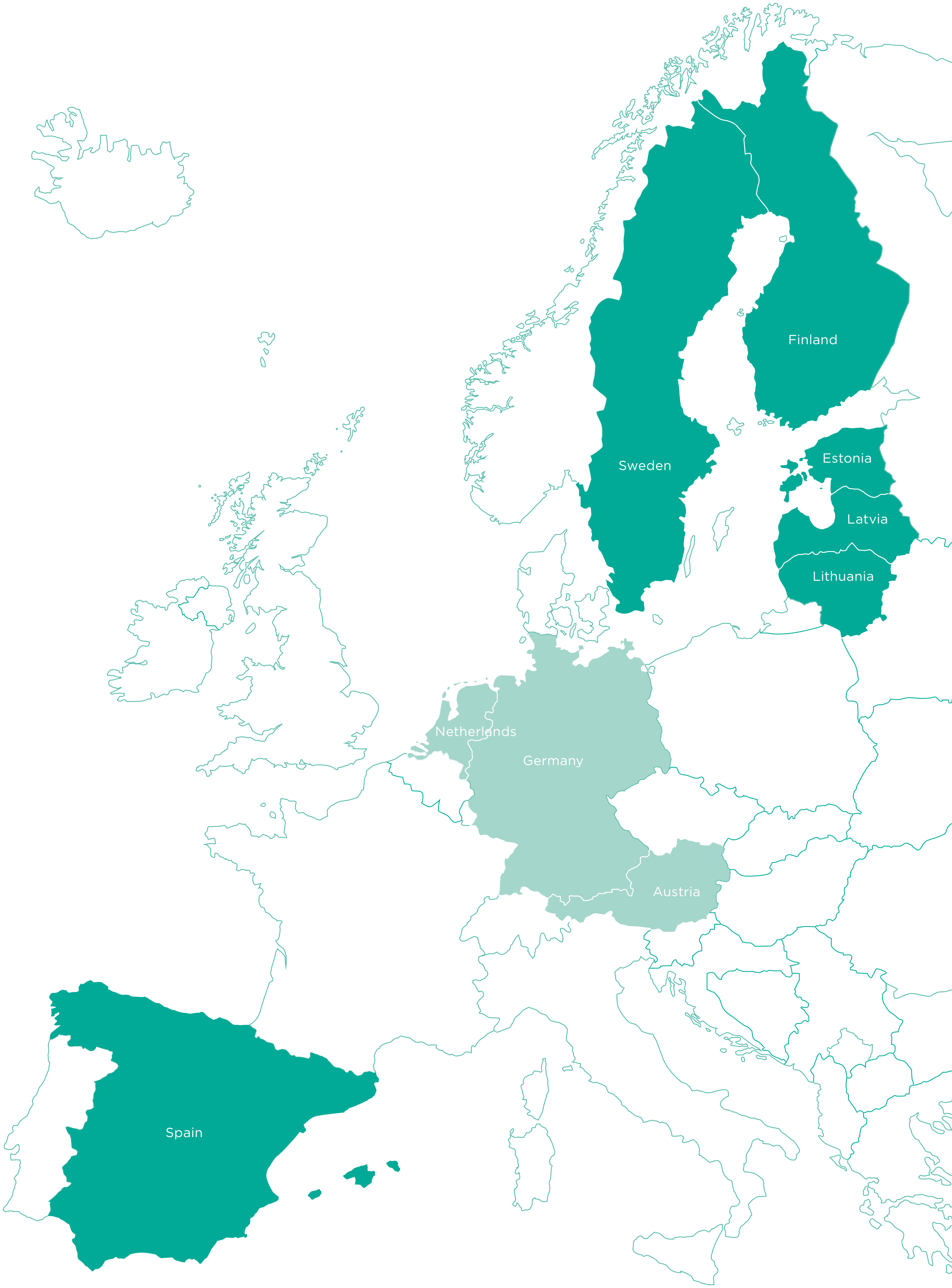
We develop ourselves to deliver better value tomorrow than today.

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.


Finland
Sweden
Estonia
Latvia
Lithuania
Netherlands
Germany
Austria
Spain

OPERATING COUNTRIES

ESTONIA

Start of operations	1992
Loan portfolio, EUR thousand	80,796
No. of loans in thousand	31
Deposit portfolio, EUR thousand	274,515
No. of deposits in thousand	13
No. of employees	235

LATVIA

Start of operations	1996
Loan portfolio, EUR thousand	102,390
No. of loans in thousand	44
Deposit portfolio, EUR thousand	22,408
No. of deposits in thousand	1
No. of employees	86

LITHUANIA

Start of operations	2007
Loan portfolio, EUR thousand	123,706
No. of loans in thousand	27
Deposit portfolio, EUR thousand	-
No. of deposits in thousand	-
No. of employees	77

FINLAND

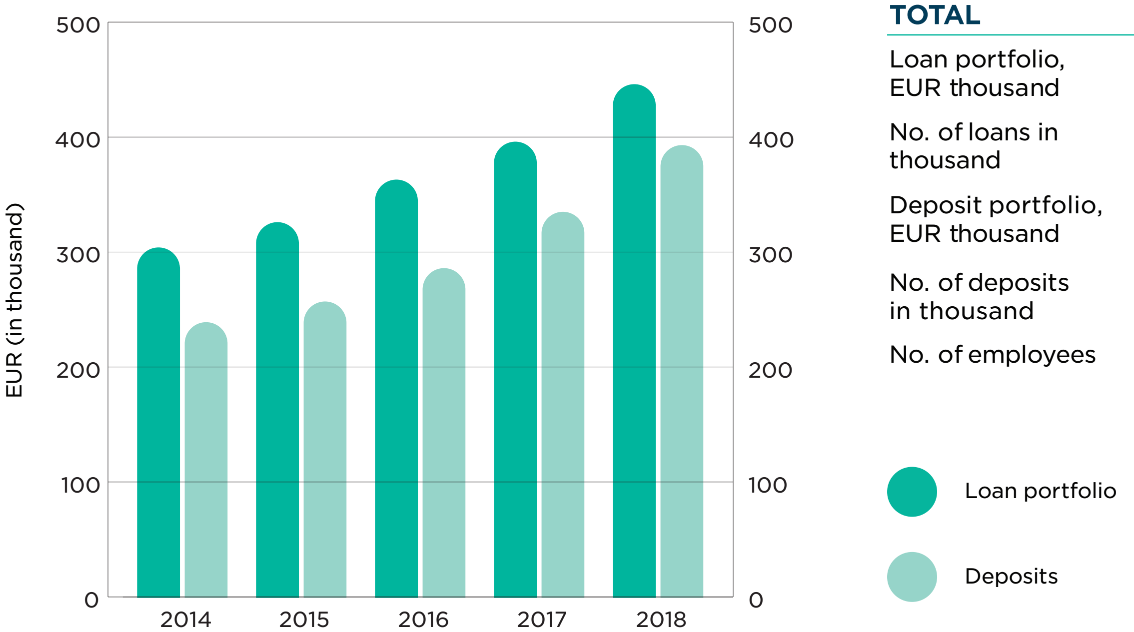
Start of operations	2009
Loan portfolio, EUR thousand	73,784
No. of loans in thousand	10
Deposit portfolio, EUR thousand	40,117
No. of deposits in thousand	1
No. of employees	18

SWEDEN

Start of operations	2012
Loan portfolio, EUR thousand	53,342
No. of loans in thousand	10
Deposit portfolio, EUR thousand	55,980
No. of deposits in thousand	1
No. of employees	9

SPAIN

Start of operations	2011
Loan portfolio, EUR thousand	11,661
No. of loans in thousand	3
Deposit portfolio, EUR thousand	-
No. of deposits in thousand	-
No. of employees	11



TOTAL

Loan portfolio, EUR thousand	445,679
No. of loans in thousand	125
Deposit portfolio, EUR thousand	393,020
No. of deposits in thousand	16
No. of employees	436

Letter of the Chairman of the Management Board

Sven Raba, Chairman of the Management Board

2018 - Best results in Bigbank history

I want to start by thanking our amazing Bigbankers who made it happen and customers, partners and other stakeholders for trusting us all the way.

Yes, 2018 was a remarkable year thanks to you.

Positive effects of the chosen strategy

We are close to the middle of our current strategy period (2017-2021) and the strategic choices made earlier have clearly started to pay off.

Our loan and deposit portfolios are bigger than ever, with total assets passing the half a billion euros threshold for the first time in Bigbank history. Loan portfolio quality has improved significantly - the percentage of loans past due for more than 90 days to portfolio has dropped from 6.8% to 3.3% during year 2018.

Much better loan quality, especially in the Baltics, has had a significantly positive impact on our net results with net profit 2018 comprising EUR 17.5 million euros. It has been supported by the good economic conditions in the countries where we operate but also improved automation, modelling, credit scoring and fraud detection capabilities of our bank.

Bank continues to be result-oriented and makes also the hard decisions if necessary, like stopping the new loan sales in Spain from April 2018. Since then the Spanish branch has been focusing on providing services to existing clients and improving the credit quality of its loan portfolio.

Technology advancements at full speed

Fulfillment of our mission "to enable people to improve their lives through seamless financial services" requires a lot from our technology and product development teams. We started building our own core information system Nest a few years ago. Last year we implemented it fully in Sweden and launched the first new self-service solution in Finland. Next year we hope to migrate the rest of our branches and cross-border operations fully to Nest.

Modern solutions open up our possibilities for introducing new products and cooperation with partners.

Customer recommendation on the rise

The choices made to improve the quality of our credit services and customer satisfaction have shown wonderful results.

Our customers' net promoter score (NPS) is higher than ever at 41 points as of 31 December 2018. We continue striving for even better results in the future, utilising our technological advantage and quick automated processes.

Positive future prospects

Bigbank remains positive on future outlook for the bank despite of the expected slowdown in European economies. Bank will use Nest for seizing new business opportunities, targeting new customers, segments and partnerships.

Bank has built considerable capital buffers, improved the risk management policies and practices as well as good corporate governance a lot.

Have a very wonderful year 2019!

Yours truly,
Sven Raba, CEO

Review of operations

ECONOMIC ENVIRONMENT

The economy of the European Union (EU) as a whole continued to expand in 2018 but at a slower pace than in 2017. According to the autumn 2018 forecast of the European Commission (EC), GDP growth is expected to slow from 2.4% in 2017 to 2.1% in 2018 and 1.9% in 2019.

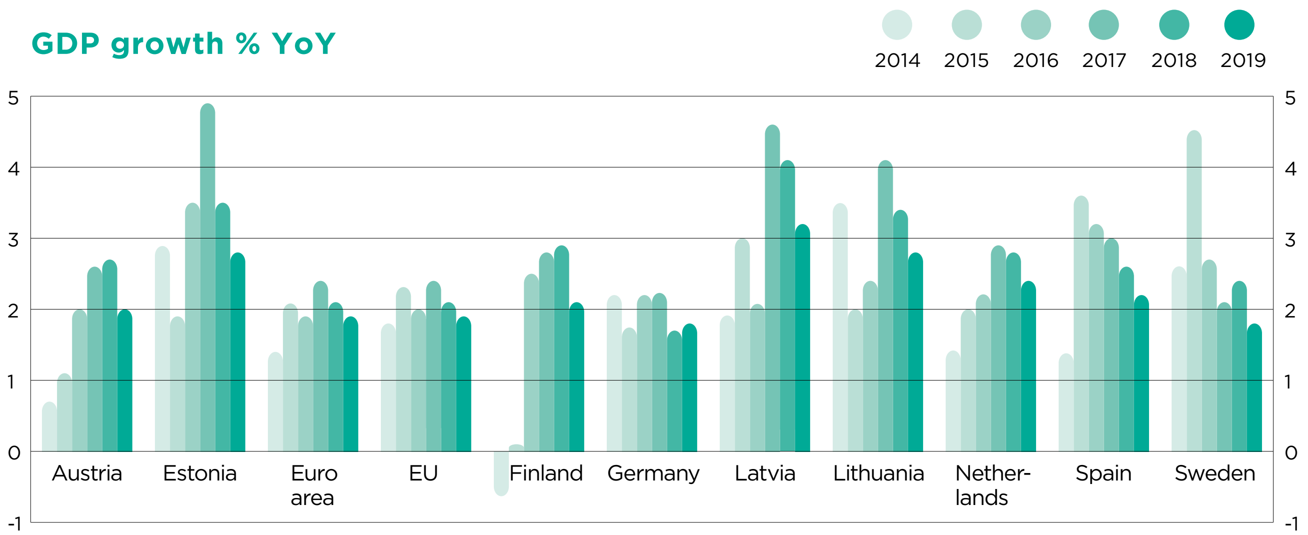
Both the slowing of momentum in 2018 and leading indicators suggest that the EU economic growth peaked in 2017. The external support from the rebound in global growth and trade, enjoyed by the European economy in 2017, is wearing off as the outlook for global growth is weakening and trade tensions have risen again. However, the strength of Europe's domestic growth drivers is still sufficient to allow economies to continue growing and unemployment to continue falling, albeit at a slower pace.

The EU employment continued to improve steadily in 2018 despite slowing growth and increasing labour shortage. According to the EC, the EU unemployment rate was 7.6% in 2017 and 6.9% in 2018 and should be 6.6% in 2019.

According to the EC's estimates, in 2018 inflation in the EU continued to pick up, rising to 2.0% from 1.7% in 2017, driven mainly by the rise in energy prices. Over the next years, however, core inflation is expected to become the main driver of headline inflation, as labour markets progressively tighten, wages rise more strongly and the output gap remains positive.

Interest rates in the EU remained at low levels even though the European Central Bank (ECB) has taken steps toward exiting its extraordinary monetary policy measures and halted its bond-buying program in December. The gradual monetary policy normalisation by the ECB, continuing growth and strengthening core inflation should add some upward pressure on nominal rates over the coming years. Nonetheless, real short- and long-term rates should remain clearly negative.

GDP growth % YoY



Source: World Development Indicators, European Commission

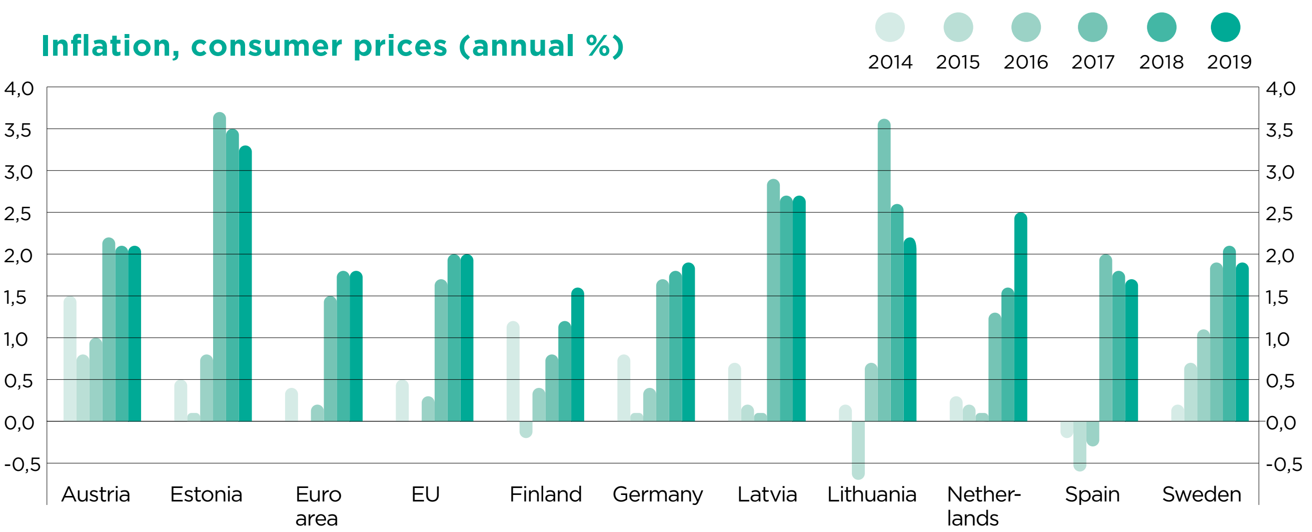
According to the EC, the EU economy is facing a very high level of uncertainty, mainly with respect to economic and trade policies in the US. An abrupt end to fiscal stimulus in the US could lead to a sharper slowdown in the US with spillovers to its major trade partners, including the EU, amplified by the current trade tensions.

Within the EU, downside risks are related to the outcome of Brexit negotiations and further escalation of public finance crises in some high-debt euro area countries, most notably Italy. All this could lead to a more abrupt slowdown.

BALTIC COUNTRIES – ESTONIA, LATVIA AND LITHUANIA

The Baltic economies continued to grow above the EU average, supported by strong private consumption, but clearly slowing from 2017 levels. According to forecasts, Estonia's economy expanded by 3.5% in 2018. Growth has been broad-based, with the export sector contributing strongly alongside domestic demand. In 2019 domestic demand is expected to be tempered by more moderate employment and wage growth. In Latvia, the economic growth seems to have peaked in the first half of 2018 as investment growth appears to have started to slow and the impacts from the winding down of the non-resident banking sector are expected to finally pass through to the economy. In Lithuania, the main growth drivers were private consumption and a robust increase in investment boosted by greater use of EU funding, which are also expected to support economy in the near future.

In all three countries the labour market is operating at close to full capacity, feeding wage pressures and eroding competitiveness in some sectors of the economy, such as export-oriented manufacturing, and feeding inflation. The unemployment rate is at a multi-year low and high demand for labour should drive it further down in the coming years.



Source: World Development Indicators, European Commission
Inflation, consumer prices (annual %)

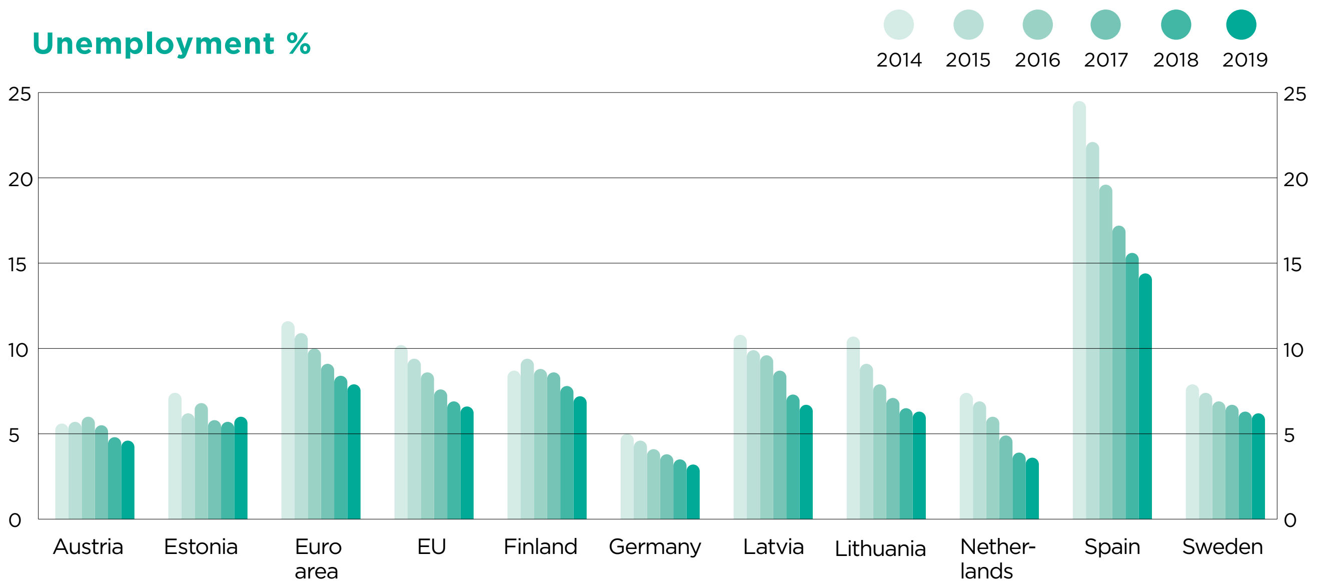
NORDIC COUNTRIES – FINLAND AND SWEDEN

Economic growth in Finland and Sweden was strong and broad-based in 2018, driven mainly by private consumption and investment. In 2019, growth is expected to moderate. In both countries private consumption is strong, supported by the rise in household disposable income, but investment growth is forecasted to slow, particularly in the construction sector, as the demand for residential property is starting to decrease. This is especially evident in Sweden, where following two decades of strong growth, residential real estate prices have started to fall.

In both countries the unemployment rate has reached close to its structural level and supply-side constraints have started to emerge with wage growth starting to pick up. Shortages of skilled labour and skill mismatches prevent the unemployment rate from falling much further in 2019.

Inflation has remained below the euro area average but is set to accelerate due to higher labour costs and increases in fuel prices.

Unemployment %



Source: World Development Indicators, European Commission

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

Economies in the heart of Europe continued to expand for the sixth consecutive year in 2018. Domestic demand is set to remain the main growth driver, while support from foreign demand should gradually diminish as the external environment is becoming less supportive for exporters. Forward-looking indicators point to a cooling of sentiment and weakening foreign demand, which has started to restrain business investment growth. This is counterbalanced by domestic demand as increasing household disposable income, resulting from rising employment and wages, is set to drive solid consumption growth.

Employment growth is set to lead to further declines in the unemployment rate, which in Germany is standing at a post-unification low. The relative scarcity of labour seems to start having an impact on wages and is expected to boost wage growth over the coming years. With inflation at a moderate level, this should improve household purchasing power.

OVERVIEW OF THE YEAR 2018

In 2018, Bigbank AS (hereafter also "Bigbank" or the "Group") succeeded in increasing the volume of the loan portfolio as well as net profit. At 31 December 2018, the Group's consolidated assets totalled 528,517 thousand euros, increasing by 69,181 thousand euros (15.1%) during the year. Growth in total assets came primarily from 13.4% growth in loans to customers, which reached 427,964 thousand euros.

The Group issues loans in the Baltic countries, Finland and Sweden. The sales of 2018 reached a record high 289,956 thousand euros, 14.0% more than in year 2017. In 2018, the credit quality of the loan portfolio continued to improve. Proportion of loans past due for more than 90 days dropped from 6.8% to 3.3% by the end of the year 2018, which is the lowest ever level, amounting to 14,603 thousand euros.

Term deposits are continuously accepted from customers in Estonia, Finland, Sweden and Latvia but also in Germany, Austria and the Netherlands as cross-border services. The Group's funding is based on its deposit portfolio, which is diversified in terms of countries, maturities and customers. At the end of 2018, Bigbank's liabilities totalled 407,343 thousand euros. Most of the liabilities, i.e. 393,020 thousand euros (96.5%) consisted of term deposits. The deposit portfolio's weighted average duration to maturity was more than 623 days as of the year-end. Due to the low interest rate environment, the Group managed to reduce its ratio of interest expense to average interest-bearing liabilities (to 1.7% as of the year-end, 1.9% year earlier).

Bigbank Group ended the year 2018 with a profit after tax of 17,526 thousand euros, 320 thousand euros i.e. 1.9% more than in 2017. The Group earned interest income of 66,386 thousand euros, a decrease of 3,339 thousand euros (-4.8%) compared with the previous year. Interest expense for 2018 amounted to 6,099, an increase of 323 thousand euros (5.6%) compared with the previous year. In 2018, impairment losses on loans and financial investments totalled 11,355 thousand euros, decreasing by 6,226 thousand euros (-35.4%) compared with the previous year. Tier 1 capital ratio was 21.6% at 31 December 2018 (31 December 2017: 23.1%).

OUTLOOK FOR 2019

In 2018, continuing growth of the global economy, ongoing decrease in the unemployment rate, and a rise in consumer confidence created a strong basis for sustained growth in all the countries where Bigbank operates. Positive trends were also supported by low interest rates and the European Central Bank's accommodative monetary policy. The rise in employment was accompanied by pressure to increase labour costs and ensure the ability to fill vacancies while increasing labour mobility intensified competition between employers.

Most experts predict that there will be a slow-down in the economic growth this year and some claim that it is a beginning of a new crises. The main external risks are related to the geopolitical situation and the ongoing migration crisis. Political uncertainties result from Brexit as well as political instability in several European countries.

Based on the growth of the Baltic economies and the improvement in consumer confidence, we still expect that Bigbank can sustain its business growth in the Baltic countries (Estonia, Latvia and Lithuania) at the same pace. Automation and performance improvement achieved in the Nordic market creates a solid basis for growth in 2019. Our key challenges lie in further improving credit quality in Finland and Sweden and navigating in an environment of increasing regulatory restrictions. Growth in interest rates is not expected to have a significant impact on Bigbank business in year 2019.

We are not planning to expand to any new target markets in 2019. We will continue to invest in technologies and product developments that support a digital lender's business model so as to develop into a fully automated digital bank, ready to expand its activities in the following years.

KEY PERFORMANCE INDICATORS

Financial position indicators (in thousands of euros)	**31 Dec 2018**	**31 Dec 2017**
Total assets	528,517	459,336
Loans to customers	427,964	377,458
of which loan portfolio	445,679	396,138
of which interest receivable	6,122	10,291
of which impairment allowances	-23,837	-28,971
Deposits from customers	393,020	334,819
Equity	121,174	113,246

Financial performance indicators	**2018**	**2017**
Interest income	66,386	69,725
Interest expense	-6,099	-5,776
Salaries and associated charges	-15,089	-16,362
Other operating expenses	-13,023	-10,431
Net loss allowances on loans and financial investments	-11,355	-17,581
Profit for the year	17,526	17,206

For the year	**2018**	**2017**
Average equity	117,210	107,041
Average assets	493,927	426,732
Average interest-earning assets	461,555	409,573
Average interest-bearing liabilities	362,740	305,980
Total income (gross)	72,034	75,462

Ratios	**2018**	**2017**
Return on assets (ROA)	3.5%	4.0%
Return on equity (ROE)	15.0%	16.1%
Profit margin (PM)	24.3%	22.8%
Return on loans	15.7%	20.3%
Asset utilization ratio (AU)	14.6%	17.7%
Price difference (SPREAD)	12.7%	15.1%
Cost to income ratio (CIR)	50.6%	46.0%
Equity multiplier (EM)	4.2	4.0
Earnings per share (EPS), euros	219.08	215.08
Yield on interest-earning assets	14.4%	17.0%
Cost of interest-bearing liabilities	1.7%	1.9%

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

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

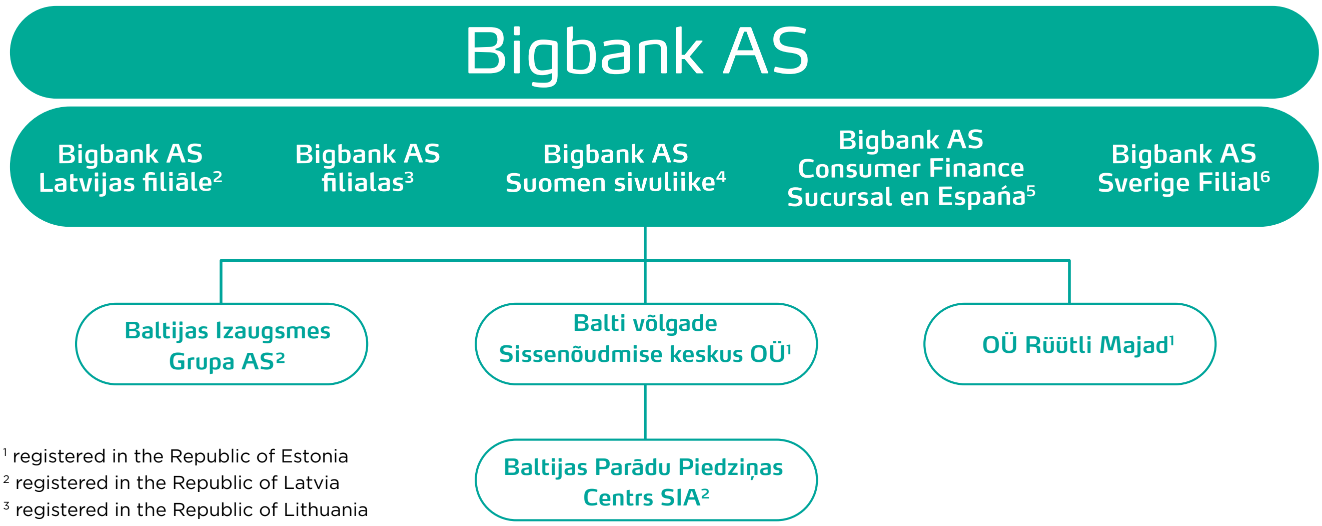
Cost of interest-bearing liabilities = interest expense / average interest-bearing liabilities

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 consumer loans and term 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 Spain
[6] registered in the Kingdom of Sweden

The branches in Latvia, Lithuania, Finland, Sweden and Spain 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 the real estate used in the parent's business in Estonia. OÜ Balti Võlgade Sissenõudmise Keskus and its subsidiary support the parent and its branches in debt collection.

SHAREHOLDERS

The shares in Bigbank AS are held by two individuals, each holding the same number of shares. At 31 December 2018, 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 with the Estonian Central Depository for 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 2018, the Group was not involved in any significant litigation.

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 more than 400 employees.

EMPLOYEE PROFILE BY COUNTRIES AS AT 31 DECEMBER 2018

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	235	109	126	46%	54%	47 months	33 years
Finland	18	8	10	44%	56%	49 months	38 years
Latvia	86	16	70	19%	81%	60 months	31 years
Lithuania	77	30	47	39%	61%	49 months	31 years
Spain	11	4	7	36%	64%	71 months	36 years
Sweden	9	3	6	33%	67%	15 months	31 years
Total	**436**	**170**	**266**	**39%**	**61%**	**50 months**	**32 years**

Table: Employee profile by countries as at 31 December 2018

As of 31 December 2018 the number of employees was 436 compared with 417 at the end of 2017. When planning the most important activities in human resource management in 2019, we take into account that a large part of our employees (46%) are under 30 years of age and 38% have less than 23 months of service.

THE EMPLOYEE EXPERIENCE STRATEGY FOCUS AREAS FOR 2018-2021 ARE AS FOLLOWS:

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

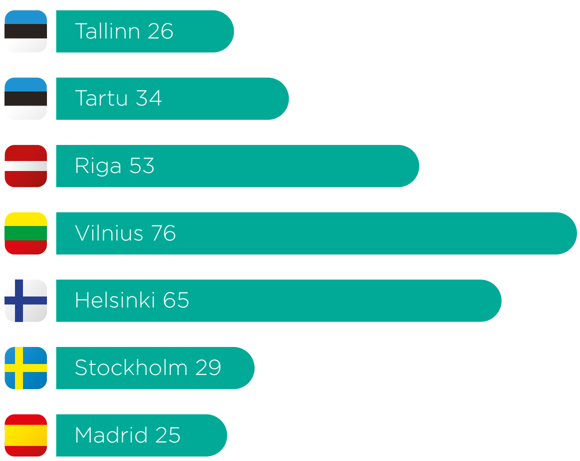
The main results of 2018 by focus areas were as follows:

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

The most important factor in recruiting new employees is the willingness of our own employees to recommend Bigbank as an employer. Year by year, employee readiness to recommend our company has increased, also in 2018, when it changed from 58% to 71%, compared to 2017.

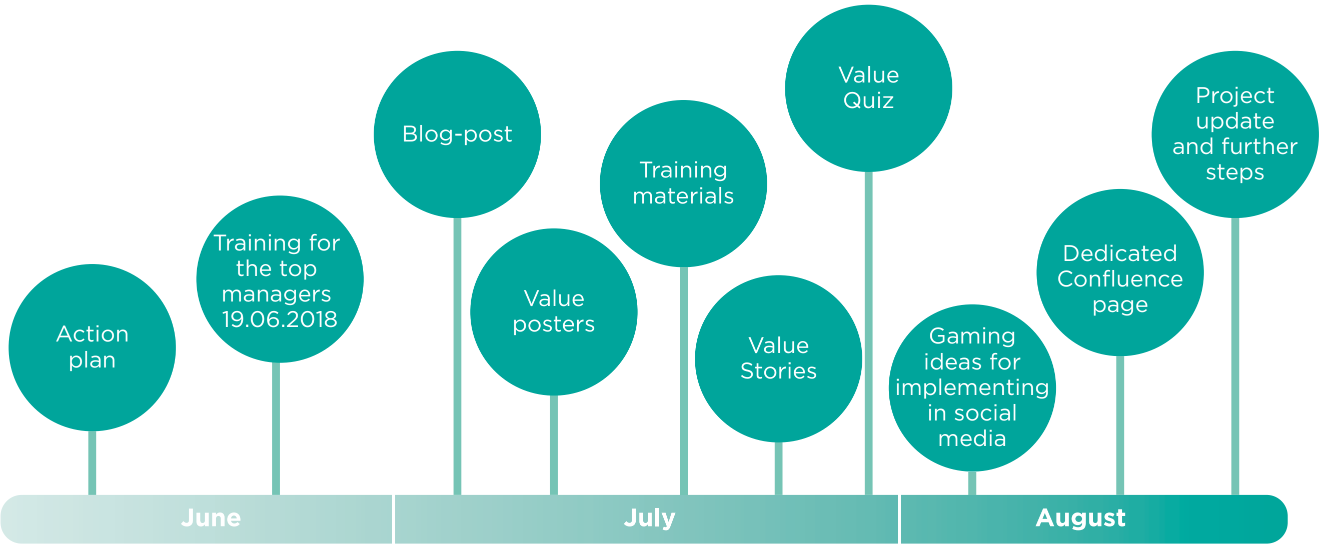
To understand and regularly monitor employee experience, we started collecting employee feedback in 2018 on a quarterly basis in all seven cities where Bigbank has an office and staff. In the third quarter, the recommendation index was positive in all cities and very high in three cities - 76 points in Vilnius, 65 points in Helsinki and 53 points in Riga.

EMPLOYEE RECOMMENDATION INDEX, Q3 2018



We recruit vacancies from within the Group at first. In 2018, a significant number of key positions in branches and group level units were recruited internally, thus creating an opportunity for capable employees to move between different levels of management, areas, countries, and cities. Compared to 2017, the number of women has increased significantly among top managers. At the end of 2018, there were 8 women and 11 men in senior management, at the end of 2017 the numbers were 4 and 12 respectively.

We complemented our recruitment process with value-based assessment methods. In the summer of 2018, we launched a group-wide value awareness program to improve management quality and raise awareness of Bigbank values internally. This program makes value communication a part of everyday conscious management and will continue in 2019.



Extract from the action plan for value communication

As previously, we consciously introduced Bigbank's culture and experience to the wider audience. Our staff shared their #bigbankwow experiences through various articles, and many of them were invited to seminars to share the Bigbank experience.

Miram Serk sharing best practices how Bigbank focuses on improving customer experience

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

Due to the development of the organisation and the situation in the Baltic labour market, supporting the induction of both new and rotating employees was one of the most important priorities of 2018.

Bigbank has a very in-depth induction program, the content of which we apply to each employee, depending on his or her duties and background. We did several updates of the program due to the change in regulatory requirements. One of the most important additions was the inclusion of a case study of customer experience so every new employee would be able to get to know Bigbank's customers and to better understand their own role in delivering excellent customer experience.

Decision engine analyst	I will ensure that the search engine is working and is fast.
Head of data warehouse unit	I shall analyse the customer feedback and shall give input based on this to quality managers, who can then do conclusions from the pros and cons.
Reporting specialist	I shall notice mistakes in the reports and shall notify about them.
IT support specialist	I shall ensure that all employees have a working computer and I shall fast react to problems with computers to find solutions.
Lawyer	I shall support customers to get help from debt collection and predict if the customer case needs to go to court.
Software developer	I will just do my job so that no bugs will appear.
Business analyst	I shall optimise the whole process and make it simpler

Example of the results of a case study conducted in September 2018.

The feedback from new employees to the recruitment process was very positive in 2018. Compared to previous employers, the employee-centered, thoughtful and well-organised process of the induction program was positively highlighted.

Focus 3: We provide excellent management and leadership service to employees, including employees on a 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 ensuring 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 2018, we added the managerial ability to keep teams motivated and engaged to the key competence list.

Sven Raba, CEO, at Bigbank annual seminar in Tallinn

The main indicator of management quality is the feedback given to direct managers. We are pleased that the average rating given to managers has improved compared to 2017: the indicator for the year 2017 was 4.2 and for 2018 it was 4.3.

To improve management quality, we introduced a number of initiatives at all levels of management, i.e.:

- Monthly management board and group management leadership seminars focusing on people management issues and improving teamwork in senior management.
- Once a quarter, we hold top management seminars, where, additionally to financial results, we also address customer and employee experience issues. The focus of the development of management competencies is mainly on developing change management competencies.
- We organised in-house training programs for branch managers to improve leadership skills and enhance the branch management team's teamwork.
- Many managers participated in external trainings according to their development goals.

An important innovation was the reorganisation of Bigbank's Lean Academy activities to ensure competencies across Bigbank group and, above all, in uncovered areas - risk management and compliance. We decided to increase our internal competency and train two new black belt level trainers who are able to conduct various in-house lean management trainings.

Bigbank Lean Academy development 2013-2018

Learn
Eliminate waste
Add value for customer
No hard risks

2013

LEAN gets introduced and run in Bigbank by Pāvels Gilodo (LEAN Black Belt in 2015).

2014

LEAN gets management board support ands gets introduced to branches and areas. LEAN budget and roll-out approved. First LEAN centres start working in branches.

2015

LEAN Green Belt trainings done by external trainers. Green Belt projects are run in all branches. DMAIC mindset makes a difference: branches start working in new ways. (SLA team in Estonia; visual management boards in Lithuania; 2M € project to rise sales in Estonia; Lead Time reduction by 64% from application to payout in Latvia).

Bigbank becomes the member of Lean Association in Latvia.

First in-house Lean White Belt trainings start. Kaizen projects are initiated and run ("Drop-off" and "Think Big" in Latvia). Points collection system in Latvia started for Kaizen projects.

Lean Yellow Belt trainings done by external trainers. Yellow Belt projects are run in all branches. Most employees remember the time as "Cleaning the office in the 5S projects" Important learnings and wins from Gemba, 5 Why, Visual Management, A3, PDCA.

2016

In-house LEAN White Belt and Yellow Belt trainings continue on voluntary basis.

First in-house LEAN Yellow Belt trainings start (Finland, Latvia).
Bigbank is introduced as a LEAN company by the Leanway trainings company in Estonia.

2018

Mirjam Serk and Baiba Drēgere become LEAN Black Belts and take over LEAN in Bigbank from Pāvels Gilodo.

LEAN Boards and trainings are systematically restarted in Bigbank.
LEAN knowledge is built up again (first priority: risk area and branches).

Bigbank Lean Academy development 2013-2018

Focus 4: Our remuneration system performs well.

In addition to updating the remuneration system based on agreed principles within the company and trends of the labour market, we focused on two major improvements in 2018:

- We aligned the remuneration and rewards of all employees with improving customer experience. To achieve this, it became mandatory to agree at least one (yearly) goal related to customer experience between the manager and the employee.
- We analysed the principles of the remuneration system to find ways to increase the independence of managers and teams while improving the first line of defence.

Compared to the previous period, employee satisfaction with remuneration system increased from 3.6 points in 2017 to 3.9 points in 2018.

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

Since 2018, we began dealing more systematically with short and long-term substitution, as it is one of the most important factors for ensuring Bigbank's consistent operation and improving the employee experience.

Employee feedback on substitution compared to 2017 has improved, including:

- increase in the availability of a replacement from 4.0 points to 4.3 points; and
- increase in the training required for substitution from 3.7 points to 3.9 points.

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

We monitor employee satisfaction with the work environment and regularly ask quarterly feedback based on country, city, and specific office. By doing so, we identified the key factors for improvement and, within the limits of Bigbank's capabilities, we solved some of these during the year. The largest investment for the Estonian business unit was the renovation of the Tallinn office. Additionally, we made smaller improvements in the offices of all cities.

The most important long-term project was a thorough analysis of the needs of the office spaces, describing all the organisational, technical and microclimate requirements to be considered in the future when we decide to move to new premises or renovate existing ones.

Compared to previous years, we paid much more attention to raising the health awareness of the employees. We regularly shared information on how they can protect themselves against viral diseases, how to improve their workplace ergonomics, and knowingly use rest breaks to improve their health and exercise without leaving the workplace.

In Estonia, the Bigbank joined the program of a family-friendly employer, curated by the Ministry of Social Affairs. Getting the initial label is a recognition of our efforts to create a family-friendly organisational culture.

Employee satisfaction with working conditions and the work environment compared to the previous period improved from 3.8 point in 2017 to 3.9 in 2018.

Family-Friendly Employer's Program's primary label

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 customers interact with us mostly via digital channels. They are in nine different countries and have different profiles, wishes and needs. Bigbank's mission is to enable people to improve their lives through seamless financial services. Therefore, our customers' journey and experience are very important for us. We want to know what our customers say about us, think of us and whether they are willing to recommend us to others.

At Bigbank, every employee knows the value of a customer and how their work can contribute to creating customer experience. Product and service development and enhancement are driven by the wishes and needs of our customers.

During the first few months, all new staff regardless of their position are provided with an overview of who our customers are and an opportunity to share thoughts on how their work could improve customer experience. We set every employee at least one key goal, which is related to enhancing customer experience. The whole Bigbank team makes sure that our customers and their wishes are being heard.

CUSTOMER EXPERIENCE MANAGEMENT

At Bigbank, offering exceptional customer experience is our common goal. Only together can we retain loyal customers who recommend our products and services. We care about what our customers experience from the moment they take an interest in Bigbank's products/services to the moment they cease using our products/services.

Bigbank's business strategy for the period 2017-2021 is focused on sustainable growth, which assumes, among other things, consistent customer experience enhancement. At the beginning of 2017, we used the input of our customers to design Bigbank's customer experience strategy. In implementing it in 2018, we took the following steps in all markets:

- We systematically shared customer feedback and related statistics with all Bigbank staff. In doing that, we focused on customer-related topics, explained how we have been able to offer more value to the customer and highlighted what we can do even better. Thanks to regular customer experience monitoring and analysis, we were able to make better customer-centric decisions at all levels of management.

- We renewed the principles of our service standard, now they better support our common goal of offering exceptional customer experience that prompts customers to share great stories
- We improved customer experience across the following touchpoints (points of customer contact): the call centre, debt handling and a year after the signature of the contract, where the Net Promoter Score (customers' willingness to recommend Bigbank) grew by 19%, 175% and 46% respectively.
- We systematically and regularly monitored and evaluated our customer communication. Quality reviews reflected that our communication with the customer, both by phone and email, is professional, pleasant and supportive. However, the reviews also helped identify opportunities and raise ideas for further improving communication effectiveness. It is important for us that our customers should receive all relevant information during their first interaction so that they do not have to contact us again about the same matter. We also checked whether all information that our customers need is readily available and easy to navigate in our digital channels.
- We automated the collection of customer feedback. Now we receive feedback on our services immediately after our interaction with the customer. The new solution has reduced manual labour and saves and 104 work hours per year (per country on average).
- We upgraded the tools and streamlined the operating processes of our call centre. As a result, our customers receive replies to their inquiries more quickly. Compared to 2017, email and call response efficiency improved by 10% and 4% respectively.
- We continued to provide frontline staff with regular training and to invest in their personal development. In particular, we focused on quality improvement and the implementation of efficient (lean) working methods.

CUSTOMER EXPERIENCE MONITORING AND MEASUREMENT

We systematically collect and monitor customer feedback to obtain a fair assessment of our activities and insights into our strengths and weaknesses. Feedback helps understand what increases our customers' loyalty and what does not. Increasing customer satisfaction and loyalty is also important for our business partners.

To measure customer experience, we:

- regularly request feedback on different customer experience touchpoints through the Net Promoter Score, First Contact Resolution and Customer Satisfaction Index (around 2,700 respondents per month);
- measure customer communication effectiveness by analysing call centre statistics and appraise the communication quality of individual employees;
- 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 (around 6,000 respondents); and
- analyse the feedback provided by customers who have called or emailed us.

With the above techniques, we cover all key touchpoints of different customer groups' customer journeys and gain valuable feedback on our customer service, products and pricing.

CUSTOMER COMPLAINTS

Every customer is important for us. During the period under review, we dealt with each complaint and analysed what we could do better so that the same issue would not arise. Customer complaints were received by all branches and were mainly handled by the frontline staff.

At Bigbank, we deal with complaints on a case-by-case basis to make sure that similar complaints do not recur. Complaints requiring major technological development are passed on to the manager responsible for the area who determines the action plan.

RESPONSIBLE CUSTOMER SERVICE

Quality customer relationships are underpinned not only by product quality but also by responsible customer service. The responsible nature of our customer service is primarily reflected in the following four aspects:

1. Communicating proactively with the customer – we inform customers of their obligations and potential risks before the conclusion of a product contract. We find solutions together with the customer and prevent potential issues. We conduct communication quality reviews in line with our established 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. Systematically reviewing and analysing customer experience – based on customer feedback we proactively prevent potential problems.
3. Ongoing monitoring of complaints and problems – we follow our complaint handling procedure and make changes to our products, services and processes where necessary.
4. Keeping our promises and providing information effectively – we respond quickly to customers' inquiries and needs.

CUSTOMERS' ASSESSMENT OF THEIR CUSTOMER EXPERIENCE

In 2018, we focused on delivering exceptional and fast customer service. It is important to us that our customers' loyalty to Bigbank should grow in time. Earning loyalty is a challenge and takes time. Therefore, we are proud of, and thankful for, any positive change in customer feedback. In 2018, the most frequently used keywords in customer feedback on Bigbank and its products/services in all countries where we operate were as follows: friendly, professional, fast, flexible, secure, convenient, good terms and conditions, and compassionate.

Compared to 2017, our customers' willingness to recommend Bigbank increased by 35% and the Customer Satisfaction Index grew by 9%.
The dynamics of the Net Promoter Score of 2018 reflect improvements in most touchpoints of the customer journey throughout the year. The biggest Net Promoter Score improvement was achieved in debt handling. In terms of countries, results differed slightly. Bigbank's Net Promoter Score was the highest in Estonia, Lithuania, Germany, Austria and the Netherlands but its improvement was the fastest in Sweden, Finland and Latvia. Customers' loyalty is the

highest immediately after the signature of the contract and interaction with our customer service staff. Strong customer relationships are largely underpinned by a positive shift in Bigbank's image in the media.

Following the changes in our strategy in 2017, we have worked hard to offer better customer experience and increase customer loyalty. In 2018, we maintained a customer-centric approach and our customers' loyalty and trust grew in all countries where we operate.

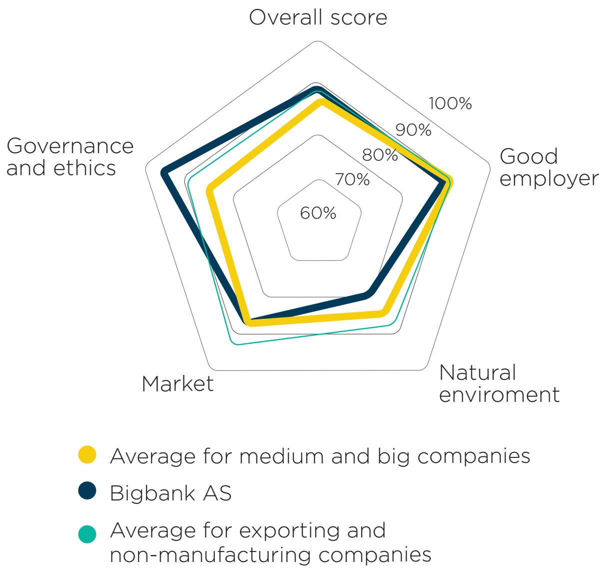
BIGBANK AS A RESPONSIBLE EMPLOYER

In recent years, one of Bigbank's most important strategic objectives has been to become a company and an employer with a good reputation. Our aim has been to develop a strong employer brand both internally and externally. To achieve this, in 2014 the management board selected one of the most recognised standards in Estonia – the Corporate Social Responsibility Index – as the main approach. The index provides an assessment of our performance and helps us define the most important focus areas every two years. Following our conscious work, in 2017 our efforts were recognised with the silver award for responsible business. We are proud of achieving a very high score in the category of governance and ethics.

In 2018, we continued to review and develop Group-level processes to ensure the delivery of quality services to employees and better employee experience. At the same time, we strengthened the operations of the first line of defence, related to employment relationship management, recruitment, remuneration and professional development of employees.

In Bigbank, the head of WOW support services function is responsible for establishing, monitoring and reporting Group-level regulations related to services provided to our employees.

At the end of 2018, Bigbank employed 436 people: 235 in Estonia, 86 in Latvia, 77 in Lithuania, 18 in Finland, 11 in Spain and 9 in Sweden. The annual average number of full-time employees was 418.



Source: CSR Index 2016 results, 17 March 2017

Bigbank Annual Seminar 2018

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 based on its value to the main stakeholder groups. We believe that a commitment to sustainability, both in the mindset and in plans and activities, is the bedrock of the success of the whole society. As a result of the mindset and activities we have been awarded with the silver award at the Responsible Business Gala of 2017. In high esteem and confidence we continue our efforts in this area.

Bigbank appreciates high social contribution and ethical values and acts on the principle of responsibility to ensure that legislative order and good practice is followed. To apply this to the everyday work of Bigbank, 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 can 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.

With outmost high priority of Bigbank upon servicing customers, is the prevention of money laundering and terrorism financing, and the implementation of all relevant requirements, with the aim of reducing the probability of the Estonian financial sector being used for criminal purposes, decreasing 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

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 mostly without additional capital injections. In 2017-2020 we are going to invest heavily in the development of our core systems to be a modern highly automated digital bank providing seamless financial services with a focus on lending and accepting term deposits.

Bigbank is not listed on any stock exchange and holds no ratings by public rating agencies. Nevertheless, we value transparency and proper reporting. Thus, we prepare our public reports in a manner that is useful for the reader. We have established the required internal regulations covering sourcing and outsourcing activities and carefully select our business partners and vendors.

Bigbank established dividend policy in March 2018 stating that when all the regulatory preconditions are met, the Group shall pay a minimum of 3,000 thousand euros of the Group audited annual net profit in dividends, income tax included, but not exceeding total of 5,000 thousand euros per calendar year. Even before that, the Group has made yearly dividend payments. The maximum dividend has been 5,000 thousand euros distributed for 2016 and for 2017 (the same amount is expected for 2018).

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

ENVIRONMENTAL ACTIVITIES

In the summer of 2018, we launched a new product in Estonia and Latvia – green loans to promote sustainable and green consumption in the Baltics. In Estonia, green loans are available as a hire purchase product for financing green energy solutions and equipment for homes, such as solar panels, heating pumps, etc. In Latvia, green loans are provided as a consumer loan product for acquiring solar panels and collectors as well as electric vehicles – electric cars, scooters and bikes. Today, we are the only bank in Estonia and Latvia that offers a financial product specifically designed for financing green projects.

In addition to raising our customers' awareness of sustainable consumption, 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 according to the options offered 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 around us 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 supported culture, sports, young people and large families through various charity and sponsoring projects.

In 2017, the Responsible Business Forum recognised us with a silver award, which is applicable for two years and stands for highly responsible business practice executed by Bigbank.

SPONSORSHIP AND CHARITABLE ACTIVITIES

In 2018, our largest and most outstanding support activities were as follows:

Supporting volleyball. Since 2012, Bigbank has been the main sponsor of the Estonian men’s volleyball team, **Bigbank Tartu**. In 2018, we not only prolonged the existing contract but also became the main sponsor for the same club’s women’s team, **Tartu Ülikool Bigbank**. In August 2018, a new 3-year sponsorship contract of 450,000 euros was signed between Bigbank AS and SK Duo, the club representing both volleyball teams.

Throughout the years of sponsorship, our aim has been to contribute to the development of this field and Estonian sports in general. We are proud to say that during the years of our collaboration, we have witnessed an enormous leap in the development of Estonian volleyball. Estonian national men’s team has qualified for the European Volleyball Championships several times during that time.

We are also pleased that Tartu Ülikool Bigbank, the women’s team, won the 2018 Estonian Women’s Volleyball Cup and that the Estonian women's national volleyball team, which also has Tartu Ülikool Bigbank's women on it, has qualified for the first time in the history of Estonian sports to compete in the European Volleyball Championship.

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 active day full of fun. In addition, 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. In 2018, the winner of the Large Family of the Year title and award of 5,000 euros put up by Bigbank was the Ait family from Saaremaa that has four children.

Donating clothes and home appliances for big families in need. The week before Christmas, Bigbank Tallinn employees were invited to bring clothes and home appliances to charity boxes in our offices. All collected items were donated to the Estonian Association of Large Families that unites 19 different member organizations with more than 1,600 big families (families with four or more children) and 7,400 children across Estonia.

Sponsoring Tartu University Hospital Children's Foundation. Tartu University Hospital Children's Foundation is one of the oldest and biggest charitable foundations in Estonia. The organization supports hundreds of children in need of special treatment and care as well as their families. They also support the purchase of medical equipment for hospitals. Bigbank donated 6,000 euros for hiring people to carry out promotional activities in large shopping malls to attract new permanent donors for the foundation.

Charity fundraising lunches. For several years our employees have been organising charity fundraising lunches to support those in need. Similar to previous years, also in 2018 the staff of our Tallinn and Tartu offices cooked delicious dishes for their colleagues. The money raised was donated to buying an animal ambulance.

Animal shelter campaign. For the fourth year in a row we organised a charitable social media campaign #laiBigbankziedo (#Bigbankwilldonate). 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. In 2018, we raised 4,000 euros which was spent on heating the shelter's 1,000 square metre premises during the winter season.

Marathons in Latvia. For the fourth year in a row we promoted healthy lifestyles by sponsoring Latvia's biggest series of running events which consists of eight full and eight half marathons. The marathons are organised in the summer in the eight Latvian cities: Jelgava, Ventspils,

Bigbank's Large Family Day

Valmiera, Kuldīga, Rēzekne, Sigulda, Liepāja and Daugavpils. In 2018, the series attracted over 25,000 active lifestyle supporters from all age groups.

Volunteering in a Red Cross Christmas fundraiser. This is an annual charity fundraiser called the Christmas Cauldron to help low-income families at Christmas. There are several collection points all over Finland where people can drop money in collection boxes in the shape of big cauldrons. Also, presents such as clothes and toys are welcome. The employees of our Finnish branch contributed to the fundraiser by guarding the cauldrons in several shifts on two days.

Bigbank Tartu volleyball team

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.

In October 2017, we joined the Estonian Banking Association and since then have been actively involved in its working groups. As a licensed credit institution, we are also a member of various clearing and settlement systems such as S.W.I.F.T. Bigbank has joined the SEPA (Single Euro Payments Area) system (as an indirect member) and the cross-border settlement system TARGET2-Estonia (as a direct member).

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

Ksenija, Chief Legal Officer
Vadims, Head of Product Management Area

Corporate governance report

The Corporate Governance Recommendations (CGR) promulgated by the Estonian Financial Supervision Authority is a set of guidelines designed for listed companies.

Although Bigbank AS's shares are not traded on a regulated market and Bigbank AS has not issued listed bonds either, Bigbank AS has elected to comply, where possible, with the practice suggested by the CGR and the "comply or explain" principle. However, many provisions of the CGR are intended for companies with a wide shareholder base and cannot be adjusted to entities with a limited number of shareholders.

As a credit institution, Bigbank AS is subject to supervision by the Estonian Financial Supervision Authority and its activities are regulated, among other legislation, by the Credit Institutions Act that imposes specific management, governance and reporting requirements. The company is governed through general meeting, the supervisory board and the management board. Election, resignation, removal and authorisation of members of the management board are regulated by the Commercial Code, the Credit Institutions Act and the company's articles of association.

The sections below provide an overview of the governance of Bigbank AS and the requirements of the CGR that are currently not complied with together with relevant explanations. The majority of requirements that are not complied with concern Bigbank AS's shareholder structure and related issues.

GENERAL MEETING

The general meeting that convened on 26th of February 2018 decided to extend the mandate of the members of supervisory board. The general meeting that convened on 28th of February 2018 approved the company's annual report, allocation of profit for 2017. 100% of the votes determined by shares were represented at the meetings.

Bigbank AS does not comply with the provisions of the CGR under which the company should publish on its website notice of a general meeting (article 1.2.1), essential information on the agenda of a general meeting (article 1.2.3), and the proposals of the supervisory board and the shareholders regarding the agenda items (article 1.2.4). In 2018, the general meeting was not attended by the members of the management board, the auditor and the members of the supervisory board that are not shareholders (article 1.3.2). Bigbank AS does not make observing the general meeting possible by means of communication equipment (article 1.3.3).

The above requirements are not applicable to a company that has only two shareholders who are also members of the supervisory board and are therefore informed about the company's activity on a current basis. Bigbank AS uses the simplified method of giving notice of the general meeting that is allowed by section 294(11) of the Commercial Code or the company exercises the right of adopting decisions without calling a general meeting that is provided in section 305(2) of the Commercial Code because Bigbank has only two shareholders and consensus in the adoption of decisions is customary.

In other respects, Bigbank AS complies with the provisions of part I of the CGR.

SUPERVISORY BOARD

The supervisory board of Bigbank AS has five members (according to the articles of association the number may range from five to seven):

- **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 activities of the supervisory board are governed, among other legislation, by the Credit Institutions Act that sets forth requirements for members of the supervisory board, the cooperation between the supervisory board and the management board, and the control mechanisms established by the supervisory board.

In 2018, the remuneration of the members of the supervisory board totalled 70 thousand euros including taxes. The company does not deem it necessary to provide more detailed information about the remuneration of the members of the supervisory board because the effect of the remuneration on the company's financial performance is not significant (article 3.2.5). All members of the supervisory board attended at least half of the meetings held in 2018. As far as the company is aware, in 2018 the members of the supervisory board did not have any material conflicts of interest as defined in article 3.3.2 of the CGR. There have been no transactions with the members of the supervisory board in the reporting period.

The CGR sets forth the independence requirement for members of the supervisory board (article 3.2.2). Two out of the five supervisory board members are shareholders who each hold 50% of the shares and both have served on the supervisory board for over ten years. The company 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 a decision detrimental to Bigbank AS and that the independence of the supervisory board is ensured. Other supervisory board members have no known connection with the company except for their board member remuneration.

Bigbank AS publishes neither the information about the existence, responsibilities, composition and structural position of the committees created by the supervisory board on its website (article 3.1.3) nor the details of division of labour of the management board and the supervisory board (article 4.1) Considering that the audit committee has been elected by the supervisory board whose members include shareholders and that the members of the audit committee have been elected from among the members of the supervisory board, disclosure of this information on the company's website is not relevant for observing the interests of the shareholders and the investors. Information on the credit committee is not published on the website either as it has no significant value for investors. Shareholders are also members of the supervisory board and they are thus informed. In other respects, the company complies with parts III and IV of the CGR.

MANAGEMENT BOARD

The management board of Bigbank AS had four members (under the articles of association the number may range from three to five):

- **Sven Raba** – chairman of the management board
- **Pāvels Gilodo** – member of the management board
- **Martin Länts** – member of the management board
- **Mart Veskimägi** – member of the management board

From 1 March 2019, the management board continues with three members: Sven Raba, Martin Länts and Mart Veskimägi.

The activities of the management board are governed, among other legislation, by the Credit Institutions Act that sets forth specific requirements for members of the management board and the principles of their remuneration as well as guidance on how to prevent conflicts of interest and avoid breaching the prohibition on competition. According to the Commercial Code and the articles of association, the company may be represented by any member of the management board acting alone.

The management board acts in the best interests of the company, the shareholders and the creditors and is guided by those interests in managing the company's risks, establishing the organisational structure and organising work within the company. The members of the parent company's management board have certain control functions at the subsidiaries. For example, they participate in the work of the supervisory board of the Latvian subsidiary and the management boards of OÜ Rüütli Majad (as members of the supervisory and management boards respectively).

In 2018, Bigbank AS did not comply with article 2.2.7 of the CGR, which provides that the benefits and bonus schemes of each member of the management board should be published on the corporate website and in the corporate governance report and that the principles of remunerating management board members should be explained at the general meeting.

Bigbank AS publishes the aggregate remuneration of the members of the Group's management board in its annual report. The figure for 2018 was 951 thousand euros including taxes. In addition, the company observes the requirements of the legislation regulating the disclosure of a credit institution's remuneration policy. The requirement of disclosing the remuneration of each member of the management board is primarily aimed at informing the shareholders. In view of the shareholder structure of Bigbank AS, detailed disclosure of this information in the company's corporate governance report is not necessary. The principles of remunerating the members of the management board were not explained at the general meeting because the shareholders are on the supervisory board and thus aware of the principles.

In other respects, the company complies with the provisions of part II of the CGR.

DIVERSITY AND INCLUSION POLICY

At Bigbank AS we believe that a diverse and inclusive workforce is critical to running a sustainable and successful business. Bigbank AS is committed to supporting a diverse work environment in which everyone is treated fairly and with respect.

For Bigbank AS diversity means that every employee with his/her different abilities, qualifications and life experience, is part of the team. Differences, gender equality and diversity provide Bigbank AS with the ability to draw on a variety of experience and competencies that helps increase profitability and ensure that the Bigbank remains an attractive employer. Consequently, gender equality and diversity are of strategic importance.

All employees regardless of gender, ethnic background, religion or belief, age, sexual orientation or physical disability should have equal access to career and other opportunities. Working conditions, salaries, benefits and other employment terms are designed with the aim of providing equal opportunities and making it easier for all employees to combine work, private life and parenthood.

Bigbank builds talented and diverse teams to drive business results. Talent comes from all cultures, countries, races, genders, sexual orientations, abilities, beliefs, backgrounds and experiences. Bigbank AS creates respectful and inclusive environments where people can thrive. All of Bigbank AS's employees are responsible for treating colleagues with dignity and respect and creating an inclusive culture free from discrimination, bullying, harassment and victimisation irrespective of age, colour, disability, ethnic or national origin, gender, gender expression, gender identity, marital status, pregnancy, race, religion or belief, or sexual orientation.

DISCLOSURE OF INFORMATION

Articles 5.2 and 5.3 of the CGR are not observed in the following: the financial calendar, information about general meetings and the schedule of meetings specified in article 5.6 of the CGR are not disclosed on the corporate website.

In 2018, Bigbank AS did not publish its financial calendar because the regularity of reporting is provided, among other things, in the Credit Institutions Act. The company issues quarterly reports within two months after the end of each quarter. Disclosure of a term for publishing a notice of calling a general meeting is not relevant in view of the small number of shareholders.

Currently Bigbank AS does not deem it necessary to publish information about meetings with investors and analysts or media and the presentations arranged for them on its website because no price sensitive information is disseminated at those meetings (articles 5.5. and 5.6). The information about general meetings is not published because of the small number of shareholders.

All the information is not currently available in English at the websites (article 5.2), as the Group does not consider it necessary regarding the shareholders' circle. In other respects, the company complies with the provisions of part V of the CGR.

REPORTING

Bigbank AS is audited by Ernst & Young Baltic AS since 2013. Olesia Abramova is the lead auditor. Bigbank AS complies with the auditor rotation requirement.

Bigbank AS does not observe this part of article 6.1.1 of the CGR, which provides that the auditor should attend the meeting of the supervisory board that reviews the annual report. The supervisory board is informed about the company's performance on a quarterly basis. Upon necessity the information provided to the supervisory board includes information about the results of audit procedures that have been conducted. The members of the supervisory board have not deemed it necessary to have the auditor attend the meeting of the supervisory board that reviews the annual report. The members of the supervisory board do not sign the annual report. The position of the supervisory board is presented in the supervisory board's written report on the company's annual report.

In addition to the statutory audit, the following non-audit services were provided by the auditor in reporting period: a) limited methodological and accounting consultations on the adoption of the new financial reporting standard IFRS 9 Financial Instruments, and b) analysis of the applicability of the profit split method for transfer pricing purposes.

The supervisory board does not fully comply with articles 6.1.1 and 6.2.1 of the CGR that regulate notifying and informing shareholders because both shareholders are on the supervisory board and thus informed about the work of the supervisory board and the auditor.

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 risk committee and 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 operations security and control unit and the risk reporting unit. The heads of the units of the risk management area report regularly to the risk committee and the management board on the Group's risk profile and overall risk development.

Within the risk management area, the operations security and control unit's (OSCU) 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 OSCU reports directly to the management board.

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 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, promote openness and consideration of other employees.

Bigbank's employees have a possibility to send notifications of possible internal misconduct, that may include breaching the general rules of conduct established by the Group and procedures regulating internal work organisation as well as violation of legislation and neglect for 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.

REMUNERATION PRINCIPLES

The Group's remuneration policy is established by the supervisory board in order to ensure a fair and transparent remuneration system that would support achievement of the Group's long-term objective – to become recognised as the best financial services provider by customers and to ensure 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. 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 annual remuneration principles, including the principles for establishing annual key performance indicators (KPIs), evaluating employee performance and reviewing fixed pay. Annual remuneration principles also include guidelines for establishing performance pay principles at the branch or function level. The management board monitors the implementation of the remuneration principles quarterly, asking feedback from employees in May and 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 structure consists of two parts:

- Fixed remuneration including:
    - 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 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 pay paid on objective grounds and generally on a one-off basis, e.g. for fulfilling additional responsibilities or ensuring business continuity in emergency situations.

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 and the internal audit function. 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. Annual general remuneration principles, including the rates of fixed remuneration and the rules for the provision of variable remuneration, are approved by the Group's management board. Branch- and area-specific remuneration decisions are made by heads of branches and areas in line with the Group's policy and rules.

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. The supervisory board approves the list of material risk takers at least once a year based on the proposal of the management board. As at 31 December 2018, the list included 44 positions. The list is changed based on changes in staff or the Group's work arrangement. 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 10% 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.

Bigbank AS operates in one business line. Therefore, it does not disclose quantitative summary data on remuneration by business line.

In 2018, the remuneration (excluding social costs and pensions) provided to management, which included 46 positions together with the members of the management board and supervisory board, totalled 2,832 thousand euros, the figure consisting of fixed remuneration of 2,284 thousand euros, performance related pay of 434 thousand euros and severance payment of 114 thousand euros. Fixed remuneration was paid to people in 46 positions and performance related pay was paid to people in 26 positions. Performance related pay was paid in cash and allocated and paid out in 2018. There is no unpaid performance related pay allocated for performance in 2018.

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

Karin, Head of Internal Audit Unit
Olga, Analyst of Management Accounting
Roger, Head of Marketing Area

(In thousands of euros)

Consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	2018	2017
Assets			
Cash balances at central banks	4	29,691	36,235
Cash balances at banks	4	36,261	17,947
Debt instruments at fair value through other comprehensive income	5	13,484	-
Financial assets held for trading	5	-	11,210
Loans to customers	6,7	427,964	377,458
Other receivables	8	1,484	2,775
Prepayments	9	1,732	915
Property and equipment	10	3,625	3,446
Investment properties	11	1,866	1,878
Intangible assets	12	12,381	7,472
Assets classified as held for sale		29	-
Total assets		**528,517**	**459,336**
Liabilities			
Deposits from customers	13	393,020	334,819
Subordinated notes		4,960	4,977
Provisions		1,884	667
Other liabilities	14	5,197	4,398
Deferred income and tax liabilities	15	2,282	1,229
Total liabilities		**407,343**	**346,090**
Equity	16		
Share capital		8,000	8,000
Capital reserve		800	800
Other reserves		806	675
Retained earnings		111,568	103,771
Total equity		**121,174**	**113,246**
Total liabilities and equity		**528,517**	**459,336**

The notes on pages 51 to 136 are an integral part of these consolidated financial statements.

(In thousands of euros)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2018	2017
Interest income	17	66,386	69,725
Interest expense	18	-6,099	-5,776
Net interest income		**60,287**	**63,949**
Fee and commission income		3,573	3,031
Fee and commission expense		-312	-346
Net fee and commission income		**3,261**	**2,685**
Net loss on exchange differences	19	-315	-365
Net loss/profit on derecognition of non-financial assets		-274	28
Other income	20	2,075	2,678
Total income		**65,034**	**68,975**
Salaries and associated charges	21	-15,089	-16,362
Other operating expenses	22	-13,023	-10,431
Depreciation and amortisation expense	10,12	-2,063	-1,382
Provision expenses		-1,261	-535
Net impairment losses on loans and financial investments		-11,355	-17,581
Losses resulting from changes in the fair value of investment properties	11	-61	-1
Other expenses	23	-2,755	-3,045
Profit/loss from assets classified as held for sale		-256	-
Total expenses		**-45,863**	**-49,337**
Profit before income tax		**19,171**	**19,638**
Income tax	27	-1,645	-2,432
Profit for the year		**17,526**	**17,206**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		322	204
Changes in the fair value of debt instruments at FVOCI		-191	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	16	**131**	**204**
Other comprehensive income for the year		**131**	**204**
Total comprehensive income for the year		**17,657**	**17,410**
Basic earnings per share (EUR)	30	219	215
Diluted earnings per share (EUR)	30	219	215

The notes on pages 51 to 136 are an integral part of these consolidated financial statements.

(In thousands of euros)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2018	2017
Cash flows from operating activities			
Interest received		60,381	60,198
Interest paid		-5,019	-6,373
Salary and other operating expenses paid		-31,008	-28,380
Other income and fees received		8,290	6,634
Other expenses and fees paid		-5,197	-4,952
Recoveries of receivables previously written off		36,422	20,358
Received for other assets		-	116
Paid for other assets		-	-95
Loans provided		-276,236	-252,226
Repayment of loans provided		180,760	179,776
Change in mandatory reserves with central banks and related interest receivables	4	-269	-419
Proceeds from customer deposits		136,519	119,367
Paid on redemption of deposits		-75,146	-69,870
Net acquisition and disposal of debt instruments	5	-	3,858
Income tax paid		-2,153	-3,492
Effect of movements in exchange rates		-186	-117
Net cash from in operating activities		**27,158**	**24,383**
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets	10,12	-7,426	-5,537
Proceeds from sale of property and equipment		29	96
Proceeds from sale of investment properties		38	115
Acquisition of financial instruments	5	-3,025	-
Proceeds from redemption of financial instruments		133	-
Net cash used in investing activities		**-10,251**	**-5,326**
Cash flows from financing activities			
Received from issue of notes		-	5,000
Paid on redemption of bonds		-164	-
Dividends paid	16	-5,000	-5,000
Net cash used in financing activities		**-5,164**	**-**
Effect of exchange rate fluctuations		-243	-227
Increase in cash and cash equivalents		**11,500**	**18,830**
Cash and cash equivalents at beginning of year	4	53,121	34,291
Cash and cash equivalents at end of year	4	**64,621**	**53,121**

The notes on pages 51 to 136 are an integral part of these consolidated financial statements.

(In thousands of euros)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent				
	Share capital	Statutory capital reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2017	8,000	800	1,369	90,667	100,836
Profit for the year	**-**	**-**	**-**	**17,206**	**17,206**
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	204	-	204
Revaluation of land and buildings	-	-	-898	898	-
Total other comprehensive income	**-**	**-**	**-694**	**898**	**204**
Total comprehensive income for the year	**-**	**-**	**-694**	**18,104**	**17,410**
Dividend distribution	-	-	-	-5,000	-5,000
Total transactions with owners	**-**	**-**	**-**	**-5,000**	-5,000
Balance at 31 December 2017	**8,000**	**800**	**675**	**103,771**	**113,246**
Balance at 1 January 2018	**8,000**	**800**	**675**	**103,771**	**113,246**
Changes on initial adoption of IFRS 9 (see note 1)	-	-	-	-4,729	-4,729
Restated balance at 1 January 2018	**8,000**	**800**	**675**	**99,042**	**108,517**
Profit for the year	**-**	**-**	**-**	**17,526**	**17,526**
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	322	-	322
Net change in fair value of debt instrument at FVOCI	**-**	-	-191	**-**	-191
Total other comprehensive income	**-**	**-**	**131**	**-**	**131**
Total comprehensive income for the year	**-**	**-**	**131**	**17,526**	**17,657**
Dividend distribution	-	-	-	-5,000	-5,000
Total transactions with owners	**-**	**-**	**-**	**-5,000**	**-5,000**
Balance at 31 December 2018	**8,000**	**800**	**806**	**111,568**	**121,174**

Please refer note 16.

The notes on pages 51 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 company incorporated and domiciled in Estonia that holds an activity licence of a credit institution. The consolidated financial statements as at and for the year ended 31 December 2018 comprise Bigbank AS (also referred to as the "parent company"), its Latvian, Lithuanian, Finnish, Spanish and Swedish branches and its subsidiaries AS Baltijas Izaugsmes Grupa, OÜ Rüütli Majad and OÜ Balti Võlgade Sissenõudmise Keskus and the subsidiary of OÜ Balti Võlgade Sissenõudmise Keskus - SIA Baltijas Parādu Piedziņas Centrs (together referred to as the "Group").

The business name Bigbank AS was registered on 23 January 2009. The Group's former business name was Balti Investeeringute Grupi Pank AS.

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 31) 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 by IAS 27.

The management board of Bigbank AS has prepared these consolidated financial statements and authorised them for issue on 27 February 2019.

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 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. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated.

In accordance with the Estonian Accounting Act, the parent company's unconsolidated 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 31 *Unconsolidated statements of parent company as a separate entity*. 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. CHANGES IN ACCOUNTING POLICIES

The Group adopted IFRS 9 with a date of transition of 1 January 2018, which resulted in changes in the Group's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets at the date of transition were recognised in the opening retained earnings. The comparative period notes disclosures repeat those disclosures made in the prior year according to IAS 39.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group. Further details of the specific IFRS 9 accounting policies applied in the current period are described in more detail section 1.3 below.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

The impact of the adoption of IFRS 9 on the Group and the measurement category and the carrying amount of financial assets in accordance with IAS 39 and IFRS 9 at 1 January 2018 is presented in the following table:

(In thousands of euros)

	IAS 39		Remeasurement	IFRS 9	
	Measurement category	Carrying amount	ECL	Measurement category	Carrying amount
Financial assets					
Debt instruments at fair value through other comprehensive income	FVPL	11,210	-	FVOCI	11,210
Loans to customers	L&R	377,458	-4,729	AC	372,729
Total financial assets		**388,668**			**383,939**

After assessing the business model of debt securities within the Group's liquidity portfolio, which are held to collect the contractual cash flows and sell, the debt securities, which were previously classified as financial assets held for trading, were classified as financial assets at FVOCI.

There were no changes to the classification and measurement of financial liabilities.

The adjustment of 4,729 thousand euros was recorded to the opening retained earnings, to reflect the transition from the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new loss allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

ADJUSTMENT TO RETAINED EARNINGS FROM ADOPTION OF IFRS 9

	Effect on retained earnings
Opening retained earnings - IAS 39 as at 1 January 2018	103,771
Reclassification of financial assets held for trading from FVPL to FVOCI	-
Loss allowance for loans and receivables	-4,729
Opening retained earnings - IFRS 9	**99,042**

(In thousands of euros)

1.3 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.

		Ownership interest	
Subsidiary	Country of incorporation	2018	2017
AS Baltijas Izaugsmes Grupa	Republic of Latvia	100%	100%
OÜ Rüütli Majad	Republic of Estonia	100%	100%
Balti Võlgade Sissenõudmise Keskus OÜ	Republic of Estonia	100%	100%
SIA Baltijas Parādu Piedziņas Centrs	Republic of Latvia	100%	100%
UAB Baltijos Skolų Išieškojimo Centras	Republic of Lithuania	-	100%

On 2 March 2018, UAB Baltijos Sko lų Išieškojimo Centras, a subsidiary of OÜ Balti Võlgade Sissenõudmise Keskus, was deleted from the Lithuanian Register of Legal Entities. The credit quality of the loan portfolio of the Lithuanian branch has improved to a level where it is no longer necessary for the Group to have a subsidiary whose core business is managing the non-performing loans of the Lithuanian branch.

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.

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 dercognition 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

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.

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 carried at AC and in the statement of cash flows they comprise cash on hand, balances on demand and overnight deposits, highly liquid term deposits with other credit institutions with original maturities of one year or less, and the balances on correspondent accounts with central banks less the mandatory reserves plus the interest receivable on the mandatory reserves. The statement of cash flows is prepared using the direct method.

Mandatory cash balances with the central banks. Mandatory cash balances 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. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

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 and recognised in *Gains or losses on derecognition of financial assets and liabilities not measured at FVTPL*. 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 the 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 considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. As at 31 December 2018, there are no such cases that would be classified under 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.

Financial assets impairment

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 (including the probability of default and loss given default for the rating class), 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 physical 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 applies for assessment and accounting of unsecured retail receivables a three-stage approach depending on whether the claim is performing or not and if the claim is performing, whether there any signs for special attention. 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 where the Group has credit risk exposures. PD and LGD values were re-calculated in the fourth quarter based on the relevant statistical data of the Group. PD estimates are adjusted for forward-looking component which takes into the account expected macroeconomic scenarios in the countries where the Group has credit risk exposures. This approach is summarized as follows:

Stage 1 – 12-month ECL applies to all claims, which have no signs of 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 recognized as payment delay more than 30 days at the reporting date or in the last six months period prior to the reporting date. Computation of ECL is based on lifetime PD that represents the probability of default occurring over the remaining estimated life of the financial asset.

Stage 3 – defaulted and uncollectible claims are included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the 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 repayment delay of 30 or more days 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 has been no evidences of increase in credit risk in the last six months period.

Definition of default and write-off

Any of the following events regarding the client 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) Improbability of receiving payments. The contract is a performing contract, but on the basis of objective evidence, it may be presumed that the client will be unable to settle all of the financial obligations and the situation cannot be solved satisfactorily.

(ii) Payment delay in fulfilling a material financial obligation. The contract is deemed to be non-performing if the client is no longer able or willing to fulfil payment obligations, e.g. upon any of the following events: (a) material payments are past due for more than 90 days; (b) a letter of contract termination, including a demand for payment, has been sent to the client; (c) the contract has expired, but all debts have not been settled; (d) the client is bankrupt or deceased or bankruptcy, liquidation or debt restructuring proceedings have been initiated against the client; (e) identity 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 a claim, the credit may be written off the statement of financial position.

Impairment methodology for receivables secured with collateral

Receivables secured with real estate or other physical 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. The Group applies for the receivables from companies the same three-stage approach as used for financial assets.

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 AND EQUIPMENT

tems of property and equipment, excluding land and buildings, are carried at historical cost less any accumulated depreciation and any impairment losses. 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.

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.

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

Asset class	Useful life
Land and works of art	are not depreciated
Buildings	25 - 50 years
Cars and office equipment	5 years
Computers	3 - 4 years
Other equipment and fixtures	5 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 the management's estimate. 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 as *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. An intangible asset is amortised on a straight line basis over expected useful lives of 5 to 15 years. Amortisation expense is recognised as *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 *Other expenses*. 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 twelve 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 twelve 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. Also, fair values of financial instruments measured at amortised cost are disclosed in note 29.

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

A finance lease is a lease that transfers all significant risks and rewards of ownership to the lessee. An operating lease is a lease other than a finance lease.

The Group as a lessor

Assets leased out under operating leases are carried in the statement of financial position analogously to other assets. Operating lease payments are recognised in income on a straight-line basis over the lease term.

The Group as a lessee

Operating lease payments are expensed on a straight-line basis over the lease term.

The amount of future minimum lease payments under non-cancellable operating leases is determined based on the non-cancellable periods of the contracts. In the case of contracts that can be cancelled subject to a notice period, the notice period is treated as the non-cancellable period. In the case of contracts that can be cancelled subject to mutual agreement, the non-cancellable period is deemed to last for six months.

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 rate method. A financial liability is removed from the statement of financial position when it is discharged or cancelled or expires.

The policy for accounting of financial liabilities under IFRS 9 is the same as under IAS 39.

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.

Credit limits to corporate customers are fully secured by a mortgage. Unused but committed credit limits can be used if the customer fulfills all the credit conditions including the customer does not have any overdue payments to the Bank. 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.

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 INCOME AND EXPENSE

Fee income comprises other fees received from customers during the period and fee expense comprises fees paid to other credit institutions. Fees and commissions income is recognised in the fair value of the considerations received or receivable for the services provided in the ordinary course of the Group's activities. Fees and commissions income and expense are recognised on an accrual basis. Loan fees (less direct expenses) are 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 includes revenue 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 taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and is recognised in profit or loss for the year, except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period directly in equity. Current tax is the amount expected to be paid to, or recovered from, the taxation authorities 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 prior to filing relevant tax returns. Taxes other than on income are recorded within *Salaries and associated charges* and other *Operating expenses*. Advance payments of income tax that credit institutions are required to make in Estonia from 2018 are recorded as tax expense.

(In thousands of euros)

In accordance with the effective Estonian Income Tax Act, corporate income tax is not levied on profit earned but on the profit distributed as dividends. The amount of tax payable on a dividend distribution is calculated as 20/80 of the amount of the net distribution. The income tax payable on dividends is recognised as an expense in the period in which the dividends are declared, irrespective of the period in which the dividends are ultimately 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. From 2018, the Latvian corporate income tax legislation is similar to the Estonian one: profit is taxed when it is distributed and deferred tax assets and liabilities do not arise.

The profits earned in Lithuania, Finland, Spain 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 outside Estonia

	2019	2018	2017
Latvia	-	-	15.0%
Lithuania	15.0%	15.0%	15.0%
Finland	20.0%	20.0%	20.0%
Sweden	22.0%	22.0%	22.0%
Spain	30.0%	30.0%	30.0%

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.

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 30 to the financial statements is voluntary.

NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS THAT THE GROUP HAS ADOPTED DURING THE YEAR (ENDORSED BY EU)

The accounting policies adopted are consistent with those of the previous financial year except for the following new and/or amended IFRSs which have been adopted by the Group as of 1 January 2018.

IFRS 9 *Financial Instruments.* The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The significant new accounting policies applied in the current period are described in note 1.

New and/or amended IFRSs which have been adopted by the Group as of 1 January 2018, but did not have any material impact on the Group:

IFRS 15 *Revenue from Contracts with Customers.* IFRS 15 established a five-step model that applies to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures are required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Group adopted IFRS 15 using the modified retrospective method of adoption. The standard did not have any significant impact on the Group financial statements.

IFRS 15 *Revenue from Contracts with Customers* (Clarifications). The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. The management has assessed the effect of this standards and it had not any significant impact on the Group.

IFRS 2 *Classification and Measurement of Share based Payment Transactions* (Amendments). The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The management has assessed the effect of this standards and it had not any significant impact on the Group.

IAS 40 *Transfers to Investment Property* (Amendments). The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The management has assessed the effect of this standards and it had not any significant impact on the Group.

IFRIC interpretation 22: *Foreign Currency Transactions and Advance Consideration.* The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The management has assessed the effect of this standards and it had not any significant impact on the Group.

The IASB has issued the *Annual Improvements to IFRSs 2014 – 2016 Cycle*, which is a collection of amendments to IFRSs. The management has assessed the effect of this standards and it had not any significant impact on the Group.

- IAS 28 Investments in Associates and Joint Ventures. The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT EARLY ADOPTED

The Group has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorisation of these financial statements for issue, but which are not yet effective:

IFRS 16 Leases is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged The Group has assessed the impact of the new standard on its financial statements. The Group decided that it will apply the standard using modified retrospecific approach. The Group recognised a right of use asset of 2,750 thousand euros against a corresponding lease liability (*Property and equipment and Other liabilities*) on 1 January 2019. The expected impact to the profit and loss of financial year 2019 is 10 thousand euros (increase in depreciation expense 720 thousand euros, increase in interest expense 30 thousand euros and decrease in the rental expense 740 thousand euros).

A number of new standards, amendments to standards and interpretations have been published but not effective for the Group for annual periods beginning on or after 1 January 2019 which accordingly do not have any significant impact on the Group's financial statements:

Amendment in IFRS 10 *Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU.

IFRS 9 *Prepayment features with negative compensation* (Amendment). The amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income.

IAS 28 *Long-term Interests in Associates and Joint Ventures* (Amendments). The amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. These amendments have not yet been endorsed by the EU.

IFRIC interpretation 23 *Uncertainty over Income Tax Treatments*. The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances.

IAS 19 *Plan Amendment, Curtailment or Settlement (Amendments)*. The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU.

Conceptual Framework in IFRS standards. The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

IFRS 3 *Business Combinations (Amendments)*. The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU.

IAS 1 *Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)*. The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU.

The IASB has issued the *Annual Improvements to IFRSs 2015 – 2017 Cycle*, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU.

- IFRS 3 *Business Combinations and IFRS 11 Joint Arrangements*
- IAS 12 *Income Taxes*
- IAS 23 *Borrowing Costs.*

The Group plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

1.4 ACCOUNTING POLICIES APPLICABLE BEFORE 1 JANUARY 2018

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9, are as follows:

Financial instruments - key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below. Refer to Note 3 for the definition of fair value and amortised cost as well as for description of valuation techniques.

Financial assets held for trading comprised debt securities

Debt securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a shorter period after purchase, usually before maturity. Debt securities are carried at fair value. Interest earned on debt securities is presented in profit or loss for the year as interest income. The fair value of financial assets held for trading is their quoted bid price at the reporting date. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as *Net gain/loss on financial transactions* in the period in which they arise.

Loans and receivables

Loan receivables are reported in the statement of financial position under Loans to customers. Loan receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. The amortised cost of loans is reduced by any impairment losses.

Recognition of impairment allowances for loan 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 impairment allowances are recognised by reference to credit risk parameters (including the probability of default and loss given default for the rating class), 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 (including losses incurred but not yet reported - IBNR) 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 impairment allowances are established using three principal methods:

- the discounted cash flow method, which is used to assess unsecured retail receivables;
- evaluation of the net realisable value of collateral, which is used to assess retail receivables secured with real estate or other physical 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).

Receivables secured with real estate or other physical 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.

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.

The impairment allowance for collectively assessed loans is calculated by multiplying the carrying amount of receivables in the group by the impairment rate assigned to the group. The same rate is applied to any interest and other receivables associated with the loans belonging to the group.

Statistical impairment allowances (including IBNR) are established for collectively assessed groups of receivables that have not been found individually impaired using statistical methods (statistical analysis of historical data on delinquency) or a formula approach based on the historical loss rate experience under the following circumstance:

- There is objective evidence such as observable data, which indicates a measurable decrease in the future cash flows from the group of receivables, or an analysis of the Group's historical loss experience, which suggests that the group of receivables contains impaired items but the individual impaired items cannot yet be identified.

The need for statistical impairment allowances is assessed and such allowances are made once a month for the following groups of receivables:

- loan receivables not secured with real estate or other physical assets;
- loan receivables secured with real estate;
- receivables from companies.

Loans that are found to be individually impaired are not included in a group of loans that is assessed for impairment collectively. Such loans are assessed for impairment individually.

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 impairment 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*.

Impairment allowances, changes in impairment allowances and reversals of impairment 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*.

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 29).

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 note 11 and 29).

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 to 15 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.

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 a business model. Aim of the risk and capital management shall be managing volatility of financial performance and maintain confidence among the customers, shareholders and regulators.
Following principles shall be followed in risk and capital management:

- **Well-balanced portfolio**. 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 requirements. Detailed capital requirements are outlined in the 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 entire Group are established in the Risk Policy approved by the supervisory board of Bigbank AS. Risk taking is an integrated part of all Group's business activities where risk management supports business activities and decision making process ensuring that that there is an appropriate balance between risk and reward. 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 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 and internal liquidity assessment process (ICAAP/ILAAP).

RISK MANAGEMENT FRAMEWORK

The supervisory board of Bigbank AS has established the Group's risk management framework 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 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, everybody who works for Bigbank – the frontline employees as well as the employees of the branches and risk, compliance, internal control, and support functions – is responsible for managing risk. 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 control functions)
- **Third line of defence** - functions that provide independent assurance (internal audit and audit committee)

Fig. Three lines of defence model

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

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 (including the credit risk committee as well as other risk committees) 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.

For further information about control functions please refer to section *Risk management and control functions in the Corporate governance report*.

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

1. the supervisory board;
2. the management board; and
3. risk and 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 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 risk committee, which is established and nominated by the Group's management board, is responsible for monitoring and assessing all risks identified within the scope of the risk and capital strategy and framework determined by the supervisory board and the management board. The risk committee provides a platform for discussing, coordinating and agreeing strategic issues related to risks, capital, funding and liquidity. The IT risk committee is a sub-committee of the risk committee.

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 450 thousand euros.

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 risk appetite for all main risk categories 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

Following are the elements of risk appetite:

- **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 are integrated into the Group's strategies and business planning process. The risk management process consists of following activities:

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

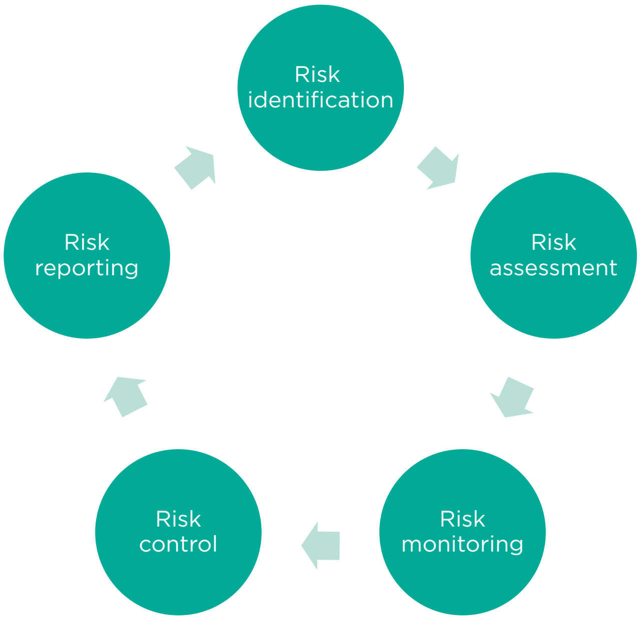


Fig. Risk management process

Risk identification. Risks are identified and measured in respect of all products, operations, processes and systems of the Group. Risk management area is responsible for developing and maintaining an appropriate suite of risk identification and measurement techniques to support the operations of the various business areas (risk owners), and measurement of capital adequacy on the Group-wide basis. All material risks are measured using quantitative metrics and monitored regularly. Management board reviews and approves risk measurement principles annually. Stress testing, sensitivity analysis and scenario analysis are proactive methods used for evaluating the impact of various factors on the risks profile and respective capital need. Stress testing is integrated with the Group's risk management framework and capital adequacy assessment process, which enables to evaluate possible impact of relevant business and strategic decisions. Stress testing of material risks is performed at least once every year or ad hoc.

Risk assessment. The Group only takes risks that it knows and has sufficient knowledge and experience to evaluate and manage. Risk assessment of new products and systems is performed before they are implemented. Principles of proportionality and efficiency apply – extent of assessment shall be in accordance with the potential impact and importance of risk in aggregated risk profile of the Group.

Risk monitoring. 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 shall be immediately reported by the head of respective unit and escalated to senior management, committees, management board and/or the supervisory board depending on the limit or internal instruction.

Risk control. The significant part of risk management is risk control - internal procedures, processes and limits framework. The necessity for internal rules arise 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 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 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 shall follow the group level principles of establishing internal regulations in the Group.

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 reporting. Risks are monitored and reported by all material risk types, by products and by all branches. Head of risk management area is responsible for implementing appropriate organisation, policies, procedures and systems to ensure that risks are measured, evaluated, aggregated, analysed and regularly reported to the management board. Supervisory board is on a regular basis fully informed by the CEO and head of risk management area on the development of Group's overall risk situation as well as other risk related matters.

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 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. Credit risk arises in 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) trading portfolio.

Credit risk of loan portfolio is the most significant risk of the Group and the most significant driver of risk weighted assets. The Group determines the credit risk levels in loan portfolio based on the ECL estimates as follows:

- Low risk – ECL up to 2%
- Moderate risk – ECL over 2% up to 6%
- Above average risk – ECL over 6% up to 10%
- High risk – ECL over 10%

The Group's appetite for the credit risk is on *Moderate* level. However, it is carefully distinguished between different sub-profiles within the loan portfolio and risk sub-profile for different products or countries differentiates significantly from *Low* level (1) to *Above average* level (3), based on strategic plans and risk analysis.
Credit risk of the loan portfolio is controlled 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 underwriting and inquiries to external databases to ensure standardised, compliant and efficient decision-making;
- focusing only on creditworthy private customers and small companies with a proven track record;
- consistently following responsible lending principles;
- implementing systematic monitoring processes to follow-up credit risk limits and risk indicators on country, product, partner and customer level.

In providing credit, the Group observes 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 transaction 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.

The 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 function is the first line of defence in managing the credit risk of money market The second line of defence is the risk management function.

The credit risk of the trading portfolio arises from the Group's trading portfolio. The Group calculates regulatory capital requirements for trading-book business in accordance with its credit risk rules, provided that the size of its trading-book business both on and off the statement of financial position meets the following two conditions: (a) it is normally less than 5% of the total assets and 15 million euros; and (b) it never exceeds 6% of the total assets and 20 million euros.

The strategy and target risk profile of credit risk of the trading portfolio are set, managed and monitored as part of trading portfolio risk (position risk) under market risk management. The finance function is the first line of defence in managing the credit risk of the trading portfolio.

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 with a well-diversified loan portfolio, where the majority of single customer or connected customer concentrations are below 0.1% of total loan portfolio.

In its day-to-day activity, the Group refrains from taking concentration risk. The Group avoids major concentrations of exposures by providing mainly medium-sized and small loans. The Group may also grant larger loans if sufficient collateral is provided and other relevant conditions are met but the Group's total receivables from a borrower and parties related to the borrower may not, at any time, exceed 10% of the Group's net own funds (please refer to subsection Own funds and capital).

At 31 December 2018 and at 31 December 2017, the Group did not have any customers with a high risk concentration, i.e. customers whose liability would have exceeded 10% of the Group's net own funds.

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.
- The customers' reciprocal relations are determined through relevant enquiries.
- 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. As a rule, exposure to the one particular country shall not exceed 30% of the total loan 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 private person.
- Requirements for collateral depend on the type of the loan. Real estate and business loans have to be secured with physical collateral (real estate collateral provided under the law of property such as a mortgage on immovable property). Consumer loans and small business loans may be secured with suretyship from a private person. In making financing decisions, the Group does not rely simply on the borrower's business plan or economic activities and additional collaterals or securities are required.
- In the case of small and medium-sized loans it is expedient to accept collateral provided under the law of obligations. The Group is aware that the legal enforceability of real estate collateral (collateral provided under the law of property) and the regulation governing its realisation process restrict the use of such collateral in the Group's business activity.
- 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 estate 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 whose market value has been determined in a written valuation report issued by a real estate company with whom the Group has a corresponding agreement. Collateral risk is estimated by reference to the valuation report prepared by the real estate company and subjective valuation performed by the Group's staff.
- The agreements made with real estate companies regarding the valuation of assets set out the real estate company's liability for incorrect appraisal.
- The Group accepts only collateral located in an area with an active and transparent real estate market. Such areas are determined in partnership with real estate companies and experts accepted by the Group. Acceptable real estate collaterals include, above all, 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.
- The property put up as collateral under the law of property 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 own assets as a collateral only if it is required by funding agreements or currency forward and swap contracts.

Credit risk management

The overall risk profile of the loan portfolio is managed at Group level and all branches and subsidiaries observe Group-level principles, rules and limits. The Group's credit risk strategy and risk profile are developed using input and risk assessments from all countries and branches that know local market conditions.

Customers are selected using highly predictive 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 processing loan analyses and evaluating the credit risk of each transaction even if the final decision is taken at a higher level. The Group's head of credit function, credit risk officers and credit committee are the second line of defence in managing the credit risk of the loan portfolio. As it is not possible to fully separate all first and second line functions in the credit area, the operational risk unit acts as an additional second line of defence, exercising additional independent internal credit control over credit activities. Country 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 manages its credit risk in accordance with the provisions of the Credit Institutions Act, the regulations issued by the Governor of the Bank of Estonia, the Financial Supervisory Authority, the Estonian Banking Association and other regulatory bodies in Estonia and other countries, where 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' settlement 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.

The credit risk of the loan portfolio is managed through the contracts' short maturities, above average interest rates and small loan amounts.

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 easy to foreclose.

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

- Loans are mostly provided to individuals. At 31 December 2018, loans to individuals accounted for 93.5% of the loan portfolio. The repayment ability of private persons is by nature more stable than that of companies and less influenced by stress scenarios of economic environment than 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 highly diversified loan portfolio. At 31 December 2018, the average loan balance was 3,563 euros and 100 largest loans accounted for 6.9% 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 that are granted against income and hire-purchase services. In addition, in Estonia and Lithuania, the Group provides loans and financial guarantees to small and medium-sized enterprises. At 31 December 2018, the loans to companies accounted for 6.5% of the Group's loan portfolio.

The Group determines limits for the single customer group which cannot exceed 1/3 of the country total loan portfolio.

To obtain an overview of the exposures 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.

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 the 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 by the 12th month 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 by expected credit loss (ECL) formula ECL = PD * LGD * EAD and LGD and PD are assessed twice a 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. The loan (agreement) is classified as non-performing when the customer is over 90 days in default on the obligation to pay a significant amount of loan principal, interest or fees or the loan is materially restructured so that the remaining balance of loan principal or the accrued interest is reduced and the circumstances causing the customer's financial difficulty have not been eliminated.

To better evaluate credit risk, the Group divides loan receivables into six 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.
- *Good.* 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.
- *Satisfactory.* The customer's estimated

(In thousands of euros)

ability and willingness to pay and factual payment behaviour are satisfactory. There may occur up to 60-day defaults and the receivable may have to be restructured in order to eliminate weaknesses. The customer's credit risk is moderate, i.e. ordinary.

- *Weak*. The customer has clearly identifiable economic weaknesses. The customer is making payments but there may occur up to 60-day defaults, which is why the receivable has to be restructured. Repayment of the loan is probable but the customer's credit risk is high.
- *Inadequate*. The customer is more than 90 days in default on significant commitments or there have been done restructuring activities 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	2018	2017
Very good	224,604	184,461
Good	138,620	121,009
Satisfactory	55,549	49,336
Weak	10,823	8,647
Inadequate	15,692	29,532
Irrecoverable	391	3,153
Total	**445,679**	**396,138**

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

Loss allowances by ageing of loans as at 31 December 2018

	Loan receivable	Loss allowance	Risk position
Loan portfolio not past due	372,947	-8,995	363,952
Loan portfolio past due	72,732	-12,876	59,856
Past due portfolio according to days past due:			
Up to 30 days	44,163	-2,032	42,131
31-60 days	9,120	-2,094	7,026
61-90 days	4,846	-1,590	3,256
Over 90 days	14,603	-7,160	7,443
Total	**445,679**	**-21,871**	**423,808**

(In thousands of euros)

Loss allowances by ageing of loans as at 31 December 2017

	Loan receivable	Loss allowance	Risk position
Loan portfolio not past due	324,714	-2,170	322,544
Loan portfolio past due	71,424	-13,691	57,733
Past due portfolio according to days past due:			
Up to 30 days	30,501	-375	30,126
31-60 days	8,454	-329	8,125
61-90 days	5,373	-305	5,068
Over 90 days	27,096	-12,682	14,414
Statistical impairment allowance (incl. IBNR)	-	-9,235	-9,235
Total	**396,138**	**-25,096**	**371,042**

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 2018 totalled 21,871 thousand euros, accounting for 4.9% of the total loan portfolio (31 December 2017: 6.3%). Contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is 1,665 thousand euros. Further information on impairment allowances is presented in note 7.

Cash and bank balances by the banks' credit ratings*

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 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.

The cash and cash equivalents, based on Moody's Investors Service ratings or their equivalents, are as follows:

As at 31 December	2018	2017
Aaa-Aa3	11,727	16,865
A1-A3	20,613	141
Baa1-Baa3	3,921	941
Total	**36,261**	**17,947**

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

(In thousands of euros)

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	2018	2017
Aaa-Aa3	4,299	3,802
A1-A3	3,141	3,843
Baa1-Baa3	6,044	3,565
Total	**13,484**	**11,210**

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 2018 and as at 31 December 2017.

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), trading portfolio risk (position risk), and interest rate risk in the banking book (IRRBB). The Group does not accept commodity risk.

Market risk may arise from the Group's activity in the financial markets and from the majority of the Group's products (loans, deposits), taking market risk is not the Group's 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 on the *Moderate* level.

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 on the *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.

(In thousands of euros)

Net currency positions as at 31 December 2018

	Position in the statement of financial position		Position off the statement of financial position		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR (euro)	459,361	349,764	-	18,430	91,167
SEK (Swedish krona)	56,769	57,579	-	-	-810
GBP (British pound)	6	-	-	-	6

Net currency positions as at 31 December 2017

	Position in the statement of financial position		Position off the statement of financial position		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR (euro)	401,165	295,535	-	8,493	97,137
SEK (Swedish krona)	50,672	50,555	-	-	117
GBP (British pound)	27	-	-	-	27

* For liabilities included in the position off the statement of financial position, see note 26.

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 2018

	Exposure	Monetary impact	% of equity
SEK (Swedish krona)	-810	81	0.1%
GBP (British pound)	6	1	0.0%
Total	**-804**	**82**	**0.1%**

(In thousands of euros)

Effect of a potential exchange rate change on profit and equity as at 31 December 2017

	Exposure	Monetary impact	% of equity
SEK (Swedish krona)	117	12	0.0%
GBP (British pound)	27	3	0.0%
Total	**144**	**15**	**0.0%**

Interest rate risk stemming from the trading portfolio (according to EU No 575/2013, but according to IFRS 9 recognised as *Debt instruments at fair value through other comprehensive income*) is a risk to the earnings or market value of the portfolio due to uncertain future interest rates. The position risks are broken down into a general risk and specific risk components. General risk refers to potential loss caused by general market fluctuations, specific risk arises from issuer-specific events.

In the target risk profile, the Group's risk appetite for trading portfolio is on the *Moderate* level. Market risk stemming from the trading portfolio is driven by the Group's goal to maintain a strong liquidity position. The secondary purpose of holding investment securities portfolio is to support the Group's profitability, but profit expectations shall not override liquidity requirements. The Group does not take speculative trading positions and does not provide customer-focused trading activities.

The trading portfolio interest rate risk is measured by using stress tests and scenario analyses which are performed at least on a quarterly basis. The Group tests its trading 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).

The risk management function is responsible for measuring, following up and reporting on the market risk taken by the treasury unit. The risk management function also independently verifies the valuations of positions held at fair value in the trading portfolio.

Group did not have any risk positions stemming from the equity instruments as at 31 December 2018 and at 31 December 2017.

Interest rate risk of the banking book (IRRBB) is the current or prospective risk to the Group's earnings and own funds arising from adverse movements in interest rates caused by banking book assets and liabilities. 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 on the *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 interest-sensitive assets and liabilities. The market risk tolerance and limits are defined for the investment and banking portfolios.

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 the shape of the yield curve (yield curve risk);
- hedging exposure to one interest rate with exposure to a rate that reprices under slightly different conditions (basis risk); and
- options, including embedded options, e.g. consumers redeeming fixed-rate products when market rates change (option risk).

Group measures its IRRBB exposure in terms of both potential changes to economic value (EV), and changes to expected net interest income (NII) or earnings. Due to reason that consumer loan contracts are frequently repaid before contractual maturity Group uses behavioral cash flows instead of contractual cash flows when calculating interest rate risk in order to capture the optionality.

Group uses different scenarios to assess the interest rate risk arising from the banking book, i.e. the supervisory shock scenario, according to which yield curve has a parallel shift of 200 basis points, as well as other scenarios taking into account changes in the yield curve and individual risk profile.

As at 31 December 2018, the impact of the supervisory shock scenario to 12-months net interest income (NII) was 800 thousand euros and to the economic value (EVE) was 3,600 thousand euros.

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 engage resources without negatively affecting the daily activities or financial position.

The liquidity risk framework covers both liquidity management on 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 strong liquidity position is one of the main priorities of the Bank. The Group shall at all times be able to fulfill its obligations in a timely and full manner both in normal and crisis situations as long as possible. Liquidity risk management is based on conservative assumptions.

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 (primarily retail term deposits). The secondary objective of the funding management is optimisation of the costs, size and composition of external resources involved, but cost-effectiveness and cost-competitiveness may not override sufficient, stable and conservative funding requirements. Diversification is a key part of the Group's overall funding and liquidity management strategy. Funding strategy is closely related to asset quality and structure management. The Bank's assets structure and its maturities shall correspond to the funding structure and shall not rely on very short-term funding resources. The Group avoids the concentration of funding.

(In thousands of euros)

In the Group's target risk profile, the appetite for liquidity risk is on the *Low* level and the appetite for taking funding risk is on the *Moderate* level.

The conservative liquidity risk profile is kept within the limits set by the supervisory 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 shall be reported according to requirements set by the policy.

Management of the Group's liquidity and funding is centralised, funding of the subsidiaries and branches is provided on a Group level. The Bank regularly assesses that there are no material restrictions and hindrances to intragroup transfer of liquidity. The responsibility over daily liquidity risk management lies in the Treasury unit belonging to the Finance area. Risk management is responsible for the risk control, measurement and reporting to management. Liquidity risks are reported on a regular basis (daily, weekly, monthly and quarterly) to different levels of management (risk committee, the management board, the supervisory board) and *ad hoc.*

The Group measures liquidity risk using different ratios based on the structure of the statement of financial position. The regulatory measure LCR (liquidity coverage ratio) is used to calculate total expected net cash outflows during a 30-day stress period in relation to the liquid assets. Group also measures its liquidity risk by calculating tolerance period which is a time period under stress conditions the Group is able to continue business as usual and fulfil its obligations without engaging additional resources or changing its activity 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 2018	31 Dec 2017
Liquidity coverage ratio (LCR)	907.0%	1101.0%
Net stable funding ratio (NSFR)	136.0%	137.0%
Loan to deposit ratio	109.0%	111.0%
Liquidity reserve and assets ratio	14.7%	13.9%
Long term (over 1 year) funding to total funding ratio	50.0%	47.0%

(In thousands of euros)

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 test 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.

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.

Remaining maturities of financial assets and liabilities as at 31 December 2018

	Past due	Less than 1 month	1-12 months	1-5 years	Over 5 years	Total
Financial assets						
Cash and bank balances	-	49,425	16,527	-	-	65,952
Loans to customers	16,924	8,074	97,377	256,079	49,510	427,964
Of which loan portfolio	12,767	8,074	97,377	256,079	49,511	423,808
Of which interest receivables	4,156	-	-	-	-	4,156
Debt instruments at fair value through other comprehensive income	-	516	-	8,777	4,191	13,484
Total financial assets	**16,924**	**58,015**	**113,904**	**264,856**	**53,701**	**507,400**
Financial liabilities						
Deposits from customers	-	21,032	180,243	170,176	21,569	393,020
Subordinated notes	-	-	-	-	4,960	4,960
Total financial liabilities	**-**	**21,032**	**180,243**	**170,176**	**26,529**	**397,980**
Net exposure	**16,924**	**36,983**	**-66,339**	**94,680**	**27,172**	**109,420**

(In thousands of euros)

The negative mismatch of assets and liabilities in the 1-12 months' bucket has increased but the Group's maturing deposits still exceed its new short-term loan portfolio. The negative gap in this period is planned to be refinanced with term deposits from customers.

Remaining maturities of financial assets and liabilities as at 31 December 2017

	Past due	Less than 1 month	1-12 months	1-5 years	Over 5 years	Total
Financial assets						
Cash and bank balances	-	53,682	500	-	-	54,182
Loans to customers	20,431	9,060	94,460	224,885	28,622	377,458
Of which loan portfolio	14,015	9,060	94,460	224,885	28,622	371,042
Of which interest receivables	6,416	-	-	-	-	6,416
Financial assets held for trading	-	-	-	9,024	2,186	11,210
Total financial assets	**20,431**	**62,742**	**94,960**	**233,909**	**30,808**	**442,850**
Financial liabilities						
Deposits from customers	-	20,236	157,221	139,424	17,938	334,819
Subordinated notes	-	-	-	-	4,977	4,977
Total financial liabilities	**-**	**20,236**	**157,221**	**139,424**	**22,915**	**339,796**
Net exposure	**20,431**	**42,506**	**-62,261**	**94,485**	**7,893**	**103,054**

Expected undiscounted future cash flows of the Group's financial liabilities as at 31 December 2018

	Carrying amount	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Payables to suppliers (note 14)	1,131	1,131	-	-	-	-	1,131
Deposits from customers (note 13)	393,020	15,207	25,616	160,304	180,674	23,493	405,294
Unused portions of credit lines and bank guarantees (note 26)	18,430	67	512	6,528	11,323	-	18,430
Total liabilities	**412,581**	**16,405**	**26,128**	**166,832**	**191,997**	**23,493**	**424,855**

(In thousands of euros)

Expected undiscounted future cash flows of the Group's financial liabilities as at 31 December 2017

	Carrying amount	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Payables to suppliers (note 14)	731	731	-	-	-	-	731
Deposits from customers (note 13)	334,819	14,593	29,984	140,999	159,319	20,016	364,911
Unused portions of credit lines and bank guarantees (note 26)	8,493	70	176	3,801	4,446	-	8,493
Total liabilities	**344,043**	**15,394**	**30,160**	**144,800**	**163,765**	**20,016**	**374,135**

Operational risk

Operational risk is risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes compliance risk and legal risk, but excludes strategic and reputational risks.

Operational risk consists of different sub-risks such as legal risk, compliance risk (including money laundering and terrorist financing risk), information security risk and information and communication technology risk.

Operational risk entails the following risks:

- Legal risk is the risk resulting from non-conformity with or misinterpretation of legislation, contracts, good practice and standards of ethics. Legal risk may materialise in any of the above risk types, as the Group may become subject to claims or proceedings due to contractual or other legal responsibilities.
- Compliance risk is the risk that failure to fully meet laws, regulations, internal rules and obligations to customers, employees and other stakeholders may impair the Group's business model, reputation and financial condition. Money laundering and terrorist financing (ML/TF) risk which is part of compliance risk is defined as the risk of the Group being used for ML/TF due to weaknesses and non-compliances in internal processes.
- Information and communication technology (ICT) risk is the risk of losses due to the inappropriateness or failure of hardware and software, which can compromise the availability, integrity, accessibility and security of technical infrastructure and data.

The Group's strategy is to keep operational risk at a reasonably minimal level and to minimise potential losses while taking into account 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 and compliance risk is on the *Low* level but the principle of economic efficiency is also observed.

General management of operational risk and compliance risk takes place on Group level: all branches and subsidiaries comply with Group level principles, rules and limits. However, every head of branch is responsible for operational and compliance risk management on the branch/country level.

Incident handling

The Group has established the common methodology and implemented supporting system to ensure Group-wide reporting and management of loss events and incidents.

Risk assessments

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

There is a specific risk analysis tool created to manage the risks arising from different changes, e.g. launch of new products or services; outsourcing etc.

Business continuity management

The Group has established business continuity management framework to guarantee the continuity or recovery of Group's operations and manage "low probability – high impact" incidents like IT disruptions, natural disasters, pandemics etc.
Total capital exposure for covering 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 earnings, own funds or liquidity arising from damage to the Group's reputation. Business risk is a risk of 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 reduce revenues.

Strategic risk is 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 on a *Low* level while the target risk profile for business and strategic risk is on a *Moderate* level.

Strategic risk is managed by implementing 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 development begins with customer experience management and controlled creation of public opinion. On an ongoing basis, 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.

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-up share capital**. The Group's paid-up share capital amounts to 8,000 thousand euros.
    - **Statutory capital reserve**. In line with the requirements of the Commercial Code, the Group has created a capital reserve which at 31 December 2018 amounted to 800 thousand euros.
    - **Prior period retained earnings**. Profits retained in previous periods 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 2018, the Group's prior period retained earnings totalled 94,042 thousand euros.
    - **Net profit for the reporting period** that has been verified by an independent external auditor in the review of the financial information (2018: nine months), less foreseeable dividends proportionally and following the permit of the Estonian Financial Supervision Authority.
- **Tier 2 Capital**, including:
    - **Subordinated bonds**. As of 31 December 2018 Group had issued subordinated bonds of 5,000 thousand euros with a remaining 10 year maturity.

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 in the law.

The Group has included 9 months' audited income, less foreseeable dividends proportionally with the permission of the Financial Supervisory Authority, in the total amount of 9,970 thousand euros into CET1 capital .

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 2018, the Group's total own funds amounted to 106,237 thousand euros.

(In thousands of euros)

As at 31 December	2018	2017
Paid up capital instruments	8,000	8,000
Other reserves	800	800
Previous years retained earnings	94,042	86,565
Other accumulated comprehensive income	997	674
Other intangible assets	-12,381	-7,471
Profit or loss eligible	9,970	7,298
Adjustments to CET1 due to prudential filters	-191	-
Common equity Tier 1 capital	**101,237**	**95,866**
Tier 1 capital	**101,237**	**95,866**
Tier 2 capital	**5,000**	**5,000**
Deductions	-	-
Total own funds	**106,237**	**100,866**

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 method in calculating both the risk weighted with credit risk and the operational risk position.

As at 31 December	2018	2017
Risk weighted exposure amounts for credit and counterparty credit risks (standardized approach)		
Central governments or central banks	1,246	483
Institutions	12,141	4,966
Corporates	40,210	33,651
Retail	286,451	244,071
Secured by mortgages on immovable property	3,215	4,959
Exposures in default	11,418	16,552
Other items	8,735	9,014
Total risk weighted exposure amounts for credit and counterparty credit risks (standardised approach)	**363,416**	**313,696**
Total risk exposure amount for foreign exchange risk (standardised approach)	-	-
Total risk exposure amount for operational risk (standardised approach)	**104,953**	**100,928**
Total risk exposure amount for credit valuation adjustment (standardised approach)	-	-
Total risk exposure amount	**468,369**	**414,624**

(In thousands of euros)

CAPITAL RATIOS

As at 31 December	2018	2017
CET1 Capital ratio	21.6%	23.1%
T1 Capital ratio	21.6%	23.1%
Total capital ratio	22.7%	24.3%
Leverage ratio	19.3%	21.0%

Total capital ratio has been calculated for Bigbank AS Group. At 31 December 2018, total capital ratio at the level of the parent company was 22.6% (31 December 2017: 23.5%).

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

Capital requirements have been determined using the standardised approach.

Minimum regulative capital requirement as at 31 December 2018

	Common equity Tier 1 capital ratio	Tier 1 capital ratio	Total capital ratio
Basic requirement	4.5%	6.0%	8.0%
Capital preservation buffer	2.5%	2.5%	2.5%
Systemic risk buffer	0.4%	0.4%	0.4%
Countercyclical risk buffer	0.2%	0.2%	0.2%
Pillar II (SREP) capital requirement	1.9%	2.6%	4.3%
Minimum regulative capital requirement	**9.5%**	**11.8%**	**15.4%**

The Group meets the minimum regulative capital requirement.

Capital management

The Group has only two shareholders that have been involved in the activity of the company since its establishment, holding 50% of the shares each. The shareholders have a long-term vision of the development of the company.

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 materialz 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.
- The Group's target for 2018 was to maintain at least 16.4% total capital ratio. At 31 December 2018, the total capital ratio was 22.7%, exceeding the regulatory and internal requirement. CET1 and Tier 1capital ratio were 21.6%.

Internal capital adequacy assessment process

The purpose of the internal capital adequacy assessment process (ICAAP) is to assess the Group's individual and aggregated risk profile and related capital needs (ICAAP capital requirement). The ICAAP capital requirement is defined as the amount of capital needed to cover:

- the risk of unexpected losses, and expected losses insufficiently covered by provisions, over a 12-month period (except where otherwise specified in CRR or internal regulations) for all material risk categories;
- the risk of underestimation of risk due to model deficiencies identified;
- the risk arising from deficiencies in internal governance, including internal control arrangements and other deficiencies.

In determining the ICAAP capital requirement, the Group compares the own funds requirements against any existing regulatory capital buffer requirements addressing the same risks or their elements and does not set additional own fund requirements where the risk is already covered by capital buffer requirements.

The ICAAP capital requirement is subject to review and evaluation by authorities under the supervisory review and evaluation process (SREP). As a result of a SREP assessment the authorities determine the capital level the Group is required to hold over the regulatory capital requirement until otherwise directed (SREP capital requirement).

The outcome of ICAAP is approved by the Group's management board. The final results of the annual SREP process are reported to the supervisory board.

(In thousands of euros)

The additional Pillar II capital requirement according to SREP assessment, as determined by the Estonian Financial Supervision Authority, valid as of 31 December 2018, was 4.3% of the total risk position, of which at least 1.9% should be covered by CET1 and 2.6% by Tier 1 capital.

NOTE 4. CASH AND BANK BALANCES AND CASH EQUIVALENTS

Cash and balances at banks as at 31 December 2018

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	Total
Cash and balances at central banks	**16,127**	**-**	**-**	**13,564**	**-**	**-**	**29,691**
Of which mandatory reserves*	1,246	-	-	84	-	-	1,330
Of which surplus on mandatory reserves	14,881	-	-	13,480	-	-	28,361
Due from banks	**20,065**	**2,389**	**2,205**	**2,664**	**7,503**	**1,435**	**36,261**
Of which cash balances at banks	4,064	2,389	2,178	2,664	7,003	1,435	19,733
Of which term deposits at banks	16,000	-	27	-	500	-	16,527
Of which interest receivable from banks	1	-	-	-	-	-	1
Total	**36,192**	**2,389**	**2,205**	**16,228**	**7,503**	**1,435**	**65,952**
of which cash and cash equivalents	**34,945**	**2,389**	**2,205**	**16,144**	**7,503**	**1,435**	**64,621**

Cash and balances at banks as at 31 December 2017

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	Total
Cash and balances at central banks	**28,189**	**2,600**	**-**	**5,446**	**-**	**-**	**36,235**
Of which mandatory reserves*	1,034	-	-	27	-	-	1,061
Of which surplus on mandatory reserves	27,155	2,600	-	5,419	-	-	35,174
Due from banks	**4,611**	**940**	**603**	**1,175**	**1,075**	**9,543**	**17,947**
Total	**32,800**	**3,540**	**603**	**6,621**	**1,075**	**9,543**	**54,182**
of which cash and cash equivalents	**31,766**	**3,540**	**603**	**6,594**	**1,075**	**9,543**	**53,121**

* 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 the Bank of Estonia.

(In thousands of euros)

Cash and cash equivalents

As at 31 December	2018	2017
Demand and overnight deposits with credit institutions	19,733	17,447
Term deposits with credit institutions with maturity of less than 1 year	16,527	500
Surplus on the mandatory reserves with central banks	28,361	35,174
Total cash and cash equivalents	**64,621**	**53,121**

NOTE 5. DEBT INSTRUMENTS

Debt instruments at fair value through other comprehensive income as at 31 December 2018

Debt instruments by issuer	
General governments' bonds	4,701
Credit institutions' bonds	3,145
Other financial corporations' bonds	511
Non-financial corporations' bonds	5,127
Total debt instruments	**13,484**
Debt instruments by currency	
EUR (euro)	11,633
SEK (Swedish krona)	1,851

Financial assets held for trading as at 31 December 2017

Financial assets held for trading by issuer	
General governments' bonds	3,358
Credit institutions' bonds	2,718
Other financial corporations' bonds	522
Non-financial corporations' bonds	4,612
Total financial assets held for trading	**11,210**
Financial assets held for trading by currency	
EUR (euro)	9,907
SEK (Swedish krona)	1,303

(In thousands of euros)

NOTE 6. LOANS TO CUSTOMERS

Loans to customers as at 31 December 2018

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	Total
Loan receivables from customers	80,796	102,390	123,706	73,784	11,661	53,342	445,679
Loss allowance for loans	-3,097	-6,307	-1,857	-5,611	-1,905	-3,094	-21,871
Interest receivable from customers	1,712	2,443	535	913	184	335	6,122
Loss allowances for interest receivables	-999	-805	-18	-93	-24	-27	-1,966
Total loans to customers, incl. interest and allowances	**78,412**	**97,721**	**122,366**	**68,993**	**9,916**	**50,556**	**427,964**
Share of region	18.3%	22.9%	28.6%	16.1%	2.3%	11.8%	100.0%

Loans to customers as at 31 December 2017

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	Total
Loan receivables from customers	66,003	96,958	104,065	70,877	20,107	38,128	396,138
Loss allowance for loans	-2,546	-8,095	-2,902	-1,742	-122	-454	-15,861
Interest receivable from customers	2,160	5,170	754	1,590	362	255	10,291
Loss allowances for interest receivables	-1,184	-2,291	-116	-246	-13	-25	-3,875
Statistical loss allowance	-603	-199	-1,033	-4,012	-1,687	-1,701	-9,235
Total loans to customers, incl. interest and allowances	**63,830**	**91,543**	**100,768**	**66,467**	**18,647**	**36,203**	**377,458**
Share of region	16.9%	24.3%	26.7%	17.6%	4.9%	9.6%	100.0%

Loan receivables from customers* by loan type

As at 31 December	2018	2017
Loans against income	406,570	357,099
Surety loans	1,642	3,043
Loans secured with real estate	37,441	35,954
Loans against other collaterals	26	42
Total loan receivables from customers	**445,679**	**396,138**

The fair value of the real estate as collateral for loan receivables was 37,645 thousand euros as at 31 December 2018 (31 December 2017: 44,032 thousand euros).

(In thousands of euros)

Loan receivables from customers* by contractual currency

As at 31 December	2018	2017
EUR (euro)	392,337	358,010
SEK (Swedish kronor)	53,342	38,128
Total loan receivables from customers	**445,679**	**396,138**

* Loan receivables from customers comprise loan principal.

Ageing analysis as at 31 December 2018*

	Not past due	30 days or less	31-60 days	61-90 days	Over 90 days	Total
Loans against income						
Loan portfolio	343,897	35,752	8,726	4,718	13,477	406,570
Loss allowance	-8,934	-2,014	-2,092	-1,589	-6,853	-21,482
Surety loans						
Loan portfolio	1,226	82	20	3	311	1,642
Loss allowance	-56	-12	-2	-1	-216	-287
Loans secured with real estate						
Loan portfolio	27,801	8,327	374	125	814	37,441
Loss allowance	-5	-6	-	-	-90	-101
Loans against other collaterals						
Loan portfolio	23	2	-	-	1	26
Loss allowance	-	-	-	-	-1	-1
Total loan portfolio	**372,947**	**44,163**	**9,120**	**4,846**	**14,603**	**445,679**
Total loss allowance	**-8,995**	**-2,032**	**-2,094**	**-1,590**	**-7,160**	**-21,871**

(In thousands of euros)

Ageing analysis as at 31 December 2017*

	Not past due	30 days or less	31-60 days	61-90 days	Over 90 days	Total
Loans against income						
Loan portfolio	290,825	28,064	8,191	5,249	24,770	357,099
Loss allowance	-9,133	-1,235	-607	-480	-12,452	-23,907
Surety loans						
Loan portfolio	2,241	161	36	38	567	3,043
Loss allowance	-229	-31	-8	-20	-413	-701
Loans secured with real estate						
Loan portfolio	31,614	2,272	227	86	1,755	35,954
Loss allowance	-338	-23	-2	-1	-121	-485
Loans against other collaterals						
Loan portfolio	34	4	-	-	4	42
Loss allowance	-	-	-	-	-3	-3
Total loan portfolio	**324,714**	**30,501**	**8,454**	**5,373**	**27,096**	**396,138**
Total loss allowance	**-9,700**	**-1,289**	**-617**	**-501**	**-12,989**	**-25,096**

* Total loan principals only, does not include interest receivable.

NOTE 7. LOSS ALLOWANCES FOR LOANS RECEIVABLES FROM CUSTOMERS

Loss allowances under IFRS 9 as at 31 December 2018

	Loan receivables	Interest receivables	Total receivables subject to impairment	Total loss allowances
Stage 1	394,944	2,338	397,282	-8,514
Stage 2	33,529	782	34,311	-5,639
Stage 3	17,206	3,002	20,208	-9,684
Total	**445,679**	**6,122**	**451,801**	**-23,837**

(In thousands of euros)

Development of allowances in 2018

	Opening balance as at 1 Jan 2018	Increases due to origination	Decrease due to de-recognition repayments and disposals	Changes due to change in credit risk (net)	Decrease in allowance account due to write-offs	Closing balance
Stage 1	-11,020	-5,377	2,955	4,588	340	-8,514
Stage 2	-2,951	-1,916	550	-2,106	784	-5,639
Stage 3	-19,727	-842	5,582	-1,784	7,087	-9,684
Total	**-33,698**	**-8,135**	**9,087**	**698**	**8,211**	**-23,837**

Loss allowances by loan assessment category as at 31 December 2018

	Loans receivables	Loss allowances for loans	Interest receivables	Loss allowances for loan interest	Total loss allowances
Collectively assessed items	407,713	-21,770	5,848	-1,945	-23,715
Individually assessed items	37,966	-101	274	-21	-122
Total	**445,679**	**-21,871**	**6,122**	**-1,966**	**-23,837**

Loss allowances under IAS 39 as at 31 December 2017

	Loans receivables	Loss allowances for loans	Interest receivables	Loss allowances for loan interest	Total loss allowances
Collectively assessed items	363,421	-11,957	8,068	-2,178	-14,135
Individually assessed items	32,717	-3,904	2,223	-1,697	-5,601
Statistical loss allowance	-	-9,235	-	-	-9,235
Total	**396,138**	**-25,096**	**10,291**	**-3,875**	**-28,971**

(In thousands of euros)

Change in loss allowances for loans and related interest receivables in 2017

As at	31 Dec 2017
Balance at beginning of period	-47,321
Write-off of fully impaired loan and interest receivables	50,132
Increase in allowances for loan and interest receivables	-31,874
Effect of movements in exchange rates	92
Balance at end of period	**-28,971**

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	2018	2017
Collection, recovery and other charges receivable	261	444
Miscellaneous receivables	1,345	2,559
Impairment allowance for other receivables	-122	-228
Total	**1,484**	**2,775**

NOTE 9. PREPAYMENTS

As at 31 December	2018	2017
Tax receivables	1,179	426
Prepaid other taxes	23	2
Other prepayments	530	487
Total	**1,732**	**915**

(In thousands of euros)

NOTE 10. PROPERTY AND EQUIPMENT

As at 31 December	Land and buildings	Other items	Total
Cost			
Balance at 1 January 2017	3,014	3,458	6,472
Purchases	-	1,513	1,513
Sales	-	-226	-226
Write-off	-	-1,228	-1,228
Reclassification*	-1,500	5	-1,495
Balance at 31 December 2017	**1,514**	**3,522**	**5,036**
Balance at 1 January 2018	1,514	3,522	5,036
Purchases	-	1,334	1,334
Sales	-	-99	-99
Write-off	-	-330	-330
Effect of movements in exchange rates	-	-1	-1
Balance at 31 December 2018	**1,514**	**4,426**	**5,940**
Depreciation			
Balance at 1 January 2017	-	-2,173	-2,173
Depreciation charge for the year	-58	-723	-781
Sales	-	165	165
Write-off	-	1,203	1,203
Transfer	-	-5	-5
Effect of movements in exchange rates	-	1	1
Balance at 31 December 2017	**-58**	**-1,532**	**-1,590**
Balance at 1 January 2018	-58	-1,532	-1,590
Depreciation charge for the year	-59	-1,053	-1,112
Sales	-	73	73
Write-off	-	313	313
Effect of movements in exchange rates	-	1	1
Balance at 31 December 2018	**-117**	**-2,198**	**-2,315**
Carrying amount			
Balance at 1 January 2017	3,014	1,285	4,299
Balance at 31 December 2017	1,456	1,990	3,446
Balance at 31 December 2018	**1,397**	**2,228**	**3,625**

(In thousands of euros)

* In 2013, the Group has changed its accounting policy for the measurement of land and buildings to the revaluation model. The accumulated depreciation as at the revaluation date was eliminated against the gross carrying amount of the revalued asset, see note 29. In 2017, due to the relocation of the Tartu office to new premises, the purpose of use of a building previously recognised in property and equipment changed and it was reclassified from land and buildings to investment property in an amount of 1,500 thousand euros. The reclassifications between other items and intangible assets amounted to 5 thousand euros.

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

As at 31 December	2018	2017
Cost	1,869	1,869
Depreciation	-1,089	-1,015
Net carrying amount	**780**	**854**

NOTE 11. INVESTMENT PROPERTIES

	2018	2017
Opening balance at 1 January	1,878	509
Additions	104	-
Sales	-55	-130
Reclassification*	-	1,500
Net loss from fair value adjustment (note 29)	-61	-1
Closing balance at 31 December	**1,866**	**1,878**

* In 2017, Bigbank moved to a new rented office in Tartu and rented out its own office building. Due to the change in use, the building was reclassified from land and buildings to investment property in an amount of 1,500 thousand euros.

The investment properties comprise a building in Tartu and also plots, houses and apartments originally pledged by customers as loan collateral and later bought by the Group through auctions.

The Group earned rental income derived from investment properties of 105 thousand euros in financial year 2018 (2017: 67 thousand euros).

The operating expenses were 53 thousand euros, (2017: 61 thousand euros), please see note 24.

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

(In thousands of euros)

NOTE 12. INTANGIBLE ASSETS

	2018	2017
Cost at beginning of year	**9,203**	**5,701**
Purchases	6,148	4,036
Of which purchased intangible assets	3,275	3,166
Of which capitalised payroll	2,873	870
Write-off	-348	-529
Reclassification*	-1	-5
Cost at end of year	**15,002**	**9,203**
Amortisation at beginning of year	-1,731	-1,664
Amortisation charge for the year	-951	-601
Write-off	61	529
Reclassification*	-	5
Amortisation at end of year	**-2,621**	**-1,731**
Carrying amount at beginning of year	7,472	4,037
Carrying amount at end of year	**12,381**	**7,472**

* In 2017, the Group recorded a reclassification between investment property and intangible assets of 5 thousand euros, see note 10.

The Group has substantially increased its investments in the information and banking technology solution called Nest, the first stage of which was implemented in June 2017. The purchases also include the capitalised payroll and payroll-related costs for employees who were directly associated with the Nest development of 2,873 thousand euros (2017: 870 thousand euros), see note 21.

(In thousands of euros)

NOTE 13. DEPOSITS FROM CUSTOMERS

As at 31 December	2018	2017
Term deposits	**393,020**	**334,819**
Term deposits by customer type		
Individuals	379,843	322,754
Legal persons	13,177	12,065
Term deposits by currency		
EUR (euro)	337,040	284,606
SEK (Swedish kronor)	55,980	50,213
Term deposits by maturity		
Maturing within 6 months	86,394	83,963
Maturing between 6 and 12 months	111,408	89,863
Maturing between 12 and 18 months	34,716	35,499
Maturing between 18 and 24 months	50,735	45,283
Maturing between 24 and 36 months	57,803	15,862
Maturing between 36 and 48 months	21,016	34,504
Maturing in over 48 months	30,948	29,845
Average deposit amount	24	23
Weighted average interest rate	1.6%	1.7%
Weighted average duration until maturity (months)	20.5	19.5
Weighted average total contract term (months)	36.1	36.2

Annual interest rates of deposits offered to customers as at 31 December 2018

Interest rates of deposits offered to customers depend on the country as well as the deposit term, currency and amount, and interest payment method. Deposit terms range from 1 month to 10 years. Respective interest rates range from 0.3% to 2.3% per year (2017: from 0.3% to 2.5%). 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. The minimum deposit amount is 500 euros or 10,000 Swedish krona.

NOTE 14. OTHER LIABILITIES

As at 31 December	2018	2017
Payables to suppliers	1,131	731
Payables to employees	1,510	1,514
Other payables	2,556	2,153
Total other liabilities	**5,197**	**4,398**

(In thousands of euros)

NOTE 15. DEFERRED INCOME AND TAX LIABILITIES

As at 31 December	2018	2017
Income tax payable (note 27)	1,161	170
Other taxes payable	741	691
Prepayments from customers	380	368
Total deferred income and tax liabilities	**2,282**	**1,229**

NOTE 16. 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 2018 and 31 December 2017 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*.
- Fair value changes of debt instruments measured at FVOCI comprises the change in fair value of the debt instruments at fair value through other comprehensive income.

(In thousands of euros)

As at 31 December	2018	Change	2017	Change	2016
Exchange differences on translating foreign operations	693	322	371	204	167
Asset revaluation reserve	304	-	304	-898	1,202
Fair value changes of debt instruments measured at FVOCI	-191	-191	-	-	-
Total other reserves	**806**	**131**	**675**	**-694**	**1,369**

* Due to the relocation of the Tartu office to new premises, the purpose of the building recognised as property was changed and it was reclassified from land and buildings to investment property. The asset revaluation reserve was reduced accordingly, see notes 10 and 11.

Unrestricted equity

At 31 December 2018, the Group's unrestricted equity amounted to 111,568 thousand euros (31 December 2017: 103,771 thousand euros).

Dividends

In 2018 and 2017, the company made the following dividend distributions:

- 2018: 62.50 euros per share, i.e. 5,000 thousand euros in aggregate; and
- 2017: 62.50 euros per share, i.e. 5,000 thousand euros in aggregate.

NOTE 17. INTEREST INCOME

	2018	2017
Interest income on loans to customers	66,112	69,363
Interest income on debt instruments	239	350
Interest income on deposits	6	1
Other interest income	29	11
Total interest income	**66,386**	**69,725**

NOTE 18. INTEREST EXPENSE

	2018	2017
Interest expense on deposits	5,765	5,773
Interest expense on bonds	334	3
Total interest expense	**6,099**	**5,776**

(In thousands of euros)

NOTE 19. NET PROFIT/LOSS ON EXCHANGE DIFFERENCES

Foreign exchange losses and gains arise from open net foreign currency positions and currency exchange transactions.

	2018	2017
Foreign exchange losses	-812	-405
Foreign exchange gains	497	187
Loss on financial assets held for trading	-	-147
Net loss on financial transactions	**-315**	**-365**

NOTE 20. OTHER INCOME

	2018	2017
Income from debt recovery proceedings	1,647	2,401
Miscellaneous income	428	277
Total other income	**2,075**	**2,678**

NOTE 21. SALARIES AND ASSOCIATED CHARGES

	2018	2017
Salaries	11,260	12,223
Social security costs	3,473	3,777
Employee health costs and fringe benefits including associated taxes	356	362
Total salaries and associated charges	**15,089**	**16,362**

Total salaries and associated charges amounted to 17,962 thousand euros together with capitalised payroll and payroll-related costs associated with the Nest development in 2018, see note 12.

Annual average number of employees working full time was 418 (2017: 425).

(In thousands of euros)

NOTE 22. OTHER OPERATING EXPENSES

	2018	2017
Marketing expenses	6,668	5,297
Office, rental and similar expenses	1,496	1,588
Other personnel-related expenses	1,177	1,130
Software licensing and other information technology costs	1,426	979
Other services	512	399
Postal supplies and charges	276	318
Telephone and other communications expenses	590	569
Miscellaneous operating expenses	878	151
Total other operating expenses	**13,023**	**10,431**

NOTE 23. OTHER EXPENSES

	2018	2017
Expenses related to registry inquires	1,294	1,225
Expenses related to enforcement proceedings	440	1,030
Legal regulation charges	588	492
Expenses from investment properties	52	34
Miscellaneous expenses	381	264
Total other expenses	**2,755**	**3,045**

NOTE 24. OPERATING LEASES

THE GROUP AS A LESSEE

The Group uses office premises under operating leases. Leases of office premises can be cancelled by giving one months' to 10 years' notice. Fixed-term lease contracts can be extended on market terms and conditions.

Operating lease expenses

	2018	2017
Operating lease payments made for office premises	917	872

Minimum non-cancellable operating lease rentals payable in subsequent periods

As at 31 December	2018	2017
Future operating lease rentals payable for office premises under fixed-term contracts, of which	**2,056**	**2,286**
Up to 1 year	609	556
1 to 5 years	907	1,060
Over 5 years	540	670

(In thousands of euros)

THE GROUP AS A LESSOR

Minimum non-cancellable operating lease rentals receivable in subsequent periods

As at 31 December	2018	2017
Up to 1 year	36	42
1 to 5 years	45	96

For the rental income and operating expenses see note 11.

NOTE 25. ASSETS PLEDGED AS COLLATERAL

Asset encumbrance arises from collateral pledged against secured funding and other collateralised obligations. No encumbered positions were held by the Group as at 31 December 2018 and 31 December 2017.

Although the following Group's assets have been pledged as collateral, the Group had no liabilities related to these pledged assets at 31 December 2018.

- An apartment ownership at Tartu mnt 18 in Tallinn is encumbered with a mortgage of 601 thousand euros to secure liabilities to Swedbank AS.

NOTE 26. CONTINGENT LIABILITIES

At 31 December 2018, the unused portions of the Group's credit lines totalled 18,430 thousand euros (31 December 2017: 8,403 thousand euros). As at 31 December 2017, the Group had provided guarantees of 90 thousand euros.

Contingent income tax liabilities

At 31 December 2018, the Group's undistributed profits totalled 111,568 thousand euros (31 December 2017: 103,701 thousand euros).

The maximum income tax liability that could arise if all of the undistributed profits were distributed as dividends amounts to 10,687 thousand euros. Thus, the maximum amount that could be distributed as the net dividend is 100,881 thousand euros. Under the Estonian Income Tax Act, in 2018 profit distributions, including dividend distributions, were subject to income tax calculated as 20/80 of the net distribution. 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 maximum contingent income tax liability has been calculated under the assumption that the net dividend and the dividend tax expense reported in the income statement for 2018 cannot exceed total distributable profits as at 31 December 2018.

(In thousands of euros)

NOTE 27. INCOME TAX EXPENSE

	2018	2017
Current income tax expense	1,645	2,421
Change in deferred income tax	-	11
Total income tax expense/income	**1,645**	**2,432**

* Current tax expense has been calculated on net profit earned in Lithuania, Finland and Sweden in 2018 and in Latvia and Lithuania in 2017.

The Group has unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of 3,603 thousand euros related to earned losses in Spain (2017: 5,484 thousand euros).

Reconciliation of accounting profit and income tax expense

	2018	2017
Consolidated profit before tax	19,171	19,638
The parent company's domestic tax rate 0%	-	-
Effect of tax rates in foreign jurisdictions	1,580	472
Effect of exempt income and taxable expenses	-	-308
Addition of tax losses / Utilisation of unrealised tax losses carried forward	-	2,273
Change in recognised deferred tax assets	-	11
Effect of income tax of previous years	65	-16
Income tax expense reported in statement of comprehensive income	**1,645**	**2,432**

NOTE 28. 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.

In 2018, the remuneration of the members of the Group's management and supervisory boards including relevant taxes amounted to 951 thousand euros (2017: 1,048 thousand euros) and 70 thousand euros (2017: 70 thousand euros) respectively.

As at 31 December 2018, the Group had a claim to related parties of 37 thousand euros (*Loans to customer*), the interest income on that claim amounted to 2 thousand euros in 2018. As at 31 December 2017, the Group had no claims nor liabilities to related parties.

The Group is financing Group subsidiaries and branches with long term loans. Such loans are eliminated in consolidated financial statements.

(In thousands of euros)

NOTE 29. 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 2018 and at 31 December 2017 do not differ significantly from their carrying amounts.

	Carrying amount		Fair value	
Financial assets as at 31 December	**2018**	**2017**	**2018**	**2017**
Cash and balances at central banks (note 4)	29,691	36,235	29,691	36,235
Cash and balances at banks (note 4)	36,261	17,947	36,261	17,947
Debt instruments (note 5)	13,484	11,210	13,484	11,210
Loans to customers (note 6,7)	427,964	377,458	427,964	377,458
Other financial receivables (note 8)	1,484	2,775	1,484	2,775
Total financial assets	**508,884**	**445,625**	**508,884**	**445,625**

	Carrying amount		Fair value	
Financial liabilities as at 31 December	**2018**	**2017**	**2018**	**2017**
Deposits from customers (note 13)	393,020	334,819	393,020	334,819
Subordinated notes	4,960	4,977	4,960	4,977
Other financial liabilities (note 14)	5,197	4,398	5,197	4,398
Total	**403,177**	**344,194**	**403,177**	**339,217**

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).

(In thousands of euros)

Fair value hierarchy as at 31 December 2018

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Debt instruments at fair value through other comprehensive income (note 5)	13,484	-	-	13,484
Land and buildings (note 10)	-	-	1,397	1,397
Investment properties (note 11)	-	-	1,866	1,866
Assets for which fair values are disclosed				
Loans to customers (note 6,7)	-	-	427,964	427,964
Other financial receivables (note 8)	-	-	1,484	1,484
Total assets	**13,484**	**-**	**432,711**	**446,195**
Liabilities measured at fair value				
Liabilities for which fair values are disclosed				
Deposits from customers (note 13)	-	-	393,020	393,020
Subordinated notes	-	-	4,960	4,960
Other financial liabilities (note 14)	-	-	5,197	5,197
Total liabilities	**-**	**-**	**403,177**	**403,177**

Fair value hierarchy as at 31 December 2017

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets held for trading (note 5)	11,210	-	-	11,210
Land and buildings (note 10)	-	-	1,456	1,456
Investment properties (note 11)	-	-	1,878	1,878
Assets for which fair values are disclosed				
Loans to customers (note 6,7)	-	-	377,458	377,458
Other financial receivables (note 8)	-	-	2,775	2,775
Total assets	**11,210**	**-**	**383,567**	**394,777**
Liabilities measured at fair value				
Liabilities for which fair values are disclosed				
Deposits from customers (note 13)	-	-	334,819	334,819
Subordinated notes	-	-	4,977	4,977
Other financial liabilities (note 14)	-	-	4,398	4,398
Total liabilities	**-**	**-**	**344,194**	**344,194**

There have been no transfers between Level 1 and Level 2 during 2018 and 2017.

The Level 3 *loans to customers* that amounts to 427,964 thousand euros is measured at amortised cost using the effective interest rate method less any loss allowances as the management believes that it most effectively demonstrates the fair value of these financial assets. The Group's accounting policy on loans to customer is discussed in note 1 (*section Financial assets*) and 3. Management estimates that the selected accounting policy on loans reflects the fair value of loans to customers.
The Level 3 *land and buildings* that amounts to 1,397 thousand euros consists of real estate used by the Group in Tallinn (see note 10).

The properties in Tallinn are revalued using the income approach and market approach. The market 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. For valuation of property in Tallinn, for prior year the valuer has taken as basis the prices per square metre of residential space in Tallinn city that were in the range of 2,319 – 2,516 euros.

Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an 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. The estimated rental value per square meter per month is 11 euros, the rent growth 2%, long-term vacancy rate 5%, and vacancy rate for the first year 25% and discount rate 9% for commercial property in Tallinn.

Valuations are performed with sufficient frequency to ensure that the fair value of a revalued 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 has assessed that the fair value has not changed in year 2018.

The Level 3 *investment properties* that amount to 1,866 thousand euros consist of real estate used by the Group in Tartu and also plots, houses and apartments originally pledged by customers as loan collateral and later bought by the Group through auctions (see note 11) are measured at the fair value in the financial statements and valuations are performed by the management using market approach.

The investment property in Tartu is valued using the cost model (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 on a development if the existing property would be developed and sold as private flats. Following inputs were used for prior year valuation of the properties in Tartu: price per square metre of flats in Tartu old town 2,200 euros and development costs per square metre 698 euros.

Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount (see note 1, the section *Investment properties and Fair value measurement*, and note 2). Management has assessed that the fair value has not changed in year 2018.

NOTE 30. EARNINGS PER SHARE

	2018	2017
Net profit for the year, in thousands of euros	17,526	17,206
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	**219**	**215**

At the end of 2018 and 2017 the Group did not have any potential dilutive ordinary shares. Therefore, diluted earnings per share equal basic earnings per share.

NOTE 31. UNCONSOLIDATED STATEMENTS OF PARENT COMPANY AS A SEPARATE ENTITY

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

(In thousands of euros)

Statement of financial position

As at 31 December	2018	2017
Assets		
Cash and balances at central banks	29,691	36,235
Due from banks	35,748	17,612
Debt instruments at fair value through other comprehensive income	13,484	-
Financial assets held for trading	-	11,210
Loans to customers	427,964	377,152
Receivables from subsidiaries	864	949
Investments in subsidiaries	579	579
Other receivables	1,479	2,773
Prepayments	1,732	887
Property and equipment	2,609	2,382
Investment properties	264	189
Intangible assets	12,381	7,472
Total assets	**526,795**	**457,440**
Liabilities		
Deposits from customers	393,019	334,819
Liabilities to subsidiaries	1,870	1,865
Subordinated notes	4,960	4,977
Provisions	1,884	667
Other liabilities	5,172	4,375
Deferred income and tax liabilities	2,247	1,199
Total liabilities	**409,152**	**347,902**
Equity		
Share capital	8,000	8,000
Capital reserve	800	800
Other reserves	770	638
Retained earnings	108,073	100,100
Total equity	**117,643**	**109,538**
Total liabilities and equity	**526,795**	**457,440**

(In thousands of euros)

Statement of comprehensive income

As at 31 December	2018	2017
Interest income	66,408	69,755
Interest expense	-6,135	-5,820
Net interest income	**60,273**	**63,935**
Net fee and commission income	3,261	2,685
Net loss on exchange differences	-315	-365
Net loss on derecognition of non-financial assets	-299	-
Other income	1,915	2,618
Total income	**64,835**	**68,873**
Salaries and associated charges	-14,711	-16,060
Other operating expenses	-13,054	-10,421
Depreciation and amortisation expense	-2,015	-1,335
Provision expenses	-1,261	-534
Net impairment losses on loans and financial investments	-11,415	-17,687
Losses resulting from changes in the fair value of investment properties	-	-1
Other expenses	-3,033	-3,277
Total expenses	**-45,489**	**-49,315**
Profit before income tax	**19,346**	**19,558**
Income tax	-1,643	-2,432
Profit for the year	**17,703**	**17,126**
Other comprehensive income/expense		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations	322	204
Changes in the fair value of debt instruments at FVOCI	-191	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**131**	**204**
Other comprehensive income for the year	**131**	**204**
Total comprehensive income for the year	**17,834**	**17,330**

(In thousands of euros)

Statement of cash flows

As at 31 December	2018	2017
Cash flows from operating activities		
Interest received	60,403	60,227
Interest paid	-5,050	-6,416
Salary and other operating expenses paid	-30,674	-28,040
Other income and fees received	8,083	6,537
Other expenses and fees paid	-5,441	-5,201
Recoveries of receivables previously written off	36,346	20,247
Received for other assets	-	116
Paid for other assets	-	-95
Loans granted	-276,236	-252,226
Repayment of loans granted	180,825	179,836
Change in mandatory reserves with central banks and related interest receivables	-269	-419
Proceeds from customer deposits	136,519	119,367
Paid on redemption of deposits	-75,146	-69,870
Change in financial assets held for trading	-	3,858
Income tax paid	-2,178	-3,486
Effect of movements in exchange rates	-186	-117
Net cash from operating activities	**26,996**	**24,318**
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	-7,426	-5,522
Proceeds from sale of property and equipment	29	85
Proceeds from sale of investment properties	23	115
Acquisition of financial instruments	-3,025	-
Proceeds from redemption of financial instruments	133	-
Net cash used in investing activities	**-10,266**	**-5,322**
Cash flows from financing activities		
Received from issue of notes	-	5,000
Paid on redemption of bonds	-164	-
Dividends paid	-5,000	-5,000
Net cash used in financing activities	**-5,164**	**-**
Effect of exchange rate fluctuations	-243	-227
Increase in cash and cash equivalents	**11,323**	**18,769**
Cash and cash equivalents at beginning of period	52,786	34,017
Cash and cash equivalents at end of period	**64,109**	**52,786**

(In thousands of euros)

Cash and cash equivalents

As at 31 December	2018	2017
Demand and overnight deposits with banks	19,221	17,112
Term deposits with banks	16,527	500
Surplus on mandatory reserves with central banks	28,361	35,174
Total	**64,109**	**52,786**

Statement of changes in equity

	Share capital	Statutory capital reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2017	**8,000**	**800**	**435**	**87,973**	**97,208**
Profit for the year	-	-	-	17,126	17,126
Other comprehensive expense					
Exchange differences on translating foreign operations	-	-	204	-	204
Total other comprehensive expense	**-**	**-**	**204**	**-**	**204**
Total comprehensive income/ expense for the year	**-**	**-**	**204**	**17,126**	**17,330**
Dividend distribution	-	-	-	-5,000	-5,000
Total transactions with owners	**-**	**-**	**-**	**-5,000**	**-5,000**
Balance at 31 December 2017	**8,000**	**800**	**639**	**100,099**	**109,538**
Balance at 1 January 2018	**8,000**	**800**	**639**	**100,099**	**109,538**
Changes on initial adoption of IFRS 9 (see note 1)	-	-	-	-4,729	-4,729
Restated balance at 1 January 2018	**8,000**	**800**	**639**	**95,370**	**104,809**
Profit for the year	-	-	-	17,703	17,703
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	322	-	322
Net change in fair value of debt instrument at FVOCI	-	-	-191	-	-191
Total other comprehensive income	**-**	**-**	**131**	**-**	**131**
Total comprehensive income for the year	**-**	**-**	**131**	**17,703**	**17,834**
Dividend distribution	-	-	-	-5,000	-5,000
Total transactions with owners	**-**	**-**	**-**	**-5,000**	**-5,000**
Balance at 31 December 2018	**8,000**	**800**	**770**	**108,073**	**117,643**

(In thousands of euros)

As at 31 December	2018	2017
Unconsolidated equity at end of period	**117,643**	**109,538**
Investments in subsidiaries:		
Carrying value	-579	-579
Carrying value under the equity method	4,110	4,287
Adjusted unconsolidated equity at end of period	**121,174**	**113,246**

Signatures

The management board has prepared the review of operations and financial statements of Bigbank AS for 2018.

Sven Raba		
Chairman of the Management Board	27 February 2019	*[signed digitally]*
Pāvels Gilodo		
Member of the Management Board	27 February 2019	*[signed digitally]*
Martin Länts		
Member of the Management Board	27 February 2019	*[signed digitally]*
Mart Veskimägi		
Member of the Management Board	27 February 2019	*[signed digitally]*

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

Sietse, Head of Cross-Border Unit

Building a better
working world

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Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Bigbank AS

Opinion

We have audited the consolidated financial statements of Bigbank AS and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (Estonia), and we have fulfilled our other ethical responsibilities in accordance with the requirements of the code of ethics.

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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

- Impairment of loans to customers

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. Such an assessment is inherently uncertain, involving various factors and use of assumptions assessing how impairment events that have not yet resulted in a payment default are identified and measured when calculating the allowance.

Special considerations are given to aspects that are new or experienced notable developments in 2018, like sale of significant amount of defaulted loans portfolios.

Effective 1 January 2018, the Bank adopted IFRS 9 "Financial Instruments" and the requirements of the IFRS 9 have been applied retrospectively without restating comparatives. The additional impairment as a result of IFRS 9 adoption recognized in the opening retained earnings of the Bank on 1 January 2018 amounts to EUR 4 730 thousand.

Under IFRS 9, the Bank has introduced the expected credit loss model. Notes 3 Risk and capital management, 6 Loans to customers and 7 Impairment of loans, receivables and financial investments to the financial statements present more information on the estimation of impairment allowance for loans to customers.

The use of different modelling techniques and assumptions could produce different estimates of expected credit losses. Due to the significance of loans to customers (representing 82.3% of total consolidated assets and 82.4% of total unconsolidated assets of parent) and the related estimation uncertainty, we consider this a key audit matter. Key areas of judgement include the identification of exposures with a significant deterioration in credit quality, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors.

Our audit procedures included, among others, the following: we gained an understanding and tested the key controls over the loan issuance, booking and monitoring and loan impairment provisioning process; we obtained and read the Group's Impairment provisioning policy that is based on the IFRS 9 and involved our internal IFRS 9 specialists to assess its compliance with the requirements of IFRS 9.

For a sample of individually impaired loans we understood the developments at the borrower and the basis of measuring the expected credit loss and considered key judgments given the borrowers' circumstances. We also re-performed management's impairment calculation on a sample basis. In addition, we tested key inputs to the impairment calculation, including the expected future cash flows and valuation of collateral held, and evaluated whether the valuations made by management were up to date, consistent with the strategy being followed in respect of the particular borrower and appropriate for the purpose.

For expected credit loss for loans calculated on a collective basis we analyzed the Bank's methodology, inputs and assumptions used. We also tested the completeness and accuracy of the underlying loan information used in the expected credit loss models by agreeing details to the Group's source systems as well as re-performing the calculation of the modelled provision. For the key assumptions in the model, we evaluated evidence provided by the management.

We further assessed the adequacy of the Bank's disclosures in the financial statements regarding exposure to credit risk.

Other information

Management is responsible for the other information. Other information consists of Bigbank group at a glance, Letter of the chairman of the management board, Review of the operations, Social responsibility and sustainability report and Corporate Governance Report, but does not consist of the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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 financial statements

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

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

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

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

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

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

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

We are also required to provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on Other Legal and Regulatory Requirements

Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Appointment and approval of the auditor

In accordance with the decision made by the shareholder we have been chosen to carry out the audit of Group's consolidated financial statements the first time in 2013. Our appointment to carry out the audit of Group's consolidated financial statements in accordance with the decision made by shareholder has been renewed annually and the period of total uninterrupted engagement is 6 years.

Consistence with Additional Report to Supervisory Board and Audit Committee

Our audit opinion on the annual financial statements expressed herein is consistent with the additional report to the Supervisory Board and Audit Committee of the Group, which we issued in accordance with Article 11 of the Regulation (EU) No. 537/2014 on the same date as the date of this report.

Non audit services

We confirm that in light of our knowledge and belief, services provided to the Group are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In addition to statutory audit services and services disclosed in the financial statements, no other services were provided by us to the Company and its controlled undertakings.

The responsible certified auditor on the audit resulting in this independent auditors' report is Olesia Abramova.

Tallinn, 27 February 2019

/signed digitally/
Olesia Abramova
Authorised Auditor's number 561
Ernst & Young Baltic AS
Audit Company's Registration number 58

/signed digitally/
Liisi Semjonov
Authorised Auditor's number 682

Profit allocation proposal

The total consolidated distributable profits of Bigbank AS as at 31 December 2018 comprise of:

Earnings retained in prior years as at 31 December 2018	94,042	thousand euros
Net profit for 2018	17,526	thousand euros
Total distributable profits as at 31 December 2018	**111,568**	**thousand euros**

The management board of Bigbank AS proposes to the general meeting to distribute the profit for the reporting period as follows:

1.	Dividend distribution (62.50 euros per share)	5,000	thousand euros
2.	Transfer to retained earnings	12,526	thousand euros
Balance of retained earnings after allocations		**106,568**	**thousand euros**

Sven Raba		
Chairman of the Management Board	27 February 2019	*[signed digitally]*
Pāvels Gilodo		
Member of the Management Board	27 February 2019	*[signed digitally]*
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