Bigbank AS Annual report 2022

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Annual report 2022

Business name	Bigbank AS
Registry	Commercial Register of the Republic of Estonia
Registration number	10183757
Date of entry	30 January 1997
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Corporate website	www.bigbank.ee
Reporting period	1 January 2022 – 31 December 2022
Chairman of the management board	Martin Länts
Core business line	Provision of loans and acceptance of deposits
Auditor	KPMG Baltics OÜ

The annual report of Bigbank AS consists of a letter from the CEO, a review of operations, a social responsibility and sustainability report, a corporate governance report and consolidated financial statements together with an independent auditors' report, risk and capital management report and a profit allocation proposal. The document contains 149 pages.

The reporting currency is the euro.

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

Caring

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

Mirjam Peetsmann
Group Head of Customer Experience

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Simplicity

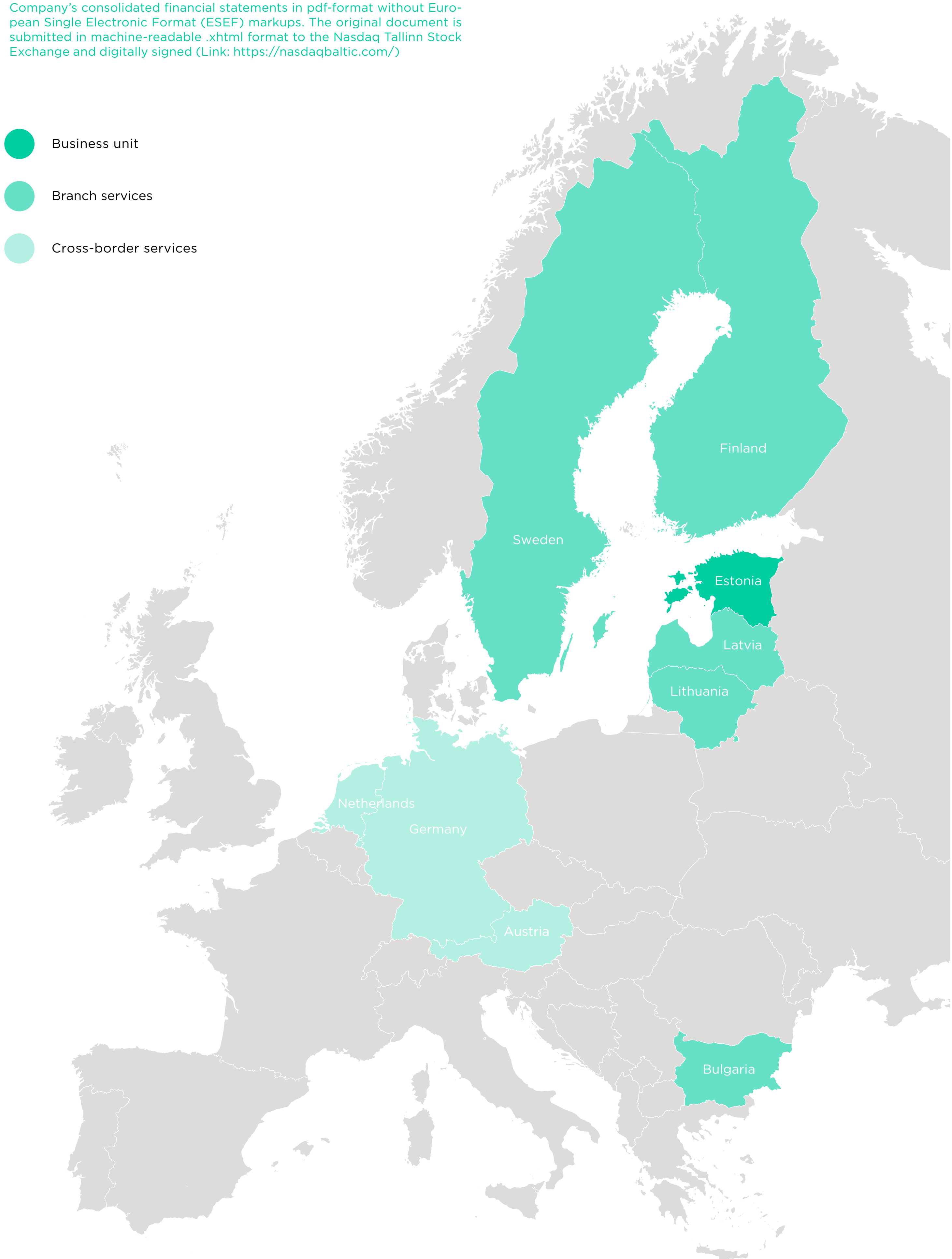
We aim at simplicity in our solutions and in customer experience.

Jonna Pechter
Head of Estonian Business Unit

Bigbank Group at a glance

BIGBANK VALUES

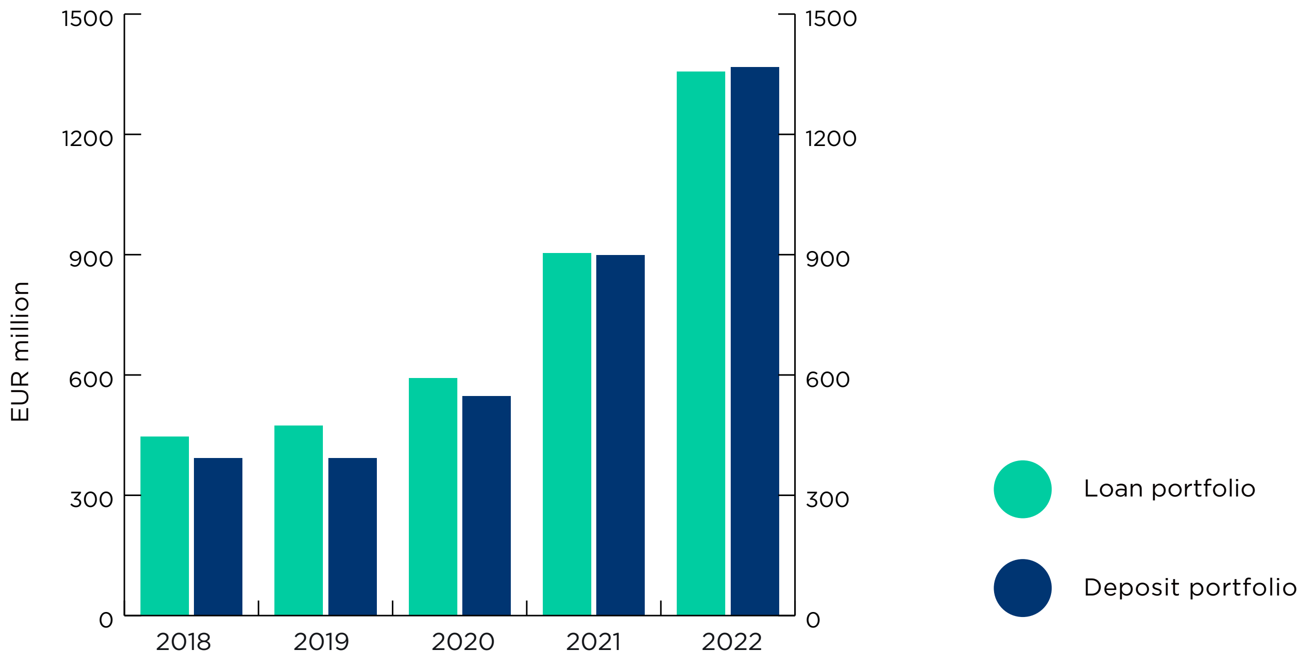
Company's consolidated financial statements in pdf-format without European Single Electronic Format (ESEF) markups. The original document is submitted in machine-readable .xhtml format to the Nasdaq Tallinn Stock Exchange and digitally signed (Link: https://nasdaqbaltic.com/)



COUNTRIES OF OPERATIONS

	Estonia	Latvia	Lithuania	Finland	Sweden	Bulgaria	Total
Start of operations	1992	1996	2007	2009	2012	2021	
Loan portfolio, EUR million*	540.4	208.5	441.0	103.9	55.0	7.0	**1,355.8**
Number of loan contracts, thousands*	24	31	42	15	8	1	**121**
Deposit portfolio, EUR million*	1,212.8	25.7	-	65.5	62.6	1.2	**1,367.6**
Number of deposit contracts, thousands*	46.7	1.1	-	1.9	2.0	-	**51.7**
Number of employees*	295	76	83	15	8	8	**485**

*At 31 December 2022



Letter from the CEO

A year of challenges and wins

In the past couple of years, the world and the global economy were affected by a health crisis. The year 2022, however, brought a completely different crisis – Russia's full-scale war against Ukraine. Both I personally and the Bigbank Group firmly believe that any military aggression is unacceptable and that the sovereignty of nations must be respected. I hope with all my heart that the war will end soon and that Europe will live in peace again.

BILLION-EURO LINES CROSSED

Although 2022 was a challenging year for the whole world, as well as for Bigbank, it also brought us numerous successes and great wins.

Bigbank's loan portfolio crossed the billion-euro line on 18 March and the deposit portfolio followed suit on 23 March. Furthermore, Bigbank's net profit for 2022 extended to 33.7 million euros and return on equity was 17%.

Along with strong financial performance, we made significant progress in our customer service, which is among our priorities. Based on customer feedback, the Net Promoter Score (NPS) rose to an all-time high of 52 points.

I would like to thank the Bigbank team. I am deeply grateful for your dedication and passion to provide better banking services every day. We have won the hearts of our customers and this year we also won the hearts of public investors with a successful issue of bonds that were listed on the Nasdaq Baltic bond list. I would also like to thank our customers and investors for their trust and our business partners for their continued support.

LOAN PORTFOLIO DELIVERS 50% GROWTH FOR THE YEAR

Bigbank's gross loan portfolio stood at 1.36 billion euros at the end of 2022, reflecting 50% growth on a year earlier. Retail and corporate loans accounted for 66% and 34% of the total loan portfolio, respectively.

HOME LOANS WIN THE HEARTS OF OUR CUSTOMERS

Home loans have won the hearts of our customers. Bigbank's loans to individuals, including home loans, reached 884.1 million euros at the end of 2022, which is 31% more than a year earlier. The home loan portfolio showed particularly fast growth, rising to 224.7 million euros by the end of 2022. Compared to a year earlier, home loans increased more than three times. Since Bigbank now offers home loans in all three Baltic countries, we have opened the door to a completely new customer segment. I am pleased to state that the number of people that have chosen Bigbank to finance their home far exceeds our original expectations and continues growing.

CORPORATE BANKING CONTINUES ITS SUCCESS STORY

Business loans are Bigbank's fastest growing product line besides home loans. Our corporate banking segment achieved a major breakthrough in 2021 and continued to deliver excellent results in 2022. Business loans issued by the segment that offers its services in all three Baltic countries amounted to 472.7 million euros at the end of 2022. During the year, the gross portfolio of business loans and leases issued in the Baltics grew by 244.5 million euros, i.e. 107%.

DEPOSIT PORTFOLIO EXPANDS BY 52% DURING THE YEAR

Bigbank's deposit portfolio amounted to 1.37 billion euros at the end of 2022, 52% up on a year earlier. Savings deposits, which accounted for 621.8 million euros of total deposits at the year-end, grew by 82% and term deposits, which amounted to 746 million euros at the end of 2022, grew by 34% year on year.

Although Bigbank raises deposits in almost all the countries where it operates, I want to highlight the success of our cross-border team, which succeeded in increasing our cross-border deposit portfolio to 1 billion euros by 10 August 2022. My thanks go to our colleagues for their enormous efforts and to our customers from Germany, Austria and the Netherlands for their trust that made this remarkable result possible.

NASDAQ WELCOMES BIGBANK TO THE BALTIC BOND LIST

Bigbank's aim is to compete with the big universal banks operating in the Baltics, particularly in the consumer, home, and business loan segments, while profitably growing its operating volumes and market share. The first public offering of Bigbank's unsecured subordinated bonds was a strong start for our bond programme, which will extend to 35 million euros. Through the successful bond issue, we raised 20 million euros of capital from 1,610 investors to support our growth in the above segments. The bonds were listed on the Baltic bond list of the Nasdaq Tallinn stock exchange on 22 September 2022. For me, it is a clear sign that many investors across the Baltics trust Bigbank and our business model.

EMPLOYEE ENGAGEMENT

Learning and ongoing development opportunities are an integral part of Bigbank's value proposition to employees. Over the years, Bigbank has developed a comprehensive onboarding programme, which is tailored to the needs of each employee based on their background and responsibilities. In 2022, we continued to optimise the programme. The Group's human resource team and management also continued working on managers' competence model and related development programme. We engage and retain talent by offering high management quality and supporting personal growth. We build a sales and business-focused organisation with a strong banking expertise. We apply LEAN principles and technology to create processes that ensure a great customer and employee experience in order to achieve our goals for all product lines. The chosen strategy has proven successful – annual employee engagement surveys reflect that our people appreciate the professional development opportunities offered by Bigbank.

FIRST YEAR OF BIGBANK'S NEW STRATEGY PERIOD 2022–2026

One of the cornerstones of Bigbank's strategy for 2022–2026 is entering everyday banking. I am pleased to announce that the first step towards this goal was taken in December 2022 when Bigbank launched its first credit card. The card is currently available to our Estonian customers, but we will soon start offering it in our other markets as well. This is just the first step towards our ambitious goals – we are planning to share more good news in the near term already.

OUTLOOK

Despite the uncertain environment, I can confirm that Bigbank's financial position is strong and stable. This allows us to continue to deliver on our ambitious plans while focusing on our number one priority: creating value for our customers.

Bigbank is a bank with 30 years of experience. Our continuously growing market share proves that we offer our services on attractive terms and our return on equity shows that we do it very efficiently.

Bigbank has a technological advantage that allows us to continue to develop and meet the goals set in the strategy for 2022–2026. We are not trying to deliver everything at once, but to grow organically and efficiently. Let's continue this journey together.

I wish you all a successful 2023.

Martin Länts
Chairman of the Management Board

Review of operations

ECONOMIC ENVIRONMENT

Russia's war against Ukraine has been going on for a year without a cessation of hostilities, let alone a peaceful resolution. The war has caused untold suffering and destruction in Ukraine and affects both directly and indirectly the security and economic wellbeing of the EU and its member states. Under the pressure of surging energy, food and commodity prices, the world economy, which was still struggling with the economic consequences of the pandemic crisis, was hit by a sharp rise in inflation. Due to its geographical proximity to the war and its high, albeit declining, dependence on fossil fuel imports, the EU is one of the most vulnerable economies. Although inflation began to raise its head on the back of the post-pandemic euphoria already before the war, real GDP growth continued in most EU countries in 2022. As restrictions eased, consumers resumed international travel, returned to restaurants, hotels and other contact-intensive services, which strongly boosted consumption. At the end of the summer, however, consumption started to slow again. As enthusiasm for the reopening waned, consumers were faced with the harsh reality of a rising cost of living. By the end of the year, high energy prices and creeping inflation had caused a sharp decline in households' purchasing power, leading to a rapid decline in consumer confidence. As a result, GDP growth in the EU turned to decline in late 2022 and early 2023.

Despite the GDP decline in the fourth quarter, momentum from 2021 and strong growth in the first half of the year lifted real GDP growth to 3.3% in 2022, as projected by the European Commission's (EC) autumn 2022 forecast1. Inflation continued to surprise with its upward trend. Accelerating and expanding price pressures shifted the expected peak of inflation to the fourth quarter and raised the annual inflation rate to 9.3% in the EU and 8.5% in the euro area. Energy prices continued to be the main driver of headline inflation, with food prices also rising strongly. In the second half of the year the pressure moved more and more to the core elements of inflation.

After the disruption caused by the war and the the sanctions, the EU countries successfully found alternatives to Russian gas supplies and built a comfortable buffer for the coming winter, albeit at the cost of price and inflationary pressures. The increase in energy prices, which is the main input to a large part of economic activity, was also transferred to other components of inflation. As a result, core inflation is predicted by the EC to peak in the first quarter of 2023 and decline slowly thereafter. To protect households and businesses from high energy prices, EU governments implemented fiscal measures. The varying scope and scale of the measures caused strong heterogeneity across countries, which was amplified by different exposure to war-triggered shocks. Therefore, the EU countries' economic growth and inflation indicators for 2022 and going forward are very different compared to the COVID induced shocks which were more homogenous.

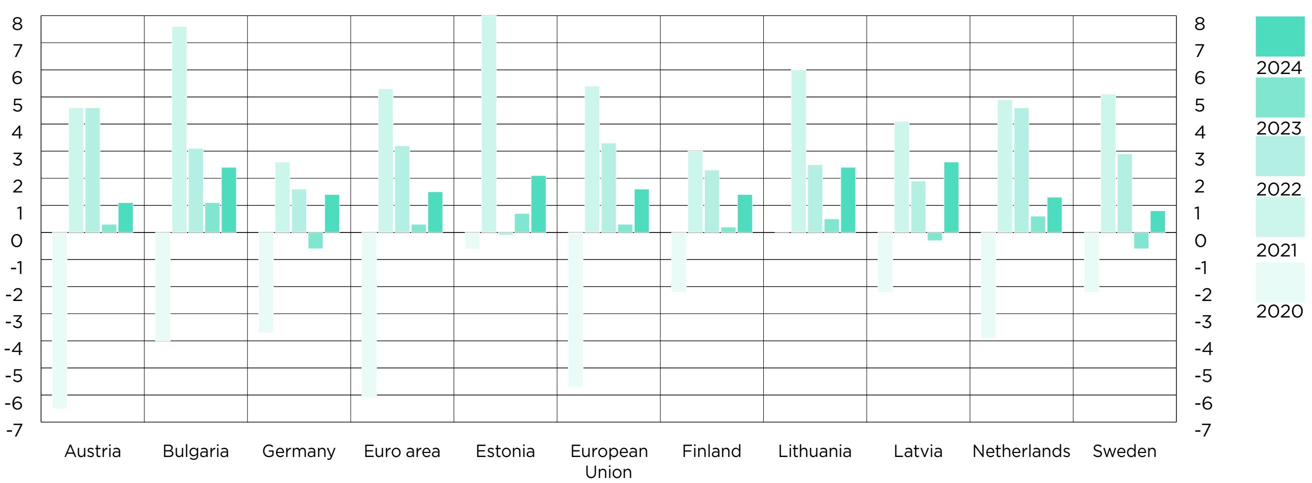
Even though there is now a real risk of potential recession, the EU economy is bolstered by the strongest labour market in decades. Unemployment rates are at a record low and participation and employment rates at a record high. This is also supported by high vacancy rates and labour shortage. Still, going forward, labour demand is also expected to start to react to the slowing of economic activity. The unemployment rate is thus projected by the EC to increase only marginally from a historic low annual average of 6.2% in 2022 to 6.5% in 2023, before falling again to 6.4% in 2024. Despite labour market tightness and elevated consumer price inflation, wage growth has so far remained moderate although it increased to above-average rates for full 2022 and is expected to remain strong, but below inflation in 2023.

Persistence of high inflation has also forced the ECB to tighten its monetary policy more forcefully than expected. After a 50-basis point hike in July, rates were hiked by 75 basis points in September and another 75 basis points in October, followed by a 50-basis point hike in December. The interest rate for the main refinancing operations thus rose to 2.5% in December. The rise in interest rates was accompanied by a change in the terms of the Targeted Longer-Term Refinancing Operations (TLTRO) to accelerate the transfer of higher interest rates to bank funding costs and bank lending rates.

As a result, 6 month Euribor, the main base rate indexing interest rates for housing and business loans, rose to 2.8% by the end of the year, having been in the red for the past seven years. Higher interest rates increase banks' net interest margins, at least in the short term, but on the other hand reduce the demand for loans. Already at the end of 2022, household demand for housing loans in the EU started to decrease significantly, supported by higher interest rates, a drop in consumer confidence and deteriorating conditions in the housing market.

Looking ahead, the EC estimates that the main risks in 2023 are still related to geopolitical tensions. Unfortunately, the potential for further disruptions triggered by the Russian invasion of Ukraine has not yet been exhausted. In addition to the threats of further escalation of the war, the biggest economic threat is unfavourable developments in the gas market and the risk that additional shortages may occur before the next winter. The formation of a wage-price spiral, which reinforces high inflation, and the possible irregular adjustments of the financial markets to the new high interest rate environment will also remain an important risk factor. Rising borrowing costs could exacerbate existing financial vulnerabilities for retail and corporate customers and cause unexpected losses for banks. Pandemic health risks also remain, although they would affect the EU indirectly through supply and demand channels, while the adverse effects of climate change appear to increase the risk to the EU and the global economy.

GDP GROWTH (%, YOY)



Source: European Commission

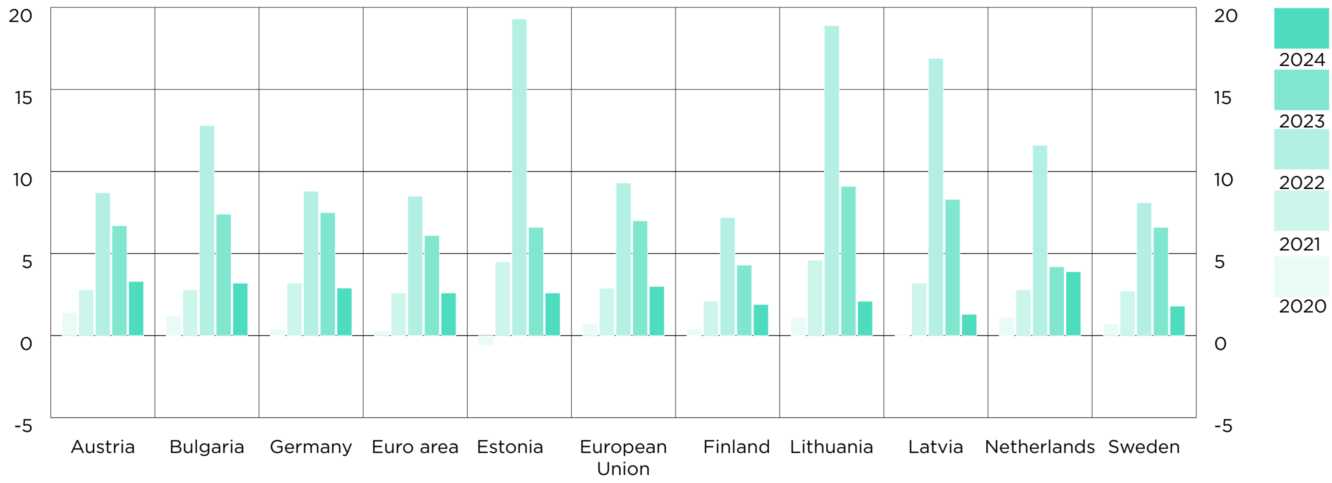
BALTIC COUNTRIES – ESTONIA, LATVIA AND LITHUANIA

Estonia's real GDP stopped growing and decreased slightly (-0.1%) in 2022, after strong growth in 2021. Growth in private consumption and net exports is expected to be offset by a temporary decrease in foreign investments in intangible fixed assets. Growth is forecast to rebound in 2023, albeit to just 0.7% as inflationary pressures ease and investment recovers, and to resume at a moderate pace thereafter. Consumer price inflation rose to 19.3% in 2022 driven by significant increases in energy, food and manufactured goods prices. The electricity price cap and other policy measures will steadily reduce headline inflation to 6.6% in 2023 and 2.6% in 2024. Employment still increased significantly in 2022 as earlier GDP growth translated into new jobs. The unemployment rate is estimated to be 6.1% at the end of 2022 and 6.6% in 2023 before falling again in 2024.

Latvia's rapid growth in 2022 was stopped by a sharp rise in inflation and a slowdown in the global economy. A doubling of energy prices ahead of the winter heating season forced households to reduce consumption, resulting in negative quarterly GDP growth at the turn of the year. In the autumn forecast of the EC, against the background of strong growth in the first half of the year, GDP growth was forecast at 1.9% for 2022. In 2023, when the heating period ends, consumption should partially recover. By then, however, the impact of the slowed-down external environment is predicted to weigh on Latvia's exports, and in 2023 GDP growth should fall to -0.3%, to accelerate again to 2.6% in 2024. Energy price growth is forecast to peak at the end of 2022 and the beginning of 2023 and service prices will gradually become the main driver of inflation over the forecast period. The HICP (Harmonised Index of Consumer Prices) inflation is seen to reach 16.9% for the whole of 2022. Energy prices are expected to remain high throughout 2023, and with the further impact of non-energy prices, inflation is forecast to grow at a rather rapid pace of 8.3% in 2023. The delayed recovery of the service sector from pandemic-related restrictions is expected to boost employment and keep wage growth brisk.

Lithuania's real GDP is expected to grow by only 2.5% in 2022 and 0.5% in 2023 due to heightened uncertainty, a worsening outlook for trading partners and rising input costs and consumer prices, according to the EC 2022 autumn forecast. As a result, the EC sees the real HICP inflation to grow by 18.9% in 2022, before falling significantly in the following years. Russia's invasion of Ukraine has led to a loss of confidence, major disruptions in the input supplies and a significant loss of exports to Russia, Belarus and Ukraine. At the same time, private consumption has been negatively affected by strong growth in consumer prices, which has exceeded the growth in households' disposable income. The sharp rise in energy and other input costs has led to a decline in competitiveness in some economic sectors and slowed down investments. As a result, real GDP growth will slow down to 0.5%, according to the EC forecast. Despite greater uncertainty about the economic outlook, the number of employed people continued to grow in 2022 and the unemployment rate has fallen. While the influx of people fleeing Ukraine has helped to address the labour shortage, vacancy rates remain high.

HARMONISED INDEX OF CONSUMER PRICES (%, YOY)



Source: European Commission

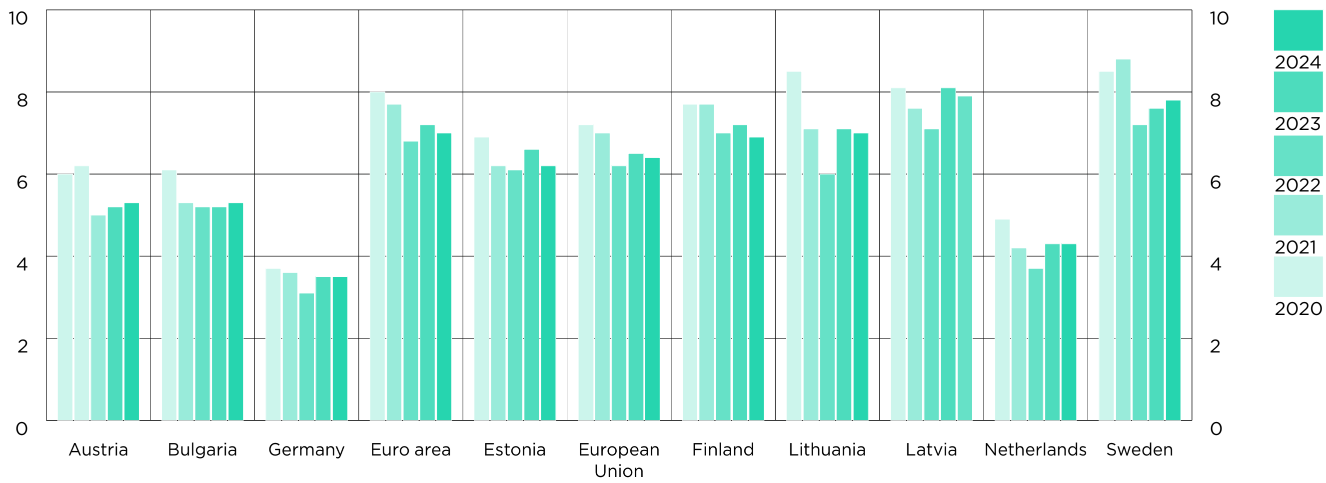
NORDIC COUNTRIES – FINLAND AND SWEDEN

The Finnish economy continued to grow rapidly in the first half of 2022, supported by increased demand for services, investments and growth in inventories. In the second half of the year, record-high energy prices and inflation, together with tighter financing conditions and a weakened external environment, began to affect economic growth. However, the strong economic performance of the first half of the year helped full-year GDP to grow by 2.3%. Higher energy bills affect households' financial situation, which has started to limit private consumption despite a strong labour market. As a result, growth is forecast to enter a negative territory soon. In general, real GDP growth is forecast to slow down to 0.2% in 2023.

Labour market performance remains strong and the annual unemployment rate was 7.0% in 2022 compared to 7.7% in 2021 according to the EC autumn forecast. The weakening of economic conditions, which is already reflected in the decrease in the number of vacancies, points to a temporary increase in the unemployment rate in 2023. Peaking in the third quarter of 2022, the HICP inflation is forecast to average 7.2% in 2022. Slowing economic activity and lower energy prices are projected to bring inflation down to 4.3% in 2023 and close to 2% in 2024.

Sweden's economy is expected to contract slightly in 2023 as high inflation, rising household debt servicing costs and uncertainty weigh on household consumption and investment. After growing close to 3% in 2022, real GDP is forecast to contract by 0.6% in 2023, with private domestic demand under pressure from higher input costs, consumer prices and interest rates. Private consumption is forecast to decline due to tighter financing conditions, a sharp decline in consumer confidence, falling house prices and lower disposable income. Wage pressures are forecast to remain moderate in line with rising unemployment. This, along with falling commodity and freight prices and easing supply bottlenecks, will contribute to lower inflation over the forecast period, supporting a gradual recovery from the second half of 2023. At the end of 2022, the HICP inflation rate peaked at around 10%. Falling commodity prices, normalisation of supply conditions and expected moderate wage growth paves the way for inflation to fall to just under 2% in 2024.

UNEMPLOYMENT RATE (%)



Source: European Commission

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

As supply chain headwinds began to abate, soaring energy costs started to weigh on income and output growth in Germany. Along with more expensive borrowing, this started to affect investment activity. Further declines in purchasing power in the context of high inflation are expected to reduce private consumption despite a partial relief from policy support. The EC sees German GDP to grow by 1.6% in 2022 but fall by 0.6% in 2023 before recovering to 1.4% in 2024. The HICP inflation reached 8.8% in 2022, driven by rising energy prices, rising input costs and rising wages in the service sector. The gradual transmission of wholesale energy prices and the tight labour market will lead to only a moderate drop in the inflation rate to 7.5% in 2023. Germany's employment situation remains stable as the unemployment rate fell to a historic low of 3.0% in 2022 and no significant increase is seen in 2023.

Austria's economy slowed after a strong first half of 2022 due to high energy prices and a decline in business and consumer sentiment. Nevertheless, overall growth in 2022 was 4.6% on the back of a strong first half. Headwinds are expected to fade only gradually over the forecast period, with economic activity slowing to 0.3% in 2023 and growing just by 1.1% in 2024. The HICP inflation rose significantly to 8.7% in 2022 and is expected to remain high at 6.7% in 2023 before falling to 3.3% in 2024. Employment is forecast to remain strong and the unemployment rate will rise from 4.8% in 2022 to 5.0% in 2023 and 5.1% in 2024.

The Dutch economy grew in the first half of 2022 supported by strong export and investment growth. In the second half of the year the decline in real household income, tightening financial conditions and uncertainty caused by Russia's invasion of Ukraine led to a modest decline in economic activity. Nevertheless, full-year GDP growth in 2022 remained at 4.6% due to strong growth in the first half of the year. Headwinds are expected to persist in both 2023 and 2024, with annual growth slowing to 0.6% and 1.3%. Authorities have announced a package of measures to mitigate the effects of high energy prices, which are expected to support domestic demand and prevent a further slowdown in GDP growth. Due to rising energy prices, the annual HICP inflation in 2022 is seen at 11.6%. The Dutch authorities have announced a price cap for electricity and gas prices that will remain in place until the end of 2023 and drive inflation down to 4.2% in 2023. The labour market is forecast to remain tight, but the unemployment rate is expected to rise from 3.7% in 2022 to 4.3% in 2023 and 4.3% in 2024 due to global weakness.

BULGARIA

Bulgarian economic growth slowed from the second half of 2022 and is expected to return to somewhat stronger growth in 2024. GDP growth will slow from 3.1% in 2022 to 1.1% in 2023 due to lower domestic and foreign demand, and will then rise to 2.4% in 2024 as external conditions improve. Price increases and higher borrowing costs have started to affect household consumption. Export growth is forecast to slow in line with subdued external demand until late 2023 and then recover in 2024. Increased use of EU funds should support aggregate investment. Annual inflation will fall from 12.8% in 2022 to 7.4% in 2023 and to 3.2% in 2024. Inflation in both food and energy prices should gradually slow. In both 2022 and 2023, the labour market is expected to remain tense and unemployment at the level of 5.2%.

OVERVIEW OF PERFORMANCE IN 2022

For Bigbank AS (Bigbank, the Group), this was the first year of the new strategy period 2022–2026. The new strategy positions Bigbank as a growth-oriented, customer-centric bank which aims for a 20% return on equity (ROE). To achieve this goal, we direct our efforts at the following focus areas:

- **growing the loan portfolio primarily through housing and corporate loans**, which enables us to increase interest income and efficiency in the long perspective;
- **maintaining good quality of the loan portfolio**, which enables us to take an internal ratings based (IRB) approach to capital requirements for credit risk;
- **making property investments**, which supports the increase of capital and creates synergy;
- **entering everyday banking**, which increases customer loyalty, improves marketing efficiency and ensures financing on more favourable terms.

For Bigbank, 2022 was a year of growth with the loan portfolio showing the strongest growth for home loans and corporate loans, in line with our first focus area. The total gross loan portfolio increased by 452 million euros to a record-high 1.36 billion euros (+50%) over the year. The home loan portfolio grew more than threefold, from 72 million euros at the end of 2021 to 225 million euros. The corporate loan portfolio more than doubled, rising from 228 million euros at the end of 2021 to 473 million euros.

Along with focusing on its new focus products, the Group successfully continued to issue consumer loans, but the results for this product category differed between countries. In total, the Group's consumer loan portfolio grew by 56 million euros to 659 million euros over the year.

Bigbank's consumer loan issuance was solid in all three Baltic markets with Lithuania delivering the strongest growth of in absolute figures (+39 million euros, +20%), followed by Estonia (+24 million euros, +26%) and Latvia (+12 million euros, +9%).

In Finland, the total gross consumer loan portfolio declined by 2 million euros year on year (-2%). A product quickly gaining popularity in Finland is a hire purchase solution for buying cars. The product, which has been customised to the needs of the local market, is a type of consumer loan, but unlike other consumer loans, it is secured by the vehicle acquired through the solution. The car hire purchase portfolio grew more quickly than expected, increasing by 18 million euros to 30 million euros over the year. Bigbank is increasing its focus on this product in Finland.

Bigbank's management decided to suspend issuance of consumer loans at the Swedish and Bulgarian branches as from 1 September 2022 and 1 November 2022, respectively, because the long-term profitability of the products did not meet expectations in these markets. The branches continue to service the existing loan portfolios and to offer term deposits to customers.

At the year-end, Estonia contributed the largest share to the overall loan portfolio (including all loan products) with 541 million euros (40%), followed by Lithuania with 441 million euros (33%) and Latvia with 209 million euros (15%).

The robust growth in the loan portfolio was supported by an increase in the deposit portfolio. Bigbank offers term and savings deposits. Savings deposits, which can be withdrawn at a couple of days' notice, are offered on a cross-border basis in Germany, Austria and the Netherlands. Savings deposits, which are increasingly gaining popularity with customers, showed the fastest annual growth, rising by 281 million euros (+82%) to 622 million euros. The term deposit portfolio increased by 189 million euros (+34%) to 746 million euros. At year-end, Germany accounted for the largest percentage of the savings deposit portfolio (50%), followed by the Netherlands (48%). Likewise, Germany accounted for the largest share of the term deposit portfolio (38%), followed by the Netherlands (32%) and Finland (9%). The overall deposit portfolio showed a record growth of 469 million euros to 1.37 billion euros in 2022.

The Group's net profit for 2022 was 33.7 million euros, which is 0.6 million euros (+2%) higher than the restated result for 2021. Growth was driven by interest income, which grew by 21.8 million euros (+29%) due to record growth of the loan portfolio and a rapid rise in Euribor in the second half of the year, which affected loans tied to Euribor, such as home and corporate loans.

Although the general rise in interest rates also increased interest expense, which grew by 5.4 million euros (+69%) compared to 2021, the overall effect of the rise in interest rates was positive for net interest income. Net interest income grew to 83.3 million euros, up by 16.4 million euros from 2021 (+25%).

The comparison of interest income for the two periods was also affected by the correction of the accounting policies for contract fees and the costs directly attributable to obtaining contracts in the third quarter. After the correction, contract fees are recognised using the effective interest method as appropriate for interest-like revenue. The costs directly attributable to obtaining contracts are capitalised and amortised over the terms of the underlying contracts. As a result of the restatement of financial information, interest income, retained earnings and loans to customers as at 31 December 2021 were reduced by 2.8 million euros.

While loss allowances for loans increased by 4.1 million euros year on year (+36%), the increase was mainly attributable to fast growth of the loan portfolio. The share of stage 3 (non-performing) loans in the total loan portfolio was just 1.7%, which is a historically low level for Bigbank. The quality of the loan portfolio was good at the end of 2022, creating a strong foundation for the coming periods.

Salary costs increased substantially, rising by 3.6 million euros to 21.3 million euros in 2022. Despite a turbulent external environment, the Group saw no reason to cut salaries. Bigbank's staff played a key role in delivering the strong growth and the 20% rise in salary costs was therefore completely justified.

Gains on investment property also make a significant contribution to the Group's profit. Bigbank's subsidiaries made limited investments in investment property in 2022, but gains on changes in the fair value of previously acquired investment properties amounted to 6.2 million euros. In 2021, the gains were 0.2 million euros larger.

The record-breaking growth rates increased pressure on capital. The available capital buffer accumulated in prior years was used to fund growth and the Group additionally raised 25 million euros of Tier 2 capital, of which 20 million euros was raised through a public offering of unsecured subordinated bonds in September 2022. Additional issues of unsecured subordinated bonds secured a sufficient capitalisation level by the end of the year.

Bigbank's equity grew to an all-time high of 213.4 million euros by the end of 2022. Return on equity (ROE) was 17.0%. The decrease in ROE can be partly attributed to the Group's current focus on the growth of the portfolio, designed to build a strong foundation for future years.

Another significant factor was the additional profit of 3.9 million euros earned in 2021 due to the combined effect of a bargain purchase gain and impairment losses on goodwill.

All in all, Bigbank showed strong financial performance in 2022. Despite Russia's war in Ukraine, surging inflation and a turbulent interest environment, the Group ended the year with record-breaking loan and deposit portfolios and the highest ever net profit.

OUTLOOK FOR 2023

Considering the uncertainty of the external environment, 2023 is likely to be at least as tumultuous as 2022. Russia's war in Ukraine continues. While energy prices and headline inflation show signs of easing, there is no certainty as to when they will return to their long-term average levels. Interest rates are expected to keep rising until mid-2023, when they should stabilise. Inflation, however, holds the key here – if it is not brought under control, interest rates will probably rise more than expected.

All this puts a lot of pressure on consumers and their spending, and 2023 will no doubt be a difficult year for both households and companies. Considering the good quality of Bigbank's loan portfolio, however, we do not expect major problems with loan servicing. Before giving a loan, we always thoroughly analyse the customer's creditworthiness, leaving a sufficient margin for a rise in interest payments. Expenses on loss allowances may increase significantly only if there are drastic changes in the labour market leading to a sharp rise in unemployment in Bigbank's markets. Bigbank's management does not consider this a likely scenario.

From a strategic point of view, Bigbank intends to continue growing, particularly in the home loan and corporate loan segments. Both product lines are supported by high interest rates and economies of scale. The larger the portfolios grow, the more efficiently the Group can operate them. The expected credit losses of these products are even lower than Bigbank's average expected credit loss level at the end of 2022, which is low.

Another priority is moving on with the development of everyday banking services. In December 2022, Bigbank launched a credit card in the Estonian market, and although its volume was insignificant in 2022, we expect to see a marked increase in take-up in 2023. Launching a credit card is a strong first step towards offering current accounts and payment services. In 2023, we plan to make headway in both areas. We have decided to enter the everyday banking segment in order to offer our customers the widest possible range of banking services. We believe that this will help us continue our journey with our customers even in the most challenging times.

As regards investment properties, the Group does not expect gains comparable to 2022 and is not planning to make significant additional investments. Our existing investment property portfolio, however, contributes to the Group's profits and also creates synergy as it keeps us up-to-date with developments in the property market.

The Group continues to invest in its people. Bigbank expects growth to continue in 2023 and while the growth rate will likely be lower, absolute growth should still be substantial. This calls for continuous commitment from our staff, which the Group is planning to reward with competitive salaries and other benefits, such as all-round professional development opportunities and provision of high-quality management services.

KEY PERFORMANCE INDICATORS

Financial position indicators *(in millions of euros)*	**31 Dec 2022**	**31 Dec 2021***
Total assets	1,646.4	1,148.4
Loans to customers	1,349.8	893.5
Of which loan portfolio	1,355.8	903.9
Of which interest receivable	21.0	16.2
Of which loss allowances	-27.0	-26.6
Deposits from customers	1,367.8	898.3
Equity	213.4	183.4
Financial performance indicators	**2022**	**2021**
Interest income	96.5	74.7
Interest expense	-13.2	-7.8
Total income (gross)	109.5	84.0
Net operating income	89.1	71.1
Operating expenses	-41.9	-35.1
Of which salaries and associated charges	-21.3	-17.6
Of which administrative expenses	-17.0	-14.2
Of which depreciation and amortisation	-3.6	-3.3
Net loss allowances for loans and financial investments	-15.5	-11.4
Profit for the year	33.7	33.1
Annual indicators	**2022**	**2021**
Average equity	198.4	169.8
Average assets	1,397.4	953.1
Average interest-earning assets	1,306.8	888.9
Average interest-bearing liabilities	1,174.4	761.5
Ratios	**2022**	**2021**
Common equity Tier 1 capital ratio	13.6%	16.4%
Tier 1 capital ratio	13.6%	16.4%
Total capital ratio	16.7%	18.0%
Leverage ratio	10.5%	12.5%
Liquidity coverage ratio (LCR)	217.6%	258.0%
Net stable funding ratio (NSFR)	134.0%	130.0%
Minimum requirement for eligible liabilities (MREL)	16.7%	18.0%
Return on assets (ROA)	2.4%	3.5%
Return on equity (ROE)	17.0%	19.5%
Profit margin (PM)	30.8%	39.4%
Return on loans	8.6%	9.8%
Asset utilisation ratio (AU)	7.8%	8.8%
Price difference (SPREAD)	6.3%	7.4%
Cost to income ratio (CIR)	47.0%	49.6%
Equity multiplier (EM)	7.0	5.6
Earnings per share (EPS), euros	422	414
Yield on interest-earning assets	7.4%	8.4%
Cost of interest-bearing liabilities	1.1%	1.0%

* Some prior period figures have been restated. For further information, please refer to the notes to the consolidated financial statements.

EXPLANATIONS

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

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

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

Common equity Tier 1 capital ratio (%) = common equity Tier 1 capital / total risk exposure amount * 100

Tier 1 capital ratio (%) = Tier 1 capital / total risk exposure amount * 100

Total capital ratio (%) = total own funds / total risk exposure amount * 100

Leverage ratio (%) = Tier 1 capital / total leverage ratio exposure * 100

Liquidity coverage ratio (LCR, %) = high-quality liquid assets / net cash outflows over the next 30 days * 100

Net stable funding ratio (NSFR, %) = stable funding / required stable funding * 100

Minimum requirement for own funds and eligible liabilities (MREL, %) = (total own funds + eligible liabilities) / total exposure * 100

Return on assets (ROA, %) = profit for the year / average assets * 100

Return on equity (ROE, %) = profit for the year / average equity * 100

Profit margin (PM, %) = profit for the year / total income * 100

Return on loans = interest income on loan portfolio / 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 + net gain or loss on financial assets at fair value through profit or loss

Yield on interest-earning assets = interest income / average interest-earning assets

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

ABOUT BIGBANK GROUP

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

THE GROUP'S STRUCTURE AT THE REPORTING DATE:

Bigbank AS

Branches

- Bigbank AS Latvijas filiāle[2]
- Bigbank AS filialas[3]
- Bigbank AS Suomen sivuliike[4]
- Bigbank AS Sverige Filial[5]
- Bigbank AS Branch Bulgaria[6]

Subsidiaries

- OÜ Rüütli Majad[1]
  - OÜ Papiniidu Property[1]
  - OÜ Pärnu mnt 153 Property[1]
  - OÜ Rüütli Property[1]
  - Palupera Põllud OÜ[1]
  - Abja Põld OÜ[1]
- Balti Võlgade Sissenõudmise Keskus OÜ[1]
  - SIA Baltijas Parādu Piedziņas Centrs[2]
- AS Baltijas Izaugsmes Grupa[2]

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

The branches in Latvia, Lithuania and Finland offer lending services similar to those of the parent. The parent and its Latvian, Finnish, Swedish and Bulgarian branches also offer deposit services. In addition, Bigbank AS provides cross-border deposit services in Germany, the Netherlands and Austria. The Swedish and the Bulgarian branches suspended the issuance of new loans as from 1 September 2022 and 1 November 2022, respectively.

The core business of OÜ Rüütli Majad and its subsidiaries OÜ Papiniidu Property and OÜ Pärnu mnt 153 Property is property management, and the subsidiaries OÜ Rüütli Property and Baltijas Izaugsmes Grupa AS are involved in agricultural land management. The subsidiaries Abja Põld OÜ and Palupera Põllud OÜ are agricultural enterprises engaged in grain growing, milk production and dairy farming. Balti Võlgade Sissenõudmise Keskus OÜ is not engaged in active business operations. The subsidiaries Abja Põld OÜ, Palupera Põllud OÜ and SIA Baltijas Parādu Piedziņas Centrs were in liquidation at the reporting date.

SHAREHOLDERS

At 31 December 2022, the shares in Bigbank AS were held by two individuals, each holding the same number of shares:

Shareholder	Number of shares	Interest
Parvel Pruunsild (chairman of the supervisory board)	40,000	50%
Vahur Voll (member of the supervisory board)	40,000	50%

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

LITIGATION

The Group was not involved in any significant litigation at 31 December 2022.

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 around 500 employees.

EMPLOYEE PROFILE BY COUNTRY AT 31 DECEMBER 2022

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	295	138	157	47%	53%	51 months	36 years
Finland	15	9	6	60%	40%	60 months	39 years
Latvia	76	14	62	18%	82%	70 months	34 years
Lithuania	83	32	51	39%	61%	55 months	33 years
Sweden	8	3	5	38%	62%	33 months	35 years
Bulgaria	8	5	3	62%	38%	17 months	37 years
Total	**485**	**201**	**284**	**41%**	**59%**	**54 months**	**35 years**

At the reporting date, the Group had 485 employees compared with 468 at the end of 2021. The table does not include the agricultural entities, which were classified as discontinued operations at the reporting date.

HUMAN RESOURCE STRATEGY FOCUS AREAS

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

The main results of 2022 by focus areas were as follows:

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

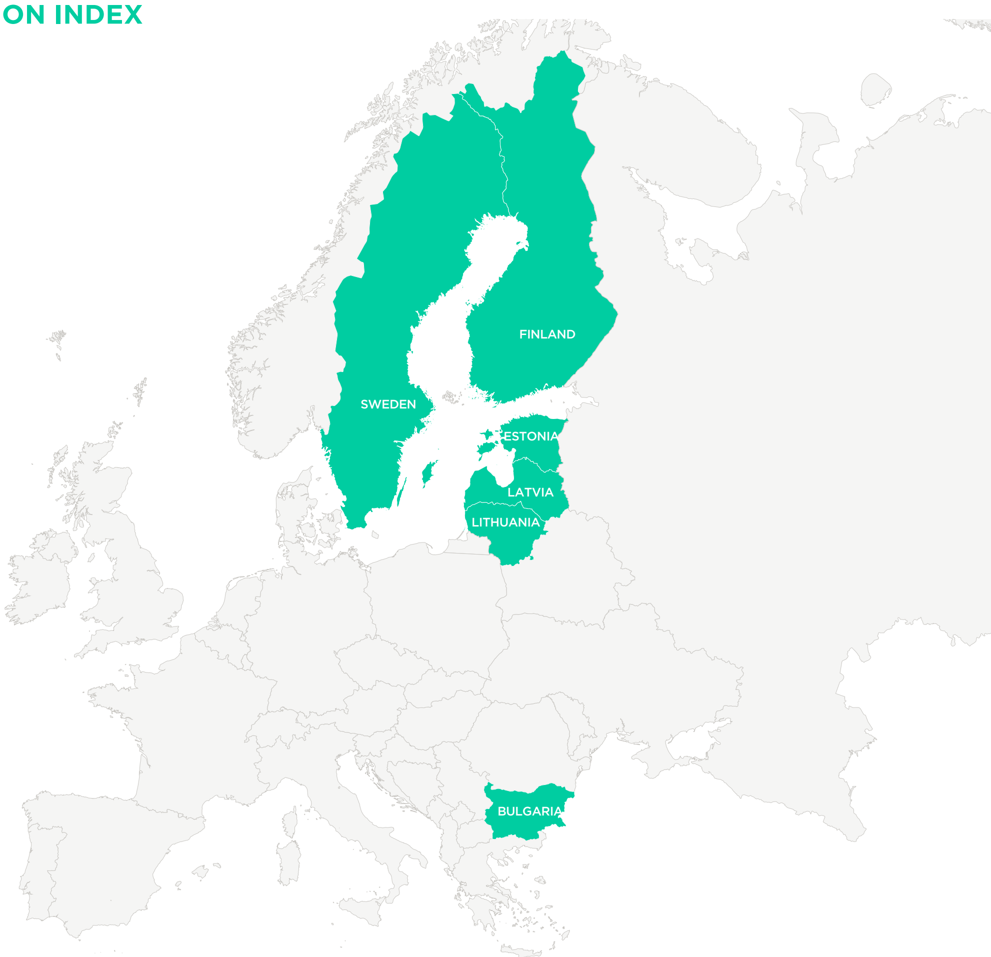
Voluntary employee turnover remained high in the market and employers faced significant wage pressures. It was difficult for companies to recruit and retain good people, and the ability to set themselves apart from competitors became increasingly important. Employees were looking for jobs with flexibility that would fit their lifestyles. The situation changed somewhat in the last quarter of 2022 as many companies had to let people go to cope with the challenging economic environment, which affected employees' willingness to change jobs.

We made our recruitment process even faster and more flexible and increased the role of managers.

To understand and regularly monitor employee experience, we collect quarterly employee feedback in all cities where Bigbank has an office and staff. We also carry out a comprehensive employee satisfaction survey every year. The results of 2021 hit five-year highs in all aspects that were measured and those of 2022 remained at the same level for the Group as a whole. Our employees became more confident that their opinions count and the number of respondents increased to an unprecedented 89%.

EMPLOYEE SATISFACTION INDEX

- Head office 69
- Estonia 70
- Sweden 65
- Finland 63
- Latvia 75
- Lithuania 85
- Bulgaria 28



We fill vacancies by recruiting first from within the Group. A significant number of key positions at branches and group-level units were also filled internally in 2022. This provides capable employees with an opportunity to move between different levels of management, areas, countries and cities. We are proud that a lot of candidates come recommended by our employees and that we have a strong positive trend of Bigbank alumni coming back to us.

We reached out to prospective employees, introducing Bigbank's corporate culture and experience in social media. We continued to share employee success and experience stories across all major channels to recognise our employees and illustrate our value proposition through real-life experiences. Our official web pages (such as Lifeatbigbank on Instagram) had visuals and stories about what makes us who we are today and our staff shared their #bigbankwow experiences through photos and stories in different social media channels.

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

Bigbank has a thorough onboarding programme, the content of which is tailored to each employee, based on his or her responsibilities and background. In 2022, we continued to optimise the programme. Many training courses which previously were conducted face to face by trainers were transferred to a self-study or hybrid format, which provides more flexible and playful learning options. We made a considerable effort to provide mandatory training required by law through online learning programmes that employees could pass independently. In comparing our onboarding programme to that of their previous employers, new staff positively highlighted the employee-centric, well-planned and excellently organised nature of our approach. Our training programme for customer service staff was also relaunched in a new format.

Focus 3. We provide excellent management and leadership service to employees.

In 2022, the Group's HR team and management board continued to work on the managers' competency model and a development programme to support it.

TOP-LEVEL MANAGEMENT SERVICE

By considering your unique qualities and needs, your manager prepares your personal induction programme to make joining Bigbank **simple** and easy for you.

By facilitating cooperation, your manager helps you to achieve set goals and be **result-oriented.**

By noticing your progress, your manager boosts your **courage** to take up new challenges and grow professionally.

By being demanding and supportive, your manager is **caring** about how you are doing and your success.

By using the knowledge and experience, your manager helps you to **develop** your career and become the top talent.

Management as part of Bigbank's value proposition

We improve management quality with various initiatives at all levels of management.

- Managers' management competences are assessed annually.
- We arranged several external mentors to support our top managers in their most challenging employee and leadership matters in 2022.
- Managers participate in external training events consistent with their development goals.
- To support the development of managers of all levels, we have set up an internal Leadership Academy, which is a nine-month study programme with monthly study days where participants can learn from their experienced colleagues.

- We have launched a Young Management Talent programme to identify potential future leaders and provide them with development programmes tailored to their individual strengths and weaknesses.
- We have organised an international community of Bigbank managers that meets monthly to discuss relevant management and other topics. We have also created special communication channels where managers can share their experiences and give mutual support.
- As the past two years were strongly affected by the COVID-19 restrictions, working from home has become the 'new normal'. This calls for a new management style and development of competencies required for managing and leading remote work. We have therefore involved our managers in discussing different aspects of remote work (legislation, human behaviour, etc.) and agreeing the new arrangements with employees.
- We arrange quarterly seminars for top management, where we address financial performance as well as customer and employee experience issues. In the development of management competencies, the main focus is on the knowledge and skills required to manage change.

The employee satisfaction survey confirmed that the activities carried out during the year met their objectives, as there was a significant increase in satisfaction with the Group's management and overall team spirit compared to previous years. Improvement of leadership skills will also remain a priority in our action plans for 2023.

Focus 4. Our remuneration system works well.

There were no major changes in the remuneration policy and principles in 2022. Employees' evaluation of our remuneration system continues to be above average, and 'competitive salary, interesting work and excellent opportunities for self-development' continue to be rated as some of Bigbank's key strengths by our people.

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

Short- and long-term replacement is a topic we have been dealing with since 2018. This is one of the key factors in ensuring Bigbank's continuity of operations and improving employee experience. In 2022, we reviewed the principles of in-house development of young talent to ensure that critical positions will remain filled even in today's challenging labour market conditions.

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

We monitor employee satisfaction with the work environment and regularly ask feedback at the country, city and office level. In 2022, we paid particular attention to mental health topics, offering employees and managers an opportunity to participate in related courses and workshops. We shared relevant information in the company's internal newsletter and invited employees to participate in various programmes supporting healthy lifestyles. We now cover the costs of visiting a psychologist for employees who need it.

Our staff enthusiastically participated in several health-and-fitness campaigns during the year (e.g. step and kilometre-counting challenges), covering a total of 13,416 kilometres in the framework of various challenges.

We started a new tradition of Healthy Tuesdays – every Tuesday we offer fresh fruit in the office so that employees would not eat unhealthy snacks during breaks.

Development

We develop ourselves to deliver better value tomorrow than today.

Mart Veskimägi
Head of Risk Management Area,
Member of the Management Board

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 strives to offer an excellent customer experience to people using its products and services. We therefore regularly ask customers what we could do differently to ensure that the customer experience we offer would meet or exceed their expectations and would encourage them to recommend us to their family, friends and acquaintances.

It matters to us what customers feel when they are using Bigbank's services, what they think of us and what they say about us. Customer feedback is read regularly by management, heads of business lines and the staff of business units. Each customer's experience is important to us.

Bigbank has customers in the Baltic countries, Finland, Sweden, Bulgaria, Germany, Austria and the Netherlands. Bigbank's mission is to help people improve their lives through seamless financial services.

During the past six years, we have been working systematically to improve customer experience. Our customers' positive feedback reflects their increasing trust and loyalty: customers praise our service and fast and convenient processes and are increasingly willing to recommend us to others.

Bigbank cares about its customers and thus customer experience is enhanced by the entire team. All employees have at least one annual goal which is related to improving customer experience. This enables us to provide exceptional customer service that inspires customers to tell positive stories.

CUSTOMER EXPERIENCE MANAGEMENT

At Bigbank, we want to meet our customers' expectations from the moment they take an interest in our products and services to the moment they cease using these products and services.

Our business strategy focuses on sustainable growth, which assumes, among other things, consistent improvement of customer experience. In 2022, we focused on the following.

- Based on feedback provided by home loan customers, we improved our work processes across the Baltics and the Net Promoter Score for the loan application process rose by 43%. Customers praised our staff and processes and rated highly their experience with our bank.

- We improved customer experience at several touchpoints: communicating a negative loan decision (the Net Promoter Score rose by 28% in 2022), one year after signing a contract (+7%), debt handling (+13%), customer service (+5%) and online banking (+12%).

- We continued to analyse how many customers are referred to us by friends or acquaintances. In the Baltic countries where Bigbank is already well-known the figure remained at the same level as in 2021 but the overall result for the Group improved by 5%.

- We continued to share customer feedback and relevant statistics with all Bigbank employees on a regular basis. In doing that, we explained how we have provided added value to customers and highlighted what we could do even better.

- We continued to assess the quality of customer communication. Both assessment results and customer feedback confirm that our communication is professional, friendly and supportive.

- We improved the functionality of our online banking channel: using the self-service environment our customers in Bulgaria can now apply for and sign deposit agreements, our customers in Lithuania can apply for contract amendments, our customers in Latvia can see the details of their deposit agreements, and our customers in Latvia, Estonia, Bulgaria, the Netherlands, Austria and Germany can change their personal data.

- We adopted and implemented a new training system. We now have training centres in the Baltic countries and Finland, which provide diverse opportunities for professional development. At the same time we continue to focus on improving quality and applying LEAN work methods.

- We again organised a bank-wide Customer Service Superstar competition to thank and recognise colleagues who provide exceptional customer experiences on a daily basis. In tight competition, the winners at the business unit level were Ruth Pajoste from Estonia, Diāna Zaiceva from Latvia, Ieva Šimkienė from Lithuania and Topi Rihtniemi from Finland. The overall winner of the 2022 competition was Ieva Šimkienė from Lithuania.

- In Estonia, we became technologically ready to introduce a new tool to assess the quality of customer calls which enables the customer to evaluate our employee's professionalism immediately after the call. In addition, our deposit and home loan customers can now use video identification.


Ieva Šimkienė


Ruth Pajoste


Diāna Zaiceva

Topi Rihtniemi

MONITORING AND MEASURING CUSTOMER EXPERIENCE

We monitor customer feedback regularly and systematically to identify the strengths and weaknesses of our services and to understand whether our services meet customer expectations. Analysing feedback helps us understand what increases customers' loyalty and what does not. Increasing customer satisfaction and loyalty is also important for our business partners.

Customer experience is measured by:

- regularly requesting feedback on different customer experience touchpoints through the Net Promoter Score and the First Contact Resolution Index (as in previous years there were around 3,000 respondents per month in 2022);

- measuring the effectiveness of customer communication by analysing call centre statistics and assessing our employees' communication quality;

- studying Bigbank's general brand positioning and image in all markets where we operate through annual brand perception surveys and comparing the results with those of our competitors (based on a representative sample of around 1,000 respondents in each country);

- analysing the feedback provided by customers after they have contacted us by phone or e-mail.

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

CUSTOMER COMPLAINTS AT BIGBANK

Each customer is important to us. During the period under review, we responded to every complaint and analysed what we could do better to prevent the recurrence of issues of a similar nature. Customer complaints were filed at all branches and handled mainly by the front line staff. Where the prevention of a complaint requires major technological developments, the issue is passed on to the manager responsible for the area who determines a further action plan.

RESPONSIBLE CUSTOMER SERVICE

Responsible customer service is a key element of quality customer relationships. The responsible nature of our customer service is primarily reflected in six aspects:

1. We communicate with the customer proactively. Before signing a product agreement, we inform our customers of their obligations and potential risks.

2. We provide top-quality customer service. We review communication quality based on our approved quality model and service standard. To make sure that our people have the knowledge they need, we provide training and professional development opportunities, and regularly test our employees' knowledge.

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

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

5. We keep our promises and provide information effectively. We respond quickly to our customers' needs and inquiries.

6. We issue loans responsibly. We provide sufficient information and explanations and help our customers avoid a situation where they are unable to repay their loans.

CUSTOMER FEEDBACK ON CUSTOMER EXPERIENCE

In implementing the bank's strategy, we worked hard to offer better customer experience and increase customer loyalty. We maintained a customer-centric approach in 2022 and our customers' loyalty and trust again reached new highs.

We collect regular feedback on our products and services. As in previous years, the keywords that most frequently appeared in customer feedback were: professional, friendly, fast, convenient, and good contract terms and conditions.

We assess customer experience using the Net Promoter Score, which measures customer loyalty. The overall score increased again: for the bank as a whole, the average score for 2022 was 4% higher than in 2021. In terms of countries, the Netherlands (+18%), Germany (+15%) and Latvia (+7%) showed the greatest improvement. As in previous years, customer loyalty is at its highest after signing a contract.

Bigbank's vision is to be the most recommended digital financial service provider in the countries where it operates. The feedback received from our customers in 2022 reflects that we have taken again a step closer to achieving our vision. We are grateful to all our employees and customers.

BIGBANK AS A RESPONSIBLE EMPLOYER

One of Bigbank's most important strategic objectives is to have a good reputation both as a company and an employer and to develop it both internally and externally.

Respecting human rights is very important to Bigbank, and our efforts in this area are supported by our values, Code of Ethics and whistleblowing hotline.

- Values: one of our values is caring – we listen, understand and support each other.
- Whistleblowing hotline: it is part of Bigbank's administrative culture and designed to support Bigbank's commitment to values and agreed rules of conduct, and to promote openness and respect for employees.
- Code of Ethics: in addition to the above, the Code of Ethics covers the company's social responsibility, the role of Bigbank as a responsible company that observes laws and regulations in all countries where it operates, and the obligation of employees to treat all colleagues and customers equally and not to discriminate against anyone on the grounds of nationality, sex, race, colour, appearance, religion or belief, disability, age or sexual orientation.

Introducing and discussing the values, whistleblowing hotline, and Code of Ethics is the responsibility of each manager and a mandatory part of the induction programme for all new employees.

Besides the Code of Ethics, the rights of employees are regulated by their employment contracts as well as our internal rules for work, remuneration policy and remuneration principles.

- Internal rules for work contain information about overtime, absences, holidays, travel, health and wellbeing, safety of the work environment and other topics related to employee rights.

- Remuneration policy provides a framework for fair and transparent remuneration within the Group. In 2021, we supplemented the Group's remuneration policy with control measures aimed at ensuring that the principle of gender neutrality is respected and that male and female employees are remunerated based on criteria related to the capabilities, competence, qualifications, experience and knowledge of the employee or material risk taker.

- Remuneration principles set clear guidelines for fair and transparent remuneration. Among other things, the remuneration principles define benefits provided by the bank that all employees are entitled to.

We are convinced that gender equality is not only a fundamental human right, but also a necessary foundation for a peaceful, prosperous and sustainable world. We assess the suitability of a candidate for a new job based on the criteria set out in our internal regulations, which include the candidate's education, skills and previous work experience.

We increased the diversity of our team by balancing, among other things, the proportions of different age groups in 2022. To improve our employees' work-life balance, we offer, where necessary, flexible options to work from home and/or attend meetings via videoconferencing. We have updated our rules of procedure to reflect the new arrangements, with a view to increasing clarity and avoiding uncertainty for our employees.

The UN 2030 Agenda requires ensuring occupational safety for all employees. In 2022, we once again paid more attention to raising our employees' health awareness. We shared information about how employees can protect themselves against viral diseases and worked hard to provide employees with information and support in creating optimal working conditions in the home office and understanding the importance of mental health care.

The UN 2030 Agenda sets the goal of achieving higher economic productivity through diversification and technological innovation. In 2017–2020, we launched our new information system Nest. In addition to supporting our growth plans, it supports the creation of smart jobs, entrepreneurship, creativity and innovation, and increases the availability of financial services. While our earlier efforts to increase Nest's ease of use centred on the customer, we now have shifted the focus on employees.

At Bigbank, establishment of group-level regulations related to services offered to employees as well as relevant supervision and reporting is the responsibility of the head of support services.

At the end of 2022, Bigbank had 485 employees: 295 in Estonia, 76 in Latvia, 83 in Lithuania, 15 in Finland, 8 in Sweden and 8 in Bulgaria. The annual average number of full-time employees was 461.

RESPONSIBLE ACTIVITIES

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

Bigbank values social contribution and ethical conduct and acts based on the principle of responsibility consistent with laws, regulations and best practice. To implement those values in Bigbank's everyday operations, we have developed policies and internal rules of procedure that govern the daily work of the organisation and the adoption of management decisions.

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

Our goal is to increase 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 always recommend that our customers take loan offers from different service providers in order to find a solution that is best for them. We approach all our customers individually and try to find solutions that fit them best – even when the customer has run into settlement difficulties.

Responsible lending, raising relevant awareness, 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.

For example, it has become customary for our leading experts to participate in the financial awareness day by visiting schools to speak about financial education, financial literacy, and responsible borrowing. Every year we offer internships to students, enabling them to participate in our daily work, thus contributing to the quality of finance education at universities. 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.

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

ECONOMIC ACTIVITIES

Bigbank is an Estonian capital based international credit institution whose mission is to continuously improve people's lives by providing them with seamless financial services. We strive to do it with a modern, automated and competitive product portfolio that has expanded year by year and will continue to expand in the future.

Bigbank's strategic goal is to be a growth-oriented, customer-centric bank whose return on equity (ROE) is 20%.

The first year of the current five-year strategy period (2022–2026) was successful for the Group. Although we fell short of the 20% return on equity target and the external environment was challenging, we hit records with both our loan and deposit portfolios, earned our largest ever net profit, retained and strengthened Bigbank's capable team, and took the first steps in everyday banking by issuing a credit card in the Estonian market at the end of the year.

The year of strong growth was marked by two milestone events for Bigbank:

On 1 July 2022, the rating agency Moody's assigned investment grade Baa3 long-term and Prime-3 short-term foreign and local currency bank deposit ratings to Bigbank. The assigned long-term deposit ratings carry a stable outlook. Moody's report says that the ratings reflect Bigbank's robust capitalisation coupled with strong profitability.

On 22 September 2022, Bigbank's unsecured subordinated bonds were listed on the Nasdaq Baltic bond list. The total issue volume was 20 million euros. The base amount of the offering was 10 million euros and subscription orders were submitted for 22.8 million euros. The bonds were issued with a nominal value of 1,000 euros each and an annual coupon rate of 8%, payable on a quarterly basis. The bonds mature on 21 September 2032. The bond issue is an important milestone in Bigbank's history. First, Bigbank gained the trust of over 1,600 investors and despite a challenging macroeconomic environment the issue proved highly successful. Secondly, this marks the beginning of a new era because Bigbank became a listed company. This means more public interest and the need to disclose Bigbank's significant information in stock exchange releases. Transparency and compliance with reporting requirements have always been important considerations for Bigbank, but now when we are a listed company, our bond holders have even better opportunities to keep themselves informed about developments at Bigbank. In preparing our public reports, we observe the principle that the reader should obtain clear, sufficient and useful information.

We have established internal regulations for organising sourcing and outsourcing activities for both contracts and subcontracts and carefully select our business partners and vendors.

According to Bigbank's dividend policy, the precondition for a dividend distribution is that all regulatory requirements are met. Every calendar year the Group may distribute 25% of the audited net profit but not more than 6 million euros as dividends. For 2021, the Group made a dividend distribution of 6 million euros and a dividend distribution of 6 million euros is also expected for 2022.

ENVIRONMENTAL ACTIVITIES

We make a continuous effort to mitigate the environmental impacts of our activities. One of the guiding principles of the new strategy period is that for Bigbank the goal of carbon neutrality is not a restriction but an opportunity. This means that in the next five years the Group will take steps towards carbon neutrality and will continue to promote sustainability through its operations and product portfolio.

In building the right attitudes, we start by changing the way our own employees think and then move on to cultivating the right attitudes more widely. In 2022, Bigbank joined the Green Tiger Project to raise the employees' awareness of environmental sustainability. Project participants meet regularly, work together to find ways to make their activities more environmentally friendly and agree on follow-up actions. The following activities were launched in the framework of the Green Tiger project in 2022:

- We now offer fruit in our office kitchens in quantities that are carefully calculated in order to avoid waste. If any fruit is left over by Friday evening, we suggest people take it home.
- We provide staff with reusable food boxes to prevent the generation of plastic waste from single use boxes purchased from food stores.

- We raise our people's awareness of the need to dispose of batteries responsibly. We offer the opportunity to bring used batteries to the office where we will take care of the disposal.

- We are working to ensure that our new office in Tallinn will be more environmentally friendly.

Besides the initiatives of the Green Tiger Project, our commitment to protecting the environment is reflected in the following:

- All our offices have dishwashers to prevent excessive water consumption.

- We sort waste at all our offices.

- We encourage our people to use public transport and bicycles. Our offices in Estonia have a secure room where staff can leave their bicycles during the workday.

- We use our hardware as long as possible and keep its energy costs under control. For example, we have installed a program on our desktop computers, which significantly reduces their electricity consumption at night-time and weekends when no one is using them. Computers that become old for the company's purposes are offered to employees or disposed of with the assistance of partners that give old computers a new life.

- Our teams participate in the clean-up activities of the Let's Do It project.

In our daily business, we are guided by the goal of minimising our carbon footprint. As a digital bank, we use increasingly less paper. It is important for us to issue paperless loans, which is why we use electronic channels up to the signature of the contract. We use video identification in Estonia and Bulgaria and our administrators have video meetings with both retail and corporate customers.

We provide loans for the purchase of solar panels at more favourable interest rates to promote wider implementation of solar energy.

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.

RESPONSIBLE TAXPAYER

As a member of the Estonian Taxpayers' Association (EML), we have been defending the interests and rights of taxpayers since 1995. Being a member of the EML helps ensure that we are always up-to-date on tax matters. We support the EML's activities by helping make sure that tax laws are fair and understandable, that the tax burden is optimal, that the tax authority acts honestly and professionally, and that taxpayers' money is used for the designated purpose.

Bigbank operates through branches in five European countries, where it is registered as a local taxpayer. We pay all applicable taxes in all the countries in a proper and timely manner and act in compliance with laws and regulations.

COMMUNITY AND SOCIETY

At Bigbank, we believe that each of us can help make the world a better place. We 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.

We understand and recognise the role of a bank in the community and try to fulfil it as well as possible. We value healthy lifestyles, cultivation of the mind and sustainability of the community. Accordingly, we have been supporting culture, sports, young people and large families through various charity and sponsoring projects for many years already.

SPONSORSHIP AND CHARITABLE ACTIVITIES

Bigbank's most significant and outstanding support activities in 2022 were the following.

Supporting volleyball. Bigbank has been the name sponsor of the Estonian men's volleyball team, **Bigbank Tartu** since 2012 and the name sponsor of the Estonian women's team **Tartu Ülikool/Bigbank** since 2018. In 2021, Bigbank AS and the volleyball club SK Duo extended their cooperation for the next three years, concluding a sponsorship contract on 500,000 euros.

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

In 2022, Bigbank Tartu became the Estonian champion for the second year in a row. They also won the first place at the Baltic Championships and the Estonian Cup, securing a place in the CEV Champions League.

The University of Tartu / Bigbank women's team won the first place at both the Estonian Cup and the Estonian Championships and came second at the Baltic Championships. The team was awarded a prize by Tartu City Government in recognition of their achievements.

Bigbank's Large Family Day. Since 2005, Bigbank has been working with the Estonian Association of Large Families to offer families with four or more children an opportunity to enjoy a special day full of fun activities. Additionally, every year we recognise an active large family that has made a positive impact on the community with the Large Family of the Year title and an award of 10,000 euros. In 2022, the winner of the Large Family of the Year award was the Kubjas family from the island of Saaremaa that has five children.

According to Jonna Pechter, the head of Bigbank Estonia, the purpose of the 10,000-euro award is to help make a large family's small or bigger dreams come true, for example by enabling the children to pursue a hobby or an interest. "This year's large family of the year is very close-knit and hardworking, and has managed to flexibly combine everyday responsibilities with the dreams of all family members. Their positive example strengthens the community spirit to which they contribute voluntarily and with endless energy, and they are also an example for other families with children," said Aage Õunap, the President of the Estonian Association of Large Families.

In 2022, the Large Family of the Year competition was held for the thirteenth time and 64 families from all over Estonia participated.

The Gift of Life. This year, all employees of Bigbank Estonia decided to make a joint donation to the Hille Tänavsuu cancer treatment foundation The Gift of Life. The foundation was established in February 2014 and has since supported more than 1,200 people. Along with helping cancer patients, the foundation wishes to improve the Estonian society by promoting giving as a lifestyle and encouraging everyone to care about the lives of people.

Instant help with transport. The charity organisation Paēdušai Latvijai put out a call to local people to participate in their charity campaign. They had collected food to help people with restricted mobility, old-age pensioners, refugees from Ukraine and other people in need but needed help with the quick delivery of the food. The staff of Bigbank Latvia heard about it and immediately decided to help. Despite challenging weather conditions and other problems all packages were delivered in time and warmed many hearts.

What is old for someone, is new for someone else. During the renovation of the office of the Lithuanian branch, a lot of the furniture and kitchen equipment was replaced. As most of it was still in good condition, it was donated to local schools. The microwave, fridge and dishwasher were donated to the charitable organisation Caritas, which was just opening a new day care centre for children. One of the fridges was given to Red Cross.

Creating opportunities for disadvantaged children. Bigbank's Lithuanian branch donated 5,000 euros to the foundation Help Street Children. The foundation runs a programme for the prevention of adolescent smoking and alcohol consumption and juvenile delinquency by giving children something to do in their spare time and promoting healthier lifestyles.

The foundation supports the children of single parents, large families and socially vulnerable families and children in foster care, but also refugee children from Ukraine, inviting them to play football, participate in competitions and attend football camps under the supervision of specially trained coaches. The aim of the programme is to encourage children to spend active quality time with their parents or guardians, play sports with friends, learn to do teamwork, develop their social skills and build and maintain high-quality social relationships in the community.

Christmas present from the marketing team. In 2022, the Lithuanian marketing team decided to make a Christmas present that truly creates value – instead of sending the traditional Christmas presents to business partners they donated the money to the Save the Children foundation. In this way, their present helps support families and day care centres for children and to protect children's rights.

Animal shelter campaign. For the ninth consecutive year we organised the charitable social media campaign #laiBigbankziedo (#letBigbankDonate) in Latvia. The purpose of the project is to raise the public's awareness of animal welfare 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 one euro. We raised 5,000 euros in 2022 which was donated to cover the heating expenses of the shelter's nearly 1,000 square metre premises during the winter season.

Volunteering for a Salvation Army fundraiser. The Christmas Cauldron is an annual charity fundraiser organised by the Salvation Army in Finland to help families in need. Cauldron-shaped containers placed on streets have been symbols of help for the entire nearly 130-year history of the Salvation Army and have become a prominent part of the Finnish Christmas tradition. Donations are collected all over Finland. In addition to money, people can donate clothes and toys. The employees of our Finnish branch contributed to the fundraiser by helping collect donations in several shifts on five days before Christmas.

MEMBERSHIP IN ORGANISATIONS

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

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

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

Result oriented

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

Ingo Põder
Head of Corporate Banking Area,
Member of the Management Board

Corporate governance report

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

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

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

GENERAL MEETING

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

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

The shareholders had one annual general meeting and eight extraordinary general meetings in 2022. One decision was adopted without calling a general meeting.

Bigbank AS does not comply with the article of the CGR according to which a notice of a general meeting should include the address where shareholders can send questions regarding agenda items (article 1.1.1). Nor does Bigbank AS comply with the articles of the CGR according to which a notice of a general meeting should be published on the corporate website (article 1.2.1) along with reasons for calling the general meeting and explanations of agenda items relating to significant changes (article 1.2.2), essential information related to the agenda should be published on the corporate website (article 1.2.3) and the proposals of the supervisory board and shareholders regarding agenda items should be published on the corporate website (article 1.2.4).

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

Bigbank AS partially complies with article 1.3.2 of the CGR according to which the members of the management board, the chairman of the supervisory board and, if necessary, the members of the supervisory board should attend the general meeting. The attendance of the above persons depends on the matters to be decided at the meeting. Bigbank AS does not make observing a general meeting possible by means of communication equipment (article 1.3.3.) because all shareholders can vote on agenda items electronically.

MANAGEMENT BOARD

The responsibilities of the management board are regulated by the articles of association of Bigbank AS and the Commercial Code and the Credit Institutions Act of the Republic of Estonia.

The management board makes everyday management decisions, taking into account the best interests of the bank and the shareholders, and makes sure that the company develops sustainably and in accordance with the goals set and the strategy approved by the supervisory board.

The supervisory board selects the members of the management board and appoints the chairman of the management board. The suitability of management board members, including their education, qualifications and previous work experience, is assessed based on the internal rules of Bigbank AS. Upon the appointment of a member of the management board, the supervisory board defines the member's area of responsibility and powers in the contract of service signed with the member of the management board. The term of office of a member of the management board is three years and a member of the management board can be reappointed. The management board prepares the strategy and budget of Bigbank AS which are submitted for approval to the supervisory board.

Since 15 March 2022, the management board of Bigbank AS has had five members (according to the articles of association, three to five members):

- **Martin Länts** – chairman of the management board
- **Mart Veskimägi** – member of the management board
- **Argo Kiltsmann** – member of the management board
- **Ingo Põder** – member of the management board
- **Ken Kanarik** – member of the management board

The term of office of the member of the management board Sven Raba expired on 14 March 2022.

The members of the management board submit a declaration of economic interests on an annual basis. At 31 December 2022, the members of the parent company's management board were represented in the governing bodies of the Group's subsidiaries as follows:

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

The remuneration principles for the members of the management board are described in the Principles of remuneration for members of the management board and employees section of this report. In 2022, Bigbank AS did not comply with article 2.2.7 of the CGR according to which the benefits and bonus schemes of a member of the management board should be disclosed on the corporate website and in the corporate governance report and the principles of remuneration of the members of the management board should be presented at the general meeting. Bigbank AS discloses summarised information about the remuneration of the members of the Group's management board in its annual report and transactions with related parties are disclosed in note 38.

SUPERVISORY BOARD

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

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

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

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

The supervisory board had five scheduled meetings in 2022 and on 23 occasions decisions were adopted electronically. All members of the supervisory board attended at least half of the meetings held in 2022.

The general meeting decides on the remuneration of the supervisory board. The remuneration of the members of the supervisory board consists of fixed basic remuneration. Bigbank AS does not deem it necessary to comply with article 3.2.5 of the CGR according to which the company should disclose detailed information about the remuneration of each member of the supervisory board because the impact of the remuneration of the supervisory board on the Group's financial results is not significant. Transactions with related parties are disclosed in note 38.

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

AUDIT COMMITTEE

The audit committee is a functional body set up by the supervisory board that is responsible for advising the supervisory board in matters related to accounting, auditing, risk management, internal control and internal audit, budgeting, and legal and regulatory compliance. The committee monitors the statutory audit process of the company's annual report and consolidated financial statements and the independence of the external auditor. The audit committee has two members: Raul Eamets is the chairman of the committee and Parvel Pruunsild is the member of the committee. The members of the audit committee are not remunerated.

The audit committee had five meetings in 2022.

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

COOPERATION BETWEEN THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

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

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

DIVERSITY AND INCLUSION POLICY

Bigbank AS did not apply a diversity policy in 2022 because in selecting both managers and employees Bigbank is guided by the best interests of the Group and in selecting of the members of the governing bodies Bigbank also observes the requirements and the selection procedure for the members of the governing bodies set out in the Credit Institutions Act. When assessing the suitability of the members of the governing bodies, Bigbank AS relies on relevant internal rules and, among other factors, takes into account the candidate's education, qualifications and previous professional experience. The candidate's reputation, experience, competencies and skills, management experience, other management-related criteria and other relevant known factors are also considered when assessing suitability. The Group observes the principle of avoiding gender-based or other discrimination of candidates.

DISCLOSURE OF INFORMATION

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

In 2022, Bigbank AS did not publish a financial calendar (CGR article 5.2.) because the regularity of reporting is also set out in the Credit Institutions Act. Also, Bigbank AS did not make responses to analysts' and shareholders' questions (CGR article 5.5.) or the dates of meetings with analysts, investors and the press (CGR article 5.6.) available on the corporate website, as this is not relevant in view of the small number of shareholders and the fact that they are well informed.

FINANCIAL REPORTING AND AUDITING

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

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

The auditor is appointed by the general meeting. In choosing the auditor, the company considers the candidate's competence and earlier experience in the field of financial services. The auditor is appointed for up to five years. Bigbank AS complies with the auditor rotation requirement. KPMG Baltics OÜ (registry code 10096082) was appointed as the auditor of the Group based on the shareholders' resolution of 3 June 2020 to audit the Group's annual reports for the years 2020–2022. Based on the shareholders' resolution of 27 December 2022, the contract with KPMG Baltics OÜ was extended for the audit of the Group's annual report for 2023. The lead auditor is Eero Kaup.

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

RISK MANAGEMENT AND CONTROL FUNCTIONS

The Group's supervisory board carries out ultimate supervision of the Group's activities by establishing 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 risk management and internal control system.

The Group's internal control system must ensure effective and efficient operations, prudent conduct of business, adequate identification, measurement and mitigation of risks, the reliability of financial and non-financial information reported both internally and externally, sound administrative and accounting procedures, compliance with laws, regulations, supervisory requirements and the Group's internal policies, processes, rules and decisions. The internal control system covers all consolidated entities, geographical locations and activities, and ensures that any breaches of policies, procedures or restrictions and the application of exemptions are reported in a timely manner to the appropriate level of management.

The primary objective of risk management is to protect the Group's financial strength. The Group controls risks to limit the impact of potential adverse events on the Group's capital, liquidity and financial results. The management board reports to the supervisory board on developments in the Group's risk exposure on a regular (at least quarterly) basis.

The Group uses the three lines of defence model, where the first line of defence is the business units and branches who are responsible for risk-taking and day-to-day risk management within their scope of responsibilities by establishing and implementing adequate procedures and controls and ensuring their effectiveness. Managers of all levels are responsible for the effectiveness of risk management and controls in their units, branches and areas. The second line of defence comprises the functions and units responsible for overseeing the Group's risk management to ensure that the first line of defence and controls have been properly developed and function as intended and that risks are managed and reported in accordance with requirements. The second line of defence includes the functions and units responsible for compliance, risk management and credit risk. The Group's internal audit unit provides independent assurance regarding the organisation as a whole and is the third line of defence.

The compliance function is responsible for overseeing that the Group would comply 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 applies preventive measures (notifies, advises, checks, follows up) and reports directly to the management board, providing it with regular overviews of the Group's compliance risk.

The credit risk unit is part of the risk management function, which is responsible for managing credit risk throughout the lending process. It serves as a second line of defence in credit risk taking to ensure correct implementation of credit decisions, observance of decision-making powers, and the compliance of credit risk with the Group's risk appetite. The head of the credit risk unit reports regularly to the management board on the Group's credit risk profile and changes in risk levels.

The risk management function is responsible for developing and implementing the Group's risk management framework; assisting risk owners and management in developing processes and controls to manage and assess risks; facilitating and monitoring the implementation of risk management practices by risk owners; conducting independent risk identification, assessment, monitoring and reporting; providing guidance and training on risk management processes for raising risk awareness; and identifying risk-related issues. The risk management function provides the management board with regular quarterly overviews of the Group's risk profile in terms of material risks and changes in risk levels.

The Group's management board has set up a risk committee to support the management board in fulfilling its risk management responsibilities and to provide a forum to discuss, coordinate and agree on strategic issues related to operational risks, including information security and compliance risks. The committee comprises the representatives of the first and the second lines of defence to ensure proper representation and risk-related coordination and information exchange within the Group. The members of the risk committee are appointed and its rules of procedure are approved by the management board.

The objectives and principles of risk management are described in more detail in note 5.

The internal audit unit is a structural unit of the Group, which is directly accountable to the Group's supervisory board and is therefore independent of the Group's management board. The unit consists of two internal auditors and the head of the unit.

Internal audit is an independent, objective assurance and consulting activity designed to add value to and improve the Group's operations by using a systematic and disciplined approach to evaluate the efficiency and effectiveness of the risk management, governance and control processes. Internal audit adds value if it is in concordance with the Group's strategic objectives, focuses on important business risks, operates proactively and proficiently, and meets the expectations of the stakeholders. The internal audit unit acts on the basis of the statute approved by the Group's supervisory board. The statute of the internal audit unit describes the requirements to the staff of the internal audit unit 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.

CREDIT COMMITTEE

The credit committee is a functional body set up by the supervisory board to ensure that credit decisions are made in accordance with the Group's internal procedures and that the Group's lending activities are consistent with the Group's credit risk policy, credit risk limits, key risk indicators, risk appetite and credit strategy.

WHISTLEBLOWING HOTLINE

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

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

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

PRINCIPLES OF REMUNERATION FOR MEMBERS OF THE MANAGEMENT BOARD AND EMPLOYEES

The Group's remuneration policy is established by the supervisory board and its purpose is to ensure a fair and transparent remuneration system that is in compliance with prudent and efficient risk management principles and supports achievement of the Group's long-term objective – to be recognised as the best financial service provider that has strong risk management and a reputation for being an outstanding employer. The purpose is to ensure that remuneration decisions deliver sustainable value growth for all key stakeholders, including customers, shareholders and employees; to promote desired performance, conduct and value-based behaviour and to ensure that the manner of remuneration does not impede employees' honest, fair, transparent and professional behaviour, taking into account the rights and interests of customers; and to prevent the risk that remuneration drives excessive risk taking and conflicts of interest. The remuneration system ensures equal treatment of employees as rewards are based on the employees' 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 more often when needed. According to the policy, the management board approves the remuneration principles, including the principles for establishing annual key performance indicators (KPIs), evaluating employee performance and reviewing fixed pay. Remuneration principles also include guidelines for establishing the principles for performance related pay at the branch or unit level. Branch- and area-specific remuneration decisions are made by heads of branches and areas in line with the Group's policy and rules. The management board monitors the implementation of the remuneration principles, asking feedback from employees at least once a year in December.

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

The remuneration provided by the Group consists of two parts:

- Fixed remuneration including:
  - a basic monthly salary fixed in the employment contract, which is determined based on the employee's responsibilities and competence and reviewed annually based on the employee's performance and the trends prevailing in the labour market of the country involved;
  - benefits provided by the Group to all employees in all countries at the same rate, for example sports benefits, compensated absences for taking care of health, childbirth benefits etc.;
  - benefits arising from local legislation or collective agreements.
- Variable remuneration including:
  - performance related pay agreed with the employee, which depends on the achievement of the Group's long-term objectives and fulfilment of relevant, measurable and balanced criteria;
  - performance related pay paid on objective grounds and generally on a one-off basis, based on extraordinary results and/or engagement of the employee, timely fulfilment of specific projects and other similar situations;
  - severance benefits paid upon the termination of the employment contract. Amounts exceeding the ones provided for by applicable local legislation must be proportionate to the employee's performance during the term of employment and must not reward unsound risk-taking. The Group must be able to explain the reasons for the severance benefits, the appropriateness of the amount awarded and the criteria

used to determine the amount, including that it is linked to the results achieved over time and that it does not reward failure or misconduct.

To ensure that the employees of the internal audit unit are remunerated independently of the businesses they oversee, the Group's remuneration policy sets out that for the employees with an audit or control function, the performance related pay is based on the achievement of the goals of their control activities and not on the performance of the businesses under their oversight.

The Group's remuneration policy provides that the Group has the right to reduce the performance related pay payable to a material risk taker or to suspend payment of the performance related pay or to demand a partial or full refund of the performance related pay paid if:

- the Group's overall financial results have deteriorated significantly compared to the previous period;
- the material risk taker no longer meets the performance criteria or does not comply with the requirements established by law for a member of the management board of a credit institution or for a material risk taker;
- the Group no longer complies with prudential requirements or the Group's risks are not sufficiently covered by the Group's own funds;
- the performance related pay has been paid on the basis of data which has subsequently proven to be materially inaccurate or incorrect;
- the material risk taker has participated in causing damage to the credit institution or is liable for the damage incurred.

Exceptions are permitted if allowed by local law.

The Group is not a large institution within the meaning of point (146) of Article 4(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council and applies the derogation provided for in Article 94(3)(a) of Directive 2013/36/EU of the European Parliament and of the Council to the remuneration of all employees.

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

In 2021, we supplemented the Group's remuneration policy with control measures aimed at ensuring that the principle of gender neutrality is respected and that male and female employees are paid on the basis of criteria related to the capabilities, competence, qualifications, experience and knowledge of the employee or material risk taker.

As required by law, Bigbank AS has defined material risk takers which include the senior management (members of the supervisory and management boards); employees responsible for control functions; employees who have a significant impact on the Group's risk profile; and staff whose remuneration equals or exceeds the lowest remuneration of the members of the Group's management board. Self-assessment is performed on a consolidated level and includes all branches and subsidiaries of the bank. The list of material risk takers is reviewed at least once a year or whenever changes in the Group's structure or the establishment of new positions affect the list of material risk takers. The supervisory board approves the list of material risk takers based on the proposal of the management board. In 2022, the list included 31 material risk takers. The principles underlying the fixed remuneration of material risk takers are the same as for the rest of the Group's employees.

The share of performance related pay in total annual remuneration may not exceed 100% of annual fixed remuneration, which ensures carefully calculated risk-taking. If variable remuneration exceeds 100% of the earned annual fixed remuneration, the requirements of the Estonian Credit Institutions Act will apply. 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 targets.

In 2022, the remuneration (excluding social security charges) provided to the material risk takers of the Group and its subsidiaries totalled 3.1 million euros, the figure consisting of fixed basic remuneration of 2.1 million euros and performance related pay of 0.9 million euros. Severance benefits were paid to two risk takers in the amount of 0.1 million euros during the financial year. Performance related pay allocated for performance in 2022 will be paid in cash and determined at the end of the first quarter of the following financial year. According to management's estimates the amount of relevant provisions made at 31 December 2022 is sufficient. At the year-end, there was no performance related pay awarded but not paid for performance in 2022.

Courage

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

Targo Raus
Head of Business Development Area

Consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December *(in millions of euros)*	**Note**	**2022**	**2021 restated***
Assets			
Cash and balances at central banks	7	151.1	78.7
Due from other banks	7	22.3	37.2
Debt instruments at FVOCI	8	19.2	45.3
Loans to customers	9,10	1,349.8	893.5
Other receivables	11	2.4	2.7
Prepayments	12	2.9	1.5
Property, plant and equipment	13	18.3	20.9
Investment properties	14	46.5	41.6
Intangible assets	15	30.0	27.0
Assets held for sale	16	3.9	-
Total assets		**1,646.4**	**1,148.4**
Liabilities			
Loans from banks	17	9.2	36.5
Deposits from customers	18	1,367.8	898.3
Subordinated debt securities	19	40.1	15.0
Lease liabilities	20	1.2	1.8
Provisions		0.4	0.3
Deferred income and tax liabilities	21	1.7	1.9
Other liabilities	22	11.6	11.2
Liabilities related to assets held for sale	16	1.0	-
Total liabilities		**1,433.0**	**965.0**
Equity	23		
Paid-in share capital		8.0	8.0
Capital reserve		0.8	0.8
Other reserves		3.4	1.1
Retained earnings		201.2	173.5
Total equity		**213.4**	**183.4**
Total liabilities and equity		**1,646.4**	**1,148.4**

* Some prior period figures have been restated in connection with the correction of errors. For further information, please refer to the notes to the consolidated financial statements.
The notes on pages 53 to 141 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in millions of euros)	Note	2022	2021 restated*
Continuing operations			
Interest income	26	96.5	74.7
Interest expense	27	-13.2	-7.8
Net interest income		**83.3**	**66.9**
Fee and commission income		7.7	6.7
Fee and commission expense		-0.3	-0.2
Net fee and commission income		**7.4**	**6.5**
Losses on derecognition of debt instruments at FVOCI		-1.3	-0.2
Net gain on financial assets at FVTPL		0.9	-
Net loss on foreign exchange differences		-0.4	-0.1
Net loss on financial assets		**-0.8**	**-0.3**
Net loss on derecognition of non-financial assets		-0.1	-
Other income	28	4.4	2.6
Other expenses	29	-5.1	-4.6
Total net operating income		**89.1**	**71.1**
Salaries and associated charges	30	-21.3	-17.6
Administrative expenses	31	-17.0	-14.2
Depreciation, amortisation and impairment	13, 15	-3.6	-3.3
Total operating expenses		**-41.9**	**-35.1**
Provision expenses		-0.1	1.2
Gain on change in the fair value of investment properties	14	6.2	6.4
Loss on impairment of goodwill	39	-	-0.7
Gain on a bargain purchase	39	-	4.6
Profit before loss allowances		**53.3**	**47.5**
Net loss allowances on loans and financial investments	10	-15.5	-11.4
Profit before income tax		**37.8**	**36.1**
Income tax	33	-3.5	-3.0
Profit for the year from continuing operations		**34.3**	**33.1**
Loss for the year from discontinued operations	16	-0.6	-
Profit for the year		**33.7**	**33.1**

(in millions of euros)	Note	2022	2021 restated*
Other comprehensive income	23	**2.3**	**-**
Other comprehensive income that may be reclassified subsequently to profit or loss:		-0.5	-0.2
Exchange differences on translating foreign operations		*0.4*	*0.1*
Changes in the fair value of debt instruments at FVOCI		*-0.9*	*-0.3*
Other comprehensive income that will not be subsequently reclassified to profit or loss:		2.8	0.2
Revaluation of land and buildings		*2.8*	*0.2*
Total comprehensive income for the year		**36.0**	**33.1**
Basic earnings per share (EUR)	32	422	414
Diluted earnings per share (EUR)	32	422	414

* Some prior period figures have been restated due to the correction of errors (see note 4) and re-presented in connection with the discontinuance of an operation (see note 16).

The notes on pages 53 to 141 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions of euros)	Note	2022	2021
Cash flows from operating activities			
Interest received		89.4	73.2
Interest paid		-7.8	-6.7
Salary, administrative and other expenses paid		-52.0	-42.0
Other income and fees received		20.4	11.3
Recoveries of receivables previously written off and proceeds from the sale of portfolio items		8.0	8.7
Received for other assets		0.3	0.8
Loans provided		-857.0	-615.2
Repayments of loans provided		384.2	299.4
Change in mandatory reserves with central banks and related interest receivables	7	-4.4	-2.4
Proceeds from customer deposits		1,155.9	710.7
Paid on redemption of deposits		-684.2	-359.1
Income tax paid		-4.6	-2.1
Net cash from operating activities		**48.2**	**76.6**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets	13, 15	-6.0	-4.5
Acquisition of investment properties	14	-3.4	-29.3
Proceeds from sale of investment properties		1.0	0.1
Change in term deposits		-0.1	-
Paid in connection with business combinations	39	-	-7.3
Cash acquired in business combinations	39	-	0.3
Acquisition of financial instruments	8	-7.7	-4.6
Proceeds from redemption of financial instruments	8	31.9	5.2
Net cash from/used in investing activities		**15.7**	**-40.1**
Cash flows from financing activities			
Proceeds from issue of debt securities	19	25.0	10.0
Interest paid on subordinated debt securities	37	-1.2	-0.3
Loan repayments to a central bank	17, 37	-36.3	-
Proceeds from negative interest on loans from a central bank	17, 26, 37	-	0.5
Proceeds from loans from credit institutions	17	9.3	-
Repayments of loans from credit institutions	17	-0.2	-
Repayment of other loans	39	-	-1.7
Payments of principal lease liabilities	20, 37	-0.8	-0.7
Dividends paid	23, 32	-6.0	-6.0
Net cash used in/from financing activities		**-10.2**	**1.8**
Effect of movements in foreign exchange rates		-0.8	-0.2
Increase in cash and cash equivalents		**52.9**	**38.1**
Cash and cash equivalents at beginning of year	7	111.8	73.7
Cash and cash equivalents at end of year	7	**164.7**	**111.8**

The notes on pages 53 to 141 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent				
(in millions of euros)	Share capital	Statutory capital reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2021	8.0	0.8	1.1	146.4	156.3
Profit for the year	**-**	**-**	**-**	**35.9**	**35.9**
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	0.1	-	0.1
Changes in the fair value of debt instruments at FVOCI	-	-	-0.3	-	-0.3
Revaluation of land and buildings	-	-	0.2	-	0.2
Total other comprehensive income	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**35.9**	**35.9**
Dividend distribution	-	-	-	-6.0	-6.0
Total transactions with shareholders	**-**	**-**	**-**	**-6.0**	**-6.0**
Balance at 31 December 2021	**8.0**	**0.8**	**1.1**	**176.3**	**186.2**
Correction of errors	-	-	-	-2.8	-2.8
Restated balance at 31 December 2021	**8.0**	**0.8**	**1.1**	**173.5**	**183.4**
Balance at 1 January 2022	**8.0**	**0.8**	**1.1**	**173.5**	**183.4**
Profit for the year	**-**	**-**	**-**	**33.7**	**33.7**
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	0.4	-	0.4
Changes in the fair value of debt instruments at FVOCI	-	-	-0.9	-	-0.9
Revaluation of land and buildings	-	-	2.8	-	2.8
Total other comprehensive income	**-**	**-**	**2.3**	**-**	**2,3**
Total comprehensive income for the year	**-**	**-**	**2.3**	**33.7**	**36.0**
Dividend distribution	-	-	-	-6.0	-6.0
Total transactions with shareholders	**-**	**-**	**-**	**-6.0**	**-6.0**
Balance at 31 December 2022	**8.0**	**0.8**	**3.4**	**201.2**	**213.4**

For further information, please refer to note 23.

The notes on pages 53 to 141 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

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ACCOUNTING POLICIES

NOTE 1. REPORTING ENTITY

Bigbank AS is a credit institution incorporated and domiciled in Estonia. The company's registered address is Riia 2, Tartu, Estonia. The consolidated financial statements comprise Bigbank AS (also referred to as the 'parent company'), its Latvian, Lithuanian, Finnish, Swedish and Bulgarian branches, and its Estonian and Latvian subsidiaries AS Baltijas Izaugsmes Grupa, OÜ Rüütli Majad and the subsidiaries of OÜ Rüütli Majad – OÜ Rüütli Property, OÜ Papiniidu Property, OÜ Pärnu mnt 153 Property, Abja Põld OÜ and Palupera Põllud OÜ – and Balti Võlgade Sissenõudmise Keskus OÜ and the subsidiary of Balti Võlgade Sissenõudmise Keskus OÜ – SIA Baltijas Parādu Piedziņas Centrs (together referred to as the 'Group').

The Group's core business is providing loans and offering deposit services. The subsidiaries are involved in the management of real estate and agricultural land.

NOTE 2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

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 otherwise indicated.

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 the preparation of a new annual report.

In addition to the part required to be presented under International Financial Reporting Standards as adopted by the European Union, the consolidated financial statements include the primary financial statements of the parent company (see note 42), which have to be presented in accordance with the Estonian Accounting Act, and capital ratios for regulatory purposes (see note 5), which 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 (Capital Requirements Regulation, CRR). Net currency positions, liquidity risk ratios, total own funds, total risk exposure and capital ratios are presented at the supervisory reporting group level: the companies AS Baltijas Izaugsmes Grupa, OÜ Rüütli Property, OÜ Papiniidu Property, OÜ Pärnu mnt 153 Property, Palupera Põllud OÜ and Abja Põld OÜ have been accounted for using the equity method based on the CRR scope of consolidation, not using consolidation according to the IFRS accounting treatment. The parent company's primary financial statements are not separate financial statements as defined in IAS 27.

The management board of Bigbank AS prepared these consolidated financial statements and authorised them for issue on 10 March 2023. The group annual report, which has been authorised for issue by the management board, needs to be approved by the supervisory board and the shareholders. The shareholders may decide not to approve the group annual report but they have never done so and there is no reason to expect that they will.

BASIS OF PREPARATION

The figures reported in the financial statements are presented in millions of euros. The financial statements have been prepared on a historical cost basis, except that:

- certain financial assets and liabilities (including debt instruments at fair value through other comprehensive income (FVOCI), loans to customers with the features of a hybrid instrument and investment properties) are measured at fair value;

- land and buildings are measured using the revaluation model at fair value less any subsequent deprecation and impairment losses;
- assets held for sale are measured at fair value less costs to sell; and
- part of biological assets are measured at fair value less costs to sell.

Group entities apply uniform accounting policies. Significant accounting policies applied in the preparation of these consolidated financial statements are set out in note 40.

In accordance with the Estonian Accounting Act, the parent company's primary financial statements (statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity) are disclosed in the notes to the consolidated financial statements. The financial statements of Bigbank AS are presented in note 42 Primary financial statements of the parent. The parent company's primary financial statements are prepared using the same accounting policies and measurement bases as those applied in the preparation of the consolidated financial statements except that in the parent company's primary financial statements investments in subsidiaries and associates are measured at cost.

NOTE 3. 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.

EXPECTED CREDIT LOSS ALLOWANCES

Management's estimates have the most significant effect on loss allowances for loans and interest receivables. The measurement of expected credit loss (ECL) allowances for financial assets measured at amortised cost and fair value through other comprehensive income (FVOCI) requires making significant estimates that involves determination of methodology, models and data inputs. Details of the ECL measurement methodology are disclosed in note 40 (see the section Financial assets) and note 5 (see the section Credit risk) and the loss allowances are disclosed in notes 9 and 10. The following factors have a major impact on expected credit loss allowances: definition of default, criteria for a significant increase in credit risk, probability of default (PD), exposure at default (EAD), loss given default (LGD), grouping of similar financial assets for the purpose of measuring ECL, and models of macroeconomic scenarios. The Group regularly reviews and validates the models and inputs to the models to reduce the differences between expected credit loss estimates and actual credit loss experience. The Group uses supportable forward looking information to measure ECL, primarily the outcomes of its own macroeconomic forecasting model.

LOANS TO CUSTOMERS AT FAIR VALUE THROUGH PROFIT OR LOSS

Loans with the features of a hybrid instrument include the host (non-derivative) component and the component of the underlying asset. Management classifies such loans as financial assets at fair value through profit or loss (FVTPL) (see notes 6, 9 and 40). The objective of a hybrid instrument is to collect cash flows consisting of principal and interest payments as well as potential additional cash flows from the gain on the sale of the underlying asset at the end of the contract term. Due to their business model and cash flows, hybrid instruments do not meet the 'solely payments of principal and interest' (SPPI) requirement and do not qualify as instruments held for sale. Accordingly, they are not measured at amortised cost or at fair value through other comprehensive income (FVOCI).

The factor that has the most significant effect on the fair value of loans with the features of a hybrid instrument is the value of the underlying asset.

The fair value of underlying assets is measured annually by real estate experts. The increase in the value of an underlying asset is recognised on a straight-line basis over the contract term, taking into account potential associated risks. If the market value of the underlying assets had been 10% higher or lower, the increase in the value of the assets during the reporting period would have been approximately +3.3/-0.3 million euros, respectively.

PROPERTY, PLANT AND EQUIPMENT

The carrying amounts of property, plant 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, plant and equipment in note 40).

Land and buildings are initially recognised at the acquisition cost and subsequently measured at the revalued amount. 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 6).

The fair values of the assets acquired and the liabilities assumed in business combinations have been determined using purchase price allocation. The fair values of land and buildings (see notes 6 and 39) are based on a valuation report issued by a real estate appraiser.

INVESTMENT PROPERTY

The fair values of investment properties are measured annually and carrying amounts are adjusted to reflect any changes in market values (see the section Investment properties in note 40 and notes 6 and 14).

INTANGIBLE ASSETS

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 40), which are generally five years.

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

The Group capitalises the costs of developing the information and banking technology solution Nest. Initial capitalisation of the costs is based on management's judgement that the technological and economic feasibility is certain. This usually occurs when the development phase has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash flow generation of the project, the discount rates to be applied and the expected period of benefits, which for Nest is 15 years. If the expected period of benefits of the asset were five years, as it is for other software, the carrying amount of the asset at the reporting date would be 16.0 million euros (47% smaller) and depreciation expense for 2022 would be 6.5 million euros (170% larger).

TAX TREATMENTS

Since the Group operates in a complex multinational environment, management considered whether the Group has any uncertain tax positions, particularly those relating to transfer pricing. The tax filings of Bigbank and its branches and subsidiaries in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge the tax treatments. Management has determined, based on the Group's tax compliance and transfer pricing principles, that it is probable that the Group's tax treatments (including those for the branches) will be accepted by the tax authorities if the Group has appropriate transfer pricing documentation to support its approach.

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

(In millions of euros)

NOTE 4. CORRECTION OF AN ERROR

In 2022, the Group reviewed its accounting policies for contract fees and the costs directly attributable to obtaining contracts. The review reflected that the previously applied practical expedient according to which both contract fees and the costs directly attributable to obtaining contracts were recognised in profit or loss immediately on the signature of the contract no longer provided sufficiently accurate results. After the correction of the policies, contract fees are recognised using the effective interest method as appropriate for interest-like revenue. The costs directly attributable to obtaining contracts are capitalised and amortised over the terms of the underlying contracts. The error was corrected retrospectively by restating relevant line items in the Group's financial statements for 2021. The effect of the error on earlier periods was considered to be immaterial. As the periods prior to 2021 were not retrospectively restated, the Group has not presented a restated opening balance for the comparative period.

As a result of the correction, retained earnings and loans to customers at 31 December 2021 were reduced by 2.8 million euros. Interest income and profit for 2021, which were previously overstated, decreased by the same amount. The following tables summarise the restatements made due to the correction of the error:

Consolidated statement of financial position

At 31 December	2021 original	Effect of correction	2021 restated
Assets			
Loans to customers	896.2	-2.8	893.5
Total assets	**1,151.1**	**-2.8**	**1,148.4**
Equity			
Retained earnings	176.2	-2.8	173.5
Total equity	**186.1**	**-2.8**	**183.3**
Total liabilities and equity	**1,151.1**	**-2.8**	**1,148.4**

Consolidated statement of comprehensive income

	2021 original	Effect of correction	2021 restated
Interest income	77.5	-2.8	74.7
Profit for the year	**35.9**	**-2.8**	**33.1**
Comprehensive income for the year	**35.9**	**-2.8**	**33.1**
Basic earnings per share (EUR)	449	-35	414
Diluted earnings per share (EUR)	449	-35	414

NOTE 5. RISK AND CAPITAL MANAGEMENT

RISK AND CAPITAL MANAGEMENT PRINCIPLES

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

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

The following principles are followed in risk and capital management:

- **Well-balanced portfolio.** The Group maintains a well-diversified loan portfolio and takes limited risk in financial markets. Since uncertain changes in any individual position may seriously affect the Group's overall risk position, over-reliance on single counterparties and concentrations of risk are avoided.
- **Risk profile by significant countries and significant product groups.** The loan 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 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 (Pillar 2) capital requirements as well as the minimum capital requirement. Detailed capital requirements are outlined in the Own funds and capital section of this note.
- **Reasonable risk level.** The Group does not accept unreasonably high risks 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 and the level of leverage.** The Group is required to maintain a structure of the statement of financial position which supports a strong liquidity position and adequate capitalisation and helps avoid excessive leverage. The Group assesses carefully any change in risk appetite that may have a material impact on the structure of the statement of financial position or the level of leverage.

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

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

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

RISK MANAGEMENT FRAMEWORK

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

Fig. Risk management framework

Risk culture

Risk culture means norms, attitudes and behaviours related to risk awareness, risk-taking and risk management, and the controls that shape decisions on risks in the Group. Risk culture influences the decisions of management and employees during the day-to-day activities and has an impact on the risks they assume. A sound and consistent risk culture is a key element of the Group's effective risk management and allows making 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 is not 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. The Group's management, including key function holders, contribute to the internal communication of core values and expectations to employees.
- Accountability – relevant employees at all levels must know and understand the core values of the Group and, to the extent necessary for their role, its risk appetite and risk capacity. They must be capable of performing their roles and 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 helps 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 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 characterised by a focus on the key responsibilities relating to risk-taking decisions and oversight.

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

- **first line of defence** - functions that own and manage risks (risk owners);
- **second line of defence** - functions that oversee risks (risk management and compliance functions);
- **third line of defence** - functions that provide independent assurance (internal audit and audit committee).

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

Fig. Three lines of defence model

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

Second line of defence includes the risk management and compliance functions. These functions have to ensure that the first line of defence is properly designed, functioning as intended and risks are properly managed.

Third line of defence is the internal audit unit, which provides independent assurance, reviews 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.

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

1) the supervisory board;

2) the management board; and

3) credit committees.

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

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

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

The system of credit committees consists of the Group's credit committee and its sub-committees (country-level credit committees). In addition, smaller loans are issued by applying simplified decision-making powers and automated decision-making models. The Group's credit committee is a body that makes decisions at the highest level, oversees sub-committees and adopts lending decisions on credit limits exceeding 3 million euros. The members of the Group's credit committee are appointed by the supervisory board, and the members of sub-committees by the Group's credit committee.

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

Risk appetite

Risk appetite expresses the level of aggregated risks that the Group is willing to take according to the business model and within the risk tolerance in order to achieve strategical goals.

The Group has defined its risk appetite for all main risk types that have been identified and has established processes and measures for how the actual risk profile is assessed and managed. Risk appetite is forward-looking, in line with the strategic planning horizon and regularly reviewed.

Fig. Elements of risk appetite

Risk appetite comprises the following elements:

- **Financial objectives.** Risk management must support the achievement of financial objectives as long as these objectives include sustainable growth in earnings, maintenance of capital adequate for the Group's risk profile, and the availability of financial resources for meeting financial obligations on a timely basis and at reasonable prices.

- **Strategic principles.** Risk strategy and the target risk profile are based on the overall strategy while risk management and risk capacity are inherently related to 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 a 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 and measures that are driven by the risk framework and integrated into the Group's strategies and business planning process. The risk management process consists of the following activities:

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

Fig. Risk management process

Risk identification. Risk identification is a regular process the Group uses to identify risks material for the Group. Risk identification must be comprehensive and take both normative and economic perspectives into account.

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

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

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

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

Risk control. A significant part of risk management is risk control – the framework of internal procedures, processes and limits. Internal rules and regulations are required for proper risk management and meeting the minimum regulatory requirements. All identified material risks and related processes are covered with internal rules, limits and the control system. All internal regulations are consistent with the Group's general risk management principles and target risk profile and they set the limits and controls within which the Group and its subsidiaries can operate.

The development of internal rules is actively coordinated at Group level. However, the head of each function, branch and subsidiary is fully responsible for compliance with local regulations in their area of responsibility or country of operation. All internal regulations must comply with the principles for the establishment of Group-level internal regulations.

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

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

RISK APPETITE AND TARGET RISK PROFILE

The target risk profile (the risk profile the Group wishes to maintain) is based on the risk appetite and provides an overview of 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 target risk profile describes the nature and level of each material risk identified. Determining and updating the target risk profile is an integral part of annual strategic planning during the budgeting process.

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

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

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

CREDIT RISK

Credit risk is the risk that a counterparty to a transaction will not be able or willing to discharge its contractual obligations and the bank will incur a credit loss. Within credit risk, the Group has identified the following sub-risks:

- **Concentration risk** - the risk resulting from a risk exposure to a counterparty, or connected counterparties and/or risk exposures that are affected by a common risk factor or risk factors with a strong positive correlation.
- **Country risk** - the risk resulting from the economic, political or social situation in the country where the counterparty is located or from the probability of an event (e.g. environmental or political) that may cause a large number of debtors to become insolvent (collective debtor risk).

- **Collateral risk** - the risk arising from collateral for a transaction, including additional legal risk or the risk associated with the market price of the collateral.

Credit risk arises from the Group's direct lending operations and its investment activities where counterparties have repayment or other obligations to the Group. The Group distinguishes between credit risk arising from (i) the loan portfolio (including items accounted for off the statement of financial position); (ii) money market operations; and (iii) the bond portfolio.

Credit risk of the loan portfolio is the most significant risk for the Group and the most significant driver of risk-weighted assets. The Group determines the credit risk levels in the loan portfolio based on the ECL estimates. ECL estimates are divided into four groups: low, moderate, above average and high risk.

While the Group's credit risk appetite is moderate, its risk appetite in the sub-profiles of the loan portfolio may be low to high, depending on the Group's strategic objectives.

In providing credit, the Group focuses only on creditworthy individuals and companies whose solvency can be adequately assessed and observes responsible lending principles, good banking practice and high ethical standards. The Group makes sure that its activities do not compromise any generally accepted ethical, environmental or legal principles. The Group does not enter into transactions with counterparties whose ethical or moral standards are questionable.

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

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

Concentration risk

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

The Group has set the following limits for concentration risk:

- maximum loan amount to a counterparty or related counterparties;
- maximum loan amount for each credit product;
- maximum share of a country in the Group's credit portfolio.

Risk concentration is defined as an exposure to a single customer or related customers that equals or exceeds 10% of the Group's Tier 1 capital. At 31 December 2022, the Group had such exposures to 10 customer groups in the total amount of 242.4 million euros (31 December 2021: four customer groups and 82.7 million euros). For information about the Group's own funds, please refer to the section *Own funds and capital.*

Country risk

The Group's strategy is to have a well-balanced portfolio across the countries of operation. Over-concentration on a single country is avoided by setting limits to each country's exposures and new sales as well as the credit quality of the portfolios. At the reporting date, the maximum share of a country was capped at 55% of the total loan portfolio.

Collateral risk

Collateral risk arises mainly from a potential fall in the market value of collateral but also from changes in legislation or in collateral realisation procedures. The Group consciously limits its collateral risk and selects its credit policy and volumes in a manner which ensures that credit risk is mitigated more effectively than simply by the collection of collateral and associated cash flows. The Group monitors the effects of fluctuations in the market value of collateral.

Collateral risk is managed by applying the following risk mitigation methods:

- Requirements for collateral depend on the type of the loan. As rule, real estate and corporate loans must be secured by physical collateral (real estate collateral under the law of property such as a mortgage of immovable property). Home loans must be fully collateralised by real estate and in some cases by state guarantees. Smaller business loans may be secured by surety provided by individuals. As a rule, no collateral is required for consumer loans. In making financing decisions, the Group does not rely only on collateral but primarily on the counterparty's ability to service their loan with their cash flows or income.
- Larger corporate loans are subject to contractual covenants related to the customer's financial position or the collateral.
- The sufficiency and value of acceptable real or other collateral is determined based on its present value considering the changes that will occur over time. Where necessary, the value of collateral is determined with the assistance of experts (e.g. real estate appraisers).
- The Group accepts as loan collateral only such immovable properties in respect of which a written valuation report has been issued by an appropriately qualified real estate company and expert. In addition to valuation reports prepared by real estate companies, collateral risk is assessed based on the Group's subjective estimates.
- To issue loans secured by real estate, the Group has established maximum limits to the ratio of the loan amount and the market value of the collateral (loan-to-value ratio). The limits have been established taking into account the condition and location of the property.
- Acceptable real estate collateral predominantly includes mortgages of the first ranking entered in the land register, which should ensure full satisfaction of the Group's claims even when the market value of the collateral decreases.
- Real estate collateral has to be insured throughout the loan term with an insurance company accepted by the Group at least to the extent of the replacement cost of the property.
- The Group has set a cap on the share of exposures not secured by real estate in its corporate loan portfolio.

(In millions of euros)

The table provides an overview of over- and under-collateralised loans by type of collateral. Consumer loans are generally issued without collateral.

Loans and loan collateral at 31 December 2022

	Over-collateralised loans		Under-collateralised loans		Total	
	Carrying amount	Fair value of collateral	Carrying amount	Fair value of collateral	Carrying amount	Fair value of collateral
Unsecured loans	-	-	609.0	-	609.0	-
Surety loans	0.6	2.2	-	-	0.6	2.2
Loans secured by real estate	662.2	1,212.4	17.6	10.5	679.8	1,222.9
Loans against other collaterals	39.1	84.8	27.3	18.9	66.4	103.7
Total					**1,355.8**	**1,328.8**

Loans and loan collateral at 31 December 2021 (restated)

	Over-collateralised loans		Under-collateralised loans		Total	
	Carrying amount	Fair value of collateral	Carrying amount	Fair value of collateral	Carrying amount	Fair value of collateral
Unsecured loans	-	-	583.9	-	583.9	-
Surety loans	45.1	272.6	-	-	45.1	272.6
Loans secured by real estate	246.8	470.6	1.2	1.1	248.0	471.7
Loans against other collaterals	15.8	52.6	11.1	7.8	26.9	60.4
Total					**903.9**	**804.7**

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

Credit risk policy and management

The Group's risk policy, including its risk appetite, credit risk limits and key risk indicators are approved by the bank's supervisory board and country-specific limits and indicators are approved by the bank's management board. The Group measures risk appetite based on the expected credit loss model. In determining its risk appetite, the Group considers its strategic return on equity target and the results of the stress tests.

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

The Group calculates its capital requirement for credit risk using the standardised approach.

The Group's credit risk strategy is managed at Group level, using inputs and knowledge of the local market obtained from the country level.

The credit risk associated with consumer loans is assessed based on statistical models. Models are updated annually or whenever needed. The Group's aim is to fully automate the adoption of as many credit decisions as possible. When granting real estate and corporate loans, the Group considers the applicant's solvency, which is analysed and assessed separately for each loan applicant. The loan analysis uses both the information provided by the customer and the data obtained from public databases and registers. The loan analysis, solvency and collateral assessment, and the decision-making powers of credit committees are specified in the procedures approved by the Group's supervisory board or management board. The credit policy and relevant loan analysis and issuance procedures are regularly reviewed and updated to take into account changes in the economic environment, the Group's credit risk appetite and counterparty payment discipline. Credit decisions are made jointly either by credit committees or duly authorised employees consistent with the limits established by the Group's supervisory board and management board.

The Group has put in place procedures that regulate the types of collateral accepted, the maximum collateral values allowed and other requirements for collateral. The Group assigns collateral value only to those assets for which there is a real secondary market and the collateral can be realised within a reasonable time without significant costs. The main types of collateral are residential and commercial real estate, including buildings under construction, as well as plots of forest and agricultural land. Lease financing is secured by leased assets. In addition, the Group accepts surety granted by private individuals and guarantees provided by legal persons, but no collateral value is assigned to them. To a small extent, share pledges of companies have been accepted as additional collateral, provided they have real market value which can be measured.

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

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. The Group avoids large unsecured credit risk exposures and accepts as collateral only liquid and typical assets, which are easy to foreclose.

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

- In its business operations, the Group focuses on serving individuals and small and medium-sized enterprises. Companies' ultimate beneficial owners and relationships with other companies are identified by determining relationships of ownership and control.
- The Group monitors its credit risk concentration in respect of any single factor and, where necessary, restricts exposure to any customer group that is related to or impacted by that factor.
- When approving higher loan limits for a single counterparty or related counterparties, the Group makes sure that the loans can be serviced independently of the financed projects, or that the loans are secured by low-risk assets (e.g. forest or agricultural land).
- Credit risk is managed centrally at Group level. In setting appropriate credit limits and indicators, the Group relies on the expertise of the branches and local credit risk managers but the branches do not have authority to set country level limits or indicators.
- Risk appetite for individual products is clearly defined on a country-by-country basis.

The compliance of the actual results with the established risk limits and indicators is regularly monitored and reported to the Group's management board and supervisory board.

- The Group has set a probability of default cap which cannot be exceeded in the issuance of loans.
- The Group's objective is to diversify the credit portfolio so that in the case of adverse events no part of the credit portfolio would jeopardise the sustainability of the entire Group.
- Credit limits above 500,000 euros are considered material and are subject to increased monitoring.

The Group manages its past due portfolio by actively selling past due items both under forward-flow agreements and through one-off transactions. In 2022, the Group sold past due items for 10.8 million euros under forward-flow agreements and for 5.9 million euros through one-off transactions.

Credit risk limits

The green (target) level of credit risk limits and key risk indicators is expected to ensure the achievement of the Group's strategic equity target. If the level is red, the Group will not achieve its strategic equity target in material respects but the level does not exceed the Group's risk capacity. The yellow level provides sufficient time to bring the indicators back to the target level before the red level is reached.

The Group has established the following credit risk limits:

- the expected credit loss and maximum loss given default (LGD) for unsecured consumer loans;
- the maximum loan-to-value (LTV) ratio for loans secured by real estate;
- the share of defaulting customers by business line;
- concentration risk limits for a single counterparty, a group of related counterparties, a country and a credit product;
- the maximum loan term of each credit product;
- the share of the past due portfolio in the total loan portfolio and in the unsecured consumer loan portfolio;
- net increase in the past due portfolio in euros;
- the maximum unsecured portion of a loan;
- the minimum share of expected credit loss allowances for consumer loans;
- Herfindahl-Hirschman Index to determine exposure to a counterparty.

All branches and subsidiaries must comply with the policies, credit risk limits and key risk indicators established at Group level. Breaches of credit risk limits and key risk indicators at country level must be immediately reported to the country-level credit committee, which will approve the activities for bringing the risk exposure to the target level. Breaches of credit risk limits and key risk indicators at Group level must be immediately reported to the management board together with an action plan for bringing the risk exposure to the target level. Breaches of limits set at Group level must be reported to the Bank's supervisory board.

Measurement and classification of credit risk

To obtain an overview of the exposures of the Group's total loan portfolio, the credit risk function monitors the development of the loan portfolio, customers' payment behaviour and credit risk.

Loan customers' credit risk is measured using 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 used to assess the customer's payment ability and the probability of default, create loss allowances, assign credit limits, measure receivables and determine the frequency of credit risk assessments and the principles of monitoring credit risk.

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

Each customer is assigned a credit rating at the time the loan application is reviewed. The rating is revised when monitoring indicates that circumstances underlying the credit rating have changed. Circumstances are reviewed monthly. The frequency of changing a rating depends on the features of the group of loans and the loan class. The ratings of companies are updated at least annually 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 quarterly. The ratings of retail customers are updated whenever there is a significant change in the borrower's credit risk.

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

- Very good. The customer's ability to pay and factual payment behaviour are very good. There is no evidence suggesting that weaknesses could emerge.

- Satisfactory. The customer's estimated ability and willingness to pay and factual payment behaviour are good. The Group is not aware of any circumstances that could cause the receivable not to be settled in accordance with the originally agreed terms and the customer's credit risk is low or moderate.

- Weak. The customer has clearly identifiable economic weaknesses. The customer is making payments but there may occur up to 90-day defaults, which is why the receivable may need to be restructured. The customer's credit risk is above average.

- Inadequate. Non-performing loans, which are more than 90 days past due or have undergone restructuring without which the customer would have defaulted or the contract has been terminated. 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.

(In millions of euros)

Loan portfolio by internal rating classes

At 31 December	2022	2021 restated
Loans at amortised cost		
Very good	787.1	560.6
Satisfactory	376.6	239.5
Weak	130.9	80.3
Inadequate	22.8	23.0
Irrecoverable	0.6	0.5
Total	**1,318.0**	**903.9**
Loans at FVTPL		
Satisfactory	13.6	-
Weak	24.2	-
Total	**37.8**	**-**
Total loans to customers	**1,355.8**	**903.9**

Breakdown of loss allowances

The methodology for the recognition of loss allowances is described in more detail in note 40.

The Group recognises loss allowances to mitigate the risk of a decline in the value (impairment) of its loan receivables. To mitigate the risks associated with customers' payment behaviour and to cover credit losses, the Group has recognised loss allowances, which at 31 December 2022 totalled 25.6 million euros and accounted for 1.9% of the total loan portfolio (31 December 2021: 25.0 million euros and 2.8%). The Group's loans to customers grew the most in the corporate loan and home loan segments. As these exposures are collateralised by real estate, the increase in loss allowances remained below the growth in the total loan portfolio. Expenses on loss allowances were also reduced by the improved quality of the loan portfolio. Further information on loss allowances is provided in note 10.

Loans whose interest and/or principal receivable exceeds 100 euros for retail loans and 500 euros for other loans and which are past due by more than 90 days break down as follows:

Loss allowances by past due status at 31 December 2022

Loans at amortised cost

	Loan receivable	Loss allowance	Risk exposure
Loan portfolio not past due	1,254.7	-10.1	1,244.6
Loan portfolio past due	63.3	-15.5	47.8
Total	**1,318.0**	**-25.6**	**1,292.4**
Past due portfolio according to days past due:			
Up to 30 days	33.9	-2.7	31.2
31–60 days	9.3	-3.1	6.2
61–90 days	5.5	-2.3	3.2
Over 90 days	14.6	-7.4	7.2
Total past due portfolio	**63.3**	**-15.5**	**47.8**

(In millions of euros)

Loans at FVTPL

	Loan receivable	Risk exposure
Loan portfolio not past due	37.8	37.8
Total	**37.8**	**37.8**

Loss allowances by past due status at 31 December 2021 (restated)

	Loan receivable	Loss allowance	Risk exposure
Loan portfolio not past due	845.0	-9.9	835.1
Loan portfolio past due	58.9	-15.1	43.8
Total	**903.9**	**-25.0**	**878.9**
Past due portfolio according to days past due:			
Up to 30 days	30.1	-2.3	27.8
31–60 days	7.3	-2.4	4.9
61–90 days	3.7	-1.4	2.3
Over 90 days	17.8	-9.0	8.8
Total past due portfolio	**58.9**	**-15.1**	**43.8**

Macroeconomic scenarios used to adjust the assessments of probability of default

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

Probability of realisation of macroeconomic scenarios

	2022	2021
Baseline scenario	70%	65-70%
Adverse scenario	20%	20-30%
Mild scenario	10%	5-10%

Macroeconomic scenarios are renewed at least annually. The key macroeconomic indicators, which are used in the calculation of the forward-looking component are GDP growth, inflation and the unemployment rate. The current models only include the unemployment rate (based on the economic forecast of the European Central Bank), but in the past the Group has also used other country-specific macroeconomic indicators, which have been determined by reference to statistical analyses and the estimates of experts.

Forecast macroeconomic indicators at 31 December 2022

	2022	2023	2024
Estonia – Unemployment rate			
Baseline scenario	5.3%	6.8%	6.8%
Adverse scenario	5.6%	8.3%	8.7%

(In millions of euros)

	2022	2023	2024
Mild scenario	5.1%	5.3%	4.9%
Latvia – Unemployment rate			
Baseline scenario	7.2%	7.2%	6.6%
Adverse scenario	7.5%	8.8%	8.4%
Mild scenario	6.9%	5.6%	4.7%
Lithuania – Unemployment rate			
Baseline scenario	7.2%	7.3%	7.0%
Adverse scenario	7.5%	8.9%	9.0%
Mild scenario	6.9%	5.7%	5.0%
Finland - Unemployment rate			
Baseline scenario	6.4%	6.6%	6.7%
Adverse scenario	6.7%	8.1%	8.6%
Mild scenario	6.1%	5.1%	4.8%
Sweden - Unemployment rate			
Baseline scenario	7.7%	7.1%	7.2%
Adverse scenario	8.0%	8.7%	9.2%
Mild scenario	7.3%	5.5%	5.2%

The macroeconomic scenarios of the Bulgarian portfolio have not been presented due to its immaterial nature.

Forecast macroeconomic indicators at 31 December 2021

	2021	2022	2023
Estonia – Unemployment rate			
Baseline scenario	6.1%	4.9%	4.6%
Adverse scenario	7.3%	6.7%	6.9%
Mild scenario	4.7%	4.1%	3.9%
Latvia – Unemployment rate			
Baseline scenario	8.3%	7.3%	7.0%
Adverse scenario	8.9%	8.3%	8.0%
Mild scenario	7.9%	6.8%	6.3%
Lithuania – Unemployment rate			
Baseline scenario	7.1%	6.6%	6.3%
Adverse scenario	9.1%	9.2%	8.5%
Mild scenario	5.6%	5.6%	6.1%
Finland - Unemployment rate			
Baseline scenario	7.7%	6.9%	6.7%
Adverse scenario	8.3%	7.9%	7.6%
Mild scenario	7.4%	6.4%	6.1%
Sweden - Inflation			
Baseline scenario	1.8%	1.1%	1.3%
Adverse scenario	1.2%	0.7%	0.8%
Mild scenario	2.4%	1.8%	2.4%

(In millions of euros)

Sensitivity analysis of macroeconomic indicators

When macroeconomic indicators deteriorate, i.e. in the case of the adverse scenario, expected credit loss allowances increase. In the case of the baseline scenario and mild scenario, expected credit loss allowances decrease. The sensitivity analysis has been performed on the assumption that each scenario is weighted in full (100%). On the realisation of the baseline scenario, expected credit loss allowances at 31 December 2022 would decrease by 1.8%. On the realisation of the adverse scenario, expected credit loss allowances at 31 December 2022 would increase by 10.0% and on the realisation of the mild scenario, expected credit loss allowances would decrease by 9.2%.

	2022		2021	
	ECL allowances resulting from 100% scenario	Difference from weighted ECL allowances, %	ECL allowances resulting from 100% scenario	Difference from weighted ECL allowances, %
Baseline scenario	25.2	-1.8%	24.8	-0.9%
Adverse scenario	28.2	10.0%	26.1	4.5%
Mild scenario	23.3	-9.2%	23.9	-4.3%

Credit risk stress testing

Credit risk stress testing is part of the Group's risk management framework and capital adequacy assessment process, which allows assessing the potential impact of relevant business and strategic decisions. The Group performs stress tests on a regular basis to assess the impact of various possible but unlikely events on its financial performance and capital. Events used in the stress testing of the loan portfolio include, but are not limited to, possible increases in payment defaults due to changes in the macroeconomic environment, decreases in property prices and changes in the dynamics of loan defaults. Stress tests cover the entire loan portfolio: consumer loans, corporate loans and home loans. The Monte Carlo simulation method is used to stress test the consumer loan portfolio. The simulation generates thousands of sets of macro indicators which, when inserted into a macro model, allow to evaluate PD levels at different confidence levels. As the portfolios of corporate loans and home loans are smaller and have a shorter history, external data sources and expert assessments are used in the evaluation of their PD and LGD. The PD and LGD stress levels are evaluated on the basis of the previous economic crisis, where real estate prices fell broadly and the shares of banks' non-performing portfolios increased. Credit risk stress tests are performed at least annually and the results are reported to the management board and supervisory board.

Impacts of COVID-19

According to the Group's assessment, the COVID-19 pandemic did not affect the quality of its loan portfolio in 2022. However, the uncertainty and risks associated with the COVID-19 pandemic have not disappeared. The Group monitors closely the escalation of potential risks and is ready to take immediate preventive measures to mitigate credit risk.

Effects of Russia's war against Ukraine

Russia's war against Ukraine, which started in February 2022, has no direct impact on the quality of the Group's loan portfolio, as the Group has not financed private individuals or companies that are residents of Russia, Belarus or Ukraine. Similarly, the Group's corporate customers do not include companies that are heavily dependent on the export or import of their products or services to and from those countries. In order to identify and assess potential risks, the Group carried out an analysis of how the combined effect of higher energy and commodity prices (e.g. fertilisers and building materials) may affect the solvency of its corporate customers and how high energy prices and, more generally, inflation may affect the solvency of its retail customers. Based on the analyses, the Group did not identify any significant increase in the credit risk of its loan portfolio.

(In millions of euros)

Cash and bank balances by the banks' credit ratings

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

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

At 31 December 2022 and 2021, the Group's receivables from central banks and credit institutions were not past due. The receivables were either due on demand or had a maturity of less than three months. Taking this into account, the expected credit loss on receivables from central banks and credit institutions is immaterial and therefore no allowances for them have been recognised in the statement of financial position

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

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

At 31 December	2022	2021
P-1	164.4	106.9
P-2	8.8	8.9
Without a rating	0.2	0.1
Total	**173.4**	**115.9**

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

Cash balances with the central banks, including mandatory reserve deposits in the amount of 151.1 million euros have low credit risk and therefore they have been assigned the rating P-1.

Debt instruments at FVOCI by ratings

Debt instruments at FVOCI (see note 8), based on Moody's Investors Service ratings or their equivalents, are as follows:

At 31 December	2022	2021
Aaa–Aa3	5.2	6.8
A1–A3	11.1	25.6
Baa1–Baa3	2.9	12.9
Total	**19.2**	**45.3**

Exposure to counterparty credit risk

Counterparty risk arises in the cases where a counterparty in a foreign exchange, 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 exposure. The financial loss in this case is the replacement cost, i.e. 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 at 31 December 2022 and 2021.

MARKET RISK

Market risk is the risk of loss resulting from unfavourable changes, correlations or volatility in market prices and rates (including changes in interest rates, credit spreads, equity prices, foreign exchange rates and commodity prices). Within market risk the Group has identified currency risk (foreign exchange risk), interest rate risk and real estate risk. The Group does not accept commodity risk. The Group did not have any risk exposures from equity instruments at 31 December 2022 and 2021.

Currency risk is the risk of loss due to changes in spot or forward prices and the volatility of foreign exchange rates.

Interest rate risk is the risk that the values of the Group's assets and liabilities could be negatively affected by changes in interest rates.

Interest rate risk of the banking book (IRRBB) is the current or prospective risk to both the earnings and the economic value of the Group arising from adverse movements in interest rates that affect interest rate sensitive instruments, including gap risk and option risk.

Real estate risk arises from adverse movements in the prices of real estate.

Market risk arises from the Group's activity in the financial markets and from the majority of the Group's products (loans, deposits) as well as the Group's investment properties, acquired in the course of the Group's operating activity.

Market risk policy and management

The market risk management strategy and risk appetite are set out in the market risk policy approved by the supervisory board. In line with the target risk profile, the Group's market risk strategy is conservative and the Group's overall market risk appetite is moderate. The Group avoids market risk concentration.

According to the target risk profile, the Group's appetite for currency risk is low. The objective of currency risk management is to keep net open currency positions to a minimum so that movements in foreign exchange rates would not have an adverse effect on the Group's capital. The Group avoids taking speculative positions.

Market risk appetite for interest rate risk from the bond portfolio is moderate. Bond positions and their market risk are related to the objective to maintain a strong liquidity position. The secondary purpose of the bond portfolio is to support the Group's profitability, but profit expectations must not override liquidity requirements. The Group does not take speculative trading positions or provide securities trading services to customers.

Interest rate risk arising from the banking book (IRRBB) is a significant risk for the Group. The main sources of structural IRRBB are adverse changes in loan and/or deposit interest rates. The Group's IRRBB risk appetite is moderate. The risk versus profit considerations apply. The basis of the Group's IRRBB strategy is a balanced position in the short term perspective (the next 12-24 months) and a controlled open risk position in the longer-term perspective. This is achieved by active management of the structure and maturities of interest sensitive assets and liabilities.

Real estate risk arises from adverse movements in real estate prices. The main objective of holding investment properties is to support the Group's core business. The risk versus profit considerations apply. The Group's real estate risk appetite is moderate.

The treasury and reporting unit in the finance function is responsible for the day-to-day management of market risk. As the second line of defence, the financial risk control unit is responsible for risk control, measurement and reporting. The finance function is responsible for managing and monitoring real estate risk. The management board approves more detailed rules describing the processes related to market risk management.

(In millions of euros)

The Group uses the standardised approach to determine the minimum regulatory capital requirement for market risk.

Market risk limits

The market risk profile is conservative and must be kept within the limits approved by the management board. The management board approves the levels of limits and key risk indicators in accordance with the current risk appetite, and these levels are constantly monitored. The levels of risk limits are reviewed at least annually, taking into account the market situation and business strategy, and adjusted as required. Any breaches of limits are escalated in accordance with the requirements established in the market risk policy.

The Group has set market risk limits for:

- the net open currency position;
- interest rate sensitivity of the economic value of equity (200 bps);
- interest rate sensitivity of net interest income (200 bps);
- interest rate sensitivity of the bond portfolio.

Risk measurement and reporting

The requirements to measuring and reporting market risk (the recipients, content and frequency of the reports) are set out in the market risk policy. Market risks are measured and reported to the management board and supervisory board at least quarterly.

The Group's foreign currency position in the Swedish krona arises from services provided to customers at the Swedish branch, the currency position in the Bulgarian lev results from the operations of the Bulgarian branch. Foreign currency risk is measured at the levels of single and aggregate currency positions.

Net currency positions* at 31 December 2022

	Assets bearing currency risk	Liabilities bearing currency risk	Net exposure
EUR (euro)	1,544.3	1,468.8	75.5
SEK (Swedish krona)	62.0	63.1	-1.1
BGN (Bulgarian lev)	7.0	1.4	5.6

Net currency positions* at 31 December 2021 (restated)

	Assets bearing currency risk	Liabilities bearing currency risk	Net exposure
EUR (euro)	1,043.4	970.3	73.1
SEK (Swedish krona)	84.3	82.9	1.4
BGN (Bulgarian lev)	1.9	0.2	1.7

* The net currency positions have been calculated at the level of the supervisory reporting group.

Foreign currency risk is additionally measured using the 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.

(In millions of euros)

Effect of a potential exchange rate change on profit and equity at 31 December 2022

	Exposure	Monetary impact	% of equity
SEK (Swedish krona)	-1.1	0.1	0.1%
BGN (Bulgarian lev)	5.6	-0.6	0.3%

Effect of a potential exchange rate change on profit and equity at 31 December 2021

	Exposure	Monetary impact	% of equity
SEK (Swedish krona)	1.4	-0.1	0.1%
BGN (Bulgarian lev)	1.7	-0.2	0.1%

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

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

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

The Group measures its IRRBB exposure in terms of both potential changes in the economic value of equity (EVE) and changes in the expected 12-month net interest income (NII). Due to the reason that consumer loans are frequently repaid before contractual maturity, the Group uses behavioural cash flows instead of contractual cash flows when calculating and analysing interest rate risk. Deposits without maturity are assigned estimated repricing maturities. Their average repricing maturity was 19.2 months and their longest repricing maturity was between four and five years at 31 December 2022.

The Group uses different sensitivity analyses and scenarios to assess the interest rate risk arising from the banking book, including the supervisory scenarios as well as other scenarios that take into account changes in the yield curve and individual risk profile. At 31 December 2022, the impact of the supervisory scenario (200 bps parallel increase) on 12-month net interest income (NII) was 1.7 million euros (31 December 2021: -0.3 million euros). The sensitivity of the economic value of equity (EVE) to the interest rate increase by 200 bps was 3.9 million euros (31 December 2021: 7.0 million euros). The Group is exposed to the risk of falling interest rates. The impact of a decline of 200 bps in interest rates on net interest income would be -2.6 million euros (31 December 2021: 0.2 million euros) and on the economic value of equity -11.7 million euros (31 December 2021: -0.7 million euros).

Real estate risk is measured by applying a stress scenario to the Group's real estate. The Group determines the levels of price decline for each asset type based on historical data and the estimates of experts and calculates the total amount of loss that would result from the level of stress. Real estate stress tests are carried out at least annually and the results are reported to the management board.

The Group did not use hedging instruments to hedge market risk at 31 December 2022.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to fulfil its obligations in a timely manner or to the full extent without incurring significant costs. Within liquidity risk the Group measures separately funding risk, which is the risk of being unable to raise resources without negatively affecting the daily business activities or financial position.

Liquidity risk policy and management

The Group's risk management structure is based on the three lines of defence model. The supervisory board approves the liquidity risk policy, which sets out the Group's liquidity risk strategy and risk appetite. The management board approves the liquidity risk limits and detailed procedures for liquidity risk management. Liquidity risk management is the responsibility of the treasury and reporting unit, which is part of the finance function. The risk reporting and financial risk control unit as a second line of defence is responsible for risk control, measurement and reporting. The third line of defence is the internal audit function, which provides independent assurance.

The liquidity risk management framework covers liquidity management both in standard conditions and in the event of a liquidity crisis. The Group must at all times ensure its ability to meet its obligations on time and in full for as long as possible. Maintaining a strong liquidity position is one of the Group's main priorities. In line with the target risk profile, the Group applies a conservative strategy to liquidity risk and the overall liquidity risk appetite is low.

Liquidity risk is managed centrally and the subsidiaries and branches are funded at Group level. The Group regularly assesses the circumstances that could hinder intragroup transfer of liquidity. The structure and maturities of the Group's assets must match the funding structure and the Group should not rely on very short-term wholesale funding resources. Maintaining a balance and avoiding concentrations of counterparty exposures are the main requirements for funding and liquidity risk management. The Group's funding from external sources must be balanced with equity.

The main objective of the Group's funding strategy is to ensure sufficient and stable funding of the core activity through the Group's own and debt capital. The second important objective of funding management is to optimise the costs and the amount and composition of external resources raised, but cost savings may not override sufficient, stable and conservative funding requirements.

The Group's operations are mainly funded with retail deposits raised from customers, which comprise term and savings deposits. Savings deposits are offered to customers in cross-border markets: Germany, Austria and the Netherlands. In addition to deposit-based financing, the Group has issued subordinated bonds. In May 2022, the Group issued bonds for 5 million euros by way of a private placement. In September, the Group issued subordinated bonds for 20 million euros, which were listed on the Nasdaq Tallinn stock exchange. At 31 December 2022, the total amount of the Group's subordinated bonds was 40 million euros. From 2019, the Group took part in the ECB's targeted longer-term refinancing operations (TLTRO-III), but the funding raised was repaid early, in November 2022.

One of the highlights of the reporting period was receiving an investment grade rating from Moody's. The Baa3 long-term (outlook stable) and Prime-3 short-term foreign and local currency bank deposit ratings provide assurance to depositors regarding Bigbank's business model and portfolio quality.

Liquidity risk limits

The liquidity risk profile is conservative and it must be maintained within the limits set by the management board. The management board has established a set of key risk indicators and limits to identify the emergence of increased risks or vulnerabilities in the bank's liquidity position or potential funding needs. Any breaches of limits and the thresholds of key risk indicators are escalated to the management board and/or supervisory board according to the requirements set out in the policy.

(In millions of euros)

Liquidity risk ratios*

At 31 December	2022	2021
Liquidity coverage ratio (LCR)	218%	258%
Survival period (in days)	122	161
Net stable funding ratio (NSFR)	134%	127%
Loan to deposit ratio	98%	100%
Liquidity reserve to assets ratio	11%	10%
Long term (over 1 year) funding to total funding ratio	28%	39%

* Liquidity risk ratios have been calculated at the level of the supervisory reporting group.

Liquidity risk measurement and reporting

Requirements to liquidity risk measurement and reporting (the recipients, content and frequency of the reports) and measurement are established in the liquidity risk policy. Liquidity risk reports are submitted to the management board and supervisory board at least quarterly and the risk level is monitored daily.

Liquidity risk is measured at Group level using different methods and ratios under both normal market conditions and in a liquidity crisis. One of the main objectives of liquidity risk measurement is to identify a possible liquidity deficit across different maturity buckets. The regulatory measure LCR (liquidity coverage ratio) indicates whether the Group has sufficient liquid assets to cover short-term liabilities that correspond to net cash flow during 30 days under stress. The Group also measures liquidity risk on the basis of the survival period which is the time period under stress conditions during which the Group is able to continue its ordinary business activities and fulfil its obligations without raising additional resources or changing its action plans. Regulatory NSFR (net stable funding ratio) is defined as the amount of available stable funding relative to the amount of required stable funding.

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 to or cover risks that may crystallise during different types of stress scenarios. Stress tests are conducted using at least three different scenarios – the idiosyncratic, the market-wide and the combined scenario. Liquidity risk stress tests cover all portfolios of the Group. The outcome of stress testing is integrated into the Group's strategic planning process for liquidity and funding and used to increase the effectiveness of liquidity management in the event of a crisis, including the Group's recovery planning. Stress testing results are used to determine the minimum size and composition of the liquidity buffer. Stress test results are reported to the management board and supervisory board.

COVID-19 and Russia's war against Ukraine did not have a major negative impact on funding and the volume of deposits continued to grow as planned in 2022.

Liquidity risk mitigation

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 the opportunities of raising alternative funding. In order to mitigate liquidity risk the Group may consider various measures, such as partial sale of the loan portfolio, participation in the loan programs of the European Central Bank, or raising deposits or credit lines from other credit institutions.

(In millions of euros)

Remaining maturities of financial assets and liabilities at 31 December 2022

	Past due	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets							
Cash and bank balances	-	173.2	-	-	0.2	-	173.4
Loans to customers	8.7	36.9	35.1	144.5	741.5	383.1	1,349.8
Of which loan portfolio	7.5	18.5	35.1	144.5	741.5	383.1	1,330.2
Of which interest receivables	1.2	18.4	-	-	-	-	19.6
Debt instruments at FVOCI	-	-	0.7	3.5	13.9	1.1	19.2
Other receivables	0.5	1.4	0.1	0.1	-	-	2.1
Total financial assets	**9.2**	**211.5**	**35.9**	**148.1**	**755.6**	**384.2**	**1,544.5**
Financial liabilities							
Deposits from customers	-	666.0	53.9	291.3	317.1	39.5	1,367.8
Loans from banks	-	-	0.1	0.2	8.9	-	9.2
Subordinated bonds	-	-	-	0.1	5.0	35.0	40.1
Lease liabilities	-	0.1	0.1	0.3	0.7	-	1.2
Total financial liabilities	**-**	**666.1**	**54.1**	**291.9**	**331.7**	**74.5**	**1,418.3**
Maturity gap of financial assets and liabilities	**9.2**	**-454.6**	**-18.2**	**-143.8**	**423.9**	**309.7**	**126.2**

Remaining maturities of financial assets and liabilities at 31 December 2021 (restated)

	Past due	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets							
Cash and bank balances	-	115.9	-	-	-	-	115.9
Loans to customers	9.2	24.2	21.9	121.2	501.6	215.4	893.5
Of which loan portfolio	8.0	10.8	21.9	121.2	501.6	215.4	878.9
Of which interest receivables	1.2	13.4	-	-	-	-	14.6
Debt instruments at FVOCI	-	-	2.0	8.6	30.7	3.9	45.2
Other receivables	0.5	1.4	0.1	0.1	-	-	2.1
Total financial assets	**9.7**	**141.5**	**24.0**	**129.9**	**532.3**	**219.3**	**1,056.7**

(In millions of euros)

	Past due	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities							
Loans from central banks	-	-	-	-	36.5	-	36.5
Deposits from customers	-	362.8	39.7	174.7	278.4	42.7	898.3
Subordinated bonds	-	-	-	-	-	15.0	15.0
Lease liabilities	-	0.1	0.1	0.5	1.1	-	1.8
Total financial liabilities	**-**	**362.9**	**39.8**	**175.2**	**316.0**	**57.7**	**951.6**
Maturity gap of financial assets and liabilities	**9.7**	**-234.9**	**-15.8**	**-45.3**	**216.3**	**161.6**	**91.6**

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

Expected contractual undiscounted future cash flows of the Group's financial liabilities at 31 December 2022

	Carrying amount	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Payables to suppliers (note 22)	**0.7**	0.7	0.1	-	-	-	0.8
Deposits from customers (note 18)	**1,367.8**	666.9	55.0	299.7	330.5	42.4	1,394.5
Loans from banks (note 17)	**9.2**	0.1	0.1	0.6	10.4	-	11.2
Subordinated bonds (note 19)	**40.1**	-	0.8	2.6	16.5	47.3	67.2
Lease liabilities (note 20)	**1.2**	0.1	0.1	0.3	0.7	-	1.2
Loan commitments (note 36)	**113.6**	2.6	6.5	39.0	65.4	-	113.5
Total liabilities	**1,532.6**	**670.4**	**62.6**	**342.2**	**423.5**	**89.7**	**1,588.4**

Expected contractual undiscounted future cash flows of the Group's financial liabilities at 31 December 2021

	Carrying amount	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Payables to suppliers (note 22)	**1.8**	1.7	0.1	-	-	-	1.8
Loans from central banks (note 17)	**36.5**	-	-	-	36.5	-	36.5
Deposits from customers (note 18)	**898.3**	363.5	42.2	180.3	290.5	45.9	922.4
Subordinated bonds (note 19)	**15.0**	-	-	1.0	4.0	18.6	23.6
Lease liabilities (note 20)	**1.8**	0.1	0.1	0.5	1.2	-	1.9
Loan commitments (note 36)	**93.8**	4.6	9.3	46.4	33.5	-	93.8
Total liabilities	**1,047.2**	**369.9**	**51.7**	**228.2**	**365.7**	**64.5**	**1,080.0**

OPERATIONAL RISK

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

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

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

Legal risk is the risk that the Group is not in compliance with or misinterprets the requirements of laws and regulations, contracts, agreements, best practice and ethical standards. Legal risk may accompany any of the aforementioned risks, as the Group may become subject to claims or proceedings due to its contractual or other legal obligations.

Compliance risk is the risk that failure to fully meet the requirements of laws, regulations and internal rules as well as obligations to customers, employees and other stakeholders may damage the Group's business model, reputation and financial position.

Money laundering and terrorist financing risk, which is part of compliance risk, is the risk that the Group is used for money laundering or terrorist financing due to weaknesses or non-compliances in its internal processes.

Information and communication technology risk is the risk of losses arising from inadequate technical infrastructure, including hardware and software failures, which may compromise the availability, integrity, accessibility and security of the technical infrastructure or the data collected.

Information security risk is risk of losses arising from the loss of confidentiality, integrity or availability of data.

Operational risk policy and management

Operational risk management strategy and risk appetite are described in the operational risk policy, which is approved by the supervisory board. The Group's strategy is to maintain operational risk at a level which is as low as reasonably possible and to minimise operational risks and potential losses to the extent this is possible in view of the Group's strategic objectives and the principle of economic efficiency. The Group takes appropriate measures to address internal and external fraud and other irregularities (breaches of internal rules or regulations, limits, etc). In the Group's target risk profile, the Group's appetite for operational risk is set to low.

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

Operational risk management is based on the three lines of defence model. The first line of defence is the risk-taker, the second line of defence is the control units, and the third line of defence is the internal audit unit. The main task of the second line of defence is to independently assess whether the control mechanism of the first line of defence is properly functioning on the basis of risk assessment, and the third line of defence exercises independent control over the first and second lines of defence.

The regulatory minimum own funds requirement for operational risk is defined using the standardised approach.

Identification and assessment of operational risk

Identification and assessment of operational risks allows for a better understanding of the risk profile and a more efficient use of risk management tools.

Operational risks are identified through the incident and loss event handling process established at Group level. The Group has adopted a uniform methodology and developed a supporting information system to make sure that all structural units report and handle incidents and loss events in the same way. Incidents and loss events with an above-average impact (levels 3 and 4 on a scale of 1 to 4) are reported to the member of the management board in charge of the area and the manager of the relevant function and/or branch/country. Incidents and loss events with a high impact (level 4 on a scale of 1 to 4) are reported to the management board, the manager of the relevant function and/or branch/country and the Group's supervisory board. An overview of all incidents and loss events with an above-average or high impact (levels 3 or 4 on a scale of 1 to 4) is presented to the Group's management board quarterly.

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

The risks arising from change (e.g. the launch of new products or services, the opening of new business lines, outsourcing, etc.) are managed based on a specific quantitative risk analysis method.

The purpose of the key risk indicators and limits of operational risk is to ensure that the level of the operational risk profile is assessed and thus to provide a proactive indication of potential problems. Operational risk limits are set for the annual amount of operational risk losses and potential losses.

Key risk indicators have been established for all major risk categories and their limits have been approved by management. Key indicators and their limits are calibrated at least annually. An operational risk report, which includes, among other things, the levels of key risk indicators and limits, is submitted to the managements of branches, the management board and the supervisory board quarterly. Breaches of the limits and key risk indicators are reported to the management board and/or supervisory board in accordance with the requirements established in the policy.

Control and mitigation of operational risk

Operational risk is mitigated by implementing various controls which must ensure compliance with the requirements set out in the internal regulations and the risk policy. Raising the awareness of employees, which is ensured through training, also helps to mitigate the risk. Training activities include both annual training for all employees and specific needs-based training for key personnel. Training events are organised by operational risk control, compliance, fraud and money laundering prevention as well as other units. All employees are required to complete mandatory training before starting work.

The Group has established a business continuity management framework to ensure the continuity or recovery of its operations, including the provision of services to customers in the event of a significant service interruption, and to manage incidents of low probability but high impacts (IT system failures, natural disasters, pandemics, etc.).

A further risk mitigation measure is risk transfer through property and liability insurance.

Impact of COVID-19

In the first half of 2022, the Group continued active monitoring of the development of the COVID-19 crisis. Unlike 2021, however, there was no need to respond swiftly and tighten the pandemic containment restrictions to ensure business continuity. The Group's employees could choose between working remotely and in the office according to the situation and restrictions in the country involved. The continuity of the Group's operations was ensured and performance was not affected by the pandemic. Therefore, active monitoring of the situation was discontinued in the second half of the year.

Effects of Russia's war against Ukraine

The war that started in Ukraine on 24 February 2022 did not increase operational risk.

OTHER MATERIAL RISKS

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

Reputational risk is the risk that damage to the Group's reputation will affect the Group's earnings, own funds or liquidity either immediately or in the future.

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

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

Reputational risk and business and strategic risk management

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

According to the target risk profile, the Group's risk appetite for reputational risk is low while the Group's risk appetite for business and strategic risk is moderate.

Strategic risk is managed by implementing a suitable strategy, which corresponds to the current economic environment and is based on a comprehensive planning process, and by responding adequately and in a timely manner to changes. The Group's strategy for reputational risk management is to avoid situations that could potentially have a negative impact on its reputation and cause a decrease in revenue or loss of trust.

Reputation building begins with customer experience management and controlled creation of public opinion. Business and control units continuously identify, manage, and assess internal and external factors that could impede achievement of strategic objectives or may have a negative impact on reputation. The management board is responsible for managing reputational risk and strategic risk. The risks are monitored regularly and risk levels are reported to the management board and the supervisory board.

OWN FUNDS AND CAPITAL

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

The methods used by the Group for calculating own funds are stipulated in Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR) and Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD 4) as transposed into Estonian law.

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

- **Common Equity Tier 1 Capital (CET1)** including:
  - **Paid-in share capital.** The Group's paid-in share capital amounts to 8.0 million euros.
  - **Capital reserve** (other reserves according to Article 4 (117) of EU Regulation 575/2013). In line with the requirements of the Commercial Code, the Group has set up a statutory capital reserve which at the reporting date amounted to 0.8 million euros.
  - **Prior years retained earnings.** Profits retained

(In millions of euros)

in previous years have been audited by an independent external auditor. The figure has been determined by taking into account all relevant taxes and dividend distributions. At the reporting date, the Group's prior period retained earnings totalled 167.5 million euros.

- **Other accumulated comprehensive income.** The Group's other accumulated comprehensive income at 31 December 2022 amounted to 3.4 million euros.

- **Profit eligible.** Net profit for the first nine months of the financial year of 15.9 million euros, which has been verified by an independent external auditor, from which foreseeable dividends have been deducted and which has been approved by the Financial Supervision and Resolution Authority.

- **Tier 2 Capital,** including:

- **Subordinated bonds.** At the reporting date, the Group had issued subordinated bonds with different maturities in the amount of 40.0 million euros.

In May 2022, the Group issued subordinated bonds for 5.0 million euros by way of a private placement. The interest rate of the bonds is 7.5% and maturity term is 10 years. The total issue volume of unsecured subordinated bonds issued by way of a public offering in September was 20.0 million euros. The bonds were listed on the Nasdaq Tallinn stock exchange. 1,610 investors participated in the offering, subscribing subordinated bonds for 22.8 million euros. Thus the initial issue size of 10 million euros was oversubscribed more than twofold. Altogether, Bigbank issued 20,000 bonds with a nominal value of 1,000 euros each, a fixed interest rate of 8% per year and a maturity term of 10 years. In 2017 the Group issued 10-year subordinated bonds for 5.0 million euros and in 2021 10-year subordinated bonds for 10.0 million euros. The bonds are treated as Tier 2 capital. There are no other Tier 2 capital instruments outstanding.

The Group deducts from CET1 intangible assets provisions which have not been verified by an independent external auditor in the review of financial information and other items specified by law (line item Adjustments to CET1 in the report) and other intangible assets. At the reporting date, the Group's total own funds amounted to 212.9 million euros.

Total own funds and total risk exposure are calculated at the supervisory reporting group level (i.e. not using the definition of a consolidated group as used for the purposes of preparing financial statements).

At 31 December	2022	2021 restated
Paid-in share capital	8.0	8.0
Capital reserve	0.8	0.8
Prior years retained earnings	167.5	137.6
Other accumulated comprehensive income	3.4	1.0
Other intangible assets	-22.4	-17.5
Profit eligible	15.9	17.0
Adjustments to CET1	-0.3	-0.3
Common equity Tier 1 capital	**172.9**	**146.6**
Tier 1 capital	**172.9**	**146.6**
Tier 2 capital	**40.0**	**15.0**
Total own funds	**212.9**	**161.6**

(In millions of euros)

Total risk exposure

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

At 31 December	2022	2021 restated
Risk weighted exposure amounts for credit and counterparty credit risks (standardised approach)		
Receivables from central governments and central banks	0.8	0.6
Receivables from regional governments and local authorities	-	-
Receivables from credit institutions and investment firms	4.2	14.6
Receivables from corporates*	33.0	206.8
Retail	480.8	443.5
Secured by mortgages on immovable property	273.9	46.1
Exposures in default	14.1	13.3
Items associated with particularly high risk*	302.8	-
Claims on institutions and corporates with a short-term credit assessment	1.1	0.7
Equity	20.2	4.8
Other items	29.8	62.1
Total risk weighted exposure amounts for credit and counterparty credit risks (standardised approach)	**1,160.7**	**792.5**
Total risk exposure amount for position, foreign exchange and commodities risks	**5.1**	**-**
Total risk exposure amount for operational risk (standardised approach)	**110.1**	**103.7**
Total risk exposure amount	**1,275.9**	**896.2**

* In 2022, some receivables from corporate customers were reclassified to items associated with particularly high risk consistent with Article 128 of the Capital Requirements Regulation.

Capital ratios

At 31 December	2022	2021 restated
CET1 Capital ratio	13.6%	16.4%
T1 Capital ratio	13.6%	16.4%
Total capital ratio	16.7%	18.0%
Leverage ratio	10.5%	12.5%
Minimum requirement for own funds and eligible liabilities (MREL)	16.7%	18.0%

The total capital ratio has been calculated for Bigbank AS supervisory reporting group. At 31 December 2022, total capital ratio at the level of the parent company was 16.6% (31 December 2021: 17.3%). The composition of the Group's own funds, their treatment and the calculation of capital ratios are in accordance with the CRR.

With its decision of 15 December 2022, the Estonian Financial Supervision and Resolution Authority set the Group's minimum requirement for own funds and eligible liabilities (MREL) at the level of 12.49% of the total risk exposure amount and at 3.0% of the total exposure measure. At the reporting date, the ratio of the sum of the Group's own funds and eligible liabilities to the total risk exposure amount was 16.7% and the ratio to the total exposure measure was 12.9%.

Capital management

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

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

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

- Ensuring capital adequacy is an integral part of strategic and daily business decision-making as well as an integral part of the daily risk management process.
- The Group evaluates and estimates the risk level and the capital needed to cover all identified material risks on a continuous basis.
- The Group's capital must, at all times, be adequate for covering all of its material risks (must at all times exceed its aggregated risks).
- The Group assesses continuously possible future capital requirements (capital planning) to ensure 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 parent company 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 that risk.

Internal capital adequacy assessment process

Internal capital adequacy assessment is an ongoing process aimed at assessing the risk profile of the Group and the corresponding capital requirement. The output of the process is a quantitative assessment of the Group's risks and the adequacy of capital needed to cover them. The ICAAP capital requirement is defined as the sum of own funds needed to cover risks or risk elements not covered by Pillar 1.

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

At 31 December 2022, the additional Pillar 2 capital requirement established as a result of the 2021 SREP assessment by the Financial Supervision and Resolution Authority stood at 4.49% of the total risk exposure, of which at least 2.52% must be covered by CET1 capital and 3.37% by Tier 1 capital. The additional guidance on own funds (Pillar 2 Guidance, P2G) assigned to the Group by the Financial Supervision and Resolution Authority was 0.5% at the end of 2022.

(In millions of euros)

Minimum regulatory capital requirement at 31 December 2022

	Common equity Tier 1 capital ratio	Tier 1 capital ratio	Total capital ratio
Base capital requirement	4.5%	6.0%	8.0%
Pillar 2 capital charge	2.5%	3.4%	4.5%
Total SREP capital requirement (TSCR)	7.0%	9.4%	12.5%
Capital conservation buffer	2.5%	2.5%	2.5%
Systemic risk buffer	0.0%	0.0%	0.0%
Countercyclical risk buffer	0.5%	0.5%	0.5%
Overall capital requirement (OCR)	**10.0%**	**12.4%**	**15.5%**
Additional own funds as per P2G	**0.5%**	**0.5%**	**0.5%**
Total overall capital requirement and additional own funds as per P2G	**10.5%**	**12.9%**	**16.0%**

The central bank of Estonia reinstated the 1% countercyclical buffer requirement applicable to risk exposures located in Estonia as from 7 December 2022. The requirement replaced the 1% systemic risk buffer rate prevailing before the crisis. In addition, at 31 December 2022, the Group was subject to capital buffer requirements at the rates applicable in the countries of location of the risk exposures. The countercyclical buffer rate was 1% for credit exposures in Sweden and Bulgaria, 2% for credit exposures in Norway and 0.5% for credit exposures in Luxembourg. The systemic risk buffer rate for retail exposures secured by residential real estate to residents of Lithuania was 2%.

The Group's target was to maintain the total capital ratio at 31 December 2022 at or above 15.98% plus the internal capital buffer ratio at 0.75%.

The Group's total capital ratio at the reporting date was 16.7%, which exceeds the regulatory requirement. The Group's CET1 capital ratio and Tier 1 capital ratio were 13.6%. At the reporting date, the Group was in compliance with the overall regulatory capital requirement.

On 5 December 2022, the Financial Supervision and Resolution Authority established new capital requirements for the Group as a result of the annual supervisory review and evaluation process (SREP). The new requirements will apply from 15 March 2023.

In accordance with the decision of the Financial Supervision and Resolution Authority, the Group is subject to an additional own funds requirement (P2R) on a consolidated basis at a rate of 4.49% of the total risk exposure amount (TREA), of which at least 3.37% must be covered by CET1 capital and at least 2.52% by Tier 1 capital. The Pillar 2 capital requirement of 4.49% remained in effect at the same level as established for the Group as a result of the previous SREP. Consequently, the total SREP capital requirement (TSCR) for the Group is 12.49%. This is the sum of the Pillar 1 and Pillar 2 requirements, which are 8% and 4.49%, respectively.

In addition, the Financial Supervision and Resolution Authority decided to increase the Pillar 2 Guidance (P2G) applicable to the Group on a consolidated basis from 0.5% to 1.5% of TREA. The new P2R and P2G ratios will apply from 15 March 2023, which means that from that date the Group will have to have more capital for the same risk exposure.

(In millions of euros)

NOTE 6. FAIR VALUES OF ASSETS AND LIABILITIES

According to management's estimates, the fair values of the assets and liabilities reported in the statement of financial position at 31 December 2022 and 2021 do not differ significantly from their carrying amounts.

	Carrying amount		Fair value	
Financial assets at 31 December	**2022**	**2021 restated**	**2022**	**2021 restated**
Cash and balances at central banks (note 7)	151.1	78.7	151.1	78.7
Cash and balances at banks (note 7)	22.3	37.2	22.3	37.2
Debt securities at FVOCI (note 8)	19.2	45.3	19.2	45.3
Loans to customers (notes 9 and 10)	1,349.8	893.5	1,349.8	893.5
Other financial receivables (note 11)	2.4	2.7	2.4	2.7
Total financial assets	**1,544.8**	**1,057.4**	**1,544.8**	**1,057.4**

	Carrying amount		Fair value	
Financial liabilities at 31 December	**2022**	**2021**	**2022**	**2021**
Loans from banks (note 17)	9.2	36.5	9.2	36.5
Deposits from customers (note 18)	1,367.8	898.3	1,367.8	898.3
Subordinated bonds (note 19)	40.1	15.0	39.8	15.0
Other financial liabilities (note 22)	11.6	11.2	11.6	11.2
Total	**1,419.5**	**924.5**	**1,419.2**	**924.5**

The table below shows the instruments carried at fair value, by valuation method. The three levels have been defined based on the observability of significant inputs to the measurement, as follows:

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

(In millions of euros)

Fair value hierarchy at 31 December 2022

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Debt instruments at FVOCI (note 8)	19.2	-	-	19.2
Loans to customers at FVTPL (notes 9 and 10)	-	-	39.4	39.4
Land and buildings (note 13)	-	-	15.9	15.9
- *Office premises*	-	-	*6.2*	*6.2*
- *Other buildings*	-	-	*0.1*	*0.1*
- *Agricultural land*	-	-	*9.6*	*9.6*
Investment properties (note 14)	-	-	46.5	46.5
- *Commercial buildings*	-	-	*23.0*	*23.0*
- *Agricultural land*	-	-	*18.6*	*18.6*
Assets for which fair values are disclosed				
Loans to customers at amortised cost (notes 9 and 10)	-	-	1,310.4	1,310.4
Other financial receivables (note 11)	-	-	2.4	2.4
Total assets	**19.2**	**-**	**1,414.6**	**1,433.8**
Liabilities for which fair values are disclosed				
Loans from banks (note 17)	-	-	9.2	9.2
Deposits from customers (note 18)	-	-	1,367.8	1,367.8
Subordinated bonds (note 19)	-	20.1	20.0	40.1
Lease liabilities (note 20)	-	-	1.2	1.2
Other financial liabilities (note 22)	-	-	11.6	11.6
Total liabilities	**-**	**20.1**	**1,409.8**	**1,429.9**

Fair value hierarchy at 31 December 2021 (restated)

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Debt instruments at FVOCI (note 8)	45.3	-	-	45.3
Land and buildings (note 14)	-	-	17.7	17.7
- *Office premises*	-	-	*6.0*	*6.0*
- *Other buildings*	-	-	*1.7*	*1.7*
- *Agricultural land*	-	-	*9.0*	*9.0*
- *Biological assets*	-	-	*1.0*	*1.0*
Investment properties (note 14)	-	-	41.6	41.6
- *Buildings*	-	-	*23.0*	*23.0*
- *Agricultural land*	-	-	*18.6*	*18.6*
Biological assets	-	-	1.0	1.0

(In millions of euros)

Fair value hierarchy at 31 December 2021 (restated)

	Level 1	Level 2	Level 3	Total
Assets for which fair values are disclosed				
Loans to customer at amortised cost (notes 9 and 10)	-	-	893.5	893.5
Other financial receivables (note 11)	-	-	1.9	1.9
Total assets	**45.3**	**-**	**954.7**	**1,000.0**
Liabilities for which fair values are disclosed				
Loans from banks (note 17)	-	-	36.5	36.5
Deposits from customers (note 18)	-	-	898.3	898.3
Subordinated bonds (note 19)	-	-	15.0	15.0
Lease liabilities (note 20)	-	-	1.8	1.8
Other financial liabilities (note 22)	-	-	11.2	11.2
Total liabilities	**-**	**-**	**962.8**	**962.8**

The following table contains a reconciliation of the opening and closing balances of loans to customers at FVTPL. For information about the reconciliations of the opening and closing balances of other level 3 financial instruments measured at fair value at the reporting date, see notes 13 and 14. There were no transfers between level 1 and level 2 in 2022 or 2021.

	2022
Opening balance	-
Reclassification from instruments measured at amortised cost to instruments measured at FVTPL	24.3
Total gain or loss:	
Interest income	0.4
Gain on financial assets at FVTPL	0.9
Issue of loans or contract modifications	13.4
Loan and interest payments received	0.4
Closing balance	**39.4**
Fair value gain at the time of fair value measurement	7.7
Deferred fair value gain at the end of the reporting period	6.8

The Group changed the transaction terms of certain loan agreements in the third quarter of 2022 and reclassified the loans from instruments measured at amortised cost to instruments measured at FVTPL. After the modification of the agreements, the contractual cash flows of the instruments no longer met the requirement of 'solely of payments of principal and interest'. The modified contract terms driving the measurement of the fair value of the instrument provide that the bank is entitled to the gain from the change in the market value of the collateral (the underlying asset) at the end of the contract term (hybrid instrument). The gain on the change in fair value is recognised in the statement of comprehensive income on a straight-line basis over the term of the contract. The total fair value gain was 7.7 million euros, of which 0.9 million euros was recognised as fair value gain in the reporting period. Loans to customers remeasured to fair value were reported in the net amount in the statement of financial position. Deferred fair value gain at the reporting date was 6.8 million euros.

Fair value measurement

The Group's finance department performs valuations of financial items for financial reporting purposes, including level 3 fair values, in consultation with independent appraisers for complex valuations. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. Valuations are performed with sufficient frequency to ensure that the fair value of an asset does not differ materially from its carrying amount (see note 40, the sections *Property, plant and equipment, Investment properties* and Fair value measurement, and note 3).

Level 1 fair value measurements

Debt instruments at FVOCI comprise bonds whose fair values have been measured by reference to quoted bid prices in active markets at the reporting date. Bloomberg has been used as the price source. All bonds are actively traded and have quoted prices in an active market. The fair value of bonds nominated in currencies other than the euro also reflects the current spot rate of the respective currencies at the reporting date.

Level 3 fair value measurements

Investment properties, land and buildings do not have quoted prices and their fair values have been determined based on professional appraisals that qualify as level 3 measurements in the fair value hierarchy. The following approaches have been used to estimate their fair value:

- The market comparison approach – under this approach the valuation performed by the valuer is based on the prices for recent market transactions with similar properties, adjusted for differences in the nature, location, condition or current use of the specific property.
- The income approach (i.e. the discounted cash flow method) – under this approach fair value is estimated using assumptions about the benefits and liabilities of ownership over the asset's life, including assumptions about the exit or terminal value. This method involves projecting a series of cash flows on a real property interest and applying a market-derived discount rate to the projected cash flow series to establish the present value of the income stream associated with the asset.
- The residual method – this method is used when no comparable market prices are available, for example in the valuation of land or a property with a building in need of renovation or with a building under construction. The residual approach involves deducing the post-development value of a property based on similar projects and deducting the development or reconstruction costs and the developer's profit to arrive at the residual value of the property (the value of a property with development potential after its development minus the development costs and the developer's profit).

Land and buildings

The class of Land and buildings within Property, plant and equipment comprises real estate in the amount of 6.2 million euros used by the Group as office premises in Tallinn and agricultural land in the amount of 9.6 million euros (see note 13).

The office premises in Tallinn were valued using the income approach and the following inputs: the estimated rental income per square metre per month for commercial space in Tallinn is 11 euros, the rental growth rate is 1.5%, the long-term vacancy rate is 5% and the discount rate is 9.0%. Part of the office premises have been rebuilt from residential space and they were valued using the market comparison approach, whereby the valuation was based on the prices per square metre of residential space in Tallinn city centre of 3,962–4,402 euros less the costs of transforming the office space back into apartments.

Agricultural land was valued using the market comparison approach. Based on valuation reports, the best use of the land is the existing use for agricultural purposes. According to the valuation reports, the average price per hectare of agricultural land was 7,300 euros.

(In millions of euros)

Biological assets

Biological assets are measured at fair value less costs to sell. The value of livestock is based on local Estonian market prices for livestock of similar age, breed and genetic merit, with adjustments, where necessary, to reflect the differences.

Unlike other biological assets, perennial grasslands and growing (winter) crops have been measured at cost (see note 40, the section Biological assets).

Investment properties

Investment properties of 46.5 million euros consist of office buildings in Tallinn, Tartu and Pärnu and agricultural land leased to farmers (see note 14). Investment properties are measured at their fair value in the statement of financial position.

The office building in Tartu was valued using the residual method based on the highest and best use of the property. The residual method takes into account the profit that could be earned if the existing property were developed and sold as an apartment building. The following inputs were used in the valuation of the property: the sales price per square metre for flats in Tartu old town of 4,000 euros and development costs per square metre of 1,690 euros.

The fair values of other office buildings in Tallinn and Pärnu were estimated using the income approach based on rental prices of 11–14 euros per square metre in Tallinn and 4–11 euros per square metre in Pärnu.

Agricultural land was valued using mainly the market comparison approach. Based on the opinion of a valuation expert, the best use of the land is the existing use for agricultural purposes and the average price per hectare of agricultural land is 6,600 euros. If an agricultural land plot was acquired under a contract containing a repurchase option, the repurchase price was taken into account. This was done despite the fact that the seller is not obligated to exercise the option. Such land plots were valued conservatively by measuring fair value at the value recorded in the opinion of the valuation expert or the repurchase price, whichever was lower.

Valuations

The Group engaged independent valuation experts to assess the fair values of its investment properties and land and buildings at 31 December 2022, and as the valuation showed that the fair values of office buildings, premises and agricultural land had changed, revaluations were performed.

Valuation inputs and relationship with fair value

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

Land, buildings and biological assets

	Fair value at 31 Dec					
Asset	2022	2021	Valuation technique	Assumptions applied	2022	2021
Office premises	**6.0**	6.0	Comparison approach	Price per square meter (EUR/m^2)	3,962-4,402	3,497-3,675
			Income approach	Rental income per square meter	11	11
				Rental growth rate	1.5%	1.5%
				Expected vacancy rate	5.0%	5.0%
				Discount rate	9.0%	8.5%

(In millions of euros)

				Market value per unit of leased space	1,629	1.629
Other buildings	**-**	1.7	Income approach	Rental income per square meter	-	0.5-2
Agricultural land	**9.0**	9.0	Comparison approach	Weighted average price per hectare	5,826-9,100	5,200-7,600
Biological assets	**-**	1.0	Market price	See above		

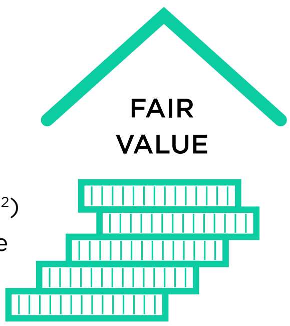
Investment property

	Fair value at 31 Dec					
Asset	**2022**	**2021**	**Valuation technique**	**Assumptions applied**	**2022**	**2021**
Commercial buildings	**23.5**	23.0	Residual method	Average market price of similar premises (EUR/m²)	4,000	3,500
				Ratio of the asset value* to closed net area (EUR/m²)	1,200	1,178
			Income approach	Rental income per square meter	4-14	4-13
				Rental growth rate	1.5%-3%	1.5%-3%
				Expected vacancy rate	5.0%	5.0%
				Discount rate	9.5%-11.0%	8.5%-11.0%
				Market value per unit of leased space	989-1,435	958-1,419
Agricultural land*	**23.0**	18.6	Comparison approach	Weighted average price per hectare	3,700-7,700	3,200-6,700

* The value of the asset to be reconstructed (post-development value less development costs and developer's profit) per closed net internal area (m²).

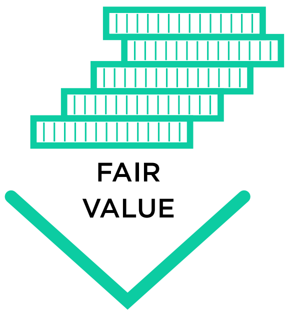
The following table sets out the relationship between key unobservable inputs and fair value measurement:

The higher the figure, the higher the fair valu



- Price per square metre (EUR/m²)
- Rental income per square metre per month
- Rental growth rate
- Market value per unit of leased space
- Weighted average price per hectare
- Average market price of similar premises (EUR/m²)

The higher the figure, the lower the fair value



Expected vacancy rate
Discount rate

(In millions of euros)

Loans to customers at FVTPL

Loans with the features of a hybrid instrument comprise the principal and interest receivables of the host contract and a growth component (increase in fair value) resulting from the revaluation of the underlying asset. The underlying assets were valued similar to agricultural land using the market comparison approach. Gain on the revaluation of the underlying assets is recognised on a straight-line basis over the term of the contract as gain on financial assets at FVTPL and it takes into account any associated risks. The fair value of the loan was found by discounting the loan payments at the market interest rate by applying a simplified approach and using the instrument's effective interest rate as a basis. If the market interest rate changed by +/- 1 percentage point, the effect of a change in fair value would be -/+ 1.4 million euros.

These are assets that are required to be categorised as measured at FVTPL.

Financial instruments not measured at fair value

Loans to customers (level 3), which amount to 1,310.4 million euros, are measured at amortised cost using the effective interest method. For measuring fair value, estimated cash flows were discounted at the prevailing market interest rates. The result was not materially different from that recognised under the amortised cost method using the effective interest rate.

The Group's accounting policies for loans to customers are discussed in notes 40 (the section Financial assets) and 5. Management estimates that the accounting policies selected for loans ensure that the carrying amount of loans to customers approximates their fair value.

The fair value of loans from banks and customer deposits is estimated using the discounted cash flow method by applying interest rates offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

NOTE 7. CASH AND BANK BALANCES

Cash and balances at banks at 31 December 2022

	Estonia	Latvia	Lithuania	Finland	Sweden	Bulgaria	Total
Cash and balances at central banks	**149.4**	**-**	**-**	**0.2**	**-**	**1.5**	**151.1**
Of which mandatory reserve deposits*	7.9	-	-	0.2	-	0.5	8.6
Of which surplus on mandatory reserves	-	-	-	-	-	1.0	1.0
Of which overnight deposits	141.5	-	-	-	-	-	141.5
Due from other banks	**9.1**	**2.5**	**4.4**	**0.9**	**5.3**	**0.1**	**22.3**
Of which demand deposits	9.0	2.5	4.4	0.9	5.3	0.1	22.2
Of which term deposits	0.1	-	-	-	-	-	0.1
Total	**158.5**	**2.5**	**4.4**	**1.1**	**5.3**	**1.6**	**173.4**
Of which cash and cash equivalents	**150.5**	**2.5**	**4.4**	**0.9**	**5.3**	**1.1**	**164.7**

(In millions of euros)

Cash and balances at banks at 31 December 2021

	Estonia	Latvia	Lithuania	Finland	Sweden	Bulgaria	Total
Cash and balances at central banks	**76.7**	**-**	**-**	**0.9**	**-**	**1.1**	**78.7**
Of which mandatory reserve deposits*	3.9	-	-	0.1	-	0.1	4.1
Of which surplus on mandatory reserves	72.8	-	-	0.8	-	1.0	74.6
Due from other banks	**14.4**	**3.9**	**2.3**	**6.6**	**9.9**	**0.1**	**37.2**
Of which demand deposits	14.4	3.9	2.3	6.6	9.9	0.1	37.2
Total	**91.1**	**3.9**	**2.3**	**7.5**	**9.9**	**1.2**	**115.9**
Of which cash and cash equivalents	**87.2**	**3.9**	**2.3**	**7.4**	**9.9**	**1.1**	**111.8**

* The mandatory reserve requirement is fulfilled in accordance with 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 in the euro area is 1% of deposits and loans with maturities up to two years, after allowed deductions, filled as the average of the period set by the European Central Bank, by depositing the appropriate amount of euros in an account with the local central bank. The central bank of Bulgaria has imposed a mandatory reserve requirement of 5–10% of liabilities. The reserve is held with the central bank of Bulgaria. Sweden has not established a mandatory reserve requirement.

Cash and cash equivalents

At 31 December	2022	2021
Demand and overnight deposits with credit institutions	22.2	37.2
Demand and overnight deposits with central banks	141.5	-
Surplus on the mandatory reserves with central banks	1.0	74.6
Total cash and cash equivalents	**164.7**	**111.8**

NOTE 8. DEBT INSTRUMENTS

At 31 December	2022	2021
Debt instruments by issuer		
Government bonds	9.6	3.4
Credit institutions' bonds	1.5	14.4
Other financial corporations' bonds	-	2.1
Non-financial corporations' bonds	8.1	25.4
Total debt instruments	**19.2**	**45.3**
Debt instruments by currency		
EUR (euro)	16.0	42.7
SEK (Swedish krona)	3.2	2.6

Changes in the fair value of debt instruments measured at FVOCI:

(In millions of euros)

	2022	2021
Opening balance	45.3	45.8
Cash flow items:		
Acquisition of new financial instruments	7.7	4.6
Redemption of financial instruments	-31.9	-5.2
Non-cash flow items:		
Changes in fair value	-2.1	-0.5
Accrued interest	0.5	0.6
Foreign exchange differences	-0.3	-0.1
Balance at 31 December	**19.2**	**45.2**

NOTE 9. LOANS TO CUSTOMERS

Reclassification

The Group changed the transaction terms of certain loan agreements in the third quarter of 2022 and reclassified the loans from instruments measured at amortised cost to instruments measured at FVTPL. After the modification of the agreements, the contractual cash flows of the instruments no longer met the requirement of 'solely of payments of principal and interest'. Upon reclassification, loans to customers measured at amortised cost were reduced by 24.3 million euros and loans to customers measured at FVTPL were increased by the same amount. Loans to customers measured at FVTPL amounted to 39.4 million euros at the reporting date.

The figure comprises the revaluation of the underlying assets of 0.9 million euros (see note 6) and loans to customers of 38.5 million euros. Gain on the revaluation of the underlying assets amounted to 0.9 million euros and interest income was 0.4 million euros in 2022 (see note 26).

Loans to customers

Loans to customers are measured at amortised cost with the exception of loans with the features of a hybrid instrument, which are measured at FVTPL. Based on their business model and cash flow characteristics, loans to customers were categorised at the reporting date as follows:

At 31 December	2022	2021 restated
Measured at amortised cost	1,310.4	893.5
Measured at FVTPL	39.4	-
Loans to customers	**1,349.8**	**893.5**

Loans to customers measured at FVTPL include the revaluation of the underlying assets of loans with the features of a hybrid instrument of 0.9 million euros.

The revaluation gain has been recognised in profit or loss within Net gain on financial assets at FVTPL.

(In millions of euros)

Loans to customers at 31 December 2022

	Estonia	Latvia	Lithuania	Finland	Sweden	Bulgaria	Total
Loans at amortised cost							
Loan receivables from customers	502.6	208.5	441.0	103.9	55.0	7.0	1,318.0
Loss allowances for loan receivables	-5.8	-4.8	-4.3	-5.8	-3.9	-1.0	-25.6
Interest receivable from customers	2.8	1.4	13.9	0.8	0.3	0.2	19.4
Loss allowances for interest receivables	-0.6	-0.3	-0.3	-0.1	-	-0.1	-1.4
Total	**499.0**	**204.8**	**450.3**	**98.8**	**51.4**	**6.1**	**1,310.4**
Loans at FVTPL							
Loan receivables from customers	37.8	-	-	-	-	-	37.8
Increase in value of underlying assets	0.9	-	-	-	-	-	0.9
Interest receivable from customers	0.7	-	-	-	-	-	0.7
Total	**39.4**	**-**	**-**	**-**	**-**	**-**	**39.4**
Total loans to customers	**538.4**	**204.8**	**450.3**	**98.8**	**51.4**	**6.1**	**1,349.8**
Share of region	39.9%	15.1%	33.4%	7.3%	3.8%	0.5%	100.0%

Loans to customers at 31 December 2021 (restated)

	Estonia	Latvia	Lithuania	Finland	Sweden	Bulgaria	Total
Loan receivables from customers	286.9	151.1	280.2	106.6	77.5	1.6	903.9
Loss allowances for loan receivables	-5.3	-5.5	-3.9	-6.0	-4.3	-	-25.0
Interest receivable from customers	2.2	1.7	11.0	0.8	0.5	-	16.2
Loss allowances for interest receivables	-0.7	-0.5	-0.1	-0.1	-0.2	-	-1.6
Total	**283.1**	**146.8**	**287.2**	**101.3**	**73.5**	**1.6**	**893.5**
Share of region	31.7%	16.5%	32.1%	11.3%	8.2%	0.2%	100.0%

Loan receivables from customers* by loan type

At 31 December	2022	2021 restated
Loans at amortised cost		
Unsecured loans	609.0	583.9
Surety loans	0.6	45.1
Loans secured by real estate	642.0	248.0
Loans against other collaterals	66.4	26.9
Loans at FVTPL		
Loans secured by real estate	37.8	-
Total loan receivables from customers	**1,355.8**	**903.9**

(In millions of euros)

Loan receivables from customers* by contractual currency

At 31 December	2022	2021 restated
Loans at amortised cost		
EUR (euro)	1,255.9	824.8
SEK (Swedish krona)	55.1	77.5
BGN (Bulgarian lev)	7.0	1.6
Loans at FVTPL		
EUR (euro)	37,8	-
Total loan receivables from customers	**1,355.8**	**903.9**

* Loan receivables from customers comprise loan principal.

Ageing analysis at 31 December 2022*

	Not past due	30 days or less	31-60 days	61-90 days	Over 90 days	Total
Loans at amortised cost						
Unsecured loans						
Loan portfolio	554.1	27.9	8.0	5.2	13.8	609.0
Loss allowance	-9.7	-2.6	-3.0	-2.3	-7.2	-24.8
Surety loans						
Loan portfolio	0.5	0.1	-	-	-	0.6
Loss allowance	-	-	-	-	-0.1	-0.1
Loans secured by real estate						
Loan portfolio	638.9	2.4	0.4	-	0.3	642.0
Loss allowance	-0.1	-	-	-	-	-0.1
Loans against other collaterals						
Loan portfolio	61.2	3.5	0.9	0.3	0.5	66.4
Loss allowance	-0.3	-0.1	-0.1	-	-0.1	-0.6
Loans at FVTPL						
Loan portfolio	37.8	-	-	-	-	37.8
Total loan portfolio	**1,292.5**	**33.9**	**9.3**	**5.5**	**14.6**	**1,355.8**
Total loss allowance	**-10.1**	**-2.7**	**-3.1**	**-2.3**	**-7.4**	**-25.6**

Ageing analysis at 31 December 2021 (restated)*

	Not past due	30 days or less	31-60 days	61-90 days	Over 90 days	Total
Unsecured loans						
Loan portfolio	528.7	27.6	7.0	3.5	17.1	583.9
Loss allowance	-9.7	-2.3	-2.4	-1.4	-8.8	-24.6
Surety loans						
Loan portfolio	44.9	0.1	-	-	0.1	45.1

(In millions of euros)

	Not past due	30 days or less	31-60 days	61-90 days	Over 90 days	Total
Loss allowance	-	-	-	-	-0.1	-0.1
Loans secured by real estate						
Loan portfolio	247.1	0.5	-	0.1	0.3	248.0
Loss allowance	-0.2	-	-	-	-0.1	-0.3
Loans against other collaterals						
Loan portfolio	24.3	1.9	0.3	0.1	0.3	26.9
Total loan portfolio	**845.0**	**30.1**	**7.3**	**3.7**	**17.8**	**903.9**
Total loss allowance	**-9.9**	**-2.3**	**-2.4**	**-1.4**	**-9.0**	**-25.0**

* Loan principal only, does not include interest receivable.

NOTE 10. LOSS ALLOWANCES FOR LOANS

Classification of loan receivables into stages at 31 December 2022

Loan receivables by age	Stage 1	Stage 2	Stage 3	Total
Loans at amortised cost				
Not past due	1,241.4	12.0	1.3	1,254.7
Up to 30 days past due	22.9	8.7	2.3	33.9
31–60 days past due	-	7.0	2.3	9.3
61–90 days past due	-	2.6	2.9	5.5
Over 90 days past due	-	-	14.6	14.6
Gross amount of loan receivables	1,264.3	30.3	23.4	1,318.0
Loss allowance	-8.5	-6.1	-11.0	-25.6
Carrying amount	**1,255.8**	**24.2**	**12.4**	**1,292.4**

Classification of loan receivables into stages at 31 December 2021 (restated)

Loan receivables by age	Stage 1	Stage 2	Stage 3	Total
Not past due	834.4	9.0	1.6	845.0
Up to 30 days past due	20.8	8.0	1.3	30.1
31–60 days past due	-	5.8	1.5	7.3
61–90 days past due	-	2.3	1.4	3.7
Over 90 days past due	-	-	17.8	17.8
Gross amount of loan receivables	855.3	25.1	23.5	903.9
Loss allowance	-8.5	-5.0	-11.5	-25.0
Carrying amount	**846.8**	**20.1**	**12.0**	**878.9**

Loss allowances at 31 December 2022

	Loan receivables	Interest receivables	Total receivables subject to impairment	Total loss allowances
Stage 1	1,264.3	15.9	1,280.2	-8.5
Stage 2	30.3	0.8	31.1	-6.1
Stage 3	23.4	2.7	26.1	-12.4
Total	**1,318.0**	**19.4**	**1,337.4**	**-27.0**

(In millions of euros)

Loss allowances at 31 December 2021 (restated)

	Loan receivables	Interest receivables	Total receivables subject to impairment	Total loss allowances
Stage 1	855.3	12.6	867.9	-8.4
Stage 2	25.1	0.6	25.7	-5.0
Stage 3	23.5	3.0	26.5	-13.2
Total	**903.9**	**16.2**	**920.1**	**-26.6**

Development of allowances in 2022

	Opening balance at 1 Jan 2022	Increases due to origination	Decrease due to derecognition, repayments and disposals	Changes due to change in credit risk (net)	Decrease due to write-off	Closing balance at 31 Dec 2022
Stage 1	-8.4	-4.4	1.5	2.5	0.3	-8.5
Stage 2	-5.0	-1.4	0.3	-1.7	1.8	-6.1
Stage 3	-13.2	-2.1	0.8	-5.1	7.1	-12.4
Total	**-26.6**	**-7.9**	**2.6**	**-4.3**	**9.2**	**-27.0**

Development of allowances in 2021

	Opening balance at 1 Jan 2021	Increases due to origination	Decrease due to derecognition, repayments and disposals	Changes due to change in credit risk (net)	Decrease due to write-off	Closing balance at 31 Dec 2021
Stage 1	-10.4	-4.3	1.9	4.3	0.2	-8.4
Stage 2	-4.0	-1.7	0.3	-0.5	0.9	-5.0
Stage 3	-13.0	-1.4	1.1	-6.4	6.6	-13.2
Total	**-27.4**	**-7.4**	**3.3**	**-2.6**	**7.7**	**-26.6**

Loss allowances by loan assessment category at 31 December 2022

	Loan receivables	Interest receivables	Total receivables subject to impairment	Total loss allowances
Collectively assessed items	647.0	17.4	664.4	-26.6
Individually assessed items	708.8	3.6	712.4	-0.4
Total	**1,355.8**	**21.0**	**1,376.8**	**-27.0**

Loss allowances by loan assessment category at 31 December 2021 (restated)

	Loan receivables	Interest receivables	Total receivables subject to impairment	Total loss allowances
Collectively assessed items	305.6	15.4	321.0	-26.2
Individually assessed items	598.3	0.8	599.1	-0.4
Total	**903.9**	**16.2**	**920.1**	**-26.6**

(In millions of euros)

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 11. OTHER RECEIVABLES

At 31 December	2022	2021
Customer receivables and other miscellaneous receivables	2.1	1.6
Collection, recovery and other charges receivable	0.5	0.4
Impairment allowance for other receivables	-0.2	-0.2
Other receivables	-	0.9
Total	**2.4**	**2.7**

NOTE 12. PREPAYMENTS

At 31 December	2022	2021
Advance payments of income tax	0.4	0.4
Other tax prepayments	1.7	-
Prepayments to suppliers and prepaid expenses	0.8	1.1
Total	**2.9**	**1.5**

NOTE 13. PROPERTY, PLANT AND EQUIPMENT

At 31 December	2022	2021
Land	9.6	9.0
Buildings	6.2	7.7
Right-of-use assets: office premises	1.1	1.4
Right-of-use assets: agricultural equipment and machinery	-	0.6
Other items	1.4	1.2
Biological assets	-	1.0
Total	**18.3**	**20.9**

(In millions of euros)

Land, buildings, other items and biological assets

	Land	Buildings	Other items*	Biological assets	Total
Cost					
Balance at 1 January 2021	-	1.6	4.2	-	5.8
Purchases	-	-	0.5	-	0.5
Sales	-	-	-0.1	-	-0.1
Revaluation recognised in other comprehensive income	-	0.1	-	-	0.1
Additions from business combinations (note 39)	9.0	1.7	0.9	1.0	12.6
Transfer from investment property (note 14)	-	4.3	-	-	4.3
Balance at 31 December 2021	**9.0**	**7.7**	**5.5**	**1.0**	**23.2**
Balance at 1 January 2022	9.0	7.7	5.5	1.0	23.2
Purchases	-	-	1.2	-	1.2
Sales	-	-	-0.3	-	-0.3
Derecognition	-	-	-0.4	-	-0.4
Revaluation recognised in other comprehensive income	2.4	0.2	-	-	2.6
Transfer to investment property (note 14)	-1.5	-	-	-	-1.5
Transfer	-	-	0.1	-	0.1
Transfer to assets held for sale (note 16)	-0.3	-1.7	-1.0	-1.0	-4.0
Balance at 31 December 2022	**9.6**	**6.2**	**5.1**	**-**	**20.9**
Depreciation					
Balance at 1 January 2021	-	-	-3.4	-	-3.4
Depreciation charge for the year	-	-0.1	-0.5	-	-0.6
Sales	-	-	0.1	-	0.1
Additions from business combinations (note 39)	-	-0.1	-0.4	-	-0.5
Transfer**	-	0.1	-	-	0.1
Balance at 31 December 2021	**-**	**-0.1**	**-4.2**	**-**	**-4.3**
Balance at 1 January 2022	-	-0.1	-4.2	-	-4.3
Depreciation charge for the year	-	-0.3	-0.5	-	-0.8
Sales	-	-	0.2	-	0.2
Write-off	-	-	0.3	-	0.3
Write-down	-	-0.4	-	-	-0.4
Transfer to assets held for sale (note 16)	-	0.6	0.6	-	1.2
Transfer**	-	0.2	-	-	0.2
Exchange differences	-	-	-0.1	-	-0.1
Balance at 31 December 2022	**-**	**-**	**-3.7**	**-**	**-3.7**
Carrying amount					
Balance at 1 January 2021	-	1.6	0.8	-	2.4
Balance at 31 December 2021	9.0	7.6	1.3	1.0	18.9
Balance at 31 December 2022	**9.6**	**6.2**	**1.4**	**-**	**17.2**

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

** Land and buildings are measured using the revaluation model. Accumulated depreciation at the revaluation date was eliminated against the gross carrying amount of the revalued assets, see note 6.

(In millions of euros)

If land and buildings had been measured using the cost model, the carrying amounts would have been as follows:

At 31 December	2022	2021
Cost	5.8	6.2
Depreciation	-1.7	-1.3
Net carrying amount	**4.1**	**4.9**

Right-of-use assets

At 31 December	2022	2021
Carrying amount at 1 January	2.0	2.1
Adjustment*	-	-0.3
Additions	0.4	0.1
Depreciation charge	-0.7	-0.6
Price adjustment	-	0.1
Transfer to assets held for sale (note 16)	-0.6	-
Additions from business combinations	-	0.6
Carrying amount at end of year	**1.1**	**2.0**

* Both right-of-use assets and lease liabilities were reduced by non-recoverable value-added tax charged on rental services.

For lease payments for right-of-use assets, see note 20, and for depreciation expense, see note 34.

NOTE 14. INVESTMENT PROPERTIES

	2022	2021
Opening balance at 1 January	41.6	27.2
Additions	3.4	29.3
Of which agricultural land	3.4	27.0
Of which commercial buildings	-	2.3
Sales	-6.2	-17.0
Reclassification as office premises*	-	-4.3
Transfer from land to investment property**	1.5	-
Net gain on fair value adjustments (note 6)	6.2	6.4
Closing balance at 31 December	**46.5**	**41.6**

* A part of a building initially acquired as an investment property was reclassified to property, plant and equipment as the Group is going to use this part of the building as office premises.

** A part of agricultural land, which previously was recognised in property, plant and equipment, was sold to another subsidiary and subsequently leased to third parties, which is why it was reclassified to investment property.

The Group's rental income from investment properties was 3.6 million euros in 2022 (2021: 1.8 million euros). Property management expenses were 1.6 million euros (2021: 1.4 million euros) (see notes 28, 29 and 34).

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

(In millions of euros)

NOTE 15. INTANGIBLE ASSETS

	2022	2021
Cost at beginning of year	**35.0**	**29.9**
Purchased and developed software*	5.5	5.0
Of which purchases	2.8	2.2
Of which capitalised payroll costs	2.7	2.8
Write-off	-1.9	-
Cost at end of year	**38.6**	**34.9**
Amortisation at beginning of year	**-7.9**	**-5.7**
Amortisation charge for the year	-2.5	-2.2
Write-off	1.8	-
Amortisation at end of year	**-8.6**	**-7.9**
Carrying amount at beginning of year	27.1	24.2
Carrying amount at end of year	**30.0**	**27.0**

* The Group's intangible assets comprise various software.

In recent years, the Group has made substantial investments in the information and banking technology solution Nest. Purchased and developed software also includes capitalised payroll costs and associated taxes for employees who were directly involved in the development of Nest (see note 30). The carrying amount of Nest at 31 December 2022 was 29.8 million euros (31 December 2021: 26.6 million euros).

NOTE 16. DISPOSAL GROUPS AND DISCONTINUED OPERATIONS

On 9 December 2022, the Group announced its plan to liquidate two subsidiaries: Palupera Põllud OÜ and Abja Põld OÜ as their operations (agricultural production) does not support Bigbank's core business and is not part of the Group's long-term strategic plans. The Group decided to exit dairy cattle and crop production and has started selling the assets. Consequently, the assets and liabilities of these subsidiaries are classified as held for sale in the consolidated statement of financial position as at 31 December 2022. In segment reporting (see note 25), the operations of the companies were reported in the segment of other activities.

Assets and liabilities of disposal groups classified as held for sale

Assets held for sale have to be measured at the lower of their carrying amount and fair value less cost to sell. At 31 December 2022, disposal groups classified as held for sale included the following assets and liabilities:

At 31 December	2022
Land	0.3
Buildings	1.1
Right-of-use assets: agricultural machinery and equipment	0.4
Other non-current assets	0.4
Biological assets	1.0

(In millions of euros)

At 31 December	2022
Inventories	0.7
Total assets held for sale	**3.9**
Lease liabilities (note 20)	-0.2
Other liabilities, incl. trade payables and payables to employees	-0.8
Total liabilities related to asset held for sale	**-1.0**
Net value of disposal group	**2.9**

Impairment of the disposal group

To measure assets held for sale at fair value less costs to sell, the Group recognised an impairment loss of 0.6 million euros. The carrying amount of the property, plant and equipment of the disposal group was reduced by the amount of the impairment loss.

	Carrying amount before write-down	Write-down	31 Dec 2022
Buildings	1.5	-0.4	1.1
Right-of-use assets: agricultural machinery and equipment	0.5	-0.1	0.4
Biological assets	1.1	-0.1	1.0
Total	**3.1**	**-0.6**	**2.5**

There was no cumulative income or expense relating to the disposal group that was recognised in other comprehensive income.

Fair value measurement

The one-off fair value of the disposal group was 2.9 million euros. Based on the valuation techniques applied, the measurement was categorised to level 3 in the fair value hierarchy. The fair value of the assets of the disposal group was measured using the market comparison approach (see note 6).

Discontinued operations

An operation is classified as discontinued either at disposal or on meeting the criteria for being classified as held for sale, whichever is earlier. The subsidiaries Palupera Põllud OÜ and Abja Põld OÜ continued their business operations at the reporting date but as the Group had started the sale of their assets, they were classified as discontinued operations.

Loss from discontinued operations

	2022	2021
Other income	3.7	1.0
Other expenses	-2.2	-0.6
Net operating income	**1.5**	**0.4**
Salaries and associated charges	-0.7	-0.2
Administrative expenses	-0.4	-0.1

(In millions of euros)

Loss from discontinued operations

	2022	2021
Depreciation, amortisation and impairment losses	-1.0	-0.1
Total operating expenses	**-2.1**	**-0.4**
Loss before income tax	**-0.6**	**-**
Income tax	-	-
Loss from discontinued operations	**-0.6**	**-**
Basic earnings per share (EUR)	-7	-
Diluted earnings per share (EUR)	-7	-

Cash flows from discontinued operations

	2022	2021
Cash flows from operating activities	0.8	-0.2
Cash flows from investing activities	-0.1	0.5
Cash flows from financing activities	-0.2	-
Increase in cash and cash equivalents of subsidiaries	**0.5**	**0.3**

NOTE 17. LOANS FROM BANKS

At 31 December	2022	2021
Loans from central banks	-	36.5
Loans from other credit institutions	9.2	-

Loans from central banks

In 2019 and 2020, the Group obtained from the ECB's third series of targeted longer-term refinancing operations (TLTRO-III) financing in the total amount of 36.5 million euros. The original term of the liability was three years with an early repayment option starting on 29 September 2021. The Group used the early repayment option to effectively extend the maturities of the loans by repaying previously taken loans and re-borrowing the same amount from the tenth TLTRO-III operation. The base interest rate on TLTRO-III borrowing has been -0.5%. For banks meeting the ECB's specified lending criteria, which the Group has met in all reference periods, the interest rate could be as low as -1.0%. In October 2022, the European Central Bank decided to adjust the interest rates applicable to TLTRO-III and to offer banks additional voluntary early repayment options, which the Group used, by repaying the loan in full in November 2022.

The Group's interest income from negative interest amounted to 0.2 million euros in 2022 (2021: 0.5 million euros).

Loans from other credit institutions

The Group previously financed its subsidiaries' real estate purchases with intragroup loans. In 2022, the real estate loans of two subsidiaries were refinanced with external loans received for a term of five years in the amount of 9.3 million euros. Interest expense for the year was 0.2 million euros.

(In millions of euros)

NOTE 18. DEPOSITS FROM CUSTOMERS

At 31 December	2022	2021
Deposits from customers	**1,367.7**	**898.3**
Deposits by customer type		
Individuals	1,353.5	881.1
Legal persons	14.2	17.2
Deposits by currency		
EUR (euro)	1,303.9	815.8
SEK (Swedish krona)	62.6	82.5
BGN (Bulgarian lev)	1.2	-
Deposits by maturity		
On demand*	627.2	343.8
Maturing within 1 month	39.6	20.3
Maturing between 1 and 6 months	160.4	102.5
Maturing between 6 and 12 months	184.0	109.4
Maturing between 12 and 18 months	71.9	60.3
Maturing between 18 and 24 months	85.0	64.2
Maturing between 24 and 36 months	100.7	80.1
Maturing between 36 and 48 months	39.9	42.0
Maturing between 48 and 60 months	19.5	32.7
Maturing in over 60 months	39.5	43.0

* Includes term deposits maturing within 3 days and savings deposits.

Annual interest rates of deposits offered to customers at 31 December 2022

The interest rates of deposits offered to customers depend on the country as well as the deposit term, currency and amount, and the interest payment method. The terms of term deposits offered by the Group range from one month to 10 years. In addition, the Group offers savings deposits, which the customer can start using at short notice.

During the reporting period, the interest rates of deposit increased significantly as a result of the increase in the ECB key interest rates. At 31 December 2022, the annual interest rates ranged from 0.3% to 3.2% (2021: from 0.2% to 2.5%): for term deposits from 0.3% to 3.2% and for savings deposits from 1.3% to 2.0% (2021: from 0.2% to 0.5%). Deposits with the shortest term of one month are offered in Estonia, Latvia, Finland, Austria, Germany and Bulgaria. In Sweden, the shortest term for deposits is six months and in the Netherlands 12 months. Savings deposits are offered in Germany, Austria and the Netherlands. The minimum amount for a term deposit is 500 euros or 10,000 Swedish krona. The median amount of customer deposits was 49 thousand euros.

NOTE 19. SUBORDINATED BONDS

Bigbank issued subordinated bonds twice in 2022. In May, Bigbank issued 10-year subordinated bonds of 5 million euros maturing in 2032, which are part of Tier 2 capital. In September, Bigbank issued Tier 2 subordinated bonds in the amount of 20 million euros, with a coupon rate of 8% and a term of 10 years, maturing in 2032, which are publicly traded on the Nasdaq Tallinn stock exchange. Subject to approval by the Estonian Financial Supervision and Resolution Authority, the bonds of both issues may be called early at any time after five years have passed.

(In millions of euros)

Changes in bonds

At 31 December	2022	2021
Balance at beginning of period	15.0	5.0
Cash items:		
Receipts	25.0	10.0
Payments	-1.2	-0.3
Non-cash items:		
Accrued interest	1.7	0.3
Transaction costs related to issue	-0.4	-
Balance at end of period	**40.1**	**15.0**

Bonds at 31 December 2022

	Nominal price	Interest rate	Date of issue	Maturity date
Bond EE3300111400	5.0	6.5%	28 Dec 2017	28 Dec 2027
Bond EE3300002526	10.0	6.5%	30 Dec 2021	30 Dec 2031
Bond EE3300002583	5.0	7.5%	16 May 2022	16 May 2032
Bond EE3300002690	20.0	8.0%	21 Sept 2022	21 Sept 2032

NOTE 20. LEASE LIABILITIES

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

	2022	2021
Balance at 1 January	1.8	2.1
Adjustment*	-	-0.3
Additions	0.4	0.2
Additions from business combinations	-	0.4
Payments	-0.8	-0.6
Transfer to liabilities related to assets held for sale (note 16)	-0.2	-
Carrying amount at end of year	**1.2**	**1.8**

* Both right-of-use assets and lease liabilities were reduced by non-recoverable value-added tax charged on rental services.
For right-of-use assets related to the lease liabilities, see note 13, and for interest expense on lease liabilities, see note 27.

(In millions of euros)

NOTE 21. DEFERRED INCOME AND TAX LIABILITIES

At 31 December	2022	2021
Income tax payable (note 33)	0.4	0.8
Other taxes payable	1.0	0.9
Deferred income and prepayments from customers	0.3	0.2
Total deferred income and tax liabilities	**1.7**	**1.9**

NOTE 22. OTHER LIABILITIES

At 31 December	2022	2021
Received surplus payments	7.0	5.5
Payables to employees	2.8	2.5
Supplier payables	0.7	1.8
Other payables	1.1	1.4
Total other liabilities	**11.6**	**11.2**

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

NOTE 23. EQUITY

Share capital

Bigbank AS is a limited company, whose minimum and maximum authorised share capital amount to 5.1 million euros and 12.8 million euros, respectively. Share capital as at 31 December 2022 and 2021 consists of 80,000 fully paid in ordinary shares with a par value of 100 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 has been recognised in accordance with the Estonian Commercial Code. Under the latter, the capital reserve is recognised 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, plant and equipment as a result of revaluation. The revaluation reserve cannot be used to make profit distributions to shareholders.
- Changes in the fair value of debt instruments measured at FVOCI.

(In millions of euros)

At 31 December	2022	Change	2021	Change	2020
Exchange differences on translating foreign operations	1.1	0.4	0.7	0.1	0.6
Asset revaluation reserve	3.6	2.8	0.8	0.2	0.6
Fair value changes of debt instruments measured at FVOCI	-1.3	-0.9	-0.4	-0.3	-0.1
Total other reserves	**3.4**	**2.3**	**1.1**	**-**	**1.1**

Unrestricted equity

At 31 December 2022, the Group's unrestricted equity amounted to 201.2 million euros (31 December 2021: 176.2 million euros).

Dividends

The company has made the following dividend distributions:

- 2022: 75.00 euros per share, i.e. 6.0 million euros in aggregate; and
- 2021: 75.00 euros per share, i.e. 6.0 million euros in aggregate.

NOTE 24. SUBSIDIARIES

The table below contains information about the Group's subsidiaries:.

Subsidiary	Country of incorporation	Equity	Ownership interest 2022	Ownership interest 2021
OÜ Rüütli Majad	Estonia	3.6	100%	100%
OÜ Rüütli Property	Estonia	11.1	100%	100%
OÜ Papiniidu Property	Estonia	2.1	100%	100%
OÜ Pärnu mnt 153	Estonia	0.9	100%	-
Abja Põld OÜ*	Estonia		100%	100%
Palupera Põllud OÜ*	Estonia	4.2	100%	100%
Balti Võlgade Sissenõudmise Keskus OÜ	Estonia	2.4	100%	100%
SIA Baltijas Parādu Piedziņas Centrs*	Latvia		100%	100%
AS Baltijas Izaugsmes Grupa	Latvia	1.8	100%	100%

* The liquidation of the subsidiaries Palupera Põllud OÜ, Abja Põld OÜ and SIA Baltijas Parādu Piedziāas Centrs started in December 2022 (see note 16).

NOTE 25. OPERATING SEGMENTS

Operating segments are components of the Group for which separate financial information is available, which enables the management board and the supervisory board to regularly review their operating results. The Group's banking operations are divided into two main segments: retail banking and corporate banking. In addition, there is the segment of other activities.

Segment reporting is based on internal reports to the Group's executive management. The Group's chief operating decision maker is the management board of Bigbank AS, which regularly reviews the Group's internally generated financial information to assess operating results, including the performance of operating segments, and to allocate resources efficiently. The

(In millions of euros)

Group's banking operations are divided into two operating segments based on the categories of customers served: retail banking and corporate banking. The retail banking segment covers all countries where Bigbank operates and the corporate banking segment covers the Baltic countries. Both segments offer loan products to customers and raise deposits. Group entities that are involved in investment property management and agriculture and units that support banking operations (including the treasury) form the segment of other activities. Intersegment loans and services as well as receivables and liabilities are presented as eliminations in the table below.

The result of an operating segment is the segment's net profit, which comprises financial items directly attributable to the segment. The retail and corporate banking segments also include financial items (other income and expenses, operating expenses and income tax expense), which are allocated to segments consistent with their nature based on the size of the loan portfolio, the number of loans or the number of staff associated with the segment. The allocation is based on internal transfer prices. The prices applied in intersegment transactions (including the provision of loans and services to Group companies) do not differ significantly from market prices. Segment assets and liabilities comprise assets and liabilities which are directly attributable to the segment as well as assets and liabilities allocated to the segment on the basis of the size of the loan portfolio.

Segment profit 2022

	Retail banking	Corporate banking	Other activities	Eliminations	Total
Interest income	75.5	22.0	0.6	-1.6	96.5
Interest expense	-9.5	-3.7	-1.2	1.2	-13.2
Net interest income/expense	**66.0**	**18.3**	**-0.6**	**-0.4**	**83.3**
Fee and commission income	7.7	-	-	-	7.7
Fee and commission expense	-0.2	-0.1	-	-	-0.3
Net fee and commission income/expense	**7.5**	**-0.1**	**-**	**-**	**7.4**
Net gain on financial assets and loss on derecognition of non-financial assets	-	-	-0.9	-	-0.9
Other income	0.8	-	4.3	-0.7	4.4
Other expenses	-3.3	-0.2	-1.6	-	-5.1
Net operating income	**71.0**	**18.0**	**1.2**	**-1.1**	**89.1**
Operating expenses and expenses on provisions	-34.5	-7.9	-0.3	0.7	-42.0
Gain on change in fair value of investment property	-	-	6.2	-	6.2
Profit before loss allowances	**36.5**	**10.1**	**7.1**	**-0.4**	**53.3**
Net loss allowances for loans and financial investments	-15.5	-	-	-	-15.5
Profit before income tax	**21.0**	**10.1**	**7.1**	**-0.4**	**37.8**
Income tax	-1.8	-1.7	-	-	-3.5
Profit for the year from continuing operations	**19.2**	**8.4**	**7.1**	**-0.4**	**34.3**

(In millions of euros)

Segment assets and liabilities at 31 December 2022

	Retail banking	Corporate banking	Other activities	Eliminations	Total
Total assets	1,040.4	554.2	94.2	-42.4	1,646.4
Total liabilities	1,404.3	32.1	39.0	-42.4	1,433.0

Segment profit 2021

	Retail banking	Corporate banking	Other activities	Eliminations	Total
Interest income	67.3	6.8	1.1	-0.5	74.7
Interest expense	-6.9	-0.9	-0.5	0.5	-7.8
Net interest income	**60.4**	**5.9**	**0.6**	**-**	**66.9**
Fee and commission income	6.7	-	-	-	6.7
Fee and commission expense	-0.1	-0.1	-	-	-0.2
Net fee and commission income/expense	**6.6**	**-0.1**	**-**	**-**	**6.5**
Net gain on financial assets and loss on derecognition of non-financial assets	-	-	-0.3	-	-0.3
Other income	0.7	-	2.2	-0.3	2.6
Other expenses	-3.0	-0.1	-1.7	0.2	-4.6
Net operating income	**64.7**	**5.7**	**0.8**	**-0.1**	**71.1**
Operating expenses and expenses on provisions	-30.0	-4.1	-0.1	0.3	-33.9
Gain on change in fair value of investment property	-	-	-	6.4	6.4
Loss on write-down of goodwill	-	-	-	-0.7	-0.7
Gain on a bargain purchase	-	-	-	4.6	4.6
Profit before loss allowances	**34.7**	**1.6**	**0.7**	**10.5**	**47.5**
Net loss allowances for loans and financial investments	-11.1	-0.3	-	-	-11.4
Profit before income tax	**23.6**	**1.3**	**0.7**	**10.5**	**36.1**
Income tax	-2.5	-0.5	-	-	-3.0
Profit for the year from continuing operations	**21.1**	**0.8**	**0.7**	**10.5**	**33.1**

(In millions of euros)

Segment assets and liabilities at 31 December 2021

	Retail banking	Corporate banking	Other activities	Eliminations	Total
Total assets	818.3	275.3	125.3	-70.5	1,148.4
Total liabilities	905.1	25.3	103.2	-68.6	965.0

NOTE 26. INTEREST INCOME

	2022	2021 restated
Interest income on loans to customers at FVTPL	0.4	-
Interest income on loans to customers at amortised cost	94.9	73.6
Interest income on debt instruments	0.5	0.6
Interest income on deposits	0.4	-
Interest income on liabilities	0.2	0.5
Total interest income	**96.4**	**74.7**

NOTE 27. INTEREST EXPENSE

	2022	2021
Interest expense on deposits	11.1	7.2
Interest expense on liabilities to banks	0.2	-
Interest expense on bonds	1.7	0.3
Other interest expense	0.2	0.3
Total interest expense	**13.2**	**7.8**

NOTE 28. OTHER INCOME

	2022	2021 restated
Income from debt recovery proceedings*	0.5	0.5
Rental income	3.6	1.8
Miscellaneous income	0.3	0.3
Total other income	**4.4**	**2.6**

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

(In millions of euros)

NOTE 29. OTHER EXPENSES

	2022	2021 restated
Expenses related to registry inquires	1.1	1.2
Expenses related to enforcement proceedings	0.5	0.7
Legal regulation charges	1.1	0.8
Expenses from investment properties	1.6	1.4
Miscellaneous expenses	0.8	0.5
Total other expenses	**5.1**	**4.6**

NOTE 30. SALARIES AND ASSOCIATED CHARGES

	2022	2021 restated
Salaries	16.7	13.9
Social security costs*	4.2	3.5
Employee health costs and fringe benefits including associated taxes	0.4	0.2
Total salaries and associated charges	**21.3**	**17.6**

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

Together with the capitalised payroll costs and associated taxes related to the development of Nest (see note 15), the amount of salaries and associated charges is 2.7 million euros larger.

The annual average number of full-time employees was 461 (2021: 412).

NOTE 31. ADMINISTRATIVE EXPENSES

	2022	2021 restated
Marketing expenses	11.1	9.9
Short-term leases	0.1	0.2
Office and other similar administrative expenses	1.1	0.4
Other personnel-related expenses	1.5	0.8
Software licensing and other information technology costs	1.5	1.4
Other services	0.6	0.5
Postal supplies and charges	0.2	0.2
Telephone and other communications expenses	0.7	0.6
Miscellaneous operating expenses	0.2	0.2
Total administrative expenses	**17.0**	**14.2**

(In millions of euros)

NOTE 32. EARNINGS PER SHARE

	2022	2021 restated*
Profit from continuing operations (EUR million)	34.3	33.1
Profit from discontinued operations (EUR million)	-0.6	-
Net profit for the year (EUR million)	**33.7**	**33.1**
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 from continuing operations (EUR)	429	414
Earnings per share from discontinued operations (EUR)	-7	-
Earnings per share (EUR)*	**422**	**414**

* See notes 4 and 16.

At the end of 2022 and 2021 the Group did not have any potential dilutive ordinary shares. Therefore, diluted earnings per share equal basic earnings per share.

Dividend distributions

	Amount per share (EUR)	Total amount (EUR million)
Declared and paid in 2022	75.0	6.0
Declared and paid in 2021	75.0	6.0

After the reporting date, the management board has proposed that the company pay dividends of 6.0 million euros (75 euros per share) for the financial year 2022.

NOTE 33. INCOME TAX

Income tax expense

	2022	2021
Current income tax expense	3.5	3.0

The current tax expense has been calculated on profit earned in Lithuania, Finland and Sweden and it includes advance payments of income tax that credit institutions are required to make in Estonia. The income tax expense payable on the distribution of profits earned in Latvia would be 10.6 million euros and it is recognised off the statement of financial position.

Dividend distributions to shareholders had no income tax consequences in 2022 and 2021.

Reconciliation of accounting profit and income tax expense

	2022	2021
Consolidated profit before tax	37.2	36.1
The parent company's domestic tax	1.0	0.4
Effect of tax rates in foreign jurisdictions	2.5	2.6
Income tax expense reported in the statement of comprehensive income	**3.5**	**3.0**

(In millions of euros)

Consolidated profit before tax includes profit from both continuing and discontinued operations. The profit for 2021 has been restated.

Contingent income tax liabilities

At 31 December 2022, the Group's retained earnings totalled 201.2 million euros (31 December 2021: 173.5 million euros).

Under the Estonian Income Tax Act, in 2022 profit distributions, including dividend distributions, were subject to income tax calculated as 20/80 of the net distribution. The maximum income tax liability that could arise if all of the undistributed profits were distributed as dividends amounts to 40.2 million euros. Thus, the maximum amount that could be distributed as the net dividend is 161.0 million euros.

The income tax payable on dividends is calculated by reducing the tax base by the profits attributed to foreign permanent establishments (branches) and reducing the tax payable by advance payments of income tax that credit institutions are required to make in Estonia. The Group's actual expected maximum income tax liability that could arise if all of the undistributed profits were distributed as dividends amounts to 21.8 million euros and the maximum amount that could be distributed as the net dividend is 179.4 million euros. The income tax liability includes the deferred income tax calculated on Latvian distributable profits.

The maximum contingent income tax liability has been calculated on the assumption that the net dividend and the related dividend tax expense cannot exceed total distributable profits at 31 December 2022.

NOTE 34. LEASES

The Group as a lessee – operating leases

The Group has leases of office premises. Most lease terms fall in the range of 3 to 10 years. Leases of office premises can be cancelled by giving one month's to 10 years' notice and fixed-term lease contracts can be extended on market terms. In addition, the Group has agricultural equipment lease contracts with a term of five years. The Group also has certain leases of office premises with terms of 12 months or less and leases of office equipment of low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions to these leases. Expenses on short-term leases included in *Administrative expenses* totalled 0.1 million euros in 2022 (2021: 0.2 million euros).

The Group recognised depreciation expense on the right-of-use assets of office premises of 0.7 million euros (2021: 0.6 million euros), see notes 13 and 40. For changes in lease liabilities, see note 20.

The Group as a lessor

The Group leases out commercial premises and agricultural land.

Minimum non-cancellable operating lease rentals receivable in subsequent periods

At 31 December	2022	2021
Up to 1 year	2.7	2.9
1 to 5 years	4.9	10.3
Over 5 years	0.9	2.1

For rental income and property management expenses, see note 14.

(In millions of euros)

NOTE 35. ASSETS PLEDGED AS COLLATERAL

Assets are encumbered in connection with loans and other financing received against collateral. In the past, Bigbank pledged debt securities as collateral to obtain targeted longer-term refinancing operations (TLTRO) low interest cost funding through the Eurosystem's open market operations. At 31 December 2022, no debt securities were pledged as collateral (31 December 2021: 39.5 million euros). For information about debt securities, see note 8.

NOTE 36. CONTINGENT LIABILITIES

At 31 December 2022, the unused portions of credit lines and loans totalled 113.6 million euros (31 December 2021: 93.8 million euros) and guarantees issued totalled 5 thousand euros (31 December 2021: 5 thousand euros).

NOTE 37. ADDITIONAL CASH FLOW INFORMATION

Changes in liabilities arising from financing activities in 2022

	Subordinated bonds	Loans from central banks	Loans from other credit institutions	Lease liabilities
Opening balance	15.0	36.5	-	1.8
Cash flow items:				
Receipts	25.0	-	9.3	-
Payments	-1.2	-36.3	-0.3	-0.8
Non-cash flow items:				
Movement in accrued interest, revaluation and increase in liabilities	1.7	-0.2	0.2	0.4
Transaction costs related to issue of bonds	-0.4	-	-	-
Transfer to liabilities related to assets held for sale (note 16)	-	-	-	-0.2
Balance at 31 December 2022	**40.1**	**-**	**9.2**	**1.2**

Changes in liabilities arising from financing activities in 2021

	Subordinated bonds	Loans from central banks	Lease liabilities
Opening balance	5.0	36.5	2.1
Cash flow items:			
Receipts	10.0	0.5	-
Payments	-0.3	-	-0.6
Non-cash flow items:			
Movement in accrued interest, revaluation and increase in liabilities	0.3	-0.5	0.6
Adjustment	-	-	-0.3
Balance at 31 December 2021	**15.0**	**36.5**	**1.8**

(In millions of euros)

NOTE 38. RELATED PARTY DISCLOSURES

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

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

In 2022, the remuneration of the members of Group companies' management boards and supervisory board including taxes amounted to 1.9 million euros (2021: 1.4 million euros) and 70 thousand euros (2021: 70 thousand euros), respectively. During the financial year, a management board member received severance benefits of 133 thousand euros.

At 31 December 2022, the Group had a receivables from related parties of 9.4 million euros (Loans to customers) (31 December 2021: 4.3 million euros), which were classified as stage 1 items and included loss allowances of 9 thousand euros (31 December 2021: 1 thousand euros). Interest income on the receivables amounted to 0.3 million euros (2021: 0.1 million euros) and expenses on their loss allowances amounted to 16 thousand euros in 2022 (2021: 1 thousand euros). The loans have been provided to the related parties on market terms. At the reporting date, management and supervisory board members and parties related to them held 245 Bigbank bonds with a total nominal value of 245 thousand euros.

At 31 December	2022	2021
Loans to customers	**9.4**	**4.3**
Of which to members of management and supervisory boards	1.8	0.1
Of which to companies related to related parties	7.6	4.2
Subordinated bonds	**0.2**	**-**
Of which held by members of management and supervisory boards	0.2	-

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

NOTE 39. BUSINESS COMBINATIONS

In 2021, Rüütli Majad OÜ (a subsidiary of Bigbank AS) acquired 100% of the shares in agricultural companies Abja Põld OÜ and Palupera Põllud OÜ, which in turn acquired the business of Abja Farmid OÜ. The total purchase consideration was 7.8 million euros, of which 0.5 million euros was payable after an 18-month closing period. The companies acquired are engaged in grain growing, milk production and dairy farming.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

Purchase consideration

	Business of Abja Farmid	Abja Põld OÜ	Total
Acquisition date	*15 Sept 2021*	*15 Sept 2021*	
Cash paid	6.4	0.9	7.3
Cash to be paid after closing	0.5	-	0.5
Total purchase consideration	**6.9**	**0.9**	**7.8**

(In millions of euros)

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

	Business of Abja Farmid	Abja Põld OÜ	Total
Cash and cash equivalents	-	0.3	0.3
Property, plant and equipment	10.6	1.2	11.8
Of which land (agricultural land)	9.0	-	9.0
Of which buildings	1.5	0.1	1.6
Of which other items	0.1	1.1	1.2
Biological assets	0.9	0.1	1.0
Inventories and other receivables	0.1	1.1	1.2
Lease liabilities	-	-0.4	-0.4
Borrowings	-	-1.7	-1.7
Other liabilities	-0.1	-0.4	-0.5
Net identifiable assets acquired	**11.5**	**0.2**	**11.7**
Goodwill	-	0.7	0.7
Gain on a bargain purchase	-4.6	-	-4.6
Total	**6.9**	**0.9**	**7.8**

Purchase price allocation requires management to make estimates, which in the case of land and buildings were based on valuers' appraisals. According to the valuation report, the average price per hectare of agricultural land at the date of the valuation was approximately 7,000 euros. In the case of buildings, the valuer used the income approach, based on the rental income of 0.5 to 2 euros per square metre. The fair value of biological assets, including inventories, was based on the sales price less costs to sell, for further information see note 6 Fair values of assets and liabilities. In determining the fair value of other non-current assets, the management relied on the market value of the assets, their expected useful lives and the ability to generate benefits. The fair values of lease liabilities and borrowings are based on contractual obligations, the balances of other liabilities (current supplier payables and taxes payable) were compared with counterparties and their carrying amounts were considered to be equal to fair value.

On the acquisition of Palupera Põllud OÜ on 9 July 2021, an amount of 9 thousand euros was paid while the fair value of the assets was estimated at 3 thousand euros.

After the acquisition, goodwill resulting from the acquisitions was tested for impairment and as a result, an impairment loss of 0.7 million euros was recognised in profit or loss. The gain on a bargain purchase of 4.6 million euros was recognised in profit or loss. Acquisition-related costs were recognised in administrative expenses in profit or loss.

From the date of acquisition, the acquired businesses contributed 1.0 million euros to the Group's other income while their contribution to profit for the year (excluding gain on bargain purchases and impairment losses on goodwill) was nil euros. If the acquisition had occurred on 1 January 2021, the acquired businesses would have contributed an estimated 0.4 million euros of additional loss. This estimate is based on management's assumption that the fair values determined at the date of acquisition would have been the same if the acquisition had occurred on 1 January 2021.

In December 2022, the Group decided to start liquidating the subsidiaries Palupera Põllud OÜ and Abja Põld OÜ. See note 16.

NOTE 40. SIGNIFICANT ACCOUNTING POLICIES

This note contains significant accounting policies applied in the preparation of the consolidated financial statements, which have not been disclosed in the previous notes. The policies have been consistently applied in all periods presented unless otherwise specified.

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 the majority of voting rights results in control. Subsidiaries are fully consolidated from the date the Group obtains control until the date the Group loses control.

Business combinations

Acquisitions of subsidiaries are accounted for by applying the acquisition method (except for business combinations involving entities under common control, which are accounted for using the modified acquisition method). Under the acquisition method, the acquiree's assets, liabilities and contingent liabilities are recognised at their fair values and any difference between the cost of the interest acquired and the fair value of the net assets acquired is recognised as goodwill or a gain from a bargain purchase. From the date of acquisition, the acquiree's assets, liabilities and contingent liabilities and any goodwill acquired is recognised in the consolidated statement of financial position and the interest in the acquiree's income and expenses is recognised in the consolidated statement of comprehensive income. A gain from a bargain purchase is recognised as income immediately. Acquisition-related costs are not included in the acquisition cost (except for the costs to issue debt or equity securities) and are recognised immediately in profit or loss.

Business combinations involving entities under common control are accounted for using the modified acquisition method: the interest acquired is recognised at the carrying amount of the net assets acquired (i.e. as the assets acquired and liabilities assumed were recorded in the acquiree's statement of financial position). The difference between the acquisition cost and the carrying amount of the net assets acquired is recognised as an increase or decrease in the acquirer's equity.

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. Intragroup balances and transactions and any unrealised income and expenses and gains and losses arising from intragroup 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. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated 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 translated to the functional currency at the exchange rate at the date 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 translation are recognised in the statement of comprehensive income within Net gain (loss) on exchange differences.

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 millions 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 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 a 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. The 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 the financial data of the investees are used to measure the fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are classified based on the level in the fair value hierarchy to which the inputs to valuation techniques used to measure fair value are categorised as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation 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 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 the 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 purchased or originated credit-impaired (POCI) financial assets – assets that are credit-impaired 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 the 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 initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost 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 the 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 to the following measurement categories: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) and amortised cost. The classification and subsequent measurement of debt instruments depends on: (i) the Group's business model for managing the related portfolio of assets and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model

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

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

Financial assets – reclassification

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

Financial assets – write-off

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

The Group sometimes renegotiates or otherwise modifies the contractual terms of financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other things, the following factors: a significant change in the interest rate, a change in the currency denomination, a 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 the 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 the fair value of the new substantially modified asset is recognised in profit or loss unless the substance of the difference is attributed to a capital transaction with owners.

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

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

Financial liabilities – measurement categories

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

Financial liabilities – derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Cash and cash equivalents

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

Mandatory reserves with central banks. Mandatory reserves with central banks are carried at amortised cost and represent non-interest bearing mandatory reserves, which are not available to finance the Group's day to day operations, and hence are not considered 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 recognised when the Group advances money to counterparty banks.

Investments in debt securities

Based on the business model and the cash flow characteristics, the Group classifies investments in debt securities as carried at FVOCI. Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year.

All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss. Interest income from these financial assets is included in Interest income.

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

Loans to customers

Loans to customers are recognised when the Group makes a payment to purchase or give a loan to a customer. Based on the business model and the cash flow characteristics, the Group classifies loans to customers into the amortised cost measurement category (except for loans with the features of a hybrid instrument): these are loans held to collect contractual cash flows and the cash flows represent solely payments of principal and interest (SPPI) if the loans have not been voluntarily designated as at FVTPL. Loss allowances are determined based on forward-looking ECL models.

Loans with the features of a hybrid instrument (e.g. loans with investment risk) are measured at FVTPL. The loans comprise the host (non-derivative) component and the component of the underlying asset and their objective is to collect cash flows consisting of principal and interest payments as well as potential additional cash flows from the gain on the sale of the underlying asset at the end of the contract term. Due to their business model and cash flows, hybrid instruments do not meet the SPPI requirement and do not qualify as instruments held for sale. Accordingly, they are not measured at amortised cost or at FVOCI. The gain on the revaluation of the underlying assets is recognised on a straight-line basis over the term of the contracts as a gain on financial assets at FVTPL.

Impairment methodology for financial assets

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

The three-stage approach for classifying receivables using common credit quality characteristics is as follows:

Stage 1 – 12-month ECL is recognised for all loans which have no signs of a material increase in credit risk. The ECL is 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 – includes loans which have sign(s) of a material increase in credit risk demonstrated by being more than 30 days past due at the reporting date or in the last six months prior to the reporting date. The ECL is computed based on a lifetime PD that represents the probability of default occurring over the remaining estimated life of the financial asset.

Stage 3 – includes doubtful, defaulted and uncollectible loans as well as loans which are restructured due to the financial difficulties of a counterparty. Similarly to stage 2, the allowance for credit losses will continue to capture lifetime expected credit losses where the PD is equal to 100%. Stage 3 loans are subject to a one-year monitoring period. If no contractual payment is over 30 days past due during this period, the monitoring stops. If a contractual payment is over 30 days past due, the monitoring period is renewed for another year.

Signs of a significant increase in risk include a past due status of 30 or more days for a contractual payment exceeding the amount of 100 euros for retail loans and 500 euros for other loans during the last six months of a reporting period. A past due status of 30 or more days is assessed based on the actual occurrence. Other signs of increased risk and their impact are analysed case by case and the customer's risk level is changed based on management's judgement. This assessment is dynamic in nature, allowing the financial assets to be upgraded to stage 1 if the associated credit risk has decreased and there is no evidence of an increase in credit risk in the last six-month period.

POCI (purchased or originated credit impaired) financial assets are categorised within stage 3 with a carrying value already reflecting their 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.

Expected credit loss

The impairment methodology is based on the expected credit loss (ECL) formula according to which the ECL is calculated by multiplying the probability of default (PD), loss given default (LGD) and exposure at default (EAD). These are the main parameters the Group uses to assess credit risk. PD reflects how high is the probability that a contract or a customer will experience a settlement default. LGD reflects the rate of loss that may occur in the event of default on the basis of country- and product-specific loss rates identified using historical loss statistics, which have been adjusted, if necessary, to reflect the assessments of experts. EAD is the expected total amount of the receivables at the time of default.

Credit risk is assessed using the expected credit loss (ECL) formula:

Expected credit loss (ECL) = probability of default (PD) * loss given default (LGD)* exposure at default (EAD).

In 2022, the model was updated in both the second and the fourth quarter. As a result of revisions, the expected credit loss allowance increased by 1.1 million euros. Updates to the model are reported to the Group's management board and communicated to the managements of the branches.

Default on meeting obligations and write-off

A contract is classified as non-performing in the following situations, which indicate that a customer will not meet their financial obligations and has or may become insolvent:

- past due payments: when both the relative materiality threshold (the ratio of the past due amount to the total loan amount is 1%) and the absolute materiality threshold (100 euros for the principal and/or interest receivables of retail loans and 500 euros for the principal and/or interest receivables of other loans) are more than 90 days past due;
- low probability of collecting payments: the loan (agreement) is performing but there is objective evidence that makes it reasonable to assume that the customer will be unable to meet the existing financial obligations (loan principal, interest and contract fee) in full and the situation cannot be resolved in a satisfactory manner. Collection of payments is considered unlikely if a) a letter of contract termination, including a claim for payment, has been sent to the customer; b) the customer is, or recently was, in financial difficulty and is now being restructured; c) the customer is bankrupt or deceased or bankruptcy, liquidation or debt restructuring proceedings have been initiated in respect of the customer; d) identity theft, i.e. misuse of the credit receiver's identity has been identified.

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

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 loss allowances for loans and financial investments.*

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

Impairment methodology for loans secured by collateral

Corporate loans secured by real estate are assessed for impairment on an individual basis. The Group recognises an individual impairment allowance for a receivable or a group of receivables when the need for a loss allowance has been identified. In the case of individual assessment, the unsecured portion is determined by evaluating the net realisable value of collateral. An important parameter for determining the unsecured portion is the ratio of the loan amount to the market value of the collateral (Loan-to-Value, LTV). After that the impairment loss on the unsecured portion is identified using the discounted cash flow method. The discount rate applied 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. Collective impairment assessment is applied to all homogenous groups of loans whose amount is not individually significant and whose individual assessment would not be reasonable.

PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

Items of property, plant and equipment, excluding land and buildings, are carried at cost less any accumulated depreciation and any accumulated impairment losses. 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 repair and maintenance costs are recognised in profit or loss in the reporting period in which they are incurred.

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

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment. Depreciation commences from the date the asset is acquired.

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

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

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

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

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

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

A revaluation surplus is recognised in other comprehensive income and accumulated in Other reserves in equity. However, to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation decrease 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 is adjusted to the revalued amount of the asset. When an asset is sold or reclassified, any revaluation reserve relating to the asset is transferred to retained earnings. The revaluation reserve is used only when the asset is derecognised.

BIOLOGICAL ASSETS

Biological assets are measured on initial recognition and at the end of each reporting period at fair value less estimated costs to sell. Gains and losses arising on initial recognition of a biological asset at fair value and from subsequent changes in fair value are recognised in *Other income* and *Other expenses* in the statement of comprehensive income, respectively.

As an exception, biological assets whose fair value cannot be measured reliably are carried at cost. Growing winter crops are recognised at actual costs incurred, as their biological transformation cannot be reliably measured at the reporting date, and perennial grasslands are recognised at deemed cost. The carrying amount of a grassland is expensed within four years after its establishment in equal amounts through the line item *Other expenses* in the statement of comprehensive income.

The Group's biological assets include livestock (dairy cattle and young stock), planted perennial grasslands and growing crops, which are reported in *Property, plant and equipment in the statement of financial position.* Biological assets as inventories include agricultural produce (bull calves), which is reported in *Other receivables.*

INVENTORIES

Inventories are initially recognised at cost, which comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories is assigned using the weighted average cost formula.

Inventories are measured at the lower of cost and net realisable value. Agricultural produce is carried at fair value less estimated costs to sell.

INTANGIBLE ASSETS

Costs associated with software maintenance 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 recognised as an intangible asset and amortised from the date the asset is ready for use.

The Group's intangible assets primarily include capitalised information and banking technology solution Nest and other capitalised computer software. Intangible assets are carried at cost less any accumulated amortisation and any impairment losses. Intangible assets are amortised on a straight-line basis over their expected useful lives, which extend from five to 15 years. Amortisation expense is recognised in *Depreciation, amortisation and impairment 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 used in the Group's own operating activities. An investment property is initially recognised at cost, including transaction costs. After initial recognition, an investment property is measured at 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 in Gains (losses) on changes in the fair value of investment properties. Fair value is determined based on a valuation annually performed by an independent asset valuer or management's estimates.

Rental income earned is recognised in profit or loss for the period in Other income.

Investment properties are derecognised on disposal or when they are permanently withdrawn from use and no future economic benefits are expected from their disposal. Gains and losses arising from derecognition of 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 held for sale if their carrying amounts will be recovered principally through a sale transaction, which may include loss of control of a subsidiary holding the assets, within 12 months after the end of the reporting period.

Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management has approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

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

Held for sale disposal groups are measured in their entirety at the lower of their carrying amount and fair value less costs to sell. Held for sale buildings and equipment are not depreciated or amortised. Reclassified non-current financial instruments are not written down to the lower of their carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Group that has operations and cash flows that can be clearly distinguished from the rest of the Group and that: a) represents a separate major line of business or geographical area of operations; b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or c) is a subsidiary acquired exclusively for resale.

A component of the Group is classified as a discontinued operation when it has been disposed of or it qualifies for classification as held for sale, whichever is earlier.

When a component has been classified as a discontinued operation, the statement of comprehensive income is re-presented as if the component had been a discontinued operation at the beginning of the comparative period.

FAIR VALUE MEASUREMENT

The Group measures financial instruments such as derivatives, biological assets, land and buildings at fair value at each reporting date. The fair values of financial instruments measured at amortised cost are also disclosed in note 6.

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 (e.g. investment properties and unquoted financial assets) and for non-recurring measurement (e.g. items of property, plant and equipment such as land and buildings). External valuers are involved in the valuation of significant assets, such as land and buildings and investment properties.

Management discusses valuation processes and fair value changes at least annually. 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 comparing the information in the valuation computation to contracts and other relevant documents. Management, together with the Group's external valuers, also compares each change in the fair value of each asset and liability to relevant external sources to determine whether the change is reasonable.

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

LEASES

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

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

The Group as a lessee

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

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

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

Right-of-use assets are presented in note 13 Property, plant and equipment and assessed for impairment consistent with the Group's policy which is described in note 40 Impairment of non-financial assets.

Lease liabilities

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

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

The Group as a lessor

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

FINANCIAL LIABILITIES

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

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

Subordinated bonds

A bond is classified as a subordinated bond if on the winding up or bankruptcy of the credit institution the bond 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 present value of the expected net cost of continuing with the contract.

Financial guarantees and loan commitments

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

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

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

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 EXPENSE

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

Interest income and expense include all interest and similar income and expense. Income and expense similar to interest include income (including contract fees) and expense related to the contractual/redemption term or the size of an 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. The incremental costs of obtaining contracts are capitalised and recognised in profit or loss during the term of the contract.

FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income comprises various fees received from customers during the reporting period such as monthly loan management fees, fees charged for changing customer details, amending contracts and terminating contracts early, fees for issuing statements of accounts and similar charges. Fee and commission expense comprises fees paid to other credit institutions including transfer fees. Fee and commission income is recognised at the fair value of the consideration received or receivable for the services provided in the ordinary course of the Group's activities. Fee and commission income and expense are recognised on an accrual basis: as a rule, at the point in time when the performance obligation is satisfied, which is usually the time when the transaction is conducted. Fee and commission income on loans (less directly attributable expenses) is included in the calculation of the effective interest rate.

OTHER INCOME

Other income comprises:

- income from debt collection and recovery proceedings (late payment interest, fines, etc.), which is recognised on an accrual basis as relevant services are rendered;
- gain from early redemption of the Group's liabilities, which is recognised at the date of redemption;
- miscellaneous income that includes income from the sale of goods, which is recognised when the goods are sold to the customer, and income on the sale of services, which is recognised in the accounting period in which the services are rendered (i.e. rental income and revenue from sale of agricultural produce);
- gains on changes in the fair value of biological assets;
- 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;
- costs of agricultural produce sold and losses on changes in the fair value of biological assets;
- 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.

(In millions of euros)

INCOME TAX

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

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

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

In Lithuania, the standard income tax rate is 15% but the taxable profits of credit institutions that exceed the threshold of 2 million euros are taxed at 20%.

Corporate income tax rates

	2023	2022	2021
Estonia*	14.0%	14.0%	14.0%
Bulgaria	10.0%	10.0%	10.0%
Finland	15.0–20.0%	15.0–20.0%	15.0–20.0%
Latvia	-	-	-
Sweden	20.6%	20.6%	21.4%
Finland	20.0%	20.0%	20.0%

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

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

In accordance with paragraph 39 of IAS 12, an entity recognises a deferred tax liability for all investments in subsidiaries, associates, joint ventures and branches that give rise to temporary taxable differences, unless: (a) the entity is able to control the timing of the reversal of the temporary difference; and (b) it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is not recognised if the investment meets both criteria (a) and (b) above. To meet criterion (a), an entity must have control over its investment. Control generally exists over subsidiaries and branches. In the case of associates and joint ventures, there is generally no control, so the temporary taxable differences in these investments are usually subject to the recognition of an income tax liability. To meet criterion (b), the entity must be able to demonstrate that the temporary difference will not reverse in the foreseeable future. Reversal refers to transactions such as the distribution of profits, the sale of a business, liquidation, etc. Foreseeable future is not explained in the standard, but the common view is that it is 12 months from the reporting date.

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

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's shares are not listed on the stock exchange. Therefore, the information presented in note 33 to the financial statements is voluntary.

NOTE 41. NEW STANDARDS NOT YET EFFECTIVE

The following new standards, interpretations and amendments were not yet effective for the annual reporting period ended 31 December 2022 and were therefore not applied in preparing these consolidated financial statements. The Group plans to adopt the pronouncements when they become effective and have been adopted by the EU. The Group does not expect the new pronouncements to have a significant impact on its financial statements when initially applied.

Standards, amendments and interpretations not yet effective:

- Amendments to IAS 1 Presentation of Financial Statements
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- Amendments to IAS 12 Income Taxes
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current – Deferral of Effective Date
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback.

Other new standards, amendments and interpretations not yet effective are not expected to have a material effect on the Group's financial statements.

NOTE 42. PRIMARY FINANCIAL STATEMENTS OF THE PARENT

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

Statement of financial position

At 31 December *(in millions of euros)*	2022	2021 restated
Assets		
Cash and balances at central banks	151.1	78.7
Due from other banks	18.9	35.0
Debt instruments at FVOCI	19.2	45.3
Loans to customers	1,349.8	893.5
Receivables from subsidiaries	36.6	48.8
Investments in subsidiaries	0.6	0.6
Other receivables	1.7	1.3
Prepayments	2.9	1.5
Property, plant and equipment	3.0	2.5
Investment properties	0.1	0.1
Intangible assets	30.0	27.0
Total assets	**1,613.9**	**1,134.3**
Liabilities		
Loans from central banks	-	36.5
Deposits from customers	1,367.8	898.3
Liabilities to subsidiaries	1.8	1.9
Subordinated bonds	40.1	15.0
Lease liabilities	1.2	1.4
Provisions	0.4	0.3
Deferred income and tax liabilities	1.3	1.7
Other liabilities	11.3	10.1
Total liabilities	**1,423.9**	**965.2**
Equity		
Paid-in share capital	8.0	8.0
Capital reserve	0.8	0.8
Other reserves	0.2	0.7
Retained earnings	181.0	159.6
Total equity	**190.0**	**169.1**
Total liabilities and equity	**1,613.9**	**1,134.3**

Statement of comprehensive income

At 31 December *(in millions of euros)*	**2022**	**2021 restated**
Interest income	98.0	75.1
Interest expense	-13.1	-7.8
Net interest income	**84.9**	**67.3**
Net fee and commission income	7.4	6.5
Loss on sale of debt instruments at FVOCI	-1.3	-0.2
Net gain on financial assets at FVTPL	0.9	-
Net loss on exchange differences	-0.4	-0.2
Net loss on derecognition of a non-financial assets	-0.1	-
Other income	0.8	0.8
Other expenses	-3.4	-3.0
Total net operating income	**88.8**	**71.2**
Salaries and associated charges	-21.3	-17.7
Administrative expenses	-17.6	-14.3
Depreciation, amortisation and impairment	-3.4	-3.2
Total operating expenses	**-42.3**	**-35.2**
Provision expenses	-0.1	1.2
Profit before loss allowances	**46.4**	**37.2**
Net loss allowances for loans and financial investments	-15.5	-11.5
Profit before income tax	**30.9**	**25.7**
Income tax	-3.5	-3.0
Profit for the year	**27.4**	**22.7**
Other comprehensive expense	**-0.5**	**-0.2**
Other comprehensive income that may be reclassified subsequently to profit or loss:	-0.5	-0.2
Exchange differences on translating foreign operations	*0.4*	*0.1*
Changes in the fair value of debt instruments at FVOCI	*-0.9*	*-0.3*
Total comprehensive income for the year	**26.9**	**22.5**

Statement of cash flows

(in millions of euros)	2022	2021
Cash flows from operating activities		
Interest received	90.8	73.6
Interest paid	-7.7	-6.7
Salary, administrative and other expenses paid	-46.5	-39.4
Other income and fees received	12.0	8.1
Recoveries of receivables previously written off and proceeds from the sale of portfolio items	8.0	8.7
Received for other assets	0.3	0.8
Loans granted	-861.5	-655.4
Repayments of loans provided	395.7	301.1
Change in mandatory reserves with central banks and related interest receivables	-4.4	-2.4
Proceeds from customer deposits	1,155.9	710.7
Paid on redemption of deposits	-684.2	-359.1
Income tax paid	-4.6	-2.1
Net cash from operating activities	**53.8**	**37.9**
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	-6.2	-4.5
Acquisition of financial instruments	-7.7	-4.6
Proceeds from redemption of financial instruments	31.9	5.2
Net cash from/used in investing activities	**18.0**	**-3.9**
Cash flows from financing activities		
Proceeds from issue of bonds	25.0	10.0
Interest paid on subordinated bonds	-1.2	-0.3
Loan repayments to a central bank	-36.3	-
Proceeds from negative interest on loans from a central bank	-	0.5
Payments of principal lease liabilities	-0.6	-0.6
Dividends paid	-6.0	-6.0
Net cash used in/from financing activities	**-19.1**	**3.6**
Effect of movements in foreign exchange rates	-0.8	-0.2
Increase in cash and cash equivalents	**51.9**	**37.4**
Cash and cash equivalents at beginning of period	109.5	72.1
Cash and cash equivalents at end of period	**161.4**	**109.5**

Cash and cash equivalents

At 31 December *(in millions of euros)*	2022	2021
Demand and overnight deposits with other banks	18.9	34.9
Demand and overnight deposits with central banks	141.5	-
Surplus on mandatory reserves with central banks	1.0	74.6
Total	**161.4**	**109.5**

Statement of changes in equity

(in millions of euros)	Share capital	Statutory capital reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2021	**8.0**	**0.8**	**0.9**	**142.9**	**152.6**
Profit for the year	-	-	-	25.5	25.5
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	0.1	-	0.1
Changes in the fair value of debt instruments at FVOCI	-	-	-0.3	-	-0.3
Total other comprehensive income	**-**	**-**	**-0.2**	**-**	**-0.2**
Total comprehensive income for the year	**-**	**-**	**-0.2**	**25.5**	**25.3**
Dividend distribution	-	-	-	-6.0	-6
Total transactions with shareholders	**-**	**-**	**-**	**-6.0**	**-6.0**
Balance at 31 December 2021	**8.0**	**0.8**	**0.7**	**162.4**	**171.9**
Correction of errors	-	-	-	-2.8	-2.8
Restated balance at 31 December 2021	**8.0**	**0.8**	**0.7**	**159.6**	**169.1**
Balance at 1 January 2022	**8.0**	**0.8**	**0.7**	**159.6**	**169.1**
Profit for the year	-	-	-	27.4	27.4
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	0.4	-	0.4
Changes in the fair value of debt instruments at FVOCI	-	-	-0.9	-	-0.9
Total other comprehensive income	**-**	**-**	**-0.5**	**-**	**-0.5**
Total comprehensive income for the year	**-**	**-**	**-0.5**	**27.4**	**26.9**
Dividend distribution	-	-	-	-6.0	-6.0
Total transactions with shareholders	**-**	**-**	**-**	**-6.0**	**-6.0**
Balance at 31 December 2022	**8.0**	**0.8**	**0.2**	**181.0**	**190.0**

At 31 December *(in millions of euros)*	2022	2021 restated
Unconsolidated equity at end of period	**190.0**	**169.1**
Investments in subsidiaries:		
Carrying amount (cost method)	-0.6	-0.6
Carrying amount under the equity method	24.0	14.8
Adjusted unconsolidated equity at end of period	**213.4**	**183.3**

Signatures

The management board has prepared the review of operations and the financial statements of Bigbank AS for the financial year that ended on 31 December 2022.

Martin Länts Chairman of the Management Board	10 March 2023	*signed digitally*
Mart Veskimägi Member of the Management Board	10 March 2023	*signed digitally*
Argo Kiltsmann Member of the Management Board	10 March 2023	*signed digitally*
Ingo Põder Member of the Management Board	10 March 2023	*signed digitally*
Ken Kanarik Member of the Management Board	10 March 2023	*signed digitally*

Independent auditors' report

To the Shareholders of AS Bigbank

(Translation of the Estonian original)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of **AS Bigbank** and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in 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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (Estonia) (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matter described below to be the key audit matter to be communicated in our report.

Impairment of loans to customers	
Refer to Note 3 "Significant accounting estimates and assumptions", Note 5 "Risk and capital management", Note 9 "Loans to customers", Note 10 "Loss allowances for loan receivables" and Note 40 "Significant accounting policies".	
The key audit matter	**How the matter was addressed in our audit**
As at 31 December 2022, loans and advances to customers amounted to EUR 1 356 million, or 82% of the group's assets, and related impairment loss allowance to EUR 26 million. Impairment of loans is a subjective area due to the level of judgement applied by the management in determining the	In this area, we conducted, among others, the following audit procedures: We assessed the Group's accounting policies and methodology applied for the calculation of impairment of loans and advances to customers in relation to the

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extent of credit losses which is dependent on the credit risk related to such loans and receivables. Significant management judgement is applied in determining the economic scenarios used and the probability weightings applied to them. The use of different modelling techniques and assumptions around the calculation of the expected credit losses (ECL) could produce significantly different estimates of loss allowance. These models require the significant judgment of management regarding appropriate segmentation, the identification of significant changes in credit risk, the inclusion of forward-looking elements to reflect on circumstances beyond the modelling capabilities. The Group is applying the expected credit loss model as required by IFRS 9. The Group's impairment allowance policy is presented in the accounting policies section in Note 40 subsection Impairment methodology for financial assets. Critical accounting estimates and judgments are set out in Note 3 Significant accounting estimates and assumptions to the consolidated financial statements. Given the complexity and judgements related particularly to the calculation of expected credit losses, the impairment allowance for loans to customers is considered a key audit matter.	requirements set under IFRS 9. We involved KPMG IFRS 9 specialists to assess the compliance with the requirements of IFRS 9; We gained an understanding of loan issuance, recording and impairment provisioning process, identifying the related controls. We tested the key controls and performed analytical procedures. We also tested the compliance of the loan agreements and the information reflected in the loan system to ensure the correctness of the inputs used in the credit loss models; We have performed test of details over the following: • the completeness and accuracy of data used in the ECL calculation system; • the compliance of key inputs used in the ECL calculation system with IFRS 9 methodology; • the accuracy and compliance of 12-month and lifetime ECL calculations with IFRS 9 methodology; • the correctness of discounting in ECL model; • the accuracy and completeness of data used for staging of loans; • the correctness of applying the criteria to determine significant increase in credit risk; • the internal assignment of credit ratings for corporate loan customers, which serve as inputs into the corporate loan ECL model; • the correctness of information on collaterals and their values in the loan systems, which serve as an input into the ECL model. We have assessed the reasonableness of key assumptions made by the management, which serve as critical inputs in the ECL model, such as weights of different scenarios, loan portfolio point in time probability of default estimates, criteria to determine significant increase in credit risk, key forecasts of macroeconomic information used for different scenarios. We have assessed appropriateness of disclosures in the consolidated financial statements.

Other Information

Management is responsible for the other information. Other information includes Bigbank Group at a glance, letter from the CEO, the review of operations, the social responsibility and sustainability report and the corporate governance report but does not include the consolidated financial statements and our auditors' report thereon.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement in management report we are required to report that fact. We have nothing to report in this regard and we state that the information presented in the management report is materially consistent with the consolidated financial statements and in accordance with the applicable legal and regulatory requirements.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.

Report on Other Legal and Regulatory Requirements

Report on Compliance with the Requirements for iXBRL tagging of Consolidated Financial Statements included within the European Single Electronic Format Regulatory Technical Standard (ESEF RTS)

We have undertaken a reasonable assurance engagement on the iXBRL tagging of the consolidated financial statements included in the digital files 5493007SWCCN9S3J2748-2022-12-31-et.zip prepared by AS Bigbank.

Responsibilities of Management for the Digital Files Prepared in Compliance with the ESEF RTS

Management is responsible for preparing digital files that comply with the ESEF RTS. This responsibility includes:

– the selection and application of appropriate iXBRL tags using judgement where necessary;

– ensuring consistency between digitised information and the consolidated financial statements presented in human-readable format; and

– the design, implementation and maintenance of internal control relevant to the application of the ESEF RTS.

Auditors' Responsibilities

Our responsibility is to express an opinion on whether the electronic tagging of the consolidated financial statements complies in all material respects with the ESEF RTS based on the evidence we have obtained.

We apply the provisions of the International Standard on Quality Control (Estonia) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (Estonia) (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ISAE 3000) issued by the International Auditing and Assurance Standards Board.

A reasonable assurance engagement in accordance with ISAE 3000 (Revised) involves performing procedures to obtain evidence about compliance with the ESEF RTS. The nature, timing and extent of procedures selected depend on the practitioner's judgment, including the assessment of the risks of material departures from the requirements set out in the ESEF RTS, whether due to fraud or error. A reasonable assurance engagement includes:

– obtaining an understanding of the tagging and the ESEF RTS, including of internal control over the tagging process relevant to the engagement;

– reconciling the tagged data with the audited consolidated financial statements of the Group dated 31

December 2022;

- evaluating the completeness of the tagging of the consolidated financial statements;
- evaluating the appropriateness of the Group's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- evaluating the use of anchoring in relation to the extension elements.

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

In our opinion, the consolidated financial statements included in the annual report of AS Bigbank identified as 5493007SWCCN9S3J2748-2022-12-31-et.zip for the year ended 31 December 2022 are tagged, in all material respects, in compliance with the ESEF RTS.

Other Requirements of the Auditors' Report in Accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council

We were appointed by those charged with governance on 3 June 2020 to audit the consolidated financial statements of AS Bigbank for the year ended 31 December 2022. Our total uninterrupted period of engagement is three years, covering the periods ended 31 December 2020 to 31 December 2022.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Group;
- we have not provided to the Group the prohibited non-audit services (NASs) referred to in Article 5(1) of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

Tallinn, 10. march 2023

(signed digitally)

Eero Kaup

Certified Public Accountant,
Licence No 459

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Licence no 17

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Profit allocation proposal

Total consolidated retained earnings of Bigbank AS at 31 December 2022 comprise:

Earnings retained in prior years at 31 December 2022	167.5 million	euros
Net profit for 2022	33.7 million	euros
Total retained earnings at 31 December 2022	**201.2 million**	**euros**

The management board of Bigbank AS proposes that the general meeting distribute the profit for the year ended 31 December 2022 as follows:

1.	Dividend distribution (75.00 euros per share)	6.0 million	euros
2.	Transfer to retained earnings	27.7 million	euros
	Balance of retained earnings after allocations	195.2 million	euros

Martin Länts Chairman of the Management Board	10 March 2023	*signed digitally*
Mart Veskimägi Member of the Management Board	10 March 2023	*signed digitally*
Argo Kiltsmann Member of the Management Board	10 March 2023	*signed digitally*
Ingo Põder Member of the Management Board	10 March 2023	*signed digitally*
Ken Kanarik Member of the Management Board	10 March 2023	*signed digitally*