Bigbank

Bigbank AS
Annual report 2017

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Business name	Bigbank AS
Registry	Commercial Register of the Republic of Estonia
Registration number	10183757
Date of entry	30 January 1997
LEI code	5493007SWCCN9S3J2748
Address	Riia 2, 51004 Tartu, Estonia
Telephone	+372 737 7570
E-mail	bigbank@bigbank.ee
Corporate website	www.bigbank.ee
Reporting period	1 January 2017 – 31 December 2017
Chairman of the management board	Sven Raba
Core business line	Provision of consumer loans and acceptance of deposits
Auditor	Ernst & Young Baltic AS

This annual report of Bigbank AS consists of a chairman's statement, review of operations, social responsibility and sustainability report, corporate governance report and consolidated financial statements together with an independent auditors' report and a profit allocation proposal. The document contains 127 pages.

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

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

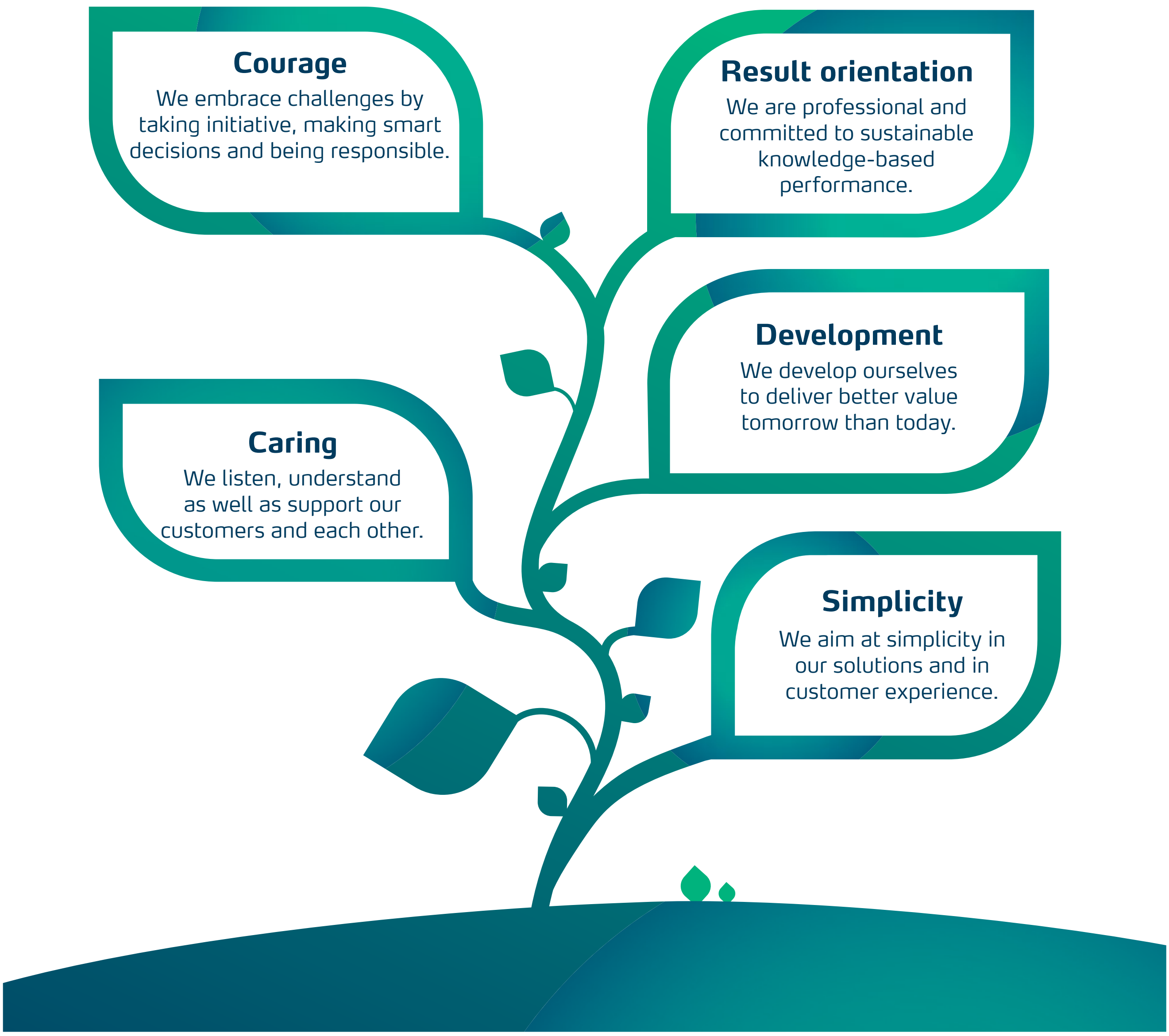
Contents

Bigbank group at a glance

VISION, MISSION AND VALUES

Bigbank's mission is to enable people to improve their lives through seamless financial services.

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




Finland
Sweden
Estonia
Latvia
Lithuania
Netherlands
Germany
Austria
Spain

OPERATING COUNTRIES

ESTONIA

Start of operations	1992
Loan portfolio, EUR thousand	66,003
No. of loans in thousands	33
Deposit porfolio, EUR thousand	240,466
No. of deposits	11,376
No. of employees	212

LATVIA

Start of operations	1996
Loan portfolio, EUR thousand	96,958
No. of loans in thousands	60
Deposit porfolio, EUR thousand	21,872
No. of deposits	1,089
No. of employees	75

LITHUANIA

Start of operations	2007
Loan portfolio, EUR thousand	104,065
No. of loans in thousands	27
Deposit porfolio, EUR thousand	-
No. of deposits	-
No. of employees	75

FINLAND

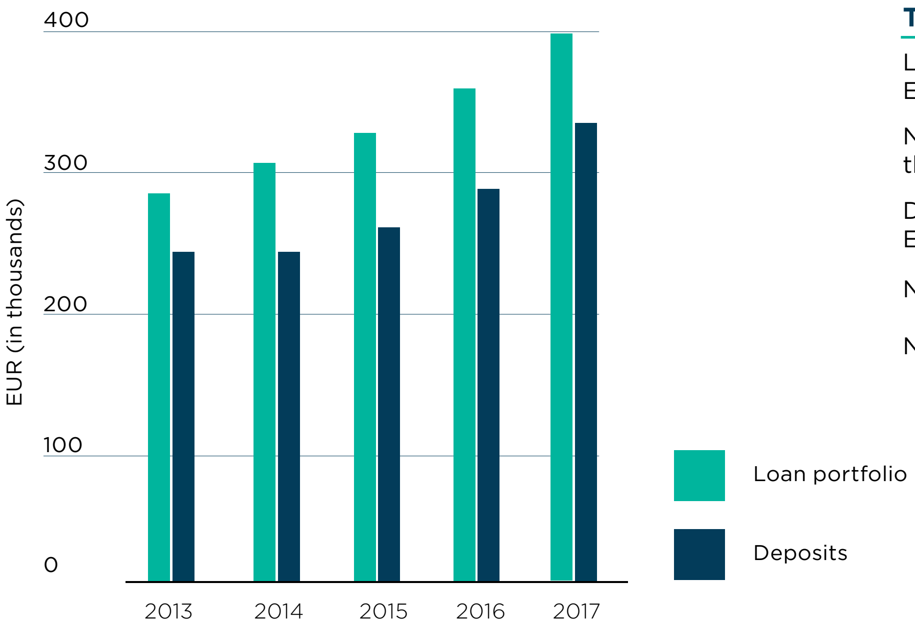
Start of operations	2009
Loan portfolio, EUR thousand	70,877
No. of loans in thousands	11
Deposit porfolio, EUR thousand	22,268
No. of deposits	544
No. of employees	18

SWEDEN

Start of operations	2012
Loan portfolio, EUR thousand	38,128
No. of loans in thousands	8
Deposit porfolio, EUR thousand	50,213
No. of deposits	1,274
No. of employees	12

SPAIN

Start of operations	2011
Loan portfolio, EUR thousand	20,107
No. of loans in thousands	5
Deposit porfolio, EUR thousand	-
No. of deposits	-
No. of employees	25



TOTAL

Loan portfolio, EUR thousand	396,138
No. of loans in thousands	144
Deposit porfolio, EUR thousand	334,819
No. of deposits	14,283
No. of employees	417

Letter of the Chairman of the Management Board

2017 - THE YEAR OF BIGBANK'S 25TH ANNIVERSARY

It is my privilege to share some thoughts on how remarkable the year of our 25th anniversary, 2017, was for Bigbank. First, I would like to thank all our stakeholders – customers, employees, business partners, and investors – for trusting us on this journey. Secondly, I wish to thank Mr. Kaido Saar, the former chairman of the management board for his exceptional work in good and bad times alike. Bigbank has made a massive qualitative leap and created the basis we need for sustainable growth and outstanding performance.

First year of implementing the new business strategy 2017-2021

Bigbank's vision is to be the most recommended digital financial service provider in the countries we operate. To reach the strategic objectives, we have focused on improving the quality of our credit services and customer satisfaction more than ever before. We have targeted our services at customers with a lower credit risk and have thus significantly lowered the interest rates of our loan products. As a result, we have managed to gradually increase the volume of loans provided and to substantially improve the quality of our loan portfolio.

The first annual results under the new strategy reflect that we are on the right course – the growth and quality improvement of the loan portfolio are remarkable. By the end of 2017, we reduced the share of loans past due for 90 or more days from 12.9% to 6.8% of the total portfolio. Bigbank is bigger (total assets increased from 394.1 million at the previous year-end to 459.3 million euros as of 31 December 2017) and more profitable than ever before (net profit grew from 11.7 million for 2016 to 17.2 million euros for 2017).

Silver award for corporate social responsibility from the Responsible Business Forum

For the second year in a row, Bigbank participated in the Corporate Social Responsibility (CSR) Index, organised by the Responsible Business Forum in Estonia. Our initial goal was to gain a better understanding of our business model from the stakeholder point of view in order to ensure the sustainability of the bank. After the first year, we got valuable feedback and an opportunity to benchmark ourselves against other financial service providers, while the second year already brought an acknowledgement of our efforts. Bigbank was recognised as a highly responsible company in Estonia and received a silver award for its responsible business practices. The award is given to Estonian companies who are committed to sustainable development and constantly contribute to the development of the social and natural environment. We are considering moving on to compete at the European level.

Development of NEST – a new core banking system implemented in the Finnish branch in June

Bigbank is investing heavily in the future – we are bringing all our main information and banking technology solutions to a single modern banking platform called NEST. Gradual migration began in June 2017 and will last until 2020. On the one

hand, it helps us achieve more value-adding customer service and product development in all the countries where we operate. On the other hand, it is a useful tool for entering new markets. In December, NEST was named one of the world's ten best banking technology development projects in the 'Best Tech Overhaul Project' category at the Banking Technology Awards 2017.

Becoming a member of the Estonian Banking Association in October

In all the countries where Bigbank operates, we support and contribute to achieving the financial sector's strategic objectives both at the local and European level. Membership in influential professional associations, such as the Estonian Banking Association, helps us obtain relevant information and participate in various processes including the drafting of legislative changes. The trust consumers have in banks is one of the main pillars of banking. To offer good service, banks must be in compliance with applicable regulatory requirements. The Estonian Banking Association assists in this through its support activities.

Subordinated note issue with LHV pension funds in December

In December, Bigbank issued subordinated notes of 5 million euros, with a term of 10 years, and a fixed interest rate of 6.5% per year. The private placement was organised in cooperation with LHV pension funds and in compliance with our strategy and growth objectives. The main purpose of the issue was to strengthen Bigbank's capital base, since the notes qualify as Tier 2 capital.

Bigbank continues to be at your service and works hard to exceed your expectations.

I wish you all good luck and every success in 2018.

Yours truly,

Sven Raba
Chairman of the Management Board

Review of operations

ECONOMIC ENVIRONMENT

The economy of the European Union (EU) as a whole is on track to grow at its fastest pace in a decade with real GDP estimated to have grown by a robust 2.3% in 2017. According to the autumn 2017 forecast of the European Commission (EC), GDP growth is expected to continue at a 2.1% rate in 2018 and a 1.9% rate in 2019.

The EU economy has performed significantly better than expected, supported by an accommodative monetary policy, expansive private consumption, stronger growth around the world, and falling unemployment. However, further GDP growth is still dependent on policy support. The European Central Bank has kept its monetary policy very accommodative while some other central banks around the world have started raising interest rates.

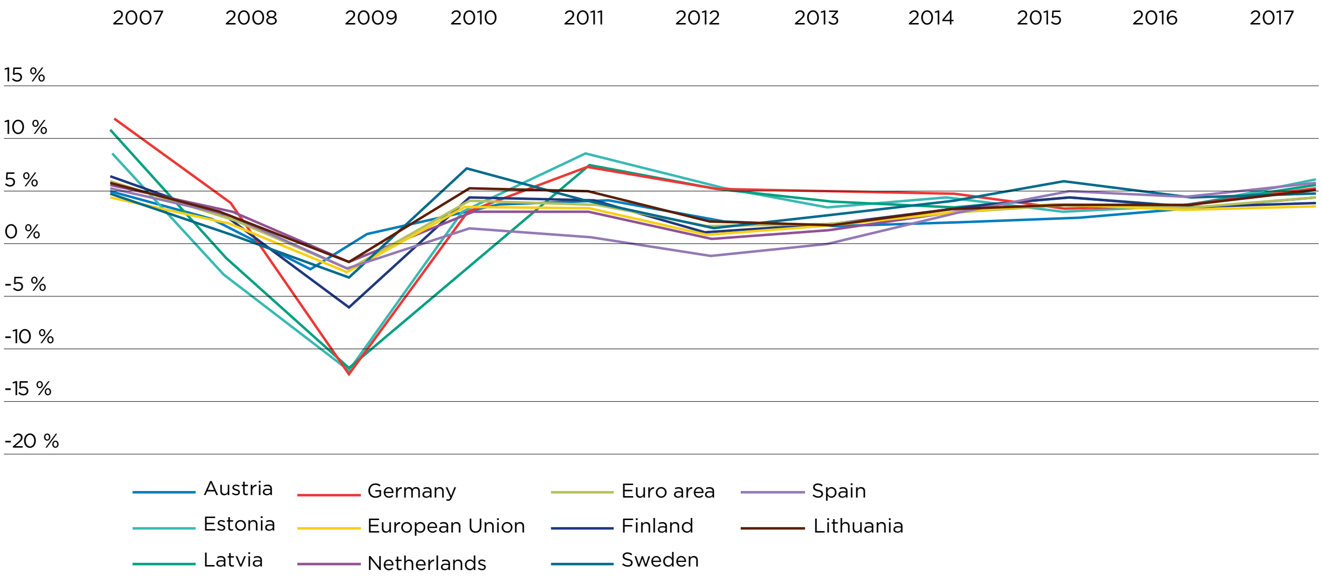
Average unemployment in the euro area is expected to fall to 9.1%, the lowest level in a decade, as the total number of the employed is rising record-high. According to EC's projections, the EU unemployment rate was 7.8% in 2017 and will be 7.3% in 2018 and 7.0% in 2019.

According to the EC's estimates, in 2017 inflation in the EU picked up, rising to 1.5%. Further inflationary pressure is still subtle amid sluggish wage growth. In 2018, EU inflation is expected to dip to 1.4% before climbing to 1.6% in 2019.

Despite growing expectations of the ECB unwinding quantitative easing and a certain increase in long-term interest rates, monetary conditions in the euro area are still accommodative and the gradual increase in long-term inflation expectations keeps real long-term financing costs in negative territory. Given the high weight of debt in most countries, however, an increase in interest rates could have a negative impact on the service of debts and loan quality.

According to the EC, the main downside risks to the EU economy are external and relate to elevated geopolitical tensions, possibly tighter global financial conditions, economic adjustment in China and the extension of protectionist policies. Within the EU, downside risks are mainly related to the outcome of Brexit, stronger appreciation of the euro and higher long-term interest rates.

GDP YoY



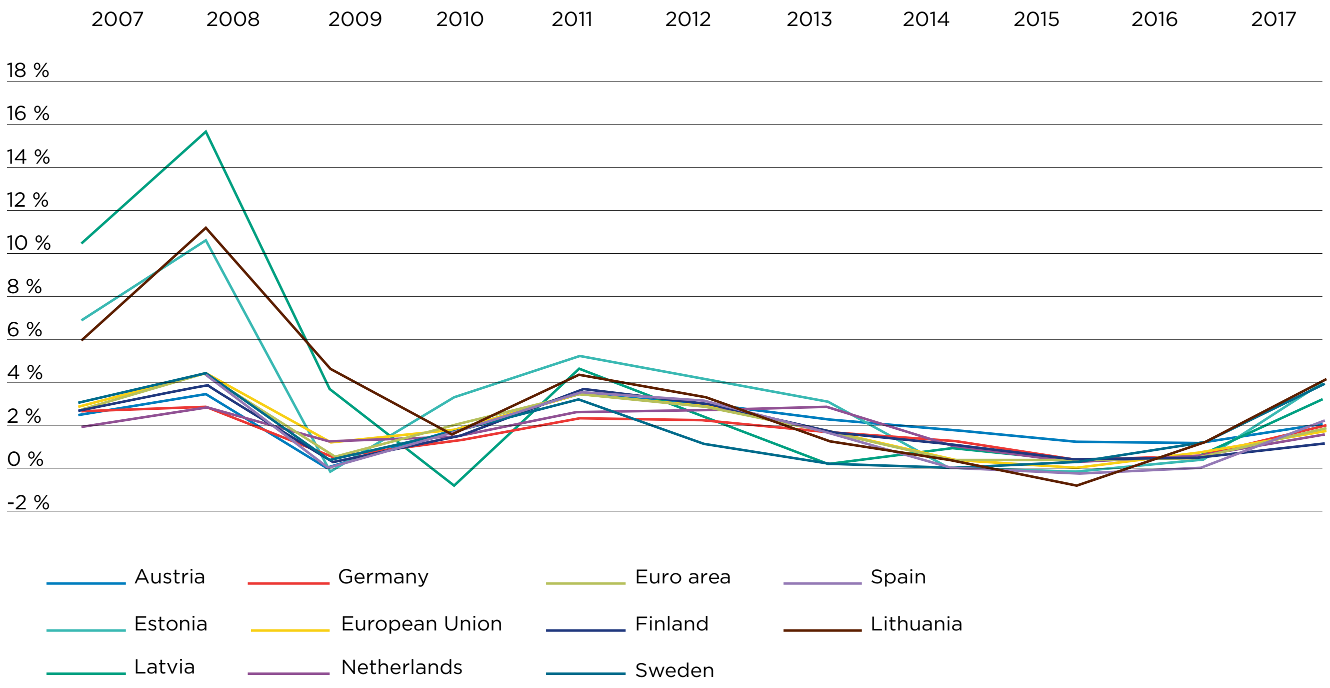
Source: World Development Indicators, European Commission

BALTIC COUNTRIES – ESTONIA, LATVIA AND LITHUANIA

Baltic economies continued to grow at a robust pace, driven by domestic demand, exports and investments, with Estonia and Latvia leading the way with above 4% GDP growth. Lithuania lagged behind with slightly below 4% growth as strong wage increases continued to support private consumption, but rising inflation and contracting employment, caused by negative demographic trends and emigration, started to hold it back. In Estonia and Latvia, the main driver of consumption growth is rapid wage increase in a tight labour market. In Estonia, household consumption is also set to get a boost from a personal income tax cut designed to benefit low and middle-income earners in 2018. In Latvia, too, tax cuts are expected to add fuel to domestic demand in 2018.

All three countries are facing problems resulting from shrinking labour force, which is putting wages under strong pressure. The unemployment rate is at a multi-year low in all three countries and high demand for labour should drive it further down in the coming years.

Inflation CPI



Source: World Development Indicators, European Commission

NORDIC COUNTRIES - FINLAND AND SWEDEN

Both Finland's and Sweden's GDPs grew above the EU average in 2017, at over 3% pace, supported by a strong increase in investment, robust private consumption and net exports. In Sweden, domestic demand, particularly investment in the buoyant construction sector, has been the main growth engine. For 2018 and 2019, growth is projected to edge down, closer to the economies' potential rate.

In Finland, private consumption grew due to high consumer confidence and improved employment prospects, which led to a historically low saving rate. In the next years, however, growth is expected to slow, as both employment and income growth will moderate, leading to a slight increase in households' purchasing power. In Sweden, a rise in employment, low interest rates and additional tax cuts in 2018 are expected to support disposable income despite moderate wage growth.

Employment growth in both countries is expected to continue, although in Sweden the employment rate has reached the highest level in the EU. As a result, the unemployment rate is expected to decline further, but while in Finland it is projected to remain above 8%, in Sweden it is expected to stay below 7% and move closer to 6% in the coming years.

Inflation has started to pick up, to around 1% in Finland and 2% in Sweden. However, it is expected to remain moderate in the coming years.

In the Swedish market, there is the risk that a possible correction in housing prices could dampen business confidence, household consumption and investment in the construction sector.

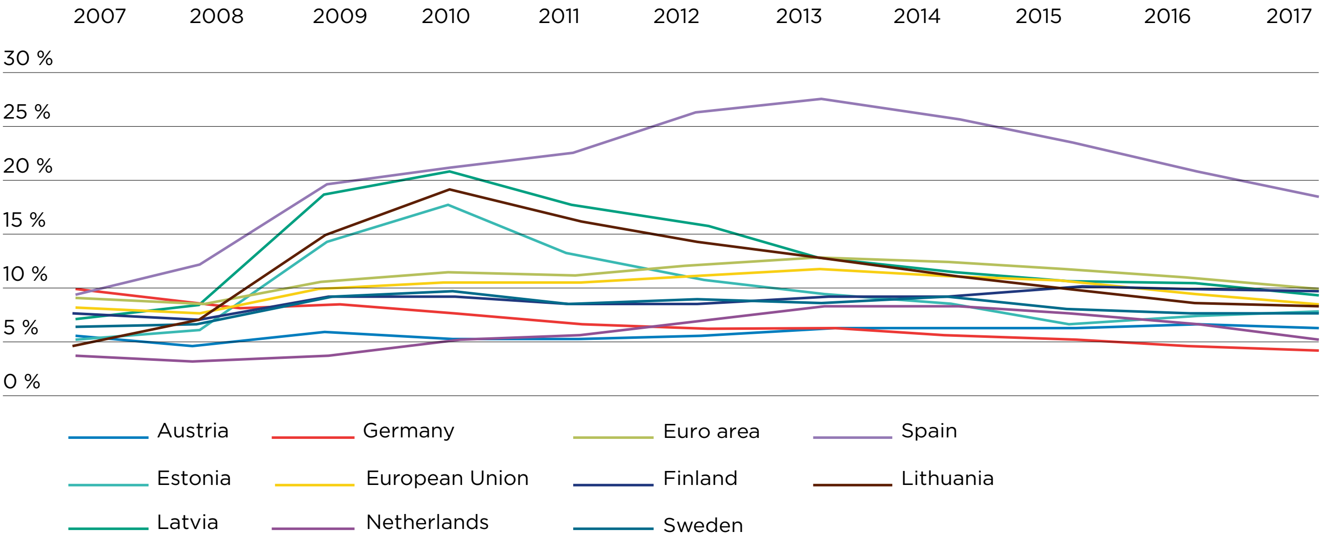
SPAIN

According to preliminary statistics, in 2017 GDP grew by a robust 3.1%. However, growth is expected to ease going forward as private consumption will slow down, because the pace of job creation will moderate and other factors that have supported the growth in households' disposable income in recent years, such as the decrease in oil prices, will abate. This said, private consumption is still seen as the main growth driver.

Although employment growth is set to ease over the next two years, it is projected to remain strong, allowing the unemployment rate to fall to about 14% by 2019, down from 26% in 2013. Still high unemployment will keep wage growth subdued despite a pickup in inflation to 2%. Inflation growth, however, is expected to decelerate as oil prices stabilise.

There is also the risk that future developments in Catalonia could have an impact on growth, but the size of the risk cannot be currently estimated.

Unemployment



Source: World Development Indicators, European Commission

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

GDP growth strengthened in the heart of Europe in 2017 above 2%, with Dutch GDP growth reaching 3.2%, and should continue to expand at almost the same pace until 2019. The main driver in all three countries is domestic demand, with fiscal stimulus package giving an extra boost in the Netherlands. Growth in Austria and Germany is also supported by robust world trade and a firming recovery in the euro area.

The strong economic activity in 2017 is also supporting a rise in employment and driving the unemployment rate down. In Austria, it is expected to move below 6%, while in the Netherlands below 5% and in Germany below 4%. As the labour market tightens, wage growth is forecasted to pick up over the next years, contributing to the growth of disposable income and sustaining the pace of consumption growth, but also supporting the savings rate, as inflation is still low. In the Netherlands and especially in Austria, tourism-induced rise in service prices is feeding inflationary pressure, while in Germany the wage pressure is main culprit.

OVERVIEW OF THE YEAR 2017

In 2017, Bigbank AS (hereafter also "Bigbank" or the "Group") succeeded in increasing the volume of the loan portfolio as well as net profit. At 31 December 2017, the Group's consolidated assets totalled 459,336 thousand euros, increasing by 65,208 thousand euros (16.5%) during the year. Growth in total assets came primarily from 13.4% growth in loans to customers, which reached 377,458 thousand euros.

The Group issues loans in the Baltic countries, Finland, Sweden and Spain. The sales of 2017 reached a record high 254,369 thousand euros, 12.0% more than in year 2016. In 2017, the credit quality of the loan portfolio improved significantly. It is remarkable that the proportion of loans past due for more than 90 days dropped from 12.9% to 6.8% by the end of the year, which is the lowest ever level, amounting to 27,096 thousand euros.

Term deposits are continuously accepted from customers in Estonia, Finland, Sweden and Latvia but also in Germany, Austria and the Netherlands as cross-border services. The Group's funding is based on its deposit portfolio, which is diversified in terms of countries, maturities and customers. At the end of 2017, Bigbank's liabilities totalled 346,090 thousand euros. Most of the liabilities, i.e. 334,819 thousand euros (96.7%) consisted of term deposits. The deposit portfolio's weighted average duration to maturity was more than 539 days as of the year-end. Due to the low interest rate environment, the Group managed to reduce its ratio of interest expense to average interest-bearing liabilities (to 1.9% as of the year-end, 2.3% year earlier). At the end of 2017, Bigbank issued subordinated notes of 5,000 thousand euros with a term of 10 years. The private placement was organised in cooperation with LHV pension funds to strengthen Bigbank's capital base.

Bigbank Group ended the year 2017 with a profit after tax of 17,206 thousand euros, 5,503 thousand euros i.e. 47.0% more than in 2016. The Group earned interest income of 69,725 thousand euros, an increase of 500 thousand euros (0.7%) compared with the previous year. Interest expense for 2017 amounted to 5,776, a decrease of 164 thousand euros (2.8%) compared with the previous year. In 2017, impairment losses on loans and financial investments totalled 17,581 thousand euros, decreasing by 8,306 thousand euros (32.1%) compared with the previous year. Tier 1 capital ratio was 23.1% at 31 December 2017 (31 December 2016: 23.4%).

OUTLOOK FOR 2018

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

The main external risks are related to the geopolitical situation and the ongoing migration crisis. Political uncertainties result from Brexit as well as political instability in Germany and presidential elections in Russia.

Based on the growth of the Baltic economies and the improvement in consumer confidence, we expect that Bigbank can sustain its business growth in Estonia, Latvia and Lithuania at the same pace. Performance improvement achieved in the Swedish market in 2017 creates a solid basis for substantial growth in 2018. Our key challenges lie in improving credit quality in Spain and Finland and navigating in an environment of increasing regulatory restrictions.

We are not planning to expand to any new target markets in 2018. We will continue to invest in technologies and product developments that support a digital lender's business model so as to develop into a fully automated digital bank.

KEY PERFORMANCE INDICATORS

Financial position indicators (in thousands of euros)	31 Dec 2017	31 Dec 2016
Total assets	459,336	394,128
Loans to customers	377,458	332,725
of which loan portfolio	396,138	363,130
of which interest receivable	10,291	16,916
of which impairment allowances	-28,971	-47,321
Deposits from customers	334,819	285,575
Equity	113,246	100,836

Financial performance indicators	2017	2016
Interest income	69,725	69,225
Interest expense	-5,776	-5,940
Salaries and associated charges	-16,362	-14,762
Other operating expenses	-10,431	-11,073
Net impairment loss on loans and financial investments	-17,581	-25,887
Profit for the year	17,206	11,703

For the year	2017	2016
Average equity	107,041	95,474
Average assets	426,732	373,040
Average interest-earning assets	409,573	374,171
Average interest-bearing liabilities	305,980	263,961
Total income (gross)	75,462	75,159

Ratios	2017	2016
Return on assets (ROA)	4.0%	3.1%
Return on equity (ROE)	16.1%	12.3%
Profit margin (PM)	22.8%	15.6%
Return on loans	20.3%	20.0%
Asset utilization ratio (AU)	17.7%	20.1%
Price difference (SPREAD)	15.1%	16.3%
Cost to income ratio (CIR)	46.0%	42.5%
Equity multiplier (EM)	4.0	3.9
Earnings per share (EPS), euros	215.08	146.29
Yield on interest-earning assets	17.0%	18.5%
Cost of interest-bearing liabilities	1.9%	2.3%

Explanations

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

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

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

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

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

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

Return on loans = (interest income on loan portfolio + income from debt collection) / average loan portfolio

Asset utilisation ratio (AU) = total income / total 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) = total assets / total equity

Earnings per share (EPS) = profit for the year / period's average number of shares outstanding

Total income = interest income + fee and commission income + other income

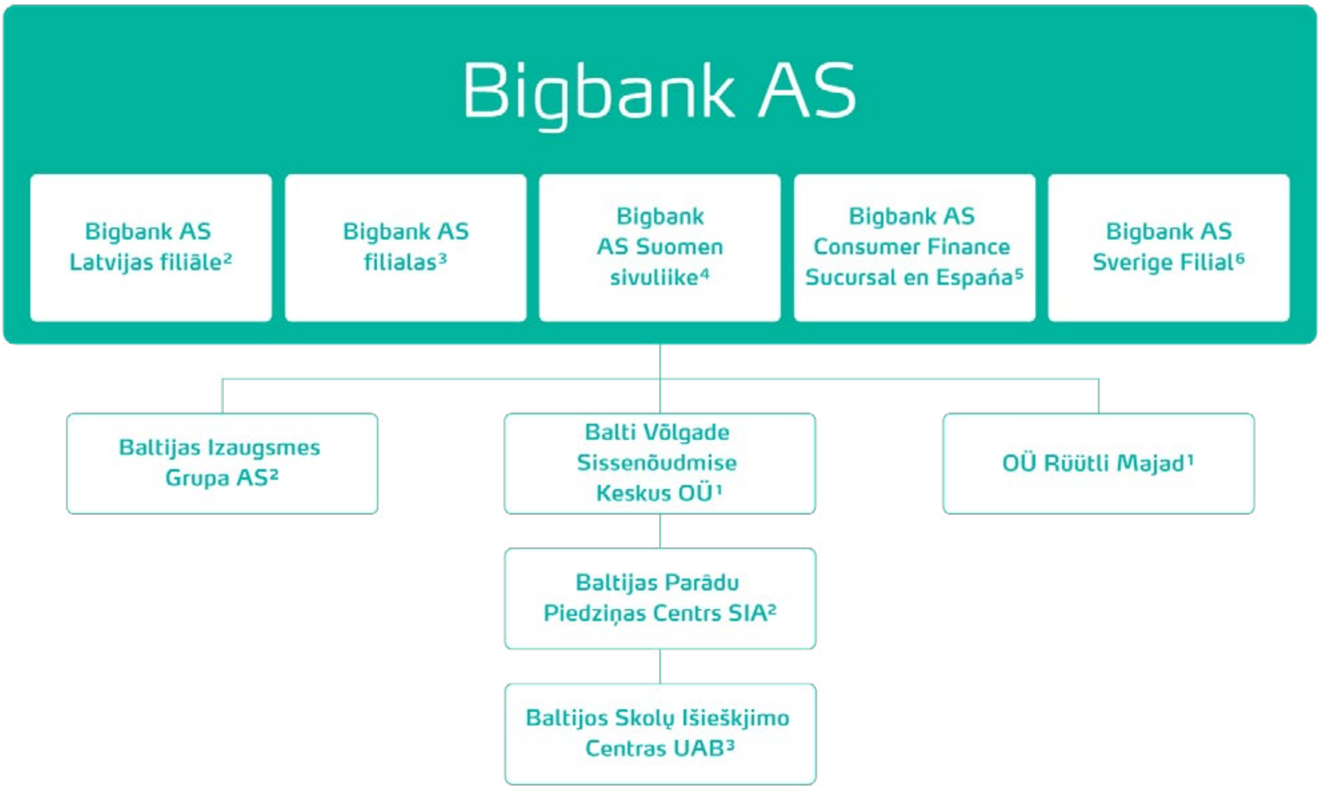
Yield on interest-earning assets = interest income / interest-earning assets

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

ABOUT BIGBANK GROUP

Bigbank AS was founded on 22 September 1992. A licence for operating as a credit institution was obtained on 27 September 2005.

Bigbank's core services are consumer loans and term deposits. The Group's structure at the reporting date:



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

The branches in Latvia, Lithuania, Finland, Sweden and Spain offer lending services similar to those of the parent. The parent and its Latvian, Finnish and Swedish branches also offer deposit services. In addition, Bigbank AS provides cross-border deposit services in Germany, the Netherlands and Austria. The core business of OÜ Rüütli Majad is managing the real estate used in the parent's business in Estonia. OÜ Balti Võlgade Sissenõudmise Keskus and its subsidiaries support the parent and its branches in debt collection.

SHAREHOLDERS

The shares in Bigbank AS are held by two individuals, each holding the same number of shares. At 31 December 2017, the shareholders were:

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

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

LITIGATION

At 31 December 2017, the Group was not involved in any significant litigation.

EMPLOYEES

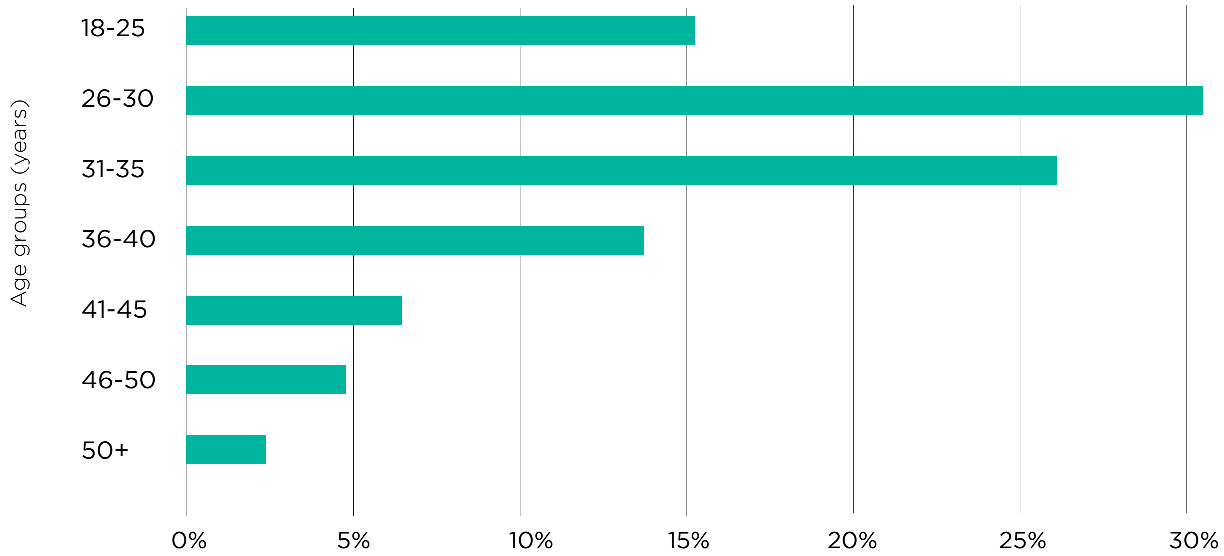
The Group's business growth and remarkable development in recent years have been achieved through the efforts of a committed and professional team of more than 400 employees.

EMPLOYEE PROFILE BY COUNTRIES AS AT 31 DECEMBER 2017

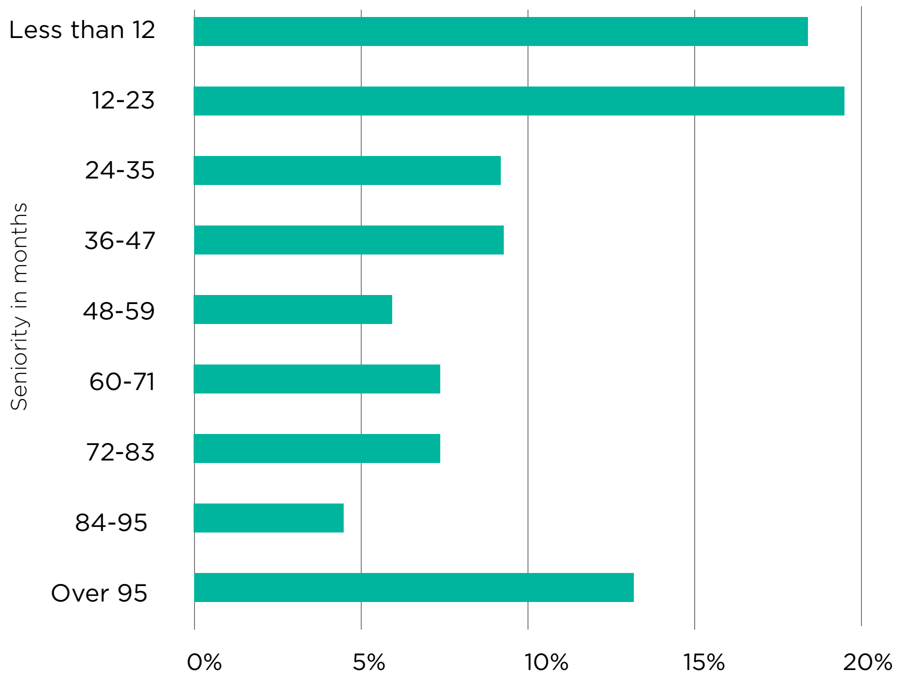
Country	Group/ Non-group	Number of employees	Number of male employees	Number of female employees	Share of male employees	Share of female employees	Average lenght of service	Average age
Estonia	Group level employee	159	78	81	49%	51%	47 months	33 years
	Non-group employee	53	13	40	25%	75%	47 months	32 years
Finland	Group level employee	6	3	3	50%	50%	71 months	41 years
	Non-group employee	12	5	7	42%	58%	43 months	33 years
Latvia	Group level employee	15	2	13	13%	87%	80 months	33 years
	Non-group employee	60	14	46	23%	77%	55 months	30 years
Lithuania	Group level employee	22	13	9	59%	41%	41 months	32 years
	Non-group employee	53	13	40	25%	75%	47 months	30 years
Spain	Group level employee	6	5	1	83%	17%	56 months	39 years
	Non-group employee	19	8	11	42%	58%	54 months	35 years
Sweden	Group level employee	2	-	2	-	100%	53 months	47 years
	Non-group employee	10	5	5	50%	50%	36 months	31 years
Grand total		417	159	258	38%	62%	49 months	32 years

Table: Employee profile by countries as at 31 December 2017

Employees by age



Employees by length of service



In 2017, the human resource strategy for the period 2013-2017 ended. The most important results of the four years are highlighted in the table below:

STRATEGIC GOAL FOR 2013-2017	SITUATION AT 31 DECEMBER 2017
We have dedicated and motivated employees.	Employee engagement grew from 49 points in 2014 to 61 points in 2017.
We hire talented people and develop them into experts and leaders.	Conscious recruitment of senior-level competence for all management levels and areas has had asignificant impact on the Group's governance, business performance and technological development.
We value professional managers and develop managers internally.	Systematic development programs related to Lean Operations Management, Agile Development and 4 Disciplines of Execution across the Group have significantly improved the quality of both strategic and daily management quality. Average rating given to direct managers improved from 4.0 in 2014 to 4.1 in 2017.
We support the development of our employees and give each other feedback.	Each year, the Group invested in the training and development of employees three times more resources than in 2013. Training and development targets are an integral part of the Group's remuneration system and directly linked to annual KPIs, performance appraisal and remuneration. Average rating given to training and development opportunities increased from 3.8 in 2014 to 4.0 in 2017.
We have a competitive, simple and fair reward system.	Remuneration principles established in 2014 have been implemented and annually monitored. Average rating given to remuneration increased from 3.5 in 2014 to 3.8 in 2017.
We have a good reputation both as a company and an employer. Our employer brand image is strong both internally and externally.	Willingness to recommend Bigbank as an employer increased from 3.5 in 2014 to 3.8 in 2017.

Source: Bigbank Employee Engagement Survey 2017

Following the adoption of Bigbank's new business strategy, the employee experience strategy (EmpEX) for 2018-2021 was developed in 2017. By consciously applying the design thinking methodology we were able to engage employees effectively and identify the most important improvement needs. The goal of the EmpEx strategy is to support the delivery of Bigbank's strategy for 2017-2021 and its sub-strategies by ensuring that employees function as a professional and committed team and are proud of working for Bigbank.

The EmpEX strategic focus areas for 2018-2021 are as follows:

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

EmpEX workshop participants from the Estonian business unit.

EmpEX workshop participants from the Spanish branch.

25th Anniversary Conference in 2017 in Riga

In line with the strategic goal to provide high quality digital financial services and following the launch of the new core system, the number of employees has been decreasing. As of 31 December 2017 the number of employees was 417 compared with 434 at the end of 2016. In 2018, the key drivers for the most important activities in people management are that the majority of employees (47%) are younger than 30 years and 40% have been with us less than 23 months.


Is a

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

Today Bigbank's customers interact with us mostly via digital channels. They are in nine different countries and have very different profiles, wishes and needs. As Bigbank's mission is to enable people to improve their lives through seamless financial services, our customers' journey and experience are very important for us.

Customer experience management

One of Bigbank's priorities is to offer exceptional customer experience. This allows us to retain loyal customers who recommend our products and services. We care about what our customers experience from the moment they take an interest in our products or services to the moment they cease using our products or services.

Bigbank's business strategy for the period 2017-2021 focuses on sustainable growth. A core element of this is consistent customer experience enhancement. Accordingly, at the beginning of 2017 we designed Bigbank's customer experience strategy using the input of both the customers and the staff. To implement the strategy, we took the following steps in nine countries:

- We systematically shared customer feedback statistics with the staff so that customer-related issues would be high on the agenda and our people would understand how we can offer more value to the customer.
- We updated the processes which ensure that customer experience is consistently and regularly monitored and analysed. This helps us make more relevant and customer-focused improvement decisions at every level of management: from the board to the smallest units.
- We improved customer experience in both notifying the customer of a negative credit decision and debt collection proceedings. In 2017, customers' willingness to recommend us in these touch points grew by 11% and 29% respectively.
- We refreshed the policies for assessing the effectiveness of our customer communication activities. This provides our frontline staff with a better understanding of what is expected from them and how they can offer more value to the customer.
- We renewed our complaints processing environment to make complaints handling more effective. This allows us to resolve customer complaints more swiftly and to prevent the recurrence of the same problems.

- We modernised our call centre tools to respond to our customers more quickly: compared to 2016 our year on year efficiency in replying to emails and calls improved by 27% and 11% respectively.
- We continued to provide our frontline staff with regular training and personal development opportunities.
- We created a system which allows us to segment and monitor customer requests on a regular basis. This information helps us make more customer-focused management decisions.

Customer experience monitoring and measurement

We pay a lot of attention to measuring and analysing customer experience as this helps us make sure that the customer experience we offer exceeds expectations. We systematically and regularly seek feedback from customers. This provides us with a fair appraisal of our activities and insights into our strengths and weaknesses which we can subsequently work on. Customer feedback helps us measure and understand what increases our customers' loyalty and what does not. Increasing customer satisfaction and loyalty is also important for our business partners.

We measure customer satisfaction with the following techniques and indicators:

- we regularly request feedback on different customer experience touch points through the Net Promoter Score, First Contact Resolution and Customer Satisfaction Index (around 2,700 respondents per month);
- we measure customer communication effectiveness by analysing call centre statistics and appraising the communication quality of individual members of staff;
- we study our overall brand positioning and image through annual brand surveys conducted in our existing markets (around 6,000 respondents);
- we analyse the feedback provided by customers who have called or emailed us.

With the above samples we cover all the key touch points of the customer journey as well as different age groups. Customers have provided us with valuable feedback on our customer service, products, and pricing.

Customer complaints

We believe it is important to find a solution for every customer's dissatisfaction. Customer complaints are mainly processed by our frontline staff. In 2017, complaints were received by all units. The number of complaints remained at the same level as in 2016. We have put in place a process that can be used to provide feedback on the quality of our products and services and an information system which collects information from different customer groups and forwards it to the person responsible for the service or process. Bigbank handles complaints using a case-by-case approach with a view to making sure that similar complaints do not recur. Where resolving a complaint requires technological development, the information is passed on to the manager of the service line and the project is carried out within a longer timeframe.

Responsible customer service

Quality customer relationships are underpinned not only by product quality but also by responsible customer service. We ensure the responsible nature of our customer service through the following techniques:

1. Proactive communication – We notify the customer of the obligations and risks of a contract in advance. Together with the customer, we find solutions and prevent possible issues. We review the quality of our customer communication based on our adopted quality model. To make sure that our staff have sufficient knowledge and skills, we provide our people with training and opportunities for personal development and test their competence on a regular basis.
2. Continuous monitoring of complaints and problems – We follow our complaints handling procedure and, where necessary, undertake improvement activities.
3. Keeping our promises to customers and effective information sharing – We respond quickly to all customer enquiries and needs.

Customer experience according to customer feedback

In 2017, we paid particular attention to delivering consistently high quality in different stages of the customer journey and systematically increasing our customers' loyalty. Today our customers say that Bigbank's customer service is excellent because we understand their needs, prevent problems, and handle issues swiftly and complaints tactfully. Customers trust our products and services considerably more than years ago. In addition to excellent customer service, our customers appreciate our transparent and swift credit approval processes and quick replies to their enquiries.

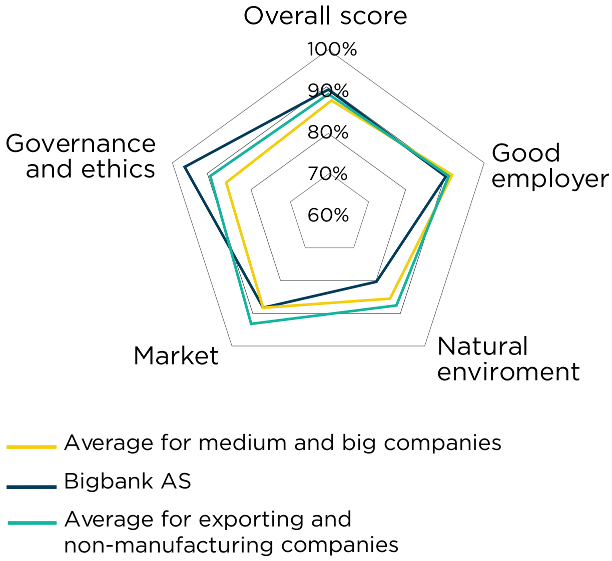
In 2017, customers' willingness to recommend Bigbank to other customers grew by 18%. The Customer Satisfaction Index remained consistently high throughout the year (87%).

Looking at the dynamics of the Net Promoter Score of 2017, we see improvements in all touch points of the customer journey all through the year. The biggest improvement was achieved in the feedback of customers that received a negative credit decision and customers that had to interact with our debt collection staff. In both areas, positive customer feedback increased. Results differ by country. Bigbank's Net Promoter Score is the highest in Estonia and Lithuania but its improvement was the fastest in Sweden and Latvia. In Finland, Spain, Germany, Austria, and the Netherlands the Net Promoter Score remained stable. Customers' loyalty is the highest after the signature of a contract and when they interact with our staff. Our strong customer relationships are largely underpinned by a positive shift in Bigbank's image in the media.

In the customer experience, all different touch points play an important role and we are pleased to report that we have gradually strengthened them in all the countries where we operate.

BIGBANK AS A RESPONSIBLE EMPLOYER

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



Source: CSR Index 2016 results, 17 March 2017

At the end of 2017, Bigbank employed 417 people: 212 in Estonia, 75 in Latvia, 75 in Lithuania, 25 in Spain, 18 in Finland and 12 in Sweden. The annual average number of full-time employees was 425.

Strengthening internal governance

In 2017, improving Bigbank's internal governance was one of the main focus areas for the management board. Among many initiatives, the most important improvements are related to the following changes in work arrangement:

- We established the branch executive boards which support the self-sufficiency of the branches, improve the transparency of the decision-making process and the delivery of the 2017-2021 business strategy.
- We reorganised the technology engineering teams and product teams which support an effective and timely delivery of the new core banking system NEST.
- We launched the new core system in Finland and together with the new system updated work arrangement at the branch level. It will serve as a model for future work arrangement principles in all countries where Bigbank operates

In 2017, we continued to review and develop Group-level processes to ensure the delivery of quality services to employees. These services are related to employment relationship management, recruitment, remuneration and professional development.

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

Bigbank Way of Working culture

2017 was a very important year for us in increasing awareness of our shared ways of working, both internally and externally. We see how sharing personal stories, team successes, learning points, customer feedback and Bigbank's results internally has created positive vibes inside the company and external interest in hearing about our ways of working.

More than ever before, our employees spoke at various seminars, conferences, and workshops. We were invited to share insights about the development of our new core banking system, employee experience management principles, international recruitment experience, information about the tools and methods we use in our work and many other areas where Bigbank stands out for innovation.

To support information sharing and internal cooperation, in January 2017 we introduced a new tool for regular Group-wide meetings – the management board's monthly all-hands meetings. We organise the meetings digitally and provide all employees with an opportunity to meet the members of the management board, hear updates of the Group's results and customer feedback, and directly ask questions from the management board.

Our employees are actively engaged in community and charity projects. In 2017, they voted donating for charity as the employee birthday present for the year and we donated a total of 6,000 euros to the organisations our WOW Reward is our Group-wide internal digital tool for publicly sharing recognition and giving feedback to colleagues. In 2017, we witnessed a peak in the amount of feedback provided. Close to 30% of employees received positive feedback for their outstanding results. Altogether, colleagues gave feedback more than 200 times. employees recommended.

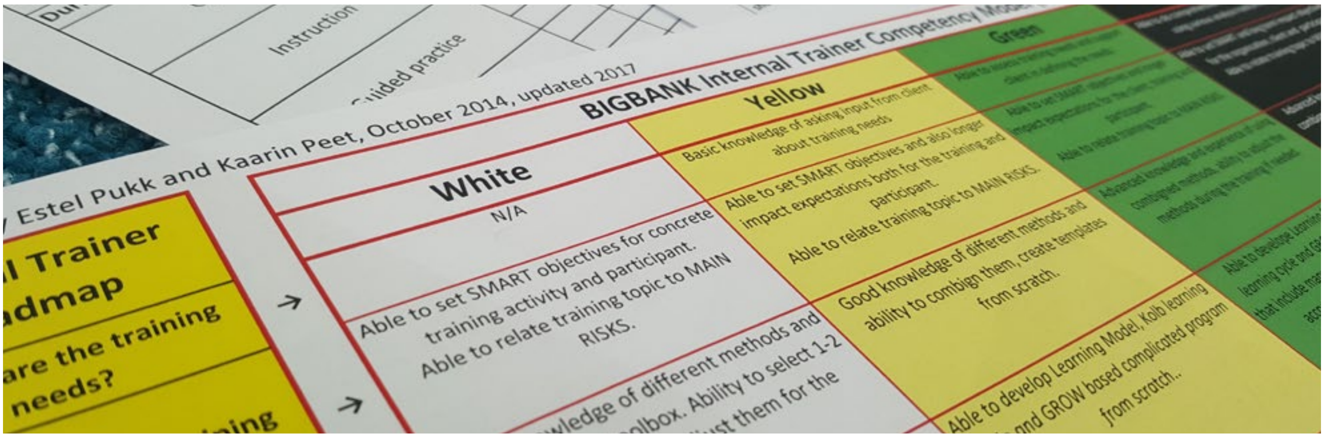
Dainius Liegus, our IT specialist from Lithuania

Our chairman of the management board Sven Raba sharing his views on how IT and modern banking are interconnected at the Atea Action annual conference.

Training and development

Becoming a digital financial service provider with a strong focus on excellent customer experience demands a significant change in the competence levels of the employees. Thus, we have established internal training and development principles which are tightly linked to employee performance management and remuneration. In 2014, we set up an internal trainers' academy to enhance the competencies of managers and senior-level specialists in designing and delivering high-quality internal training courses for existing and new employees. As of 31 December 2017, around 25% of employees had passed the 16-hour long internal trainers' white belt course. In 2018, we plan to launch the next level: internal trainers' yellow belt course.

In 2017, we introduced Group-level training programmes to enhance risk awareness across the organisation. The programmes included interactive sessions on the general risk management framework, data protection, the EU's new General Data Protection Regulation, cybersecurity, operational risk control, etc.



Bigbank Internal Trainer Competency Model

In response to feedback from employees, the development of our managers' leadership and management competencies has constantly been in focus. We use various methods from individual coaching to Group-level programs. To ensure we achieve our 2017-2021 strategic objectives, the management board decided to set a mandatory KPI for all employees. They need to agree at least one customer experience-related KPI for 2018 and top managers also need at least one employee experience-related KPI. In 2018, our training and development activities will focus on supporting improvements in the experience of our most important stakeholders – customers and employees.

Our chief information security officer Jaan Anvelt preparing information materials about cyber security.

Opening reception of our new Tartu office.

Working tools and conditions

We regularly monitor the quality of working conditions in all our offices. We carry out audits both in co-operation with employee representatives and independent external experts. In 2017, the most important improvement was the relocation of our Tartu office to newly built premises.

We also made smaller improvements to our Tallinn, Helsinki, and Riga offices. The renovation of our Tallinn office has been scheduled for 2018. Based on employee feedback, office facilities, microclimate, and tools remain the most important aspects of work and we continue to invest in a high quality and flexible working environment.

Opening reception of our new Tartu office.

Opening reception of our new Tartu office.

COMMUNITY AND SOCIETY

At Bigbank, we believe that each of us can help make the world around us a better place. We are dedicated and observe the principles of responsible lending in our daily work, contribute actively to the advancement of financial education in all the markets where we operate, and support initiatives important for society through sponsoring and charity work. In 2017, the Responsible Business Forum recognised us with a silver award for highly responsible business practice.

RESPONSIBLE ACTIVITIES

In recent years, we have consciously managed our activities as a responsible business, analysing our key stakeholder groups, increasing the benefits we provide to society, developing our employees and work environment and managing the company based on its value to the main stakeholder groups. In 2016, we participated for the first time in Estonia's Corporate Social Responsibility Index, which provided us with comprehensive feedback on our activities. Based on the results of the index, we developed detailed action plans which helped us increase the company's value for our key stakeholder groups which include customers, employees, business partners, and the communities where we operate. We believe that a commitment to sustainability, both in the mindset and in plans and activities, is the bedrock of the success of the whole society. Accordingly, we hold the silver award received at the Responsible Business Gala of 2017 in high esteem and continue our efforts in this area.

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

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

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

ECONOMIC ACTIVITIES

Bigbank is a successful privately held company with a strategy, which emphasises sustainable and profitable growth with a long-term target that return on equity (ROE) should be above 15%. This level of profitability allows the Group to grow mostly without additional capital injections. In 2017-2020 we are going to invest heavily in the development of our core systems to be a modern highly automated digital bank providing seamless financial services with a focus on lending and accepting term deposits.

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

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

Bigbank does not have a formal dividend policy. So far, the Group has made yearly dividend payments. The maximum dividend has been 5,000 thousand euros distributed for 2016 (the same amount is expected for 2017).

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

ENVIRONMENTAL ACTIVITIES

At the beginning of 2017, we launched a new loan product in Spain – a green loan, which promotes sustainable and green consumption. The loan can be used, for example, for acquiring electrical or hybrid cars or installing solar panels. In the product communication process we explained and underlined the importance of green thinking through different social media, content marketing and traditional media activities. For instance, at Bigbank's initiative various events were organised – a bicycle day, a nature reserve day, promotion of sustainable tourism, a fair promoting green consumption, Earth Hour, etc. Today we are the only bank in Spain that offers a financial product specifically designed for financing green projects. We are planning to launch a similar product in the Baltics soon.

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

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

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

CHARITABLE ACTIVITIES

As a bank, we understand and recognise our role in the communities where we operate and contribute to the development of those communities. We value healthy lifestyles, cultivation of the mind, and the sustainability of the community. Accordingly, for years we have supported culture, sports, young people and large families through various charity and sponsoring projects. In 2017, our largest and most outstanding support activities were as follows:

Bigbank Tartu. Since 2012 we have been the main sponsor of the volleyball club Bigbank Tartu. Our goal is to contribute to the development of Estonian sport. In the time we have been the club's sponsor, we have seen Estonian volleyball make a huge leap and become a competitor for the best in Europe. We are delighted that the club's player Rait Rikberg delivered outstanding performance when playing for Estonia in the European Volleyball Championship of 2017. We are very happy that we have an opportunity to be part of the development of Estonian volleyball.

Bigbank's Large Family Day. Since 2005, Bigbank has been working with the Estonian Association of Large Families to offer families with four or more children an opportunity to enjoy a special active day full of fun. In addition, every year we recognise an active large family that has made a positive impact on the community with the Large Family of the Year title and award. In 2017, the winner of the Large Family of the Year title, 5000 euros and a family trip to Greece put up by Bigbank was the Muru family from Tartu that has five children and values education.

Charity fundraising lunches. For several years our employees have been organising charity fundraising lunches to support those in need. In 2017, the staff of our Tallinn, Tartu and Vilnius offices cooked delicious dishes for their colleagues. The money raised was donated to different organisations including those helping victims of domestic violence and those supporting animals.

Marathons in Latvia. For the third year in a row we promoted healthy lifestyles by sponsoring Latvia's biggest series of running events which consists of eight full and eight half marathons. The marathons are organised in the summer in the eight largest Latvian cities: Jelgava, Ventspils, Valmiera, Kuldīga, Rēzekne, Sigulda, Liepāja and Daugavpils. In 2017, the series attracted over

25,000 active lifestyle supporters from all age groups.

Midsummer night concert. For several years, Bigbank has organised an open air midsummer night concert in partnership with a major Latvian city. Families come together to spend the shortest night of the year around a fire, eat national dishes, listen to traditional music and dance to it. In 2017, the concert held in Dobele attracted over 10,000 music and dance lovers.

Music festival Bigbank Pearls of Latvia. The festival, which took place for the fourth year already, was again held in Jurmala. Three nights filled with music offered all lovers of Latvian music an opportunity to enjoy the work of well-known and beloved local artists. In 2017, the festival was dedicated to three popular Latvian musicians who are also known as poets and playwrights: Māra Zālīte, Jānis Peters and Guntars Račs.

Animal shelter campaign. For the third year in a row we organised a charitable social media campaign #laiBigbankziedo (#Bigbankwilldonate). The purpose of the project is to raise the public's awareness of animal welfare issues and support the Labās mājas animal shelter. We invited the users of Facebook and Instagram to post pictures of themselves with their pets using the hashtag #laiBigbankziedo. For each posted picture we supported the shelter with 1 euro. In 2017, we raised 4,000 euros which was spent on heating the shelter's 1,000 square metre premises during the winter season.

Social project "Bigbank makes dreams come true". We continued the social project launched in 2016 to help Latvian primary and secondary schools organise a dream Christmas event. To win the prize, a Christmas party fully financed by Bigbank, pupils made pictures and videos with the help of their teachers and parents and described their dream school Christmas party. In 2017, winners of the 1000-euro dream Christmas party were a primary school from Rugāju and a secondary school from Sigulda.

MEMBERSHIP IN ORGANISATIONS

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

Bigbank is a long-term member of the Estonian Chamber of Commerce and Industry and FinanceEstonia.

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

Corporate governance report

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

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

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

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

GENERAL MEETING

The general meeting that convened on 6 March 2017 approved the company's annual report, allocation of profit for 2016 and decided to extend the mandate of the members of the supervisory board. 100% of the votes determined by shares were represented at the meetings.

Bigbank AS does not comply with the provisions of the CGR under which the company should publish on its website notice of a general meeting (article 1.2.1), essential information on the agenda of a general meeting (article 1.2.3), and the proposals of the supervisory board and the shareholders regarding the agenda items (article 1.2.4). In 2017, the general meeting was not attended by the members of the management board, the auditor and the members of the supervisory board that are not shareholders (article 1.3.2). Bigbank AS does not make observing the general meeting possible by means of communication equipment (article 1.3.3).

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

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

SUPERVISORY BOARD

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

Parvel Pruunsild –
chairman of the supervisory board

Vahur Voll –
member of the supervisory board

Andres Koern –
member of the supervisory board

Juhani Jaeger –
member of the supervisory board

Raul Eamets –
member of the supervisory board

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

In 2017, the remuneration of the members of the supervisory board totalled 53 thousand euros including taxes. The company does not deem it necessary to provide more detailed information about the remuneration of the members of the supervisory board because the effect of the remuneration on the company's financial performance is not significant (article 3.2.5). All members of the supervisory board attended at least half of the meetings held in 2017. As far as the company is aware, in 2017 the members of the supervisory board did not have any material conflicts of interest as defined in article 3.3.2 of the CGR. There have been no transactions with the members of the supervisory board in the reporting period.

The CGR sets forth the independence requirement for members of the supervisory board (article 3.2.2). Two out of the five supervisory board members are shareholders who each hold 50% of the shares and both have served on the supervisory board for over ten years. The company is of the opinion that these connections do not involve a significant risk of a conflict of interest that could lead to the adoption of a decision detrimental to Bigbank AS and that the independence of the supervisory board is ensured. Other supervisory board members have no known connection with the company except for their board member remuneration.

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

In other respects, the company complies with parts III and IV of the CGR.

MANAGEMENT BOARD

Supervisory board elected Pāvels Gilodo and Martin Länts as new management board members as of 1 January 2017 and Martin Veskimägi as of 6 February 2017.

As of 31 December 2017 the management board had four members (under the articles of association the number may range from three to five):

Sven Raba –
chairman of the management board

Pāvels Gilodo –
member of the management board

Martin Länts –
member of the management board

Mart Veskimägi –
member of the management board

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

On 18 August 2017, the supervisory board recalled chairman of the management board Kaido Saar, effective as of 31 August 2017 and appointed Sven Raba as the chairman of the management board, effective as of 1 September 2017.

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

In 2017, Bigbank AS did not comply with article 2.2.7 of the CGR, which provides that the benefits and bonus schemes of each member of the management board should be published on the corporate website and in the corporate governance report and that the principles of remunerating management board members should be explained at the general meeting.

Bigbank AS publishes the aggregate remuneration of the members of the Group's management board in its annual report. The figure for 2017 was 1,048 thousand euros including taxes. In addition, the company observes the requirements of the legislation regulating the disclosure of a credit institution's remuneration policy. The requirement of disclosing the remuneration of each member of the management board is primarily aimed at informing the shareholders. In view of the shareholder structure of Bigbank AS, detailed disclosure of this information in the company's corporate governance report is not necessary. The principles of remunerating the members of the management board were not explained at the general meeting because the shareholders are on the supervisory board and thus aware of the principles.

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

DIVERSITY AND INCLUSION POLICY

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

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

All employees regardless of gender, ethnic background, religion or belief, age, sexual orientation or physical disability should have equal access to career and other opportunities.

Working conditions, salaries, benefits and other employment terms are designed with the aim of providing equal opportunities and making it easier for all employees to combine work, private life and parenthood.

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

DISCLOSURE OF INFORMATION

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

In 2017, Bigbank AS did not publish its financial calendar because the regularity of reporting is provided, among other things, in the Credit Institutions Act. The company issues quarterly reports within two months after the end of each quarter. Disclosure of a term for publishing a notice of calling a general meeting is not relevant in view of the small number of shareholders.

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

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

REPORTING

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

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

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

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

RISK MANAGEMENT AND CONTROL FUNCTIONS

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

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

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

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

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

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

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

The risk management function consists of the operational risk control unit, the quality control unit, the operations security and control unit and the risk reporting unit. The head of the risk management function reports regularly to the risk committee and the management board on the Group's risk profile and overall risk development.

Within the risk management function, the operations security and control unitís (OSCU) role is to ensure that the Group fulfils its obligations in relation to anti-money laundering, terrorist financing prevention and monitoring politically exposed persons as required by the law and internal regulations and to facilitate the development of controls that support the detection and prevention of fraud. The OSCU reports directly to the management board.

The internal audit unit is a structural unit of the Group, which is directly accountable to the Groupís supervisory board and is therefore independent of the Groupís management board. The unit consists of two internal auditors and the head of the unit. Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Groupís 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 Groupís 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 Groupís supervisory board. The statute of the internal audit unit describes the requirements to the internal audit with regard to independence, proficiency, authority, tasks, and scope of activities as well as the principles of quality assurance. The internal audit unitís work plan is approved by the Groupís supervisory board.

WHISTLEBLOWING HOTLINE

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

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

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

REMUNERATION PRINCIPLES

The Group's remuneration policy is established by the supervisory board in order to ensure a fair and transparent remuneration system that would support achievement of the Group's long-term objective – to become recognised as the best financial services provider by customers and to ensure effective risk management and the Group's strong reputation as an employer in all countries where Bigbank's branches and subsidiaries operate. The purpose is to ensure that remuneration decisions deliver sustainable value growth for all key stakeholders, including customers, shareholders and employees. The remuneration system ensures equal treatment of employees as rewards are based on the employee's performance and professional development during the year.

The supervisory board approves the Group's remuneration policy and reviews it annually in the fourth quarter. According to the policy, the management board approves the annual remuneration principles, including the principles for establishing annual key performance indicators (KPIs), evaluating employee performance and reviewing fixed pay. Annual remuneration principles also include guidelines for establishing performance pay principles at the branch or function level. The management board monitors the implementation of the remuneration principles quarterly, asking feedback from employees in May and December.

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

The remuneration structure consists of two parts:

Fixed remuneration including:

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

Variable remuneration including:

- performance pay agreed with the employee, which depends on the achievement of the Group's long term objectives and fulfilment of relevant, measurable and balanced criteria;
- performance pay paid on objective grounds and generally on a one-off basis, e.g. for fulfilling additional responsibilities or ensuring business continuity in emergency situations.

The role of the remuneration committee is fulfilled by Bigbank's supervisory board which is responsible for approving and supervising the group-wide remuneration policy and adopting decisions related to the remuneration of the members of the management board and the internal audit function. The remuneration policy is reviewed by the supervisory board at least once a year. Preparation of the policy and related group-wide internal regulations is the responsibility of the head of support services who makes amendment proposals to the management board, which submits relevant amendment proposals for approval by the supervisory board. Annual general remuneration principles, including the rates of fixed remuneration and the rules for the provision of variable remuneration, are approved by the Group's management board. Branch- and area-specific remuneration decisions are made by heads of branches and areas in line with the Group's policy and rules.

As required by the law, Bigbank has defined material risk takers which include the senior management (members of the supervisory and management boards); employees responsible for control functions; employees who have a significant impact on the Group's risk profile; and staff whose remuneration equals or exceeds the lowest remuneration of the members of the Group's management board. The supervisory board approves the list of material risk takers at least once a year based on the proposal of the management board. As at 31 December 2017, the list included 34 positions. The list is changed based on changes in staff or the Group's work arrangement. The principles underlying the fixed remuneration of material risk takers are the same as for the rest of the Group's employees. The share of performance related pay in the total annual remuneration may not exceed 30% which should ensure carefully calculated risk-taking. The Group may withhold performance related pay either in full or in part, reduce performance related pay, or demand partial or full repayment of disbursed performance related pay when the Group's results do not meet the target.

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

In 2017, the remuneration (excluding social costs and pensions) provided to management, which included 36 positions together with the members of the management board and supervisory board, totalled 2,335 thousand euros, the figure consisting of fixed remuneration of 1,885 thousand euros, performance related pay of 375 thousand euros and severance payment of 75 thousand euros. Fixed remuneration was paid to people in 36 positions and performance related pay was paid to people in 23 positions. Performance related pay was paid in cash and allocated and paid out in 2017. There is no unpaid performance related pay allocated for performance in 2017.

(In thousands of euros)

Consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	2017	2016
Assets			
Cash and balances at central banks	4	36,235	20,551
Due from banks	4	17,947	14,382
Financial assets held for trading	5	11,210	14,891
Loans to customers	6,7	377,458	332,725
Other receivables	8	2,775	1,303
Prepayments	9	915	1,420
Property and equipment	10	3,446	4,299
Investment properties	11	1,878	509
Intangible assets	12	7,472	4,037
Deferred tax assets	28	-	11
Total assets		**459,336**	**394,128**
Liabilities			
Deposits from customers	13	334,819	285,575
Subordinated notes	14	4,977	-
Provisions		667	133
Other liabilities	15	4,398	4,783
Deferred income and tax liabilities	16	1,229	2,801
Total liabilities		**346,090**	**293,292**
Equity	17		
Share capital		8,000	8,000
Capital reserve		800	800
Other reserves		675	1,369
Retained earnings		103,771	90,667
Total equity		**113,246**	**100,836**
Total liabilities and equity		**459,336**	**394,128**

The notes on pages 52 to 121 are an integral part of these consolidated financial statements

(In thousands of euros)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2017	2016
Interest income	18	69,725	69,225
Interest expense	19	-5,776	-5,940
Net interest income		**63,949**	**63,285**
Fee and commission income		3,031	2,510
Fee and commission expense		-346	-198
Net fee and commission income		**2,685**	**2,312**
Net profit/loss on financial transactions	20	-365	235
Other income	21	2,706	3,424
Total income		**68,975**	**69,256**
Salaries and associated charges	22	-16,362	-14,762
Other operating expenses	23	-10,431	-11,073
Depreciation and amortisation expense	10,12	-1,382	-764
Net impairment losses on loans and financial investments	8	-17,581	-25,887
Losses resulting from changes in the fair value of investment properties	11	-1	-70
Other expenses	24	-3,580	-2,849
Total expenses		**-49,337**	**-55,405**
Profit before income tax		**19,638**	**13,851**
Income tax	28	-2,432	-2,148
Profit for the year		**17,206**	**11,703**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translating foreign operations	17	204	98
Net other comprehensive income to be reclassfied to profit or loss in subsequent periods		**204**	**98**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of land and buildings		-	223
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	17	**-**	**233**
Other comprehensive income for the year		**204**	**321**
Total comprehensive income for the year		**17,410**	**12,024**
Basic earnings per share (EUR)	31	215	146
Diluted earnings per share (EUR)	31	215	146

The notes on pages 52 to 121 are an integral part of these consolidated financial statements

(In thousands of euros)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2017	2016
Cash flows from operating activities			
Interest received		60,198	58,500
Interest paid		-6,373	-5,333
Salary and other operating expenses paid		-28,380	-25,199
Other income and fees received		6,634	6,462
Other expenses and fees paid		-4,952	-4,291
Recoveries of receivables previously written off		20,358	18,628
Received for other assets		116	495
Paid for other assets		-95	-622
Loans provided		-252,226	-220,578
Repayment of loans provided		179,776	153,085
Change in mandatory reserves with central banks and related interest receivables	4	-419	-214
Proceeds from customer deposits		119,367	90,659
Paid on redemption of deposits		-69,870	-61,018
Change in financial assets held for trading	5	3,858	881
Income tax paid		-3,492	-1,331
Effect of movements in exchange rates		-117	-30
Net cash from in operating activities		**24,383**	**10,094**
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets	10,12	-5,537	-3,405
Proceeds from sale of property and equipment		96	74
Proceeds from sale of investment properties		115	32
Acquisition of financial instruments		-	-713
Proceeds from redemption of financial instruments		-	762
Net cash used in investing activities		**-5,326**	**-3,250**
Cash flows from financing activities			
Received from issue of notes	14	5,000	-
Dividends paid	17	-5,000	-1,300
Net cash used in financing activities		**-**	**-1,300**
Effect of exchange rate fluctuations		-227	-147
Increase in cash and cash equivalents		**18,830**	**5,397**
Cash and cash equivalents at beginning of year	4	34,291	28,894
Cash and cash equivalents at end of year	4	**53,121**	**34,291**

The notes on pages 52 to 121 are an integral part of these consolidated financial statements

(In thousands of euros)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent				
	Share capital	Statutory capital reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2016	8,000	800	1,048	80,264	90,112
Profit for the year	-	-	-	**11,703**	**11,703**
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	98	-	98
Revaluation of land and buildings	-	-	223	-	223
Total other comprehensive income	-	-	**321**	-	**321**
Total comprehensive income for the year	-	-	**321**	**11,703**	**12,024**
Dividend distribution	-	-	-	-1,300	-1,300
Total transactions with owners	-	-	-	**-1,300**	**-1,300**
Balance at 31 December 2016	**8,000**	**800**	**1,369**	**90,667**	**100,836**
Balance at 1 January 2017	**8,000**	**800**	**1,369**	**90,667**	**100,836**
Profit for the year	-	-	-	**17,206**	**17,206**
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	204	-	204
Revaluation of land and buildings	-	-	-898	898	-
Total other comprehensive income	-	-	**-694**	**898**	**204**
Total comprehensive income for the year	-	-	**-694**	**18,104**	**17,410**
Dividend distribution	-	-	-	-5,000	-5,000
Total transactions with owners	-	-	-	-5,000	-5,000
Balance at 31 December 2017	**8,000**	**800**	**675**	**103,771**	**113,246**

Please refer note 17.

The notes on pages 52 to 121 are an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

Bigbank AS is a company incorporated and domiciled in Estonia that holds an activity licence of a credit institution. The consolidated financial statements as at and for the year ended 31 December 2017 comprise Bigbank AS (also referred to as the "parent company"), its Latvian, Lithuanian, Finnish, Spanish and Swedish branches and its subsidiaries AS Baltijas Izaugsmes Grupa, OÜ Rüütli Majad and OÜ Balti Võlgade Sissenõudmise Keskus and the subsidiaries of OÜ Balti Võlgade Sissenõudmise Keskus - SIA Baltijas Parādu Piedziņas Centrs and UAB Baltijos Skolų Išieškojimo Centras (together referred to as the "Group").

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

STATEMENT OF COMPLIANCE

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

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

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

The management board of Bigbank AS has prepared these consolidated financial statements and authorised them for issue on 27 February 2018.

BASIS OF PREPARATION

The figures reported in the financial statements are presented in thousands of euros. The consolidated financial statements are prepared on the historical cost basis except that some assets and liabilities are measured at their fair values (financial instruments held for trading and investment properties) and on the revaluation method basis (land and buildings). Group entities apply uniform accounting policies.

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

CONSOLIDATION

Branches

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

Subsidiaries

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

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

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

Subsidiary	Country of incorporation	Ownership interest 2017	2016
AS Baltijas Izaugsmes Grupa	Republic of Latvia	100%	100%
OÜ Rüütli Majad	Republic of Estonia	100%	100%
Balti Võlgade Sissenõudmise Keskus OÜ	Republic of Estonia	100%	100%
SIA Baltijas Parādu Piedziņas Centrs	Republic of Latvia	100%	100%
UAB Baltijos Skolų Išieškojimo Centras	Republic of Lithuania	100%	100%

Transactions eliminated on consolidation

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

FOREIGN CURRENCY

Foreign currency transactions

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

Financial statements of the Group's foreign operations

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

OFFSETTING

Financial assets and financial liabilities are set off and the net amount is presented in the 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 ASSETS

Financial assets comprise cash, short-term placements, debt securities, loans to credit institutions and customers, and other receivables. The Group initially recognises loans and receivables and deposits at other credit institutions on the date that they are originated. All other financial assets including assets designated at fair value through profit or loss are recognised initially on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset is derecognised when the Group's contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the cash flows of the financial asset and most of the risks and rewards of the ownership of the financial asset. Purchases and sales of financial assets are consistently recognised at the settlement date, i.e. at the date the assets are delivered to or by the Group.

Cash and cash equivalents

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

Financial assets held for trading

Financial assets held for trading comprise debt securities.

Debt securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a shorter period after purchase, usually before maturity.
The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through the profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through the profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future, or until maturity.

Debt securities are carried at fair value. Interest earned on debt securities is presented in profit or loss for the year as interest income. The fair value of financial assets held for trading is their quoted bid price at the reporting date. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as Net gain/loss on financial transactions in the period in which they arise.

Loans and receivables

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

Recognition of impairment allowances for loan receivables

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

Receivables are assessed for impairment and impairment allowances are recognised by reference to credit risk parameters (including the probability of default and loss given default for the rating class), which are updated at least once a year or whenever there is a significant change in risk assessments.

Homogenous receivables have similar characteristics such as historical payment behaviour, collateral, or other features. Individual impairment assessment is applied to receivables from companies, receivables exceeding 100,000 euros and other receivables that have not been grouped. Specific impairment allowances are created for an individual receivable or a group of receivables that has or have been found to be impaired, i.e. for impairment losses incurred. The Group assesses receivables for impairment (including losses incurred but not yet reported - IBNR) both on an individual and collective basis. Collective impairment assessment is applied to all homogenous groups of receivables whose amount is not individually significant and whose individual assessment would be unreasonable.

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

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

Unsecured retail receivables are assessed for impairment by comparing the nominal carrying amount of the item or group of items prior to the recognition of impairment with the present value of the expected future cash flows of the item or group of items, discounted at the effective interest rate. An impairment loss for a receivable or a group of receivables is identified when the total discounted present value of the expected future cash flows of the receivable or group of receivables is less than the carrying amount of the receivable or group of receivables. The difference between carrying value and the present value of expected future cash flows is recognised as the impairment of the receivable or group of receivables. The effective interest rate applied is the original interest rate of the receivable or the weighted average original interest rate of the group of receivables (the rate recorded in the agreement before its termination or expiry).

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

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

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

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

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

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

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

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

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

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

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

PROPERTY AND EQUIPMENT

Items of property and equipment, excluding land and buildings, are carried at cost less any accumulated depreciation and any impairment losses. Tangible assets are classified as items of property and equipment if they are used in the Group's business, individually significant, and their estimated useful life extends beyond one year. Items with a shorter useful life and little significance are expensed as incurred.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Ongoing repairs and maintenance are expensed as incurred.

When the recoverable amount of an item of property and equipment decreases below its carrying amount, the item is written down to the recoverable amount. Impairment losses are recognised as an expense as incurred.

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful life of each part of an item of property and equipment. Depreciation commences as of the acquisition of the item. The estimated useful lives assigned to asset classes are as follows:

Asset class	Useful life
Land and works of art	are not depreciated
Buildings	25 - 50 years
Cars and office equipment	5 years
Computers	3 - 4 years
Other equipment and fixtures	5 years

Depreciation rates are reassessed at each reporting date and 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.

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

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

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

INTANGIBLE ASSETS

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The Group's intangible assets have definite useful life and primarily include capitalised computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. External development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include software related consultancy costs. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

An intangible asset is amortised on a straight line basis over expected useful lives of 5 to 15 years. Amortisation expense is recognised as Depreciation and amortisation expense in the statement of comprehensive income.

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

INVESTMENT PROPERTIES

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

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

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

FAIR VALUE MEASUREMENT

The Group measures financial instruments at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in note 30.

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

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

The principal or the most advantageous market must be accessible to the Group.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

- **Level 1** — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- **Level 2** — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- **Level 3** — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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

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

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

LEASES

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

The Group as a lessor

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

The Group as a lessee

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

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

FINANCIAL LIABILITES

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

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

Subordinated notes

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

Provisions

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

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

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

Financial guarantees and loan commitments

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

Financial guarantees issued and loan commitments are accounted off the statement of financial position.

STATUTORY CAPITAL RESERVE

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

INTEREST INCOME AND INTEREST EXPENSE

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

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

FEE INCOME AND EXPENSE

Fee income comprises other fees received from customers during the period and fee expense comprises fees paid to other credit institutions. Fees and commissions income is recognised in the fair value of the considerations received or receivable for the services provided in the ordinary course of the Group's activities. Fees and commissions income and expense are recognised on an accrual basis. Loan fees (less direct expenses) are included in the calculation of the effective interest rate.

OTHER INCOME

Other income comprises:

- income from debt collection and recovery proceedings (late payment interest, fines, etc.), which is recognised on an accrual basis as relevant services are rendered;
- gain from early redemption of the Group's liabilities, which is recognised at the date of redemption;
- miscellaneous income (including income on the sale of goods and services), which is recognised when all significant risks and rewards of ownership have transferred to the buyer and the revenue and expenses associated with the transaction can be measured reliably; and
- dividend income (in the parent's financial statements), which is recognised when the right to receive payment is established.

(In thousands of euros)

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 queries and similar items;
- expenses related to assets held for sale; and;
- expenses related to securities.

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

EMPLOYEE BENEFITS

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

INCOME TAX

In accordance with the effective Estonian Income Tax Act, corporate income tax is not levied on profit earned but on the profit distributed as dividends. The amount of tax payable on a dividend distribution is calculated as 20/80 of the amount of the net distribution. The income tax payable on dividends is recognised as an expense in the period in which the dividends are declared, irrespective of the period in which the dividends are ultimately distributed. Because of the specific nature of the taxation system, companies registered in Estonia do not acquire deferred tax assets or incur deferred tax liabilities on temporary differences between the carrying amounts and tax bases of their assets and liabilities. From 2018, the Latvian corporate income tax legislation is similar to the Estonian one: profit is taxed when it is distributed and deferred tax assets and liabilities do not arise.

The Group is in a transition period regarding applicable transfer pricing methodology (from taxable income consisting of interest and cost allocation to a cost plus markup service fee). The Group is recognising income from income tax paid during prior years and reclaimed under the positive decisions of the tax authorities, where the probability of tax return is considered to be high, see note 28.

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

Corporate income tax rates

	2018	2017	2016
Estonia*	-	-	-
Latvia*	-	15.0%	15.0%
Lithuania	15.0%	15.0%	15.0%
Finland	20.0%	20.0%	20.0%
Sweden	22.0%	22.0%	22.0%
Spain	25.0%	30.0%	30.0%

* In Estonia and from 2018 in Latvia, corporate earnings are not subject to tax. Instead, corporate income tax is levied on dividends, other expenses not related to the taxpayer's business and transfer price adjustments at the rate of 20%.

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

EARNINGS PER SHARE

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

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

The Group is not listed on a stock exchange. Therefore the information presented in note 31 to the financial statements is voluntary.

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

The accounting policies adopted are consistent with those of the previous financial year except for the following new and/or amended IFRSs which have been adopted by the Group as of 1 January 2017, but did not have any material impact on the Group:

IAS 12 *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)*. The objective of the amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The amendments were not applicable for the Group.

IAS 7 *Disclosure Initiative (Amendments)*. The objective of the amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The amendments were not applicable for the Group.

The IASB has issued the *Annual Improvements to IFRSs 2014 – 2016 Cycle*, which is a collection of amendments to IFRSs. The following annual improvement has not yet been endorsed by the EU. This improvement did not have an effect on the Group's financial statements.

IFRS 12 *Disclosure of Interests in Other Entities.* The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

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

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

IFRS 9 *Financial Instruments: Classification and Measurement.* The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Management has made an assessment of the effect of the standard and considers its impact on loans to customers and retained earnings reducing both of them by 4,730z thousand euros, see note 32 and section *IFRS 9 governance and project management, classification and measurement, impairment, signs of material increase in risk, definition of default and write-off and transition impact* in note 1.

IFRS 15 *Revenue from Contracts with Customers* (effective for financial years beginning on or after 1 January 2018). IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The implementation of this standard will not have any significant impact on the Group.

IFRS 15 *Revenue from Contracts with Customers* (Clarifications). The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers,* particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. The implementation of this standard will not have any significant impact on the Group.

IFRS 16 Leases is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged The Group is currently assessing the impact of the new standard on its financial statements.

A number of new standards, amendments to standards and interpretations have been published but not effective for the Group for annual periods beginning on or after 1 January 2018 which accordingly do not have any significant impact on the Group's financial statements.

Amendment in IFRS *10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures:* Sale or Contribution of

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

IFRS 2 *Classification and Measurement of Share based Payment Transactions* (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These amendments have not yet been endorsed by the EU.

IAS *40 Transfers to Investment Property (Amendments)*. The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments have not yet been endorsed by the EU.

IFRS 9 *Prepayment features with negative compensation* (Amendment). The amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. These amendments have not yet been endorsed by the EU.

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

IFRIC interpretation 22: *Foreign Currency Transactions and Advance Consideration.* The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU.

The IASB has issued the *Annual Improvements to IFRSs 2014 – 2016 Cycle*, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU.

- IFRS 1 *First-time Adoption of International Financial Reporting Standards.*
- IAS 28 *Investments in Associates and Joint Ventures.*

IFRIC interpretation 23 *Uncertainty over Income Tax Treatments.* The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU.

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

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

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

IFRS 9 GOVERNANCE AND PROJECT MANAGEMENT, CLASSIFICATION AND MEASUREMENT, IMPAIRMENT, SIGNS OF MATERIAL INCREASE IN RISK, DEFINITION OF DEFAULT AND WRITE-OFF AND TRANSITION IMPACT

IFRS 9 Financial Instruments: Classification and Measurement The standard is effective for annual periods beginning on or after 1 January 2018. The Group is required to adopt IFRS 9 from 1 January 2018. The standard replaces major parts of International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement and contains a new impairment model based on expected credit losses (ECL).

Governance and project management

The adoption of IFRS 9 is a significant initiative for the Group, involving substantial financial, risk management and technological resources. The project has been managed through a strong governance structure across risk management, finance, technology, and the business units.
The Group's existing system of internal controls will be refined and revised where required to meet all the requirements of IFRS 9. The Group has applied many components of its existing governance framework to ensure that appropriate validations and controls will be in place over new key processes and significant areas of judgment. Adoption of IFRS 9 in 2018 has resulted in revisions to accounting policies and procedures, changes and amendments to internal control documents, applicable credit risk manuals, development of new risk models and associated methodologies and new processes within risk management.

The following is a summary of some of the more significant items that are likely to be important in understanding the impact of the implementation of IFRS 9.

Classification and measurement

The Standard introduces new requirements to determine the measurement basis of financial assets, involving the cash flow characteristics of assets and the business models under which they are managed. Accordingly, the basis of measurement for the Group's financial assets may change. The Standard affects the accounting for assets held for trading which will be reclassified to FVOCI. They will be measured at fair value through other comprehensive income and movements in the carrying amount will be taken through OCI. As a result, the amount of net profit/loss on financial transactions recorded through income is expected to be lower than the current levels and levels recorded in recent years. For other financial instruments, the Group does not expect the implementation will result in a significant change in the classification and measurement of the Group's financial assets, between amortised cost, fair value through OCI and fair value through income statement.

Impairment

The adoption of IFRS 9 will have a significant impact on the Group's impairment methodology. The IFRS 9 expected credit loss (ECL) model is forward looking compared to the current incurred loss approach. Expected credit losses reflect the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception.

The Group has developed new impairment methodologies and models taking into account the relative size, quality and complexity of the portfolios. IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The actual calculation method of each of the factors needed to calculate ECL might differ between credit products due to different information systems, differences in available information and different characteristics of the products.

The IFRS 9 impairment model uses a three-stage approach depending on whether the claim is performing or not and if the claim is performing, whether there any signs for special attention:

Stage 1 – 12-month ECL applies to all existing and new claims, which have no signs of material increase in risk. The ECL will be computed using a 12-month PD that represents the probability of default occurring over the next 12 months. For those assets with a remaining maturity of less than 12 months, a PD is used that corresponds to remaining maturity. This Stage 1 approach is different than the current approach which estimates a collective allowance to recognise losses that have been incurred but not reported on performing loans.

Stage 2 – applies to claims, which have sign(s) of a material increase in risk, special attention claims and doubtful claims. This requires the computation of ECL based on lifetime PD that represents the probability of default occurring over the remaining estimated life of the financial asset. Provisions are higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3 – defaulted and uncollectible claims are included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses, but with 100% probability. Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgement are:

Signs of a material increase in credit risk

Signs of a material increase in risk may include, but are not limited to:

- a repayment delay of 30 or more days;

- active debt management proceedings relating to the contract;
- refinancing of the claim into a new contract, which would not have occurred, if there had not been a solvency problem of the transaction party;
- changes in contract conditions, which would not have been implemented, if there had not been a solvency problem of the transaction party.

A settlement delay of 30 or more days and active debt management are assessed based on their actual occurrence. The rest of the signs of increased risk and their impact have to be analysed case by case and the change in a customer's risk level has to be made based on management's judgement. This assessment is symmetrical in nature, allowing the credit risk of financial assets to move back to Stage 1 if the increase in credit risk has decreased since origination and is no longer deemed to be significant.

Definition of default and write-off

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

- Improbability of receiving payments. The contract is a performing contract, but on the basis of objective evidence, it may be presumed that the client will be unable to settle all of the financial obligations and the situation cannot be solved satisfactorily.
- Payment delay in fulfilling a material financial obligation. The contract is deemed to be non-performing if the client is no longer able or willing to fulfil payment obligations, e.g. upon any of the following events:

- material payments are past due for more than 90 days;
- a letter of contract termination, including a demand for payment, has been sent to the client;
- the contract has expired, but all debts have not been settled;
- the client is bankrupt or deceased or bankruptcy, liquidation or debt restructuring proceedings have been initiated against the client;
- identity theft, i.e. misuse of the credit receiver's identity has been identified.

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

Impact of transition

The Group will record an adjustment to its opening retained earnings as at 1 January 2018, to reflect the application of the new requirements of impairment and classification and measurement at the adoption date and will not restate comparative periods.

The Group estimates that the transition to the IFRS 9 will reduce shareholders' equity by approximately 4,730 thousand euros. The estimated impact relates primarily to the implementation of the ECL requirements. The Group continues to revise, refine and validate the impairment model and related process.

(In thousands of euros)

Impact of adopting IFRS 9 on the statement of financial position

	IAS 39 measurement		Remeasurement	IFRS 9	
	Category	Amount	ECL	Amount	Category
Financial assets					
Financial assets held for trading	FVPL	11,210	-	11,210	FVOCi*
Loans to customers	L&R	377,458	-4,730	372,728	AC**
Total financial assets		**388,668**		**383,938**	

* FVOCI: Fair value through other comprehensive income
** AC: Amortised cost

	Effect on FVOCI reserve	Effect on retained earnings
Opening retained earnings - IAS 39	**-**	**103,771**
Reclassify financial assets held for trading from FVPL to FVOCI	-	-
Impairment allowance for loans and receivables	-	-4,730
Adjustment to retained earnings from adoption of IFRS 9	-	-4,730
Opening retained earnings - IFRS 9	**-**	**99,041**

NOTE 2. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

The impact of management's estimates is most critical regarding impairment allowances for loans and interest receivables (see note 1, the section Financial assets, and note 7).

The carrying amounts of property and equipment are identified by applying internally established depreciation rates. Depreciation rates are determined by reference to the items' estimated useful lives (see the section Property and equipment in note 1). Land and buildings are initially recognised at the acquisition cost and subsequently measured at revalued amount. The management uses the estimate of an asset's market value provided by an independent expert as a basis for fair value estimation, if needed (see note 30).

Fair value of investment properties is measured on regular basis, and book values adjusted to reflect any changes in market values (see the section Investment properties in note 1 and note 11 and 30).

The carrying amounts of intangible assets are identified by applying internally established amortisation rates. Amortisation rates are determined by reference to the items' estimated useful lives (see the section Intangible assets in note 1) which is generally 5 to 10 years.

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

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

NOTE 3. RISK AND CAPITAL MANAGEMENT

RISK MANAGEMENT PRINCIPLES

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.

The supervisory board of Bigbank AS has established the following risk management principles for the entire Group:

- **Business focus.** Risk taking is an essential part of the Group's business and inherent in every activity. Risk management is business-oriented. Risk management supports business activities and decision-making by making the risk and reward balance of different options as clear as possible.
- **Risk focus.** Risk management is integrated into all of the Group's business activities and organisational processes and present at all levels and in all activities within the Group. Risk management is an integral part of the strategic and daily business decision-making process. It is the responsibility of every employee to ensure that risk-taking is disciplined and focused. Risk identification and management are the primary responsibilities of each risk-taking employee and decision-maker.

  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 in order to maximise shareholder's returns.
- **Understanding of risks.** The Group only takes those risks, which it understands and where it has sufficient knowledge and experience to assess and manage the risks. Each decision-maker must understand the impact of each transaction from the risk point of view. The Group does not enter into a transaction if the risks involved cannot be assessed or the management of the risks determined.
- **Adequate and proportional risk management coverage.** Every material risk taken is covered by an appropriate and proportional risk management framework and relevant policies and procedures. Effective risk analysis, management and reporting are achieved through continuous assessment, measurement and reporting of the key risks.
- **Risk management driven by the target risk profile.** The Group determines its target risk profile for all material risks, taking into account its organisational and capital capacity for managing the risks. Determination of the target risk profile and tolerance is an integral part of choosing the Group's business strategy. The actual risk profile is continuously measured against the target risk profile. The Group's risk profile must be proportionate to available capital. All risk-taking activities must comply with the risk profile and risks may be taken only within the defined and approved risk profile.
- **Clear accountability for risks.** The Group ensures risk-taking accountability, appropriate communication lines and clear ownership for managing and reporting risks throughout

the organisation. Each unit and branch is individually responsible for risks associated with their operations and for ensuring that risk information is communicated on a continuous basis. This also means that the unit or branch management must ensure that the unit or branch adheres to applicable laws, regulations and risk management & control policies and procedures. Business units in the first line of defence are accountable for risk, but with oversight and support from a strong and independent risk management function.

- **Comprehensive internal control.** The Group has strong and comprehensive internal controls and sound safeguards to mitigate risks in line with its risk management strategy and target risk profile. Appropriate procedures, internal controls, operating limits and other practices aimed at ensuring that risk exposures do not exceed levels which are acceptable for the Group have been established. Internal controls and practices ensure that breaches of and exceptions to policies, procedures and limits are reported in a timely manner to the appropriate level of management for taking action. All consolidated entities, geographical locations and activities are in the scope of internal control.
- **Risk awareness and communication.** The Group maintains a culture of understanding risk, recognising the importance of risk management, and taking personal responsibility for identifying and managing risks. Employees across the organisation are responsible for risks and proactively keep risk considerations in mind in their everyday work.

  Regular and transparent communication mechanisms have been established within the Group, so that the management, business units, the risk management function and other control functions can all share information about risk assessment, analysis and monitoring. Communication of risks is just as important for sound risk governance as assessment and control.

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.

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, business risk and capital. In order to cover these risks Group holds a capital buffer and liquidity reserves for unforeseen events. The Group assesses and identifies the risks continuously, as a part of its internal capital adequacy assessment process and internal liquidity assessment process (ICAAP/ILAAP).

RISK MANAGEMENT FRAMEWORK

The supervisory board of Bigbank AS has established the Group's risk management framework in the Risk and Capital Management Policy. The Group's risk management framework consists of four key elements: 1) risk culture, 2) risk governance, 3) risk tolerance and 4) risk management.

Fig. Risk Management Framework

Risk culture

Risk culture is a key element of the Group's risk management. By that we understand shared views, values and beliefs across the organisation as well as individual risk attitude, knowledge, and understanding and perception of the risk culture. Common values and principles help manage risk and return throughout the Group. The following principles underpin the risk culture:

- Employees at all levels are responsible for managing and escalating risks.
- We only take the risks we understand.
- We only conduct activities that are in our clients' and the Group's interests.
- Risk is taken only within the target risk profile.
- Every risk taken needs to be approved within the established risk management framework.
- Every risk taken needs to be adequately compensated (there must be an appropriate balance between risk and return).
- We monitor and manage risks continuously.

The management board continuously promotes a strong risk culture throughout the Group using both organisational drivers (such as training, risk related KPIs, the quality of risk management, tone at the top, an appropriate governance structure, etc.) and individual drivers (such as attitude to risk management, knowledge of risk, personal risk tolerance, etc.).

Risk governance

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

The general risk governance structure is based on the three lines of defence model. Under the concept, everybody who works for Bigbank – the frontline employees as well as the employees of the branches and risk, compliance, internal control, and support functions – is responsible for managing risk. The functions are separated into three lines as follows:

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

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

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

Second line of defence includes the risk management function (including the credit risk committee as well as other risk committees) and the compliance function. These functions have to ensure that the first line of defence is properly designed, in place, operating as intended and risks are properly managed.

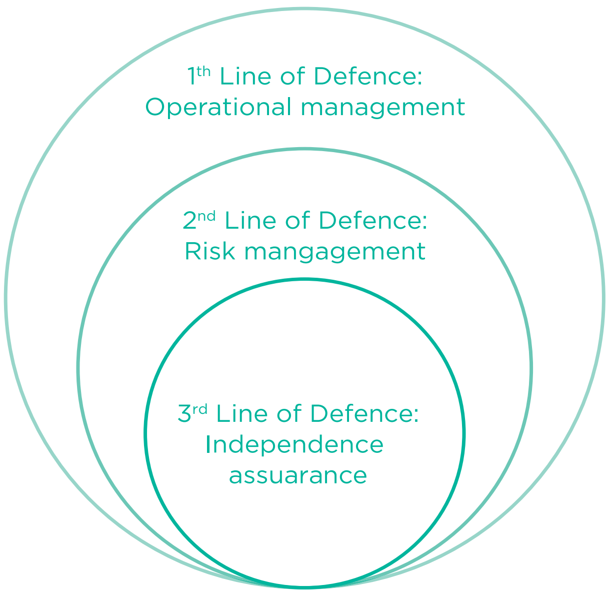


Fig. Three lines of defence model

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

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

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

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

Based on general-level decisions and the authorities granted, operational decisions are made by risk owners and operational units. The Group keeps the functions of risk management, decision-making and monitoring processes as separate and independent as possible.

Due to the size of the Group some of the above functions may be mixed, however the Group's organisational structure is designed so that it ensures the segregation of duties between operational and monitoring/control functions in order to prevent conflicts of interest.

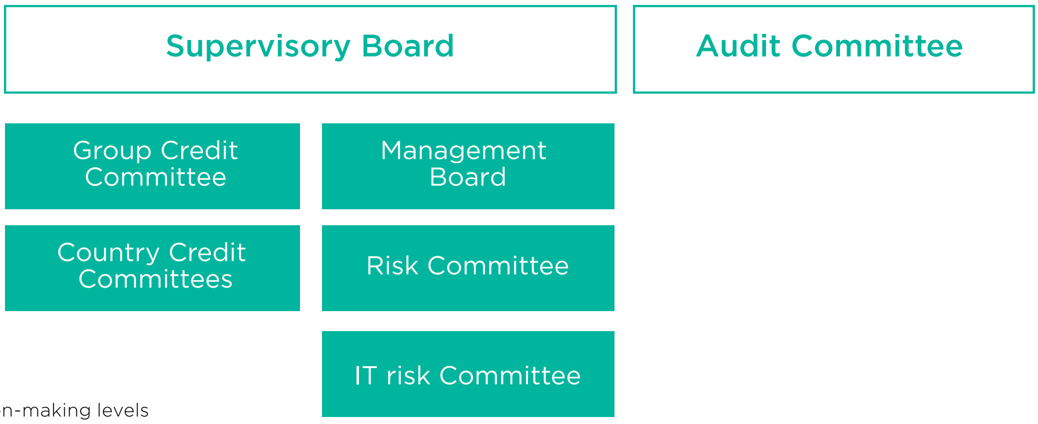


Fig. Risk management decision-making levels

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

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

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

The system of credit committees consists of the Group's credit committee, country credit committees and their sub-committees. The Group's credit committee is the highest level decision-making body which is responsible for supervising country credit committees and adopting lending decisions exceeding 450 thousand euros.

Risk tolerance

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

Risk tolerance depends on five components which determine the amount and types of risk the Group wishes to undertake.

- **Strategic principles.** Risk strategy and the target risk profile are based on the overall strategy, however risk management and risk capacity are inherent in the strategy making process. The Group's strategy takes into account risks and capital as well as the risk strategy and is regularly reviewed and updated to reflect changes in strategic plans.
- **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.
- **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 tolerance measures.** Risk tolerance measures provide risk metrics and articulate the Group's target risk profile. They provide a link between actual risk taking activities and the risk management principles, strategic principles and financial objectives described above. These measures include capital and earnings ratios, market and liquidity risk limits, and credit and operational risk targets. Risk tolerance measures can be organised into and assessed on the Red-Orange-Yellow-Green (4-3-2-1) levels with pre-defined thresholds.
- **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. The target risk tolerance is continuously compared to the actual risk capacity.

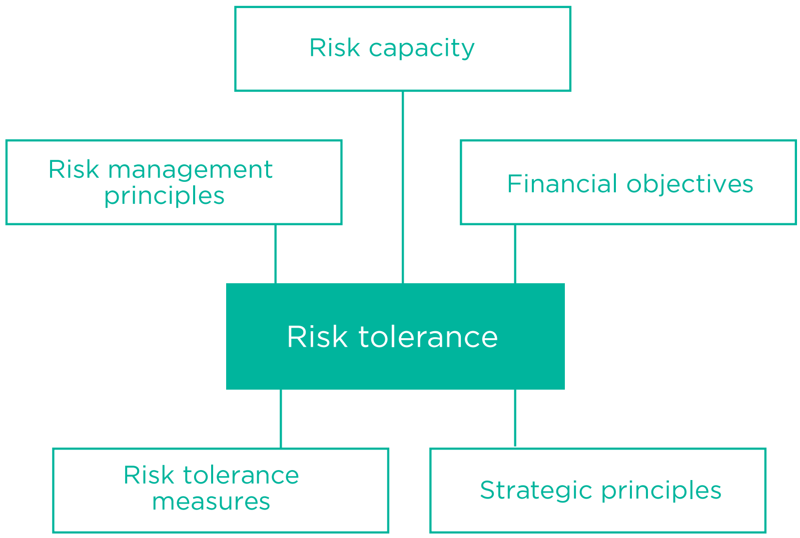


Fig. Risk tolerance

Risk management

Effective risk management includes techniques that are guided by the risk tolerance framework and are integrated into the Group's strategies and business planning process. The risk management process consists of 6 main activities:

- ensuring an adequate framework of internal procedures, processes and limits;
- identifying and measuring risks;
- monitoring and reporting risks on a regular basis;
- stress testing;
- ensuring the availability of business continuity plans;
- establishing a recovery plan to ensure the continuity of critical functions and prevent significant damage to financial stability.

Policies, procedures and limits. A significant part of the risk management framework is the internal procedures, processes and limits framework. All identified material risks and related processes must be covered with internal rules, limits and the control system. All internal regulations must be based on the Group's general risk management principles and target risk profile, and the limits and controls within which the Group and its entities can operate. The key risk policies and general risk management strategies, principles, risk governance and general limits are approved by the supervisory board. General management-level risk procedures are approved by the management board. All internal regulations are subject to regular review and risk policies and procedures are evaluated and updated on a yearly basis.

Identification and measurement. The risks of all of the Group's products, operations, processes and systems must be identified and measured. The risks of new products and systems must be assessed before they are implemented. The principles of proportionality and efficiency apply – the extent of assessment must be in accordance with the potential impact and importance of the risk in the Group's overall risk profile. The risk management function is responsible for developing and maintaining an appropriate suite of risk identification and measurement techniques to support the operations of the different business lines (risk owners) and capital adequacy measurement on a Group-wide basis.

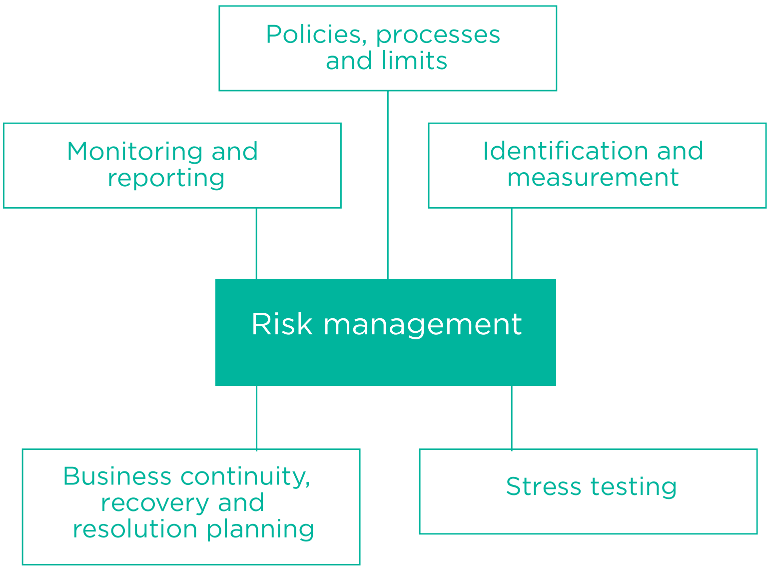


Fig. Risk management process

Monitoring and reporting. A regular risk monitoring system ensures that business activities are within approved limits, comply with regulations, and are aligned with the Group's strategies and target risk profile. Breaches, if any, of limits or regulations are escalated to senior management, committees, the management board and/or the supervisory board depending on the limit or regulation. Any breaches of limits or regulations are immediately reported by the head of the unit involved.

Control functions are independent of the functions whose activities they monitor for all material risk types. The Group has established a system of financial and risk indicators (together with escalation levels), which addresses all identified material risk categories, to monitor changes in the financial conditions and risk profile.

The risk reporting system aggregates measures of risks across products and businesses, and helps to ensure compliance with policies, limits and guidelines. They also provide a clear statement of the amounts, types, and sensitivities of various risks in the Group's portfolios. The head of each function, branch and subsidiary is responsible for organising appropriate reporting on significant risks.

The control functions are responsible for reporting to the management board, the supervisory board and relevant committees on all material risk types at least on a quarterly basis.

Stress testing. Stress testing, sensitivity analysis and scenario analysis are proactive methods used to evaluate the impact of various factors in the risk profile and respective capital needs. Stress testing is integrated into the Group´s risk management framework and capital adequacy process. The stress testing framework allows to analyse risks on the level of portfolios, risk positions, risk types, business lines, important business units as well as at an aggregated level. The Group performs stress testing for all material risks at least once every year or on an ad hoc basis. The stress testing framework allows to evaluate the possible impact of business and strategic decisions.

Business continuity, recovery and resolution planning. Business continuity planning is a process through which the Group ensures the administration or recovery of its business, including services to customers, upon the occurrence of extraordinary disruptions. The purpose of resolution planning is to ensure the continuity of the Group's critical functions, to prevent significant damage to financial stability, to avoid or minimise the need to use extraordinary public financial support or other public funds, and to ensure sufficient protection of the funds of depositors, investors and other customers. The Group's recovery planning process is integrated into the overall risk management process, target and actual risk profile assessments, stress tests etc.

TARGET RISK PROFILE

The target risk profile includes the level and types of risks the Group is willing to take within its risk capacity and in line with its business model to achieve its strategic objectives. The Group describes in its target risk profile the nature and level of each material risk identified. Determination and updating of the target risk profile is an integral part of annual strategic planning during the budgeting process. The actual risk profile is assessed against the target risk profile by the risk committee and the management board at least quarterly and the results are reported to the supervisory board.

The Group's target risk profile describes the Group's risk appetite for all the main risk categories, as well as the Group's attitude to risk-taking using a four-step numeric (1-4) and colour (green, yellow, orange, red) scale:

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

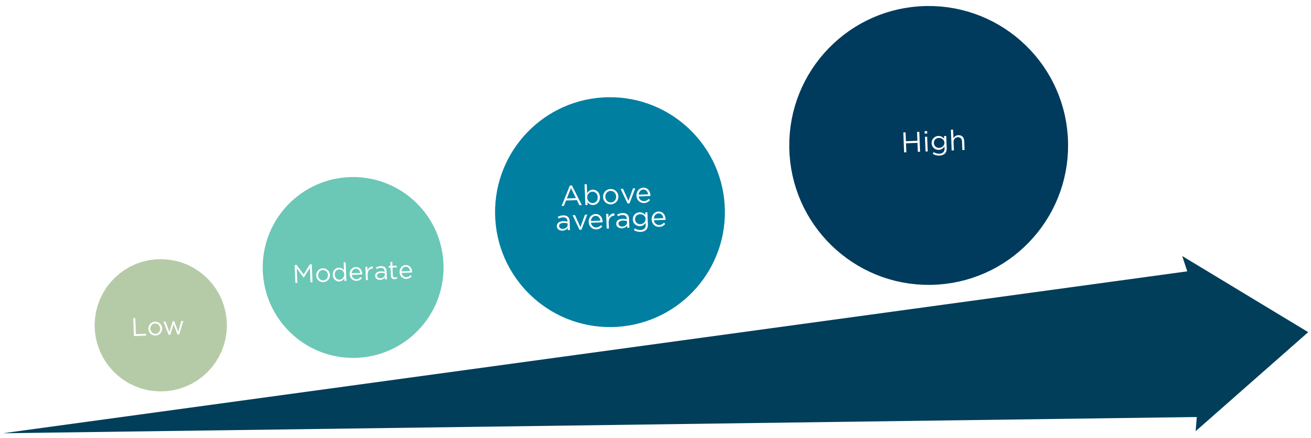


Fig. Risk levels

The following are the general principles applied to determine the target risk profile of every individual risk within the Group's risk profile:

Well-balanced portfolio Group maintains a well-diversified credit portfolio and takes limited risk in financial markets. Since uncertain changes in any individual position may seriously affect Group's overall risk position, over-reliance on single counterparties and concentrations of risk are avoided.

Risk profile by significant countries of operation and significant product groups
The credit portfolio is reasonably balanced between different countries of operation and products. The management board determines at least annually the maximum exposure limits for

individual countries of operation and significant product groups. Any target risk profile change must take into account established limits and potential effects. The actual risk profile is regularly measured against such limits.

Quality of assets Any changes in the target risk profile that may significantly affect the quality of assets are properly analysed and assessed before the changes are made.

Strong liquidity position The Group maintains a conservative liquidity risk profile and a sufficient portfolio of liquid assets at all times. Concentrations of funding and liquid assets are avoided.

Adequate capital The Group maintains a strong and rather conservative capitalisation level (capital adequacy). The Group makes sure that it has adequate capital to cover its risks and comply with regulatory (Pillar 1) and internal capital requirements (Pillar 2) as well as the minimum capital requirements. Detailed capital requirements are outlined in the Capital section of this note.

Reasonable risk level The Group does not accept unreasonably high risk even when there is potential for exceptionally high profit as a result of risk taking. Risks which the Group cannot assess or manage adequately or for which it does not have sufficient experience or knowledge are avoided.

Low tolerance to specified types of risks The Group has low tolerance to certain risk types as specified in the policies for individual risks. Target risk profiles which increase such risks are avoided.

Reliable structure of the statement of financial position The Group is not required to maintain a specific structure of the statement of financial position but any target risk profile that may have a significant impact on the structure of the statement of financial position is carefully assessed (the impacts of the changes in the structure of the statement of financial position are analysed) and changed, where necessary, before it is approved.

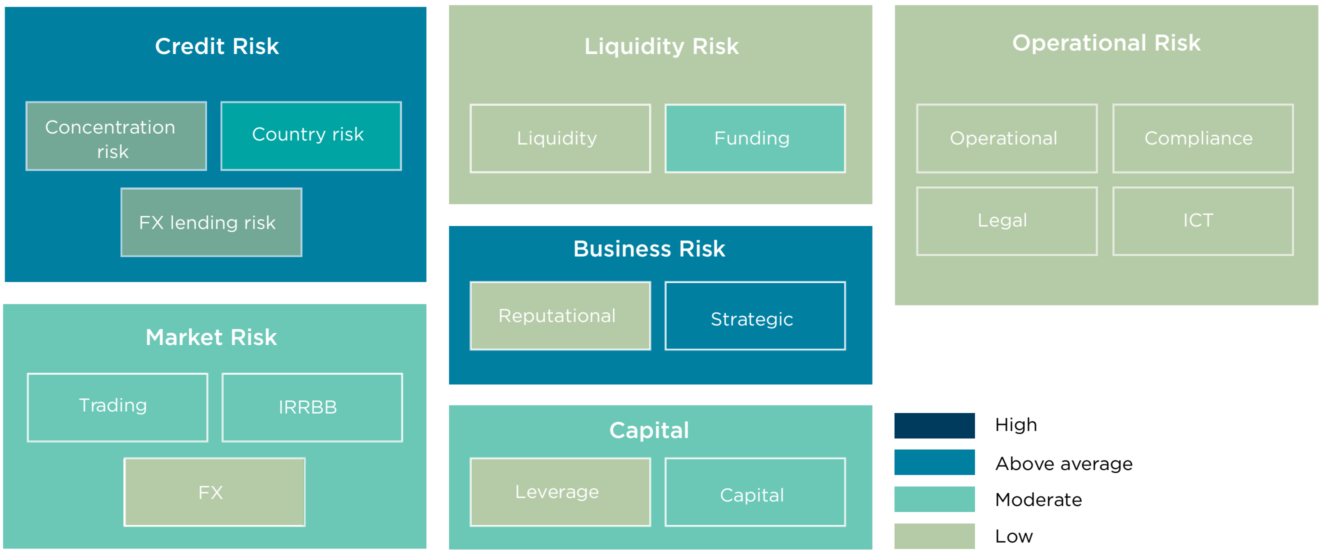


Fig. Risk tolerance levels for main risks

Credit risk

Credit risk is the risk that the counterparty to a transaction is not capable or willing to perform its contractual obligations. Within credit risk the Group has identified the following risks:

- **Concentration risk** - the risk resulting from a large risk exposure to a counterparty, or connected counterparties, or connected counterparties that are affected by a common risk factor or when there is a strong positive correlation between risks. The Group's loan portfolio concentration risk strategy is to avoid a significant impact of the default of any single counterparty with a well-diversified loan portfolio, where the majority of single customer or connected customer concentrations are below 0.1% of total loan portfolio.
- **Country risk** - the risk resulting from the economic, political or social situation in the country where the counterparty is located or the probability of the occurrence of an environmental, political or social event, which may lead to a default by a large group of debtors (collective debtor risk). The Group's strategy is to have a well-balanced portfolio across the countries of operation. Over-concentration on one particular country is avoided by setting limits to single country exposures, new sales per country and the credit quality of single country portfolios. As a rule, exposure to the one particular country may not exceed 1/3 of the total loan portfolio.
- **FX lending risk** – the risk that the value of loans that have been provided in foreign currency changes due to changes in foreign exchange rates. The FX lending risk is managed and monitored as part of general currency risk through market risk management limits.

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

The credit risk of the loan portfolio is the most significant risk in the Group's risk profile and the most significant driver of the amount of risk weighted assets. The Group's credit policy also includes provision of consumer loans without collateral which carry a higher credit risk and higher default rates, but where higher risk is also compensated with higher interest rates. and higher default rates, but where higher risk is also compensated with higher interest rates.

The Group's strategic goal to focus on prime and near prime customers in the markets where it operates. Assuming that the interest rates of consumer loans will decrease, the Group's long-term goal is to have a credit portfolio with a moderate risk level.

Accepting high credit risk of the loan portfolio is controlled by:

- using highly predictive credit risk assessment and fraud detection models in the selection of customers, which minimises losses and the risk of crediting high-risk or insolvent customers;
- using automated underwriting and inquiries to external databases to ensure standardised, compliant and efficient decision-making;
- focusing only on creditworthy private customers and small companies with a proven track record, higher than average flexibility may be applied towards credit history and the debt to income ratio when there is strong current solvency;
- consistently following responsible lending principles;
- using contractual credit relationships with a low legal risk.

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

The credit risk of money market operations arises from the Group's payment services and money market activities through exposures to credit institutions. The credit risk of payment services results from holding liquid assets and supporting the Group's main activities with payment solutions.

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

The credit risk of money market operations is managed at Group level. All branches and subsidiaries observe Group-level principles, rules and limits. The finance function is the first line of defence in managing the credit risk of money market The second line of defence is the risk management function.

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

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

The credit risk of other assets arises from other assets accounted for on and off the statement of financial position (such as fixed assets, etc.). The finance function is the first line of defence in managing the credit risk of other assets.

Credit risk management

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

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

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

Each branch and business unit is fully responsible for processing loan analyses and evaluating the credit risk of each transaction even if the final decision is taken at a higher level. The Group's head of credit function, credit risk officers and credit committee are the second line of defence in managing the credit risk of the loan portfolio. As it is not possible to fully separate all first and second line functions in the credit area, the operational risk unit acts as an additional second line of defence, exercising additional independent operational risk control over credit activities.Country credit committees, underwriters, and sales staff who are involved in making credit decisions and heads of branches are the first line of defence in managing credit risk.

The Group manages its credit risk in accordance with the provisions of the Credit Institutions Act, the regulations issued by the Governor of the Bank of Estonia, the Financial Supervisory Authority, the Estonian Banking Association and other regulatory bodies in Estonia and other countries, where Group operates, and its own credit policy.

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

Risk-taking decisions are made collectively by the credit committees or relevantly authorised employees in keeping with the limits and restrictions set by the Group's supervisory and management boards.

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

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

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

- Loans are mostly provided to individuals. At 31 December 2017, loans to individuals accounted for 93.4% of the loan portfolio. The repayment ability of private persons is by nature more stable than that of companies and less influenced by stress scenarios of economic environment than enterprises.
- Loans are granted under carefully drafted legal agreements and recovery proceedings are conducted in full compliance with applicable law. According to the Group's assessment, there are currently no features in the Baltic, Scandinavian and Spanish legislation or legal practice that might exert a significant additional negative impact on the recovery of loan receivables.
- The Group applies proactive and flexible debt management and results-oriented recovery proceedings.
- Risks are controlled by diversifying the credit portfolio. The average loan balance does not exceed the two-fold average monthly salary. Smaller receivables are generally easier to recover even in the circumstances of a severe economic downturn because the borrower's settlement power is not weakened by the scarcity of (re)financing opportunities and the Group's receivables can usually be settled with regular monthly income.
- The Group's loan portfolio is highly diversified – at 31 December 2017, the average loan balance was 2,748 euros and 100 largest loans accounted for 7.1% of the total loan portfolio.

In its lending operations, the Group focuses on consumer loans that are granted against income and hire-purchase services. In addition, in Estonia and Lithuania, the Group provides loans and financial guarantees to small and medium-sized enterprises. At 31 December 2017, the loans to companies accounted for 6.6% of the Group's loan portfolio.

The Group determines limits for the regional size of the loan portfolio.

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

Measurement and classification of credit risk

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

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

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

The main parameters the Group uses in assessing credit risk are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). The probability of default reflects how high is the probability that the loan customer will experience a settlement default of more than 90 days by the 12th month after the assessment. Loss given default reflects the economic loss that may occur in the event of default of more than 90 days on the basis of country- and product-specific loss rates identified using historical loss statistics, which have been, if needed, adjusted to reflect expert opinions. The exposure is equal to the carrying amount of the receivable.

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

- Low probability of collecting payments. The loan (agreement) is performing but on the basis of objective evidence it is reasonable to assume that the customer is unable to meet the existing financial obligations (loan principal, associated interest and contract fee) in full and the situation cannot be resolved in a satisfactory manner.
- Default on meeting a significant financial obligation. The loan (agreement) is classified as non-performing when the customer is over 90 days in default on the obligation to pay a significant amount of loan principal, interest or fees or the loan is materially restructured so that the remaining balance of loan principal or the accrued interest is reduced and the circumstances causing the customer's financial difficulty have not been eliminated.

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

- *Very good.* The customer's ability to pay and factual payment behaviour are very good. There is no evidence suggesting that weaknesses could emerge.
- *Good.* The customer's estimated ability and willingness to pay and factual payment behaviour are good. The Group is not aware of any circumstances that could cause the receivable not to be settled in accordance with the originally agreed terms and the customer's credit risk is low or moderate.
- *Satisfactory.* The customer's estimated ability and willingness to pay and factual payment behaviour are satisfactory. There may occur up to 60-day defaults and the receivable may have to be restructured in order to eliminate weaknesses. The customer's credit risk is moderate, i.e. ordinary.
- *Weak.* The customer has clearly identifiable economic weaknesses. The customer is making payments but there may occur up to 60-day defaults, which is why the receivable has to be restructured. Repayment of the loan is probable but the customer's credit risk is high.
- *Inadequate.* The customer is more than 90 days in default on significant commitments or there have been done restructuring activities without which the customer would be in default. Settlement of the entire receivable is unlikely if the situation does not change.
- *Irrecoverable.* The customer is insolvent, repayment is unrealistic and the Group does not have economically effective measures for collecting the receivable or the customer has been declared bankrupt.

(In thousands of euros)

Loan portfolio by internal rating classes

As at 31 December	2017	2016
Very good	184,461	129,157
Good	121,009	111,628
Satisfactory	49,336	57,717
Weak	8,647	8,376
Inadequate	29,532	42,440
Irrecoverable	3,153	13,812
Total	**396,138**	**363,130**

The past due and not impaired loan portfolio amounted to 43,143 thousand euros as at 31 December 2017 and 42,396 thousand euros as at 31 December 2016. This portfolio includes loans not long past due and without strong evidence of possible impairment. It also includes past due loans with collateral whose foreclosure value significantly exceeds the claim against the client, which means no impairment is recognised.
Loans whose principal or interest payments are in arrears break down as follows:

Impairment allowances by ageing of loans as at 31 December 2017

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

Impairment allowances by ageing of loans as at 31 December 2016

	Loan receivable	Loan allowance	Risk position
Loan portfolio not past due	272,207	-2,247	269,960
Loan portfolio past due	90,923	-25,452	65,471
Past due portfolio according to days past due:			
Up to 30 days	30,255	-418	29,837
31-60 days	8,442	-347	8,095
61-90 days	5,294	-254	5,040
Over 90 days	46,932	-24,433	22,499
Statistical impairment allowance (incl. IBNR)	-	-11,324	-11,324
Total	**363,130**	**-39,023**	**324,107**

(In thousands of euros)

Policy for creation of impairment allowances

The policies for creating impairment allowances for loans are described in note 1.

The Group creates impairment allowances to mitigate the risk of a decline in the value of its loan receivables, i.e. their impairment. To mitigate the risks associated with the customers' payment behaviour and to cover credit losses, the Group has created impairment allowances, which at 31 December 2017 totalled 25,096 thousand euros, accounting for 6.3% of the total loan portfolio. (31 December 2016: 10.7%). Further information on impairment allowances is presented in note 7.

Cash and bank balances by the banks' credit ratings*

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

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

As at 31 December	2017	2016
Aaa-Aa3	16,865	13,181
A1-A3	141	658
Baa1-Baa3	941	543
Total	**17,947**	**14,382**

Financial assets held for trading by ratings

The financial assets held for trading (see note 5), based on Moody's Investors Service ratings or their equivalents, are as follows:

As at 31 December	2017	2016
Aaa-Aa3	3,802	3,190
A1-A3	3,843	4,354
Baa1-Baa3	3,565	7,347
Total	**11,210**	**14,891**

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

Exposure to counterparty credit risk

Counterparty credit risk means the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. The Group had no exposure to counterparty credit risk as at 31 December 2017.

Concentration risk

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

The Group determines concentration risk taking into account exposures to a single counterparty or related counterparties as well as exposures to a single industry, region or risk factor.

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

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

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

- In its business operations, the Group focuses on serving individuals and small and medium-sized enterprises.
- Customers are identified with due care and using due procedure.
- The customers' reciprocal relations are determined through relevant enquiries.
- The Group monitors the concentration of its credit risk exposure to any single factor and limits, where necessary, exposure to any customer group that is related to or impacted by that factor.

Collateral risk

Collateral risk is the risk arising from the type, value, form, and methods of disposing of the asset pledged as collateral for a transaction.

The Group consciously limits its collateral risk, assuming that its lending policies and volumes mitigate credit risk more effectively than receipt of collateral and associated cash flows.
The Group monitors the effects of fluctuations in the market value of collateral.

Collateral risk is managed using the following principles:

- The Group applies the principle that consumer loans that are provided have to be backed with the borrower's income.
- Requirements for collateral depend on the amount of the loan. As a rule, larger loans have to be secured with physical collateral (real estate collateral provided under the law of property such as a mortgage on immovable property). Smaller loans may be secured with surety agreements or the borrower's cash flows or assets. In making financing decisions, the Group does not rely simply on the borrower's business plan or economic activities.
- In the case of small and medium-sized loans it is expedient to accept collateral provided under the law of obligations. The Group is aware that the legal enforceability of real estate collateral (collateral provided under the law of property) and the regulation governing its realisation process restrict the use of such collateral in the Group's business activity.
- Loans are granted in accordance with the limits established by the Group, taking into account the size of the loan and the ratio of the loan amount to the value of the collateral.

- The sufficiency and value of acceptable real estate or other collateral is determined based on its current value considering the changes that will occur over time. Where necessary, the value of collateral is determined with the assistance of experts (e.g. real estate appraisers).
- The Group accepts as loan collateral only such immovable properties whose market value has been determined in a written valuation report issued by a real estate company with whom the Group has a corresponding agreement. Collateral risk is estimated by reference to the valuation report prepared by the real estate company and subjective valuation performed by the Group's staff.
- The agreements made with real estate companies regarding the valuation of assets set out the real estate company's liability for incorrect appraisal.
- The Group accepts only collateral located in an area with an active and transparent real estate market. Such areas are determined in partnership with real estate companies and experts accepted by the Group. Acceptable real estate collaterals include, above all, mortgages of the first ranking entered in the land register, which should ensure full satisfaction of the Group's claims even when the market value of the collateral decreases.
- The property put up as collateral under the law of property has to be insured throughout the loan term with an insurance company accepted by the Group at least to the extent of the replacement cost of the property.

The Group pledges its own assets as a collateral only if it is required by funding agreements or currency forward and swap contracts.

Market risk

Market risk is the risk of loss resulting from changes in market prices and rates which are unfavourable for the Group (including changes in interest rates, credit spreads, equity prices, foreign exchange rates and commodity prices), the correlations between them and volatility. Within market risk the Group has identified foreign currency risk (FX risk), trading portfolio risk (position risk), and interest rate risk of the banking book (IRRBB). The Group does not accept commodity risk.

Market risk may arise from the Group's activity at the financial markets and from the majority of the Group's products (loans, deposits) and trading portfolio. Market risk predominantly arises from the core business activities, taking market risk is not the Group's main activity. Market risk which arises from funding and investment activities is identified, managed and controlled through the asset-liability management processes. The Group avoids concentrations of market risk. The Group's market risk strategy is conservative and in the target risk profile the Group's general market risk appetite is on the Moderate level.

Foreign currency risk is the risk of loss due to changes in spot or forward prices and the volatility of currency exchange rates. The target risk profile of foreign currency risk is on the Low level. Foreign currency risk is measured by the FX single and aggregated position level. The open net currency positions must not exceed 2% of net own funds and taking speculative positions is avoided.

The Group's foreign currency position in Swedish krona arises from services provided to customers at the Swedish branch.

(In thousands of euros)

Net currency positions as at 31 December 2017

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

Net currency positions as at 31 December 2016

	Position in the statement of financial position		Position off the statement of financial position		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR (euro)	355,469	258,271	-	8,013	89,185
SEK (Swedish krona)	34,596	35,021	-	-	-425
GBP (British pound)	26	-	-	-	26

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

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

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

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

(In thousands of euros)

Effect of a potential exchange rate change on profit and equity as at 31 December 2016

	Exposure	Monetary impact	% of equity
SEK (Swedish krona)	-425	43	0.0%
GBP (British pound)	26	3	0.0%
Total	**-399**	**46**	**0.0%**

Interest rate risk in the trading portfolio is a risk to the earnings or market value of the portfolio due to uncertain future interest rates. The trading portfolio position risks are broken down into a general risk and specific risk components. General risk refers to potential loss caused by general market fluctuations, specific risk arises from issuer-specific events. In the target risk profile, the Group's appetite for trading portfolio risk is on the Moderate level. Trading portfolio positions and the market risk associated with it is driven by the Group's goal to maintain a strong liquidity and funding position to support lending activities. The secondary purpose of holding trading portfolio is to support the Group's profitability, but profit expectations shall not override liquidity requirements. The Group does not take speculative trading positions and does not provide customer-focused trading activities.

Group did not have equity risk positions as at 31 December 2017.

Interest rate risk of the banking book (IRRBB) is the current or prospective risk to the Group's earnings and own funds arising from adverse movements in interest rates caused by banking book assets and liabilities. IRRBB is a significant risk for the Group. The main sources of structural IRRBB are adverse changes in loan and/or deposits interest rates. In the target risk profile, the Group's appetite for this risk is on the Moderate level. Risk versus return considerations are applied. The basis of the Group's IRRBB strategy is to maintain a balanced position in the short-term (next 12-24 months) perspective and a controlled open risk position in the longer perspective by active management of the structure and maturities interest-sensitive assets and liabilities. The market risk tolerance and limits are defined for the trading and banking portfolios.

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

Stress tests and scenario analyses for the trading portfolio are performed at least on a quarterly basis. The Group tests its trading portfolios by applying historical scenarios (extreme movements in market factors which have been observed in the past) (historical scenarios) and also hypothetical scenarios (extreme movements that could potentially happen in the future).

Liquidity risk

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

The Group's liquidity risk strategy is to maintain a conservative liquidity risk profile and sufficient liquidity reserves. The conservative liquidity risk profile is established by limits set by the supervisory board Strong liquidity is one of the Group's main priorities. Liquidity risk management is based on conservative assumptions.

The main objective of the Group's funding strategy is to ensure sufficient and stable funding of the core activities using the Group's own capital and external financing. The secondary objective of the funding management is optimisation of the costs, size and composition of external resources involved, but cost-effectiveness and cost-competitiveness may not override sufficient, stable and conservative funding requirements. Diversification is a key part of the Group's overall funding and liquidity management strategy. The Group avoids the concentration of funding. 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. Long-term stable funding is secured by the Group's shareholders' equity.

(In thousands of euros)

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

The Group measures liquidity risk using different ratios based on the structure of the statement of financial position. The regulatory measure LCR (Liquidity Coverage ratio) is used to calculate total expected net cash outflows during a 30-day stress period in relation to the liquid assets.

Liquidity risk management measures

	31 Dec 2017	31 Dec 2016
Liquidity coverage ratio	1101.0%	1210.0%
Loan to deposit ratio	111.0%	117.0%
Long term (over 1 year) funding to total funding ratio	51.3%	47.0%

To ensure risk control, liquidity risks are reported both on an ad hoc and regular basis (daily, weekly, monthly and quarterly) to different levels of management (risk committee, the management board, the supervisory board).

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 cover risks that may crystallise during different types of stress scenarios and/or to address risks posed by control, governance or other deficiencies.

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

The liquidity risk framework covers both liquidity management on standard conditions and in the event of a liquidity crisis. For liquidity risk management in the event of a liquidity crisis the Group has prepared a business continuity and recovery plan for liquidity and funding, specifying the activities and measures to be applied in the periods of liquidity stress events of different magnitude, including liquidity crisis. 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.

(In thousands of euros)

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

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

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

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

	Past due	Less than 1 month	1-12 months	1-5 years	Over 5 years	Total
Financial assets						
Cash and bank balances	-	34,933	-	-	-	34,933
Loans to customers	32,205	8,692	86,140	184,007	21,681	332,725
Of which loan portfolio	23,587	8,692	86,140	184,007	21,681	324,107
Of which interest receivables	8,618	-	-	-	-	8,618
Financial assets held for trading	-	-	510	10,633	3,748	14,891
Total financial assets	**32,205**	**43,625**	**86,650**	**194,640**	**25,429**	**382,549**
Financial liabilities						
Deposits from customers	-	18,053	126,377	124,574	16,571	285,575
Total financial liabilities	-	18,053	126,377	124,574	16,571	285,575
Net exposure	**32,205**	**25,572**	**-39,727**	**70,066**	**8,858**	**96,974**

(In thousands of euros)

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

	Carrying amount	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Payables to suppliers (note 15)	**731**	731	-	-	-	-	731
Deposits from customers (note 13)	**334,819**	14,593	29,984	140,999	159,319	20,016	364,911
Unused portions of credit lines and bank guarantees (note 27)	**8,493**	70	176	3,801	4,446	-	8,493
Total liabilities	**344,043**	**15,394**	**30,160**	**144,800**	**163,765**	**20,016**	**374,135**

Expected undiscounted future cash flows of the Group's financial liabilities as at 31 December 2016

	Carrying amount	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Payables to suppliers (note 15)	**1,354**	1,354	-	-	-	-	1,354
Deposits from customers (note 13)	**285,575**	11,307	20,598	111,733	134,778	19,329	297,745
Unused portions of credit lines and bank guarantees (note 27)	**8,013**	828	1,268	3,342	2,575	-	8,013
Total liabilities	**294,942**	**13,489**	**21,866**	**115,075**	**137,353**	**19,329**	**307,112**

Operational risk

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

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

Operational risk entails the following risks:

- Legal risk is the risk resulting from non-conformity with or misinterpretation of legislation, contracts, good practice and standards of ethics. Legal risk may materialise in any of the above risk types, as the Group may become subject to claims or proceedings due to contractual or other legal responsibilities.

- Compliance risk is the risk that failure to fully meet laws, regulations, internal rules and obligations to customers, employees and other stakeholders may impair the Group's business model, reputation and financial condition. Money laundering and terrorist financing (ML/TF) risk which is part of compliance risk is defined as the risk of the Group being used for ML/TF due to weaknesses and non-compliances in internal processes.
- Information and communication technology (ICT) risk is the risk of losses due to the inappropriateness or failure of hardware and software, which can compromise the availability, integrity, accessibility and security of technical infrastructure and data.

The Group's strategy is to keep operational risk at a reasonably minimal level and to minimise potential losses while taking into account the Group's strategic objectives and the principle of economic efficiency. In the policies regulating the Group's target risk profile, the Group's

appetite for operational risk and compliance risk is on the Low level but the principle of economic efficiency is also observed.

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

The capital allotted to operational risk is included in the Group's capital ratios. Total capital exposure for covering operational risk is identified using the standardised approach.

Busines risk

Business risk includes reputational and strategic risks. Reputational risk is the current or prospective risk to the Group's earnings, own funds or liquidity arising from damage to the Group's reputation. Strategic risk is risk that the changes in business and competition or in the regulatory environment will have a negative effect on the Group's activities and achievement of business goals, as well as the risk that inadequate strategy or inadequate implementation of strategy or changes in customer expectations or inadequate implementation of new technologies will result in a loss or significantly reduce revenues.

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

The Group's target risk profile for reputational risk is on a Low level while the target risk profile for strategic risk is on an Above average level - ready to consider all options, proactive, decisions made on a risk-return balance basis.

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

OWN FUNDS AND CAPITAL

Bigbank's ability to take risk depends on its risk-bearing capacity. A key factor which determines risk-bearing capacity is stable earnings. These allow to build a strong capital base which can be used to absorb potential risks and (unexpected) losses.

In the policies regulating the Group's target risk profile, the Group's appetite for risks related to capital is at the Cautious ("Moderate") level. The Group holds at all times capital adequate for covering all of its material risks and regulatory requirements.

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

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

- **Common Equity Tier 1 Capital (CET1)** including:
    - **Paid-up share capital.** The Group's paid-up share capital amounts to 8,000 thousand euros.
    - **Statutory capital reserve**. In line with the requirements of the Commercial Code, the Group has created a capital reserve which at 31 December 2017 amounted to 800 thousand euros.
    - **Prior period retained earnings.** Profits retained in previous periods have been audited by an independent external auditor. The figure has been determined by taking into account all relevant taxes and dividend distributions. At 31 December 2017, the Group's prior period retained earnings totalled 86,565 thousand euros.
    - **Net profit for the reporting period** that has been verified by an independent external auditor in the review of the financial information (2017: nine months), less foreseeable dividends proportionally and following the permit of the Estonian Financial Supervision Authority.
- **Tier 2 Capital**, including:
    - Subordinated bonds. As of 31 December 2017 Group had issued subordinated bonds of 5,000 thousand euros with a remaining 10 year maturity.

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

The Group has included 9 months' audited income, less foreseeable dividends proportionally with the permission of the Financial Supervisory Authority, in the total amount of 7,298 thousand euros into CET1 capital .

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

At 31 December 2017, the Group's total own funds amounted to 100,866 thousand euros.

(In thousands of euros)

As at 31 December	2017	2016
Paid up capital instruments	8,000	8,000
Other reserves	800	800
Previous years retained earnings	86,565	78,964
Other accumulated comprehensive income	674	1,369
Other intangible assets	-7,471	-4,037
Profit or loss eligible	7,298	4,117
Adjustments to CET1 due to prudential filters	-	-
Common equity Tier 1 capital	**95,866**	**89,213**
Tier 1 capital	**95,866**	**89,213**
Tier 2 capital	**5,000**	**-**
Deductions	**-**	**-**
Total own funds	**100,866**	**89,213**

TOTAL RISK EXPOSURE

The methods used by the Group for calculating the total risk exposure and single risk positions are stipulated in CRR.

The Group uses the standardised method in calculating both the risk weighted with credit risk and the operational risk position.

As at 31 December	2017	2016
Risk weighted exposure amounts for credit and counterparty credit risks (standardized approach)		
Central governments or central banks	483	1,128
Institutions	4,966	5,159
Corporates	33,651	39,543
Retail	244,071	202,022
Secured by mortgages on immovable property	4,959	5,277
Exposures in default	16,552	26,297
Other items	9,014	7,558
Total risk weighted exposure amounts for credit and counterparty credit risks (standardised approach)	**313,696**	286,984
Total risk exposure amount for foreign exchange risk (standardised approach)	**-**	**-**
Total risk exposure amount for operational risk (standardised approach)	**100,928**	**93,585**
Total risk exposure amount for credit valuation adjustment (standardised approach)	**-**	**-**
Total risk exposure amount	**414,624**	**380,569**

(In thousands of euros)

Capital ratios

As at 31 December	2017	2016
CET1 Capital ratio	23.1%	23.4%
T1 Capital ratio	23.1%	23.4%
Total capital ratio	24.3%	23.4%
Leverage ratio	21.0%	22.4%

Total capital ratio has been calculated for Bigbank AS Group. At 31 December 2017, total capital ratio at the level of the parent company was 23.5% (31 December 2016: 21.7%).

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

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

Capital requirements have been determined using the standardised approach.

Minimum regulative capital requirement as at 31 December 2017

	Common equity Tier 1 capital ratio	Tier 1 capital ratio	Total capital ratio
Basic requirement	4.5%	6.0%	8.0%
Capital preservation buffer	2.5%	2.5%	2.5%
Systemic risk buffer	1.0%	1.0%	1.0%
Countercyclical risk buffer	0.0%	0.0%	0.0%
Pillar II (SREP) capital requirement	3.9%	5.2%	7.9%
Minimum regulative capital requirement	**8.0%**	**9.5%**	**11.5%**

The Group meets the minimum regulative capital requirement.

Capital management

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

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

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

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

- Ensuring capital adequacy is an integral part of strategic and daily business decision-making as well as an integral part of the daily risk management process.
- The Group evaluates and estimates the risk level and the capital need for covering all identified material risks on a continuous basis.
- The Group's capital must, at all times, be adequate for covering all of its material risks (must at all times exceed its aggregated risks).
- The Group assesses continuously possible future capital requirements (capital planning) for ensuring a prudent level of capitalisation taking into account additional capital needs (planned growth, strategic plans), dividend policy, potential changes in the regulatory environment as well as possible macroeconomic downturns.
- The Group performs capital adequacy assessment both on a solo and consolidated basis.
- The Group defines the minimum capital requirement and the target capital requirement needed for ensuring the sustainability of its operations;
- The Group does not accept any risk, if its capital is inadequate for covering future losses resulting from the materialisation of this risk.
- The Group's target for 2017 was to maintain at least a 20.0% total capital ratio both at the level of the Group and the parent company. At 31 December 2017, the total capital ratio was 24.3%, exceeding the regulatory requirement. At 31 December 2017, the Group's CET1 capital ratio was 23.1%, Tier 1 ratio was the same.

Internal capital adequacy assessment process

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

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

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

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

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

The additional Pillar II capital requirement according to SREP assessment, as determined by the Estonian Financial Supervision Authority, valid as of 31 December 2017, was 7.93% of the total risk position, of which at least 3.88% should be covered by CET1 and 5.2% by Tier 1 capital.

(In thousands of euros)

NOTE 4. CASH AND BANK BALANCES AND CASH EQUIVALENTS

Cash and balances at banks as at 31 December 2017

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

Cash and balances at banks as at 31 December 2016

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	Total
Cash and balances at central banks	**19,709**	**500**	**-**	**342**	**-**	**-**	**20,551**
Of which mandatory reserves*	600	-	-	42	-	-	642
Of which surplus on mandatory reserves	19,109	500	-	300	-	-	19,909
Due from banks	**4,658**	**698**	**1,018**	**504**	**697**	**6,807**	**14,382**
Total	**24,367**	**1,198**	**1,018**	**846**	**697**	**6,807**	**34,933**
of which cash and cash equivalents	**23,767**	**1,198**	**1,018**	**804**	**697**	**6,807**	**34,291**

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

Cash and cash equivalents

As at 31 December	2017	2016
Demand and overnight deposits with credit institutions	17,447	14,382
Term deposits with credit institutions with maturity of less than 1 year	500	-
Surplus on the mandatory reserves with central banks	35,174	19,909
Total cash and cash equivalents	**53,121**	**34,291**

(In thousands of euros)

NOTE 5. FINANCIAL ASSETS HELD FOR TRADING

As at 31 December	2017	2016
Financial assets held for trading	**11,210**	**14,891**
Financial assets held for trading by issuer		
General governments' bonds	3,358	4,277
Credit institutions' bonds	2,718	4,082
Other financial corporations' bonds	522	1,241
Non-financial corporations' bonds	4,612	5,291
Financial assets held for trading by currency		
EUR (euro)	9,907	14,165
SEK (Swedish krona)	1,303	726

NOTE 6. LOANS TO CUSTOMERS

Loans to customers as at 31 December 2017

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

(In thousands of euros)

Loans to customers as at 31 December 2016

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	Total
Loan receivables from customers	61,044	90,433	86,949	66,933	29,970	27,801	363,130
Impairment allowance for loans	-4,484	-14,343	-2,727	-1,906	-3,063	-1,176	-27,699
Interest receivable from customers	3,861	8,838	979	1,202	1,479	557	16,916
Impairment allowances for interest receivables	-2,324	-4,820	-191	-176	-635	-152	-8,298
Statistical impairment allowance	-1,504	-958	-1,692	-3,144	-2,115	-1,911	-11,324
Total loans to customers, incl. interest and allowances	**56,593**	**79,150**	**83,318**	**62,909**	**25,636**	**25,119**	**332,725**
Share of region	17.0%	23.8%	25.0%	18.9%	7.7%	7.6%	100.0%

Loan receivables from customers* by loan type

As at 31 December	2017	2016
Loans against income	357,099	317,821
Surety loans	3,043	9,240
Loans secured with real estate	35,954	35,784
Loans against other collaterals	42	285
Total loan receivables from customers	**396,138**	**363,130**

* The fair value of the real estate as collateral for loan receivables was 44,032 thousand euros as at 31 December 2017 (31 December 2016: 48,795 thousand euros).

Loan receivables from customers* by contractual currency

As at 31 December	2017	2016
EUR (euro)	358,010	335,329
SEK (Swedish kronor)	38,128	27,801
Total loan receivables from customers	**396,138**	363,130

* Loan receivables from customers comprise loan principal.

(In thousands of euros)

Ageing analysis as at 31 December 2017*

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

Ageing analysis as at 31 December 2016*

	Not past due	30 days or less	31-60 days	61-90 days	Over 90 days	Total
Loans against income						
Loan portfolio	239,726	24,486	7,420	4,297	41,892	317,821
Impairment allowance	-10,257	-1,289	-619	-425	-22,846	-35,436
Surety loans						
Loan portfolio	4,508	1,804	529	235	2,164	9,240
Impairment allowance	-311	-85	-24	-9	-1,499	-1,928
Loans secured with real estate						
Loan portfolio	27,725	3,941	493	762	2,863	35,784
Impairment allowance	-633	-99	-16	-16	-876	-1,640
Loans against other collaterals						
Loan portfolio	248	23	-	-	14	285
Impairment allowance	-8	-1	-	-	-10	-19
Total loan portfolio	272,207	30,254	8,442	5,294	46,933	363,130
Total impairment allowance	-11,209	-1,474	-659	-450	-25,231	-39,023

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

(In thousands of euros)

NOTE 7. IMPAIRMENT OF LOANS, RECEIVABLES AND FINANCIAL INVESTMENTS

Change in impairment allowances for loans and related interest receivables

	2017	2016
Balance at beginning of year	-47,321	-49,480
Write-off of fully impaired loan and interest receivables	50,132	47,152
Increase in allowances for loan and interest receivables	-31,874	-45,391
Effect of movements in exchange rates	92	398
Balance at end of year	**-28,971**	**-47,321**

Impairment losses on loans, receivables and financial investments

	2017	2016
Recovery of written-off loan and interest receivables	13,499	19,042
Increase in allowances for loan and interest receivables	-31,874	-45,391
Impairment losses on other receivables	794	462
Total impairment losses	**-17,581**	**-25,887**

The decrease in impairment losses in 2017 is related to an increase in loan quality and more effective debt collection and sale of non-working loans.

Impairment allowances by loan assessment category as at 31 December 2017

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

(In thousands of euros)

Impairment allowances by loan assessment category as at 31 December 2016

	Loans receivables	Impairment allowances for loans	Interest receivables	Impairment allowances for loan interest	Total impairment allowances
Collectively assessed items	317,230	-13,315	11,602	-3,324	-16,639
Individually assessed items	45,900	-14,384	5,314	-4,974	-19,358
Statistical impairment allowance	-	-11,324	-	-	-11,324
Total	**363,130**	**-39,023**	**16,916**	**-8,298**	**-47,321**

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 grouped.

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

NOTE 8. OTHER RECEIVABLES

As at 31 December	2017	2016
Collection, recovery and other charges receivable	444	805
Miscellaneous receivables	2,559	1,001
Impairment allowance for other receivables	-228	-503
Total	**2,775**	**1,303**

NOTE 9. PREPAYMENTS

As at 31 December	2017	2016
Prepaid taxes	428	436
Other prepayments	487	984
Total	**915**	**1,420**

(In thousands of euros)

NOTE 10. PROPERTY AND EQUIPMENT

Cost	Land and buildings	Other items	Total
Balance at 1 January 2016	3,051	2,709	5,760
Purchases	-	1,144	1,144
Sales	-	-84	-84
Write-off	-	-309	-309
Revaluation	7	-	7
Revaluation recognised in other comprehensive income	223	-	223
Transfer*	-267	-	-267
Effect of movements in exchange rates	-	-2	-2
Balance at 31 December 2016	**3,014**	**3,458**	**6,472**
Balance at 1 January 2017	3,014	3,458	6,472
Purchases	-	1,513	1,513
Sales	-	-226	-226
Write-off	-	-1,228	-1,228
Transfer*	-1,500	5	-1,495
Balance at 31 December 2017	**1,514**	**3,522**	**5,036**
Depreciation			
Balance at 1 January 2016	-181	-2,190	-2,371
Depreciation charge for the year	-86	-329	-415
Sales	-	40	40
Write-off	-	306	306
Transfer*	267	-	267
Balance at 31 December 2016	**-**	**-2,173**	**-2,173**
Balance at 1 January 2017	-	-2,173	-2,173
Depreciation charge for the year	-58	-723	-781
Sales	-	165	165
Write-off	-	1,203	1,203
Transfer*	-	-5	-5
Effect of movements in exchange rates	-	1	1
Balance at 31 December 2017	**-58**	**-1,532**	**-1,590**
Carrying amount			
Balance at 1 January 2016	2,870	519	3,389
Balance at 31 December 2016	3,014	1,285	4,299
Balance at 31 December 2017	**1,456**	**1,990**	**3,446**

* In 2013, the Group has changed its accounting policy for the measurement of land and buildings to the revaluation model. The accumulated depreciation as at the revaluation date was eliminated against the gross carrying amount of the revalued asset, see note 30. In 2017, due to the relocation of the Tartu office to new premises, the purpose of use of a building previously recognised in property and equipment changed and it was reclassified from land and buildings to investment property in an amount of 1,500 thousand euros. The reclassifications between other items and intangible assets amounted to 5 thousand euros.

(In thousands of euros)

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

As at 31 December	2017	2016
Cost	1,869	2,784
Depreciation	-1,015	-997
Net carrying amount	**854**	**1,787**

NOTE 11. INVESTMENT PROPERTIES

	2017	2016
Opening balance at 1 January	**509**	**797**
Sales	-130	-218
Reclassification*	1,500	-
Net loss from fair value adjustment (note 30)	-1	-70
Closing balance at 31 December	**1,878**	**509**

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

The investment properties comprise a building in Tartu and also plots, houses and apartments originally pledged by customers as loan collateral and later bought by the Group through auctions. The Group earned rental income derived from investment properties of 67 thousand euros in financial year 2017 (2016: 8 thousand euros). The operating expenses were 61 thousand euros, (2016: 15 thousand euros), please see note 25.

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

(In thousands of euros)

NOTE 12. INTANGIBLE ASSETS

	2017	2016
Cost at beginning of year	**5,701**	**2,919**
Purchases	4,036	2,782
Of which purchased intangible assets	3,166	2,782
Of which capitalised payroll	870	-
Write-off	-529	-
Reclassification	-5	-
Cost at end of year	**9,203**	**5,701**
Amortisation at beginning of year	**-1,664**	**-1,308**
Amortisation charge for the year	-601	-356
Write-off	529	-
Reclassification	5	-
Amortisation at end of year	**-1,731**	**-1,664**
Carrying amount at beginning of year	4,037	1,611
Carrying amount at end of year	**7,472**	**4,037**

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

The Group has substantially increased its investments in the information and banking technology solution called NEST, the first stage of which was implemented in June 2017. The purchases also include the capitalised payroll and payroll-related costs for employees who were directly associated with the NEST development of 870 thousand euros, see note 22.

NOTE 13. DEPOSITS FROM CUSTOMERS

As at 31 December	2017	2016
Term deposits	**334,819**	**285,575**
Term deposits by customer type		
Individuals	322,754	274,281
Legal persons	12,065	11,294
Term deposits by currency		
EUR (euro)	284,606	251,289
SEK (Swedish kronor)	50,213	34,286
Term deposits by maturity		
Maturing within 6 months	83,963	64,764
Maturing between 6 and 12 months	89,863	75,610
Maturing between 12 and 18 months	35,499	26,909
Maturing between 18 and 24 months	45,283	39,349
Maturing between 24 and 36 months	15,862	35,312
Maturing between 36 and 48 months	34,504	14,101
Maturing in over 48 months	29,845	29,530
Average deposit amount	23	22
Weighted average interest rate	1.7%	2.1%
Weighted average duration until maturity (months)	19.5	20.6
Weighted average total contract term (months)	36.2	39.7

(In thousands of euros)

Annual interest rates of deposits offered to customers as at 31 December 2017

Interest rates of deposits offered to customers depend on the country as well as the deposit term, currency and amount, and interest payment method. Deposit terms range from 1 month to 10 years. Respective interest rates range from 0.3% to 2.5% per year. Deposits with the shortest term of 1 month are offered in Estonia, Latvia, Finland, Austria and Germany. In Sweden, the shortest term for deposits is 6 months and in the Netherlands 12 months. The minimum deposit amount is 500 euros or 10,000 Swedish krona.

NOTE 14. SUBORDINATED NOTES

As at 31 December	2017	2016
Subordinated notes	4,977	-

In December 2017, Bigbank issued subordinated notes in the amount of 5,000 thousand euros with a term of 10 years and a fixed annual interest rate of 6.5%. The private placement was organised in cooperation with LHV pension funds and in compliance with the bank's strategy and growth objectives.

NOTE 15. OTHER LIABILITIES

As at 31 December	2017	2016
Payables to suppliers	731	1,354
Payables to employees	1,514	1,001
Other payables	2,153	2,428
Total other liabilities	**4,398**	**4,783**

NOTE 16. DEFERRED INCOME AND TAX LIABILITIES

As at 31 December	2017	2016
Income taxes payable (note 28)	170	1,237
Other taxes payable	691	1,098
Prepayments from customers	368	466
Total deferred income and tax liabilities	**1,229**	**2,801**

(In thousands of euros)

NOTE 17.EQUITY

SHARE CAPITAL

Bigbank AS is a limited company, whose minimum and maximum authorised share capital amount to 5,113 thousand euros and 12,782 thousand euros respectively. Share capital as at 31 December 2017 and 31 December 2016 consists of 80,000 fully paid in ordinary shares with a par value of one hundred euros each. Each share carries one vote at meetings of the company, granting the holder the right to participate in the management of the company, the distribution of profits and the distribution of residual assets on the dissolution of the company.

STATUTORY CAPITAL RESERVE

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

OTHER RESERVES

Other reserves comprise:

- Exchange differences on translating foreign operations. This item comprises foreign currency differences arising from the translation of the financial statements of the Group's foreign operations that use functional currencies other than the Group's functional currency.
- Asset revaluation reserve comprises the increase in the carrying value of land and buildings classified as Property and equipment as a result of revaluation.

As at 31 December	2017	Change	2016	Change	2015
Exchange differences on translating foreign operations	371	204	167	98	69
Asset revaluation reserve	304	-898*	1,202	223	979
Total other reserves	**675**	**-694**	**1,369**	**321**	**1,048**

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

UNRESTRICTED EQUITY

At 31 December 2017, the Group's unrestricted equity amounted to 103,771 thousand euros (31 December 2016: 90,667 thousand euros).

(In thousands of euros)

DIVIDENDS

In 2017 and 2016, the company made the following dividend distributions:
2017: 62.50 euros per share, i.e. 5,000 thousand euros in aggregate;
2016: 16.25 euros per share, i.e. 1,300 thousand euros in aggregate.

NOTE 18. INTEREST INCOME

	2017	2016
Interest income on loans to customers	69,363	68,812
Interest income on financial assets held for trading	350	371
Interest income on deposits	1	27
Other interest income	11	15
Total interest income	**69,725**	**69,225**

NOTE 19. INTEREST EXPENSE

	2017	2016
Interest expense on deposits	5,773	5,940
Interest expense on subordinated notes	3	-
Total interest expense	**5,776**	**5,940**

NOTE 20. NET GAIN/LOSS ON FINANCIAL TRANSACTIONS

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

	2017	2016
Foreign exchange losses	-405	-238
Foreign exchange gains	187	137
Profit/losses on debt securities	-147	336
Net gain/loss on financial transactions	**-365**	**235**

NOTE 21. OTHER INCOME

	2017	2016
Income from debt recovery proceedings	2,401	3,184
Gains on derecognition of non-financial assets	28	9
Miscellaneous income	277	231
Total other income	**2,706**	**3,424**

(In thousands of euros)

NOTE 22. SALARIES AND ASSOCIATED CHARGES

	2017	2016
Salaries	12,223	11,026
Social security costs	3,777	3,411
Employee health costs and fringe benefits including associated taxes	362	325
Total salaries and associated charges	**16,362**	**14,762**

Total salaries and associated charges amounted to 17,232 thousand euros together with capitalised payroll and payroll-related costs associated with the NEST development in 2017, see note 12.

Annual average number of employees working full time was 425 (2016: 415).

NOTE 23. OTHER OPERATING EXPENSES

	2017	2016
Marketing expenses	5,297	6,399
Office, rental and similar expenses	1,588	1,348
Other personnel-related expenses	1,130	1,099
Software licensing and other information technology costs	979	613
Other services	399	452
Postal supplies and charges	318	311
Telephone and other communications expenses	569	641
Miscellaneous operating expenses	151	210
Total other operating expenses	**10,431**	**11,073**

NOTE 24. OTHER EXPENSES

	2017	2016
Expenses related to enforcement proceedings	1,030	1,037
Expenses related to registry inquires	1,225	959
Legal regulation charges	492	417
Expenses from investment properties	34	96
Onerous contracts and restructuring provisions*	535	133
Miscellaneous expenses	265	207
Total other expenses	**3,580**	**2,849**

* During 2017, the Group recorded a restructuring provision of 144 thousand euros as part of its effort to reduce costs in a sustainable manner, to achieve greater operational efficiencies and to simplify the organisation in Spain. The restructuring charge was related to employee severance and the remaining provision is expected to be utilised in line with the approved plans during the first half of 2018.

(In thousands of euros)

NOTE 25. OPERATING LEASES

THE GROUP AS A LESSEE

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

Operating lease expenses

	2017	2016
Operating lease payments made for office premises	872	611

Minimum non-cancellable operating lease rentals payable in subsequent periods

	2017	2016
Future operating lease rentals payable for office premises under fixed-term contracts, of which	**2,286**	**866**
Up to 1 year	556	358
1 to 5 years	1,060	508
Over 5 years	670	-

THE GROUP AS A LESSOR

Minimum non-cancellable operating lease rentals receivable in subsequent periods

As at 31 December	2017	2016
Up to 1 year	42	10
1 to 5 years	96	34

For the rental income and operating expenses see note 11.

(In thousands of euros)

NOTE 26. ASSETS PLEDGED AS COLLATERAL

Asset encumbrance arises from collateral pledged against secured funding and other collateralised obligations. No encumbered positions were held by the Group as at 31.12.2017. Although the following Group's assets have been pledged as collateral, the Group had no liabilities related to these pledged assets at 31 December 2017.

- The Group's immovable property at Rüütli 21/23 in Tartu is encumbered with a second-ranking mortgage of 671 thousand euros to secure liabilities to Danske Bank AS Estonian branch (formerly AS Sampo Pank).
- The Group's immovable property at Rüütli 21/23 in Tartu is encumbered with a first-ranking mortgage of 282 thousand euros to secure liabilities to AS SEB Liising.
- An apartment ownership at Tartu mnt 18 in Tallinn is encumbered with a mortgage of 601 thousand euros to secure liabilities to Swedbank AS.
- Apartment ownerships at Tartu mnt 18 in Tallinn are encumbered with a mortgage of 895 thousand euros to secure liabilities to Swedbank AS.

NOTE 27. CONTINGENT LIABILITIES

At 31 December 2017, the unused portions of the Group's credit lines totalled 8,403 thousand euros (31 December 2016: 7,923 thousand euros). At 31 December 2017, the Group had provided guarantees of 90 thousand euros (31 December 2016: 90 thousand euros).

Contingent income tax liabilities

At 31 December 2017, the Group's undistributed profits totalled 103,701 thousand euros.

The maximum income tax liability that could arise if all of the undistributed profits were distributed as dividends amounts to 10,953 thousand euros. Thus, the maximum amount that could be distributed as the net dividend is 92,818 thousand euros. Under the Estonian Income Tax Act, in 2017 profit distributions, including dividend distributions, were subject to income tax calculated as 20/80 of the net distribution. The income tax payable on dividends is reduced by the corresponding tax rate of the dividends received from subsidiaries and by the profits attributable to a permanent establishment (branches).

The maximum contingent income tax liability has been calculated under the assumption that the net dividend and the dividend tax expense reported in the income statement for 2017 cannot exceed total distributable profits as at 31 December 2017.

NOTE 28. INCOME TAX EXPENSE

Income tax expense

	2017	2016
Current income tax expense*	2,421	2,145
Change in deferred income tax	11	3
Total income tax expense/income	**2,432**	**2,148**

* Current tax expense has been calculated on net profit earned in Latvia, Lithuania and Finland in 2017 and in 2016.

(In thousands of euros)

The Group has unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of 5,484 thousand euros related to earned losses in Spain and Sweden (2016: 3,211 thousand euros).

Reconciliation of accounting profit and income tax expense

	2017	2016
Consolidated profit before tax	19,638	13,851
The parent company's domestic tax rate 0%	-	-
Effect of tax rates in foreign jurisdictions	472	262
Effect of exempt income and taxable expenses	-308	-11
Addition of tax losses / Utilisation of unrealised tax losses carried forward	2,273	1,891
Change in recognised deferred tax assets	11	3
Effect of income tax of previous years	-16	3
Income tax expense reported in statement of comprehensive income	**2,432**	**2,148**

Recognised deferred tax assets

As at 31 December	2017	2016
Deductible temporary differences on		
Property and equipment	-	29
Other liabilities (vacation pay liabilities to employees)	-	-18
Total recognised deferred tax assets	**-**	**11**

NOTE 29. RELATED PARTIES

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

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

In 2017, the remuneration of the members of the Group's management and supervisory boards including relevant taxes amounted to 1,048 thousand euros (2016: 704 thousand euros) and 70 thousand euros (2016: 65 thousand euros) respectively.

As at 31 December 2017 and 31 December 2016, the Group had no claims nor liabilities to related parties.

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

(In thousands of euros)

NOTE 30. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Management believes that the fair values of the assets and liabilities reported in the consolidated statement of financial position as at 31 December 2017 do not differ significantly from their carrying amounts.

	Carrying amount		Fair value	
Financial assets as at 31 December	**2017**	**2016**	**2017**	**2016**
Cash and balances at central banks (note 4)	36,235	20,551	36,235	20,551
Cash and balances at banks (note 4)	17,947	14,382	17,947	14,382
Financial assets held for trading (note 5)	11,210	14,891	11,210	14,891
Loans to customers (note 6,7)	377,458	332,725	377,458	332,725
Other financial receivables (note 8)	2,775	1,303	2,775	1,303
Total financial assets	**445,625**	**383,852**	**445,625**	**383,852**

	Carrying amount		Fair value	
Financial assets as at 31 December	**2017**	**2016**	**2017**	**2016**
Deposits from customers (note 13)	334,819	285,575	334,819	285,575
Subordinated notes (note 14)	4,977	-	4,977	-
Other financial liabilities (note 15)	4,398	4,783	4,398	4,783
Total	**344,194**	**290,358**	**344,194**	**290,358**

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

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

Fair value hierarchy as at 31 December 2017

Financial assets as at 31 December	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets held for trading (note 5)	11,210	-	-	11,210
Land and buildings (note 10)	-	-	1,456	1,456
Investment properties (note 11)	-	-	1,878	1,878
Assets for which fair values are disclosed				
Loans to customers (note 6,7)	-	-	377,458	377,458
Other financial receivables (note 8)	-	-	2,775	2,775
Total assets	**11,210**	-	**383,567**	**394,777**

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(In thousands of euros)

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Financial assets as at 31 December	Level 1	Level 2	Level 3	Total
Liabilities measured at fair value				
Liabilities for which fair values are disclosed				
Deposits from customers (note 13)	-	-	334,819	334,819
Subordinated notes (note 14)	-	-	4,977	4,977
Other financial liabilities (note 15)	-	-	4,398	4,398
Total liabilities	-	**-**	**344,194**	**344,194**

Fair value hierarchy as at 31 December 2016

Financial assets as at 31 December	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets held for trading (note 5)	14,891	-	-	14,891
Land and buildings (note 10)	-	-	3,014	3,014
Investment properties (note 11)	-	-	509	509
Assets for which fair values are disclosed				
Loans to customers (note 6,7)	-	-	332,725	332,725
Other financial receivables (note 8)	-	-	1,303	1,303
Total assets	14,891	-	**337,551**	**352,442**
Liabilities measured at fair value				
Liabilities for which fair values are disclosed				
Deposits from customers (note 13)	-	-	285,575	285,575
Other financial liabilities (note 15)	-	-	4,783	4,783
Total liabilities	-	-	**290,358**	**290,358**

There have been no transfers between Level 1 and Level 2 during 2017 and 2016.

The Level 3 *loans to customers* that amounts to 337,458 thousand euros is measured at amortised cost using the effective interest rate method less any impairment losses as the management believes that it most effectively demonstrates the fair value of these financial assets. The Group's accounting policy on loans to customer is discussed in note 1 (section Financial assets) and 3. Management estimates that the selected accounting policy on loans reflects the fair value of loans to customers.

The Level 3 *land and buildings* that amounts to 1,456 thousand euros consists of real estate used by the Group in Tallinn (see note 10).

The properties in Tallinn are revalued using the income approach and market approach. The market approach means that valuations performed by the valuer are based on active market prices, significantly adjusted for differences in the nature, location or condition of the specific property. For valuation of property in Tallinn, for prior year the valuer has taken as basis the prices per square metre of residential space in Tallinn city that were in the range of 2,319 – 2,516 euros.

Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The estimated rental value per square meter per month is 11 euros, the rent growth 2%, long-term vacancy rate 5%, and vacancy rate for the first year 25% and discount rate 9% for commercial property in Tallinn.

Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount (see note 1, the section *Property and equipment* and *Fair value measurement,* and note 2). Management has assessed that the fair value has not changed in year 2017

The Level 3 *investment properties* that amount to 1,878 thousand euros consist of real estate used by the Group in Tartu and also plots, houses and apartments originally pledged by customers as loan collateral and later bought by the Group through auctions (see note 11) are measured at the fair value in the financial statements and valuations are performed by the management using market approach.

The investment property in Tartu is valued using the cost model (residual value method) based on the highest and best use of the property. The residual value method takes into account the profit that can be achieved on a development if the existing property would be developed and sold as private flats. Following inputs were used for prior year valuation of the properties in Tartu: price per square metre of flats in Tartu old town 2,200 euros and development costs per square metre 698 euros.

Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount (see note 1, the section *Investment properties* and *Fair value measurement,* and note 2). Management has assessed that the fair value has not changed in year 2017.

NOTE 31. EARNINGS PER SHARE

	2017	2016
Net profit for the year, in thousands of euros	17,206	11,703
Number of shares at beginning of year	80,000	80,000
Number of shares at end of year	80,000	80,000
Weighted average number of ordinary shares outstanding	80,000	80,000
Earnings per share, in euros	**215**	**146**

At the end of 2017 and 2016 the Group did not have any potential dilutive ordinary shares. Therefore, diluted earnings per share equal basic earnings per share.

NOTE 32. EVENTS AFTER THE REPORTING PERIOD

On 1 January 2018, the Group adopted IFRS 9 *Financial Instruments: Classification and Measurement.* The standard replaces major parts of International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement and contains a new impairment model based on expected credit losses (ECL). An adjustment to the opening retained earnings in amount of 4.730 thousand euros was recorded to reflect the application of the new requirements of impairment and classification and measurement at the adoption date, see section IFRS 9 *governance and project management, classification and measurement, impairment, signs of material increase in risk, definition of default and write-off and transition impact* in note 1.

(In thousands of euros)

NOTE 33. UNCONSOLIDATED STATEMENTS OF PARENT COMPANY AS A SEPARATE ENTITY

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

Statement of financial position

As at 31 December	2017	2016
Assets		
Cash and balances at central banks	36,235	20,551
Due from banks	17,612	14,108
Financial assets held for trading	11,210	14,891
Loans to customers	377,152	332,406
Receivables from subsidiaries	949	1,027
Investments in subsidiaries	579	579
Other receivables	2,773	1,295
Prepayments	887	1,400
Property and equipment	2,382	1,702
Investment properties	189	312
Intangible assets	7,472	4,037
Deferred tax assets	-	11
Total assets	**457,440**	**392,319**
Liabilities		
Deposits from customers	334,819	285,575
Liabilities to subsidiaries	1,865	1,863
Subordinated notes	4,977	-
Provisions	667	133
Other liabilities	4,375	4,762
Deferred income and tax liabilities	1,199	2,778
Total liabilities	**347,902**	**295,111**
Equity		
Share capital	8,000	8,000
Capital reserve	800	800
Other reserves	638	434
Retained earnings	100,100	87,974
Total equity	**109,538**	**97,208**
Total liabilities and equity	**457,440**	**392,319**

(In thousands of euros)

Statement of comprehensive income

	2017	2016
Interest income	69,755	70,710
Interest expense	-5,820	-7,854
Net interest income	**63,935**	**62,856**
Net fee and commission income	2,685	2,312
Net gain/loss on financial transactions	-365	235
Other income	2,618	3,378
Total income	**68,873**	**68,781**
Salaries and associated charges	-16,060	-14,450
Other operating expenses	-10,421	-11,069
Depreciation and amortisation expense	-1,335	-695
Impairment losses on loans and financial investments	-17,687	-25,805
Losses resulting from changes in the fair value of investment properties	-1	-70
Other expenses	-3,811	-3,102
Total expenses	**-49,315**	**-55,191**
Profit before income tax	**19,558**	**13,590**
Income tax	-2,432	-2,140
Profit for the year	**17,126**	**11,450**
Other comprehensive income/expense		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations	204	98
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**204**	**98**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Revaluation of land and buildings	-	6
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**-**	**6**
Other comprehensive income for the year	204	104
Total comprehensive income for the year	**17,330**	**11,554**

(In thousands of euros)

Statement of cash flows

	2017	2016
Cash flows from operating activities		
Interest received	60,227	60,487
Interest paid	-6,416	-5,360
Salary and other operating expenses paid	-28,040	-24,991
Other income and fees received	6,537	6,427
Other expenses and fees paid	-5,201	-4,464
Recoveries of receivables previously written off	20,247	18,546
Received for other assets	116	493
Paid for other assets	-95	-622
Loans granted	-252,226	-219,306
Repayment of loans granted	179,836	157,730
Change in mandatory reserves with central banks and related interest receivables	-419	-214
Proceeds from customer deposits	119,367	90,659
Paid on redemption of deposits	-69,870	-61,018
Change in financial assets held for trading	3,858	881
Income tax paid	-3,486	-1,299
Effect of movements in exchange rates	-117	-30
Net cash from operating activities	**24,318**	**17,919**
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	-5,522	-3,405
Proceeds from sale of property and equipment	85	25
Proceeds from sale of investment properties	115	32
Proceeds from acquisition of subsidiary's portfolio and its merge	-	299
Acquisition of financial instruments	-	-713
Proceeds from redemption of financial instruments	-	762
Net cash used in investing activities	**-5,322**	**-3,000**
Cash flows from financing activities		
Received from issue of notes	5,000	-
Repayment of loans from companies	-	-8,090
Dividends paid	-5,000	-1,300
Net cash used in financing activities	**-**	**-9,390**
Effect of exchange rate fluctuations	-227	-147
Increase in cash and cash equivalents	**18,769**	**5,382**
Cash and cash equivalents at beginning of period	34,017	28,635
Cash and cash equivalents at end of period	**52,786**	**34,017**

(In thousands of euros)

Cash and cash equivalents

As at 31 December	2017	2016
Demand and overnight deposits with banks	17,112	14,108
Term deposits with banks	500	-
Surplus on mandatory reserves with central banks	35,174	19,909
Total	**52,786**	**34,017**

Statement of changes in equity

	Share capital	Statutory capital reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2016	8,000	800	330	77,822	86,952
Profit for the year	-	-	-	11,450	11,450
Other comprehensive expense					
Exchange differences on translating foreign operations	-	-	98	-	98
Revaluation of land and buildings	-	-	6	-	6
Total other comprehensive expense	-	**-**	104	**-**	**104**
Total comprehensive income/expense for the year	-	-	**104**	**11,450**	**11,554**
Dividend distribution	-	-	-	-1,300	-1,300
Other corrections	-	-	-	2	2
Total transactions with owners	**-**	**-**	**-**	**-1,298**	**-1,298**
Balance at 31 December 2016	8,000	800	434	87,974	97,208
Balance at 1 January 2017	**8,000**	**800**	**434**	**87,974**	**97,208**
Profit for the year	-	-	-	17,126	17,126
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	204	-	204
Total other comprehensive income	-	-	204	-	204
Total comprehensive income for the year	**-**	**-**	204	17,126	17,330
Dividend distribution	-	-	-	-5,000	-5,000
Total transactions with owners	**-**	**-**	-	**-5,000**	**-5,000**
Balance at 31 December 2017	8,000	800	638	100,100	109,538

(In thousands of euros)

As at 31 December	2017	2016
Unconsolidated equity at end of period	**109,538**	**97,208**
Investments in subsidiaries:		
Carrying value	-579	-579
Carrying value under the equity method	4,287	4,207
Adjusted unconsolidated equity at end of period	**113,246**	**100,836**

Signatures

The management board has prepared the review of operations and financial statements of Bigbank AS for 2017.

Sven Raba Chairman of the Management Board	27 February 2018	[signed digitally]
Pāvels Gilodo Member of the Management Board	27 February 2018	[signed digitally]
Martin Länts Member of the Management Board	27 February 2018	[signed digitally]
Mart Veskimägi Member of the Management Board	27 February 2018	[signed digitally]

Building a better working world

Ernst & Young Baltic AS
Rävala 4
10143 Tallinn
Eesti
Tel.: +372 611 4610
Faks.: +372 611 4611
Tallinn@ee.ey.com
www.ey.com

Äriregistri kood 10877299
KMKR: EE 100770654

Ernst & Young Baltic AS
Rävala 4
10143 Tallinn
Estonia
Phone.: +372 611 4610
Fax.: +372 611 4611
Tallinn@ee.ey.com
www.ey.com

Code of legal entity 10877299
VAT payer code EE 100770654

Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Bigbank AS

Opinion

We have audited the consolidated financial statements of Bigbank AS and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

- Impairment of loans to customers

Impairment of loans is a subjective area due to the level of judgement applied by the management in determining the extent of credit losses which is dependent on the credit risk related to such loans and receivables. Such an assessment is inherently uncertain, involving various factors and use of assumptions assessing how impairment events that have not yet resulted in a payment default are identified and measured when calculating the allowance.

Special considerations are given to aspects that are new or experienced notable developments in 2017, like sale of significant amount of defaulted loans portfolios.

The use of different modelling techniques and assumptions could produce different estimates of impairment allowance. Notes 3 Risk and capital management, 6 Loans to customers and 7 Impairment of loans, receivables and financial investments to the financial statements present more information on the estimation of impairment allowance for loans to customers. Due to the significance of loans to customers (representing 82.2% of total consolidated assets and 82.4% of total unconsolidated assets of parent) and the related estimation uncertainty, we consider this a key audit matter.

Our audit procedures included, among others, the assessment of the Bank's methodology regarding the identification of impairment indicators, assessment of specific impairment allowance and collective impairment allowance. We assessed the design and evaluated the operating effectiveness of internal controls over the monitoring of loans to customers and over impairment calculations including the quality of underlying data and relevant systems.

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

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

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

Other information

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

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment and approval of the auditor

In accordance with the decision made by the shareholder we have been chosen to carry out the audit of Group's consolidated financial statements the first time in 2013. Our appointment to carry out the audit of Group's consolidated financial statements in accordance with the decision made by shareholder has been renewed annually and the period of total uninterrupted engagement is 5 years.

Consistence with Additional Report to Supervisory Board and Audit Committee

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

Non audit services

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

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

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

Tallinn, 28 February 2018

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

/signed digitally/
Tiina Leif
Authorised Auditor's number 441

Profit allocation proposal

The total consolidated distributable profits of Bigbank AS as at 31 December 2017 comprise of:

Earnings retained in prior years as at 31 December 2017	86,565	thousand euros
Net profit for 2017	17,206	thousand euros
Total distributable profits as at 31 December 2017	**103,771**	**thousand euros**

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

1.	Dividend distribution (62.50 euros per share)	5,000	thousand euros;
2.	Transfer to retained earnings	12,206	thousand euros;
	Balance of retained earnings after allocations	98,771	thousand euros.

Sven Raba Chairman of the Management Board	27 February 2018	[signed digitally]
Pāvels Gilodo Member of the Management Board	27 February 2018	[signed digitally]
Martin Länts Member of the Management Board	27 February 2018	[signed digitally]
Mart Veskimägi Member of the Management Board	27 February 2018	[signed digitally]