Bigbank

Pillar 3 Report 2018

1. Pillar 3 Disclosure Requirements

Disclosure requirement (reference to the Article of Regulation (EU) No 575/2013)	Reference to Annual Report	Reference to Pillar 3 Report
Article 435. Risk management objectives and policies	p 42, p82	p 3, p 11-12
Article 436. Scope of application	p 51	
Article 437. Own Funds	p 107	p 4-6
Article 438. Capital requirements	p 96	
Article 439. Exposure to counterparty credit risk	p 98	
Article 440. Capital buffers	p 109	p 6, p 9
Article 441. Indicators of global systemic importance	N/A	N/A
Article 442. Credit risk adjustments	p 84, p 99-104, p 108, p 113-117	
Article 443. Unencumbered assets		p 10
Article 444. Use of external credit ratings	p 97	
Article 445. Exposure to market risk	p 98	
Article 446. Operational risk	p 105	
Article 447. Exposures in equities not included in the trading book	N/A	N/A
Article 448. Exposure to interest rate risk on positions not included in the trading book	p 100	
Article 449. Exposure to securitization positions	N/A	N/A
Article 450. Remuneration	p 44	
Article 451. Leverage		p 7-8
Article 452. Use of the IRB Approach to credit risk	N/A	N/A
Article 453. Use of credit risk mitigation techniques	p 90	
Article 454. Use of the Advanced Measurement Approaches to operational risk	N/A	N/A
Article 455. Use of Internal Market Risk Models	N/A	N/A

In this report and in the Bigbank AS Annual Report 2018 upon disclosure of information regarding risk management and capital adequacy the requirements of Directive 2013/36 / EU (CRD IV), Regulation (EU) No 575/2013 (CRR), EBA Guideline GL/2016/11 and EBA Guideline GL/2017/01 have been followed.

The Bigbank AS Annual Report 2018 is published on the bank's website at www.bigbank.eu.

2. Main Changes in Risk Management

The following outlines the most significant changes in the group's risk management in 2018.

In 2018 the Group continued working on the transformation of the risk management structure and improving its operations. Strong emphases were put on improving the three lines of defense setup in the organization. Data steward position was moved to risk management area to ensure adherence to standards and consistent data quality across the systems used by the bank. At the end of the year risk management area consisted of operational risk control unit, quality control unit, operations security and control unit, risk reporting unit and data steward position. Information technology risks are managed by a separate information security unit, belonging into IT area. Credit area provides independent oversight about credit risk. Compliance function is represented by the compliance unit, both credit area and compliance unit report directly to the management board. On the management board level all risk management related functions (excluding information technology risks), including the prevention of money laundering and terrorist financing, are represented by the member of the management board Mart Veskimägi as of the end of 2018. Sven Raba, chairman of the management board, is responsible for information technology risks on the board level. From the risk management managerial positions head of the credit area was changed during 2018.

Group's internal regulations, concerning risk management, were substantially updated in 2018, including all relevant risk policies (risk and capital management policy, credit policy, liquidity management policy, market risk policy, operational risk policy, anti-money laundering and counter financing terrorism policy). Among other changes risk appetite levels for all material risks were reviewed and updated and framework of market and liquidity risk limits revised. Business continuity management procedure was created as a new document. Internal regulations concerning IT risks were also substantially updated. Emphases was put on updating procedures in branches to improve the internal controls framework as well.

In the credit area the development of scoring models used within credit decision process continued, which are used for evaluating credit quality. Changes in credit rules for improving credit quality took place in all countries, but the most important changes in models took place in Sweden, where the transition to the fully automated process of issuing credit took place. Throughout the year more effort was put into improving credit quality in Finland and Sweden. From January 2018 group started to use IFRS 9 methodology in loan loss allowances calculation. The PD (Probability of default) and LGD (Loss given default) calculations were updated respectively. Bank started to use forward looking component in calculating the allowances. To reduce the volume of non-performing loans, co-operations with collection agencies continued in all countries of operation, by entering into forward-flow agreements and conducting one-off sales of defaulted loans.

In order to further improve anti-money laundering and counter terrorist financing activities, processes were reviewed in light of the reviewed external regulations, automation of anti-money laundering controls continued and internal regulations were updated. A comprehensive anti-money laundering risk assessment result, covering all countries, was approved by the management board in February 2018. Bank also continued the improvement of fraud prevention activities.

During the year, risk identification, measurement and reporting systems were supplemented. Among others, group-wide incident and fraud reporting system was further developed. Customer complaints reporting framework was improved. Activities related to processes mapping with internal regulations and ensuring their timeliness continued. Risk reports in Tableau reporting environment were improved, new reports added and the harmonization and improvement of risk reports presented to the management board and supervisory board continued.

Ongoing risk-related trainings were carried out in the group with the aim of raising risk awareness of the employees and to improve the overall risk culture. Among other, mandatory training courses for bank employees in anti-money laundering, information security and data protection were conducted in 2018. Operational risk trainings in incident reporting and management, quality and risk assessment, business continuity and in other risk awareness topics were conducted. Risk-awareness trainings are included as well into training program for all new employees of the group.

3. Capital Instruments' Main Features Template

Disclosure according to Annex II in Commission implementing regulation (EU) No 1423/2013

1	Issuer	Bigbank AS	Bigbank AS
2	Unique identifier (ISIN)	EE3100016015	EE3300111400
3	Governing law(s) of the instrument	Estonian	Estonian
	Regulatory treatment		
4	Transitional CRR rules	Common Equity Tier 1	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Tier 2
6	Eligible at solo/ (sub-)consolidated/ solo & (sub-) consolidated	Solo and (Sub-) Consolidated	Solo and (Sub-) Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Common shares	Tier 2 subordinated notes
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 8	EUR 5
9	Nominal amount of instrument	EUR 100	EUR 1,000
9a	Issue price	Face value changed on 2011 from EEK 1,000 to EUR 100	EUR 1,000
9b	Redemption price	N/A	EUR 1,000
10	Accounting classification	Shareholders' equity	Liability - amortised cost
11	Original date of issuance	22.09.1992	28.12.2017
12	Perpeptual or dated	Perpetual	Dated
13	Original maturity date	No maturity	28.12.2027
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates, and redemption amount	N/A	28.12.2022, redemption amount is the aggregate of the nominal value, accrued but unpaid interests, any other amount due and payable by the Issuer to the Investor
16	Subsequent call dates, if applicable	N/A	On each interest payment date after 28.12.2022
	Coupons/dividends		
17	Fixed or floating dividend/coupon	Floating	Fixed
18	Coupon rate and any related index	N/A	6.5%
19	Existence of a dividend stopper	No	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specifiy instrument type convertible into	N/A	N/A

Coupons/dividends

29	If convertible, specifiy issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger (s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument)	N/A	All unsubordinated claims of creditors of the Issuer
36	Non-compliant transitioned features	No	No
37	If yes, specifiy non-compliant features	N/A	N/A

4. Own Funds Disclosure

Disclosure according to Annex IV in Commission implementing regulation (EU) No 1423/2013

	In thousand EUR	**31.12.18**	**31.12.17**	**Reference to the Article of Regulation (EU) No 575/2013**
Common Equity Tier 1 (CET1) capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	8,000	8,000	26 (1), 27, 28, 29, EBA list 26 (3)
	of which: Instrument type 1	8,000	8,000	EBA list 26 (3)
2	Retained earnings	94,042	86,565	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves)	1,797	1,475	26 (1)
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	9,970	7,298	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**113,808**	**103,338**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	-191	-	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-12,381	-7,472	36 (1) (b), 37, 472 (4)
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	**-12,572**	**-7,472**	
29	**Common Equity Tier 1 (CET1) capital**	**101,236**	**95,866**	
Additional Tier 1 (AT1) capital: instruments				
36	**Additional Tier 1 (AT1) capital before regulatory adjust- ments**	**-**	**-**	

In thousand EUR		31.12.18	31.12.17	Reference to the Article of Regulation (EU) No 575/2013
Additional Tier 1 (CET1) capital: regulatory adjustments				
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	-	
44	Additional Tier 1 (AT1) capital	-	-	
45	Tier 1 capital (T1 = CET1 + AT1)	101,236	95,866	
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	5,000	5,000	62, 63
51	Tier 2 (T2) capital before regulatory adjustments	5,000	5,000	
Tier 2 (T2) capital: regulatory adjustments				
57	Total regulatory adjustments to Tier 2 (T2) capital	-	-	
58	Tier 2 (T2) capital	5,000	5,000	
59	Total capital (TC = T1 + T2)	106,236	100,866	
60	Total risk weighted assets	468,369	414,625	
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	21.61%	23.12%	92 (2) (a), 465
62	Tier 1 (as a percentage of total risk exposure amount)	21.61%	23.12%	92 (2) (b), 465
63	Total capital (as a percentage of total risk exposure amount)	22.68%	24.33%	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	7.64%	7.57%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.50%	2.50%	
66	of which: countercyclical buffer requirement	0.24%	0.18%	
67	of which: systemic risk buffer requirement	0.40%	0.39%	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	-	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	17.11%	18.62%	CRD 128

5. CRR Leverage Ratio Disclosure

Disclosure according to Annex I in EU Regulation No 2016/200

In thousand EUR

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures		**31.12.18**	**31.12.17**
1	Total assets as per published financial statements	528,708	459,336
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	9,215	4,247
7	Other adjustments	-12,572	-7,472
8	**Total leverage ratio exposure**	**525,351**	**456,111**

		CRR leverage ratio exposures	
Table LRCom: Leverage ratio common disclosure		**31.12.18**	**31.12.17**
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets but including collateral)	528,708	459,336
2	(Asset amounts deducted in determining Tier 1 capital)	-12,572	-7,472
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**516,136**	**451,864**
Derivative exposures			
11	**Total derivative exposures (sum of lines 4 to 10)**	**-**	**-**
Securities financing transaction exposures			
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**-**	**-**
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	9,215	4,247
19	Other off-balance sheet exposures (sum of lines 17 to 18)	**9,215**	**4,247**
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)			
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
Capital and total exposures			
20	**Tier 1 capital**	101,236	95,866
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**525,351**	**456,111**
Leverage ratio			
22	**Leverage ratio**	**19.27%**	**21.02%**
Choice on transitional arrangements and amount of derecognised fiduciary items			
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in	Fully phased in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	N/A	N/A

Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		CRR leverage ratio exposures 31.12.18	31.12.17
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	528,708	459,336
EU-2	Trading book exposures	-	-
EU-3	Banking book exposures, of which:	528,708	459,336
EU-4	Covered bonds	-	-
EU-5	Exposures treated as sovereigns	34,995	39,592
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-	-
EU-7	Institutions	39,890	21,188
EU-8	Secured by mortgages of immovable properties	8,381	10,373
EU-9	Retail exposures	381,724	325,261
EU-10	Corporate	31,885	30,249
EU-11	Exposures in default	10,525	16,186
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	21,307	16,486

Table LRQua: Disclosure on qualitative items

1 Description of the processes used to manage the risk of excessive leverage

The management of excessive leverage risk is integrated into the Bigbank's risk management framework (including procedures, limits, planning, etc.). Excessive leverage ratio is regularly monitored and reported to the management board, risk committee and supervisory board. For monitoring excessive leverage risk Bigbank uses mainly the leverage ratio of Regulation (EU) No 575/2013 as a main indicator as well other indicators based on the balance sheet structure. The risk of excessive leverage is taken into account in strategic planning and shall be assessed and forecasted as part of capital planning. The Bank's funding must be arranged in such a way that the necessary funding is reasonably balanced between proportion of external funding sources and equity capital. Management board and risk committee assesses changes in balance sheet structure and forecasts and, if the necessity emerges, establish action plan for response to the changes in leverage ratio.

2 Description of the factors that had an impact on the leverage Ratio during the period to which the disclosured leverage Ratio refers

The leverage ratio has slightly decreased compared to the end of 2017 from 21.02% to 19.27% (at 31.12.2018). The decrease of the ratio has been mainly caused by the increase of total risk exposure in ordinary course of business. This was partially offset by an increase in Tier 1 capital primarily due to the result of continued profit generation. The were no particular external factors having significant impact to the leverage ratio.

6. Disclosure of Countercyclical Capital Buffer

Disclosure according to Annex I in EU Regulation No 2015/1555

In thousand EUR

Disclosed is geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

Row		General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements					
		Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securi-ti-sation exposures	**Total**	**Own funds requirement weights**	**Counter-cyclical capital buffer rate**
		010	020	030	040	050	060	070	080	090	100	110	120
010	Breakdown by country												
	Latvia	75,532	-	-	-	-	-	6,043	-	-	6,043	0.23	0.00%
	Lithuania	99,592	-	-	-	-	-	7,967	-	-	7,967	0.27	0.50%
	Estonia	74,484	-	-	-	-	-	5,959	-	-	5,959	0.19	0.00%
	Finland	52,264	-	-	-	-	-	4,181	-	-	4,181	0.17	0.00%
	Spain	7,600	-	-	-	-	-	608	-	-	608	0.05	0.00%
	Sweden	38,540	-	-	-	-	-	3,083	-	-	3,083	0.09	2.00%
	Norway	102	-	-	-	-	-	8	-	-	8	0.00	2.00%
	Denmark	545	-	-	-	-	-	44	-	-	44	0.00	0.00%
	Netherlands	258	-	-	-	-	-	21	-	-	21	0.00	0.00%
	United States	505	-	-	-	-	-	40	-	-	40	0.00	0.00%
	Other	609	-	-	-	-	-	49	-	-	49	0.00	0.00%
020	**Total**	**350,030**	**-**	**-**	**-**	**-**	**-**	**28,002**	**-**	**-**	**28,002**	**1.00**	

Amount of institution-specific countercyclical capital buffer

Row		**31.12.18**	**31.12.17**
010	Total risk exposure amount	468,369	414,625
020	Institution specific countercyclical buffer rate	0.36%	0.18%
030	Institution specific countercyclical buffer requirement	1,700	761

7. Disclosure of Unencumbered Assets

Disclosure according to EU Regulation No 2017/2295

In thousand EUR

Template A. Encumbered and unencumbered assets

Row		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	Assets of the reporting institution	-	-	489,164	489,164
030	Equity instruments	-	-	-	-
040	Debt securities	-	-	11,987	11,987
050	of which: covered bonds	-	-	-	-
060	of which: asset-backed securities	-	-	-	-
070	of which: issued by general governments	-	-	3,606	3,606
080	of which: issued by financial corporates	-	-	3,439	3,439
090	of which: issued by non-financial corporates	-	-	5,136	5,136
120	Other assets	-	-	477,200	477,200
121	of which:	-	-	-	-

Template B. Collateral received

Row		Fair value of encumbered collateral received or own debt securities issued	Unencumbered
			Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
250	TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	-	489,164

Template C. Sources of encumbrance

Row		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	Carrying amount of selected financial liabilities	-	-
011	of which:	-	-

Template D. Accompanying narrative information

All assets of the Bank were unencumbered at the reporting date.

8. Disclosure of Liquidity Coverage Ratio

Disclosure according to Guidelines EBA/GL/2017/01 Annex II

In thousand EUR

Template EL LIQ1

Row		Total adjusted value			
		31.03.18	**30.06.18**	**30.09.18**	**31.12.18**
21	Liquidity buffer	13,764	14,633	15,993	17,053
22	Total net cash outflows	3,941	3,977	4,183	4,381
23	Liquidity coverage ratio (%)	351%	370%	383%	389%

9. Risk Management Objectives and Policies for Liquidity Risk

Disclosure according to Guidelines EBA/GL/2017/01 Annex I

Strategy and processes in the management of the liquidity risk

Maintaining strong liquidity is one of the Group's main priorities. The Group shall at all times ensure the ability to meet its obligations in a timely manner and in full extent in both the normal and liquidity crisis conditions over a long period of time.

The Group's liquidity risk management strategy is to maintain a conservative liquidity risk profile and sufficient liquidity reserves. The main objective of the Group's financing strategy is to ensure sufficient and stable financing of core activities using the Group's own capital and external financing. The main source of funding is fixed-term retail 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. The funding strategy is closely related to assets quality and assets structure management. The structure and maturity of assets shall correspond to the funding structure and shall not rely on very short-term funding resources. The Group avoids concentration in funding.

Detailed framework for liquidity risk management is specified in the Liquidity risk policy.

Structure and organisation of the liquidity risk management

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 area is responsible for the risk control, measurement and reporting to management and supervisory board.

Scope and nature of liquidity risk reporting and measurement systems

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. For further information about Bigbank AS liquidity risk management (incl. risk measurement, stress- testing and reporting) in particular, please refer to the Annual Report Annex 3. Risk and Capital management.

Policies for hedging and mitigating the liquidity risk

According to the liquidity risk management strategy Group has to maintain a conservative liquidity risk profile and sufficient liquidity reserves. The Bank's assets structure and its maturities shall correspond to the funding structure and shall not rely on a very short-term funding sources. Diversification is a key requirement of the In the overall funding and liquidity management strategy the key requirements are diversification and avoidance of concentrations.

Group has a Liquidity Contingency Plan, which provides activities in case of a liquidity shortage in a stress-situation. Group constantly monitors the situation in financial markets and opportunities of alternative funding instruments. In order to mitigate liquidity risk Group may consider various measures, such as partial sale of claims, participation in the loan programmes of the European Central Bank, money market placements from other credit institutions and credit lines from other credit institutions.

Liquidity risk profile associated with the business strategy
Effective risk management is an essential component of the Group's overall management. It has a crucial impact on the long-term results and sustainability of a business model.
Bigbank AS liquidity risk appetite is set on a "low" level and funding risk appetite on a "moderate" level. The Group's actual liquidity risk level corresponded to the target risk level as of December 31, 2018.

Table. Liquidity Risk key risk indicators

Ratio	31.12.18	31.12.17
Liquidity coverage ratio (LCR)	907%	1,101%
Net stable funding ratio (NSFR)	136%	137%
Loan to deposits ratio	109%	111%
Liquidity buffer to total assets ratio	14.7%	13.9%
Liquidity buffer to short-term (<1 year) liabilities ratio	551%	460%
Long-term (>1 year) funding to total funding ratio	50%	47%
Tolerance period (months)	5.7	4.2

For further information about Bigbank's risk governance and liquidity risk management (incl. risk measurement, stress-testing and reporting) in particular, please refer to the Annual Report Annex 3. Risk and Capital management.

Management Board of Bigbank AS approves adequacy of the liquidity risk management arrangements and risk management systems put in place with regard to the Group's profile and strategy.

Sven Raba
Chairman of the Management Board 28.02.2019 *[signed digitally]*

Pāvels Gilodo
Member of the Management Board 28.02.2019 *[signed digitally]*

Martin Länts
Member of the Management Board 28.02.2019 *[signed digitally]*

Mart Veskimägi
Member of the Management Board 28.02.2019 *[signed digitally]*