Bigbank

Interim condensed consolidated financial statements for the period ended 30 June 2018

Bigbank AS

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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**
Phone	**+372 737 7570**
Fax	**+372 737 7582**
E-mail	**info@bigbank.ee**
Corporate website	**www.bigbank.ee**
Financial year	**1 January 2018 – 31 December 2018**
Reporting period	**1 January 2018 – 30 June 2018**
Chairman of the management board	**Sven Raba**
Core business line	**Provision of consumer loans and acceptance of deposits**
Auditor	**Ernst & Young Baltic AS**
Reporting currency	**The reporting currency is the euro and numerical financial data is presented in thousands of euros.**

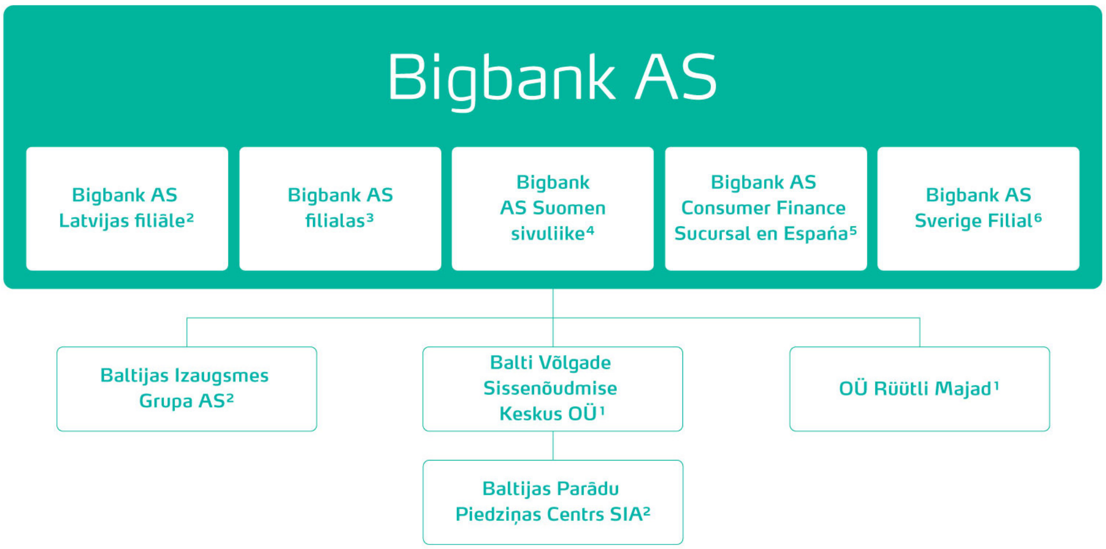
Interim report is available on the website of Bigbank AS at www.bigbank.ee.
The version in English is located at www.bigbank.eu.

Contents

Bigbank Group structure

Bigbank AS was founded on 22 September 1992. A licence for operating as a credit institution was issued to Bigbank AS on 27 September 2005. Bigbank is specialised on 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, Spain and Sweden offer lending services similar to those of the parent. In addition, the parent and its Latvian, Finnish and Swedish branches 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. OÜ Balti Võlgade Sissenõudmise Keskus and its subsidiariy support the parent and its branches in debt collection.

Review of operations

Significant economic events

In the second quarter of 2018, Bigbank AS (hereinafter also "Bigbank" and the "Group") continued to pursue its strategic agenda, focusing mainly on increasing the performing loan portfolio. During the first six months of the year, the Group's performing loan portfolio grew by 28.3 million euros i.e. 7.7%. The largest growth in the loan portfolio was delivered by the Swedish branch.The main factor behind the growth in the loan portfolio was the record high loan sales in the first six months of the year. The sales for the first six months of 2018 amounted to 140.7 million euros, of which the sales for the second quarter totaled 77.9 million euros.

The Group's net profit for the second quarter of 2018 amounted to 5.2 million euros. The corresponding figure for the second quarter of 2017 was 5.1 million euros. Above all, profitability has improved thanks to successful implementation of the strategy. Shifting the focus on customers with a lower credit risk has not only helped to increase the performing loan portfolio but also to reduce credit losses. Although this has caused a gradual decline in interest rates, which affects interest income, the drop in provisions for credit losses has been considerably larger than the decrease in interest income.

The Group's Spanish branch suspended issuance of new loans from 6 April 2018. Since then the Spanish branch has been focusing on providing services to existing clients and improving the credit quality of its loan portfolio.

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

The supervisory board of Bigbank AS has five members – the chairman of the supervisory board Parvel Pruunsild and the members Vahur Voll, Juhani Jaeger, Raul Eamets and Andres Koern. The management board of the bank has four members - the chairman of the management board Sven Raba and the members Pāvels Gilodo, Martin Länts and Mart Veskimägi.

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

Bigbank had 426 employees at the end of the second quarter of 2018: 224 in Estonia, 80 in Latvia, 76 in Lithuania, 17 in Finland, 14 in Spain and 15 in Sweden.

Key performance indicators and ratios

Financial position indicators *(in thousands of euros)*	30 June 2018	31 Dec 2017	Change
Total assets	466,163	459,336	1.5%
Loans to customers	398,638	377,458	5.6%
of which loan portfolio	422,756	396,138	6.7%
of which interest receivable	9,449	10,291	-8.2%
of which impairment allowances	-33,567	-28,971	15.9%
Deposits from customers	339,854	334,819	1.5%
Equity	114,269	113,246	0.9%

Financial performance indicators *(in thousands of euros)*	Q2 2018	Q2 2017	Change	6M 2018	6M 2017	Change
Interest income	16,685	17,998	-7.3%	33,093	35,068	-5.6%
Interest expense	1,454	1,459	-0.3%	2,938	2,919	0.7%
Expenses from impairment allowances	2,221	3,851	-42.3%	4,903	9,632	-49.1%
Income from debt collection proceedings	467	573	-18.5%	966	1,250	-22.7%
Profit before impairment allowances	7,384	8,961	-17.6%	15,289	17,856	-14.4%
Net profit	5,163	5,110	1.0%	10,386	8,224	26.3%

Ratios	Q2 2018	Q2 2017	6M 2018	6M 2017
Return on equity (ROE)	18.5%	20.1%	18.3%	16.0%
Equity multiplier (EM)	4.1	4.1	4.1	4.0
Profit margin (PM)	28.5%	26.4%	28.9%	21.7%
Asset utilization ratio (AU)	15.9%	18.6%	15.5%	18.5%
Return on assets (ROA)	4.5%	4.9%	4.5%	4.0%
Price difference (SPREAD)	12.9%	14.6%	13.3%	14.8%
Cost to income ratio (CIR)	51.9%	45.5%	49.4%	44.5%

Ratios are presented on an annual basis (i.e. annualised).

Explanations of ratios:

Return on equity (ROE) – net profit to equity

Equity multiplier (EM) – total assets to total equity

Profit margin (PM) – net profit to total income

Asset utilisation (AU) – total income (incl. interest income, fee income, dividend income and other operating income) to total assets

Return on assets (ROA) – net profit to total assets

Price difference (SPREAD) – ratio of interest income to interest-bearing assets less ratio of interest expense to interest-bearing liabilities

Cost to income ratio (CIR) – total operating costs to net income

Financial review

Financial position

As at 30 June 2018, the consolidated assets of Bigbank AS Group totalled 466.2 million euros, having increased by 15.2 million euros (3.4%) during the second quarter.

As at 30 June 2018, loans to customers accounted for 85.5% of total assets, the proportion of liquid assets (amounts due from banks and financial debt instruments) was 10.3%. At the end of the second quarter, liquid assets totalled 48.1 million euros. Part of bank's liquidity buffer has been placed in a portfolio of debt securities, which are highly liquid, hold investment grade credit ratings, and can be sold at any moment. Debt instruments totalled 11.6 million euros as at 30 June 2018.

At the end of the second quarter, the Group had 135 thousand loan agreements, 52 thousand of them in Latvia, 31 thousand in Estonia, 27 thousand in Lithuania, 11 thousand in Finland, 10 thousand in Sweden and 4 thousand in Spain.

Geographical distribution of loans to customers:

- 27.8% Lithuania,
- 22.8% Latvia,
- 17.6% Finland,
- 17.4% Estonia,
- 10.8% Sweden,
- 3.6% Spain.

At 30 June 2018, loans to customers totalled 398.6 million euros, comprising of:

- the loan portfolio of 422.8 million euros. Loans to individuals accounted for 93.7% of the total;
- interest receivable on loans of 9.4 million euros;
- impairment allowances for loans and interest receivables of 33.6 million euros (consisting of an impairment allowance for loans of 29.9 million euros and an impairment allowance for interest receivables of 3.7 million euros).

Bigbank's loan portfolio is diversified – at the reporting date the average loan was 3,139 euros and as at 30 June 2018, 40 largest loans accounted for 5.5% of the loan portfolio.

Bigbank AS focuses on the provision of consumer loans. In line with the corporate strategy, as at 30 June 2018 loans against income accounted for 90.8%, loans against surety for 1.0% and loans secured with real estate for 8.2% of the total loan portfolio.

As regards past due receivables, it is important to note that the collection of non-performing consumer loans differs significantly from the recovery of loans that have physical collateral (for example, mortgage-backed loans). Due to their nature (as a rule, consumer loans are backed with the customer's regular income), claims related to terminated consumer loans are satisfied in smaller instalments over an extended period rather than in a lump sum raised through the sale of the collateral.

To mitigate the risks arising from customers' payment behaviour and to cover potential credit losses, the Group makes impairment allowances. Bank follows in impairment calculations conservative line. On 1 January 2018, the Group adopted IFRS 9 *Financial Instruments* which has significantly changed the Group's accounting for impairment losses for financial assets.

Where debt recovery proceedings do not yield expected results, the underlying receivable is written off the statement of financial position.

At the end of the second quarter of 2018, the Group's liabilities totalled 351.9 million euros. Most of the debt raised by the Group, i.e. 339.9 million euros (96.6%) consisted of term deposits.

As at the end of the second quarter of 2018, the Group's equity was 114.3 million euros. The equity to assets ratio amounted to 24.5%.

Financial performance

Interest income for the second quarter reached 16.7 million euros, decreasing by 1.3 million euros (-7.3%) compared to the same period in 2017.

The period's ratio of interest income (annualised) to average interest-earning assets was 14.7% and (annualised) return on the loan portfolio accounted for 16.0% of the average loan portfolio.

Interest expense for the second quarter of 2018 was 1.5 million euros, remaining the same level compared to the same period in 2017.

The ratio of interest expense to interest income was 8.7%. The ratio of interest expense to average interest-bearing liabilities (annualised) was 1.8%.

Other operating expenses for the second quarter were 3.0 million euros, increasing by 0.3 million euros compared to the corresponding figure of the same period in 2017.

Salaries and associated charges for the second quarter of 2018 amounted to 3.7 million euros, including remuneration of 3.2 million euros. As at the end of the period, the Group had 426 employees.

In the second quarter, impairment losses were 2.2 million euros, consisting of:

- impairment losses on loan receivables of 2.0 million euros;
- impairment losses on interest receivables of 0.7 million euros; and
- impairment losses on other receivables of -0.5 million euros.

Other income for the second quarter of 2018 was 0.6 million euros, the largest proportion of which resulted from debt collection income. In the same period of 2017, other income was 0.6 million euros, as well.

Other expenses for the second quarter reached 1.4 million euros. In the same period of 2017, other expenses were 0.8 million euros, as well.

The Group's net profit for the second quarter of 2018 amounted to 5.2 million euros. In comparison to the second quarter of 2017, net profit has remaind at the same level.

Capital ratios

Own funds

As at	30 June 2018	31 Dec 2017
Paid up capital instruments	8,000	8,000
Other reserves	800	800
Previous years retained earnings	94,042	86,565
Other accumulated comprehensive income	1,134	674
Other intangible assets	-9,565	-7,471
Profit eligible	-	7,298
Adjustments to CET1 due to prudential filters	-92	-
Common equity Tier 1 capital	**94,319**	**95,866**
Tier 1 capital	**94,319**	**95,866**
Tier 2 capital	**5,000**	**5,000**
Deductions	**-**	**-**
Total own funds	**99,319**	**100,866**

Total risk exposure amount

	30 June 2018	31 Dec 2017
Risk weighted exposure amounts for credit and counterparty credit (standardized approach)		
Central governments or central banks	486	483
Institutions	5,218	4,966
Corporates	37,891	33,651
Retail	260,221	244,071
Secured by mortgages on immovable property	4,312	4,959
Exposures in default	20,647	16,552
Other items	9,859	9,014
Total risk weighted exposure amounts for credit and counterparty credit (standardized approach)	**338,634**	**313,696**
Total risk exposure amount for foreign exchange risk (standardized approach)	**-**	**-**
Total risk exposure amount for operational risk (standardized approach)	**104,953**	**100,928**
Total risk exposure amount for credit valuation adjustment (standardized approach)	**-**	**-**
Total risk exposure amount	**443,587**	**414,624**

Capital ratios

	30 June 2018	31 Dec 2017
CET1 Capital ratio	21.3%	23.1%
T1 Capital ratio	21.3%	23.1%
Total capital ratio	22.4%	24.3%
Leverage ratio	20.1%	21.0%

Own funds as of 31 December 2017 include nine months eligible profits.

Own funds are calculated on the basis of Regulation (EU) no 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms that incorporate the Basel III framework.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (In thousands of euros, unaudited)

Condensed consolidated interim financial statements

Consolidated statement of financial position

As at	Note	30 June 2018	31 Dec 2017
Assets			
Cash and balances at central banks	2	17,247	36,235
Cash and balances at banks	2	19,215	17,947
Debt instruments at fair value through other comprehensive income	3	11,639	11,210
Loans to customers	4,5,6,7,8	398,638	377,458
Other receivables	9	2,352	2,775
Prepayments	10	1,501	915
Property and equipment	11	4,020	3,446
Investment property		1,944	1,878
Intangible assets	12	9,565	7,472
Assets classified as held for sale		42	-
Total assets		**466,163**	**459,336**
Liabilities			
Deposits from customers	13	339,854	334,819
Subordinated notes		4,957	4,977
Provisions		1,015	667
Other liabilities		4,663	4,398
Deferred income and tax liabilities		1,405	1,229
Total liabilities		**351,894**	**346,090**
Equity			
Share capital		8,000	8,000
Capital reserve		800	800
Other reserves	14	1,041	675
Retained earnings		104,428	103,771
Total equity		**114,269**	**113,246**
Total liabilities and equity		**466,163**	**459,336**

(In thousands of euros, unaudited)

Consolidated statement of comprehensive income

	Note	Q2 2018	Q2 2017	6M 2018	6M 2017
Interest income	17	16,685	17,998	33,093	35,068
Interest expense	18	-1,454	-1,459	-2,938	-2,919
Net interest income		**15,231**	**16,539**	**30,155**	**32,149**
Fee and commission income		864	731	1,705	1,421
Fee and commission expense		-81	-87	-176	-196
Net fee and commission income		**783**	**644**	**1,529**	**1,225**
Net gain/loss on financial transactions		-121	-113	-451	-173
Other income	19	578	630	1,169	1,364
Total income		**16,471**	**17,700**	**32,402**	**34,565**
Salaries and associated charges		-3,728	-4,293	-7,443	-8,181
Other operating expenses	21	-2,957	-2,661	-5,535	-5,107
Depreciation and amortisation expense		-504	-336	-947	-618
Impairment losses on loans and financial investments		-2,221	-3,851	-4,903	-9,632
Other expenses	22	-1,367	-757	-2,088	-1,474
Loss from assets classified as held for sale		-	-	-260	-
Total expenses		**-10,777**	**-11,898**	**-21,176**	**-25,012**
Profit before income tax		**5,694**	**5,802**	**11,226**	**9,553**
Income tax expense		-531	-692	-840	-1,329
Profit for the period		**5,163**	**5,110**	**10,386**	**8,224**
Other comprehensive income/expense					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Foreign currency translation		121	65	458	57
Valuation of debt instruments at FVOCI taken to equity		-33	-	-92	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**88**	**65**	**366**	**57**
Other comprehensive income for the period		**88**	**65**	**366**	**57**
Total comprehensive income for the period		**5,251**	**5,175**	**10,752**	**8,281**
Basic earnings per share (EUR)		65	64	130	103
Diluted earnings per share (EUR)		65	64	130	103

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (In thousands of euros, unaudited)

Consolidated statement of cash flows

	Note	Q2 2018	Q2 2017
Cash flows from operating activities			
Interest received		29,932	29,472
Interest paid		-2,174	-2,503
Salary and other operating expenses paid		-16,488	-14,823
Other income and fees received		3,607	3,220
Other expenses and fees paid		-1,654	-2,034
Recoveries of receivables previously written off		15,013	6,345
Received for other assets		-	116
Paid for other assets		-	-95
Loans provided		-131,503	-128,851
Repayment of loans provided		88,344	89,236
Change in mandatory reserves with central banks		-51	-249
Proceeds from customer deposits		46,739	60,939
Paid on redemption of deposits		-38,706	-34,681
Net acquisition and disposal of trading portfolio		-	133
Income tax paid/received		-1,243	-1,876
Effect of movements in exchange rates		-251	-23
Net cash used in / from operating activities		**-8,435**	**4,326**
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets		-3,350	-2,545
Proceeds from sale of property and equipment		2	58
Proceeds from sale of investment properties		27	49
Acquisition of financial instruments		-593	-600
Proceeds from redemption of financial instruments		91	539
Net cash used in investing activities		**-3,823**	**-2,499**
Cash flows from financing activities			
Paid on redemption of bonds		-164	-
Dividends paid		-5,000	-5,000
Net cash used in financing activities		**-5,164**	**-5,000**
Effect of exchange rate fluctuations		-349	12
Decrease in cash and cash equivalents		**-17,771**	**-3,161**
Cash and cash equivalents at beginning of period		53,121	34,291
Cash and cash equivalents at end of period	2	**35,350**	**31,130**

(In thousands of euros, unaudited) CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of changes in equity

	Attributable to equity holders of the parent				
	Share capital	Statutory capital reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2017	8,000	800	1,369	90,667	100,836
Profit for the period	-	-	-	8,224	8,224
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	57	-	57
Total other comprehensive income	**-**	**-**	**57**	**-**	**57**
Total comprehensive income for the period	**-**	**-**	**57**	**8,224**	**8,281**
Dividend distribution	-	-	-	-5,000	-5,000
Total transactions with owners	**-**	**-**	**-**	**-5,000**	**-5,000**
Balance at 30 June 2017	**8,000**	**800**	**1,426**	**93,891**	**104,117**
Balance at 1 January 2018	**8,000**	**800**	**675**	**103,771**	**113,246**
Changes on initial adoption of IFRS 9 (see note 1)	-	-	-	-4,729	-4,729
Restated balance at 1 January 2018	**8,000**	**800**	**675**	**99,042**	**108,517**
Profit for the period	-	-	-	10,386	10,386
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	458	-	458
Net change in fair value of debt instrument at FVOCI	-	-	-92	-	-92
Total other comprehensive income	**-**	**-**	**366**	**-**	**366**
Total comprehensive income for the period	**-**	**-**	**366**	**10,386**	**10,752**
Dividend distribution	-	-	-	-5,000	-5,000
Total transactions with owners	**-**	**-**	**-**	**-5,000**	**-5,000**
Balance at 30 June 2018	**8,000**	**800**	**1,041**	**104,428**	**114,269**

Notes to the condensed consolidated interim financial statements

Note 1. Basis of preparation and changes to the Group's accounting policies

Basis of preparation

The condensed consolidated interim financial statements of Bigbank AS as at and for the six months ended 30 June 2018 have been prepared in accordance with the international financial reporting standard IAS 34 *Interim Financial Reporting* as adopted by the European Union. The interim financial statements do not include all the information required for full annual financial statements and they should be read in conjunction with the Group's latest published annual financial statements as at and for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards (IFRS EU).

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards and interpretations effective as of 1 January 2018. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The Group has adopted, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments.* As required by IAS 34, the nature and effect of the changes regarding the adoption of IFRS 9 are disclosed below. IFRS 15 did not have a material impact on the interim condensed consolidated financial statements of the Group, neither did other new standards and interpretations applied for the first time in 2018.

This interim report has not been audited or otherwise reviewed by auditors and only includes the condensed consolidated financial statements of the Group. The financial statements are presented in thousands of euros, unless otherwise indicated.

Changes in accounting policies

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

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

Classification and measurement implementation

Except for certain trade receivables, under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are quoted debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell. Under IAS 39, quoted debt instruments were measured at FVPL and classified as financial assets held for trading.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

Impairment implementation

The adoption of IFRS 9 has significantly changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach, where the allowances are taken upon initial recognition of the financial asset. Expected credit losses reflect the present value of all cash shortfalls related to default events either (a) over the following twelve months or (b) over the expected life of a financial instrument depending on credit deterioration from inception.

IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

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

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

The Group's debt instruments at FVOCI comprised solely of quoted bonds that are graded in the top investment category by the Moody's Investors Service and, therefore, are considered to be low credit risk investments. It is the Group's policy to measure such instruments on a 12-month ECL basis. In all cases, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the Group's *Loans to customers*. The increase in allowance resulted in adjustment to *Retained earnings*.

Impairment methodology

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. This approach is summarized as follows:

Stage 1 – 12-month ECL applies to all 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.

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. Allowances for credit losses 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.

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

Significant increase in credit risk

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 significant increase in credit risk

(i) Signs of a material increase in risk may include, but are not limited to: (a) a repayment delay of 30 or more days; (b) active debt management proceedings relating to the contract; (c) 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; (d) 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 are analysed case by case and the change in a customer's risk level is 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:

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

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

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

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Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. If the terms are substantially different, the Group derecognises the original financial asset and recognizes the loan at fair value. If the terms are not substantially different, the renegotiation or modification does not result in derecognition.

Impact of the adoption of IFRS 9 on the statement of financial position

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

	IAS 39		Remeasurement	IFRS 9	
	Measurement category	Carrying amount	ECL	Measurement category	Carrying amount
Financial assets					
Financial assets held for trading	FVPL	11,210	-	FVOCI	11,210
Loans to customers	L&R	377,458	-4 729	AC	372,729
Total financial assets		**388,668**			**383,939**

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

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

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

	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	-4,729
Adjustment to retained earnings from adoption of IFRS 9	-4,729
Opening retained earnings - IFRS 9	**99,042**

Note 2. Cash and bank balances and cash equivalents

As at	30 June 2018	31 Dec 2017
Demand and overnight deposits with credit institutions*	19,215	17,447
Term deposits with credit institutions with maturity of less than 1 year*	-	500
Surplus on mandatory reserves with central banks*	16,135	35,174
Mandatory reserves	1,112	1,061
Total cash and balances at banks	**36,462**	**54,182**
of which cash and cash equivalents	**35,350**	**53,121**

* Cash equivalents

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Note 3. Debt instruments

As at	30 June 2018	31 Dec 2017
Debt instruments	**11,639**	**11,210**
Debt instruments by issuer		
General government bonds	3,261	3,358
Bonds issued by credit institutions	2,701	2,718
Other financial corporations' bonds	522	522
Non-financial corporations' bonds	5,155	4,612
Debt instruments by currency		
EUR (euro)	9,826	9,907
SEK (Swedish krona)	1,813	1,303
Debt instruments by rating		
Aaa-Aa3	4,309	3,802
A1-A3	3,791	3,843
Baa1-Baa3	3,539	3,565

Note 4. Loans to customers

Loans to customers as at 30 June 2018

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	Total
Loan receivables from customers	72,102	100,156	114,580	73,629	15,944	46,345	422,756
Impairment allowances for loans	-3,473	-11,709	-4,440	-4,960	-1,971	-3,355	-29,908
Interest receivable from customers	1,870	4,592	649	1,828	253	257	9,449
Impairment allowances for interest receivables	-1,017	-2,176	-79	-336	-11	-40	-3,659
Total loans to customers, incl. interest and allowances	**69,482**	**90,863**	**110,710**	**70,161**	**14,215**	**43,207**	**398,638**
Share of region	17.4%	22.8%	27.8%	17.6%	3.6%	10.8%	100.0%

Loans to customers as at 31 December 2017

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	Total
Loan receivables from customers	66,003	96,958	104,065	70,877	20,107	38,128	396,138
Impairment allowances 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%

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Note 5. Loan receivables from customers by due dates

As at	30 June 2018	31 Dec 2017
Past due	29,521	23,831
Less than 1 month	7,905	10,245
1-12 months	98,621	98,927
1-2 years	85,834	82,761
2-5 years	161,965	150,649
More than 5 years	38,910	29,725
Total	**422,756**	**396,138**

Note 6. Ageing analysis on loan receivables

Ageing analysis as at 30 June 2018

	Not past due	30 days or less	31-60 days	61-90 days	Over 90 days	Total
Loans against income						
Loan portfolio	315,591	27,289	8,274	5,576	27,243	383,973
Impairment allowance	-8,303	-2,328	-2,288	-2,101	-14,303	-29,323
Surety loans						
Loan portfolio	3,395	114	72	42	409	4,032
Impairment allowance	-98	-11	-34	-18	-275	-436
Loans secured with real estate						
Loan portfolio	25,731	6,792	708	337	1,149	34,717
Impairment allowance	-7	-14	-	-	-125	-146
Loans against other collaterals						
Loan portfolio	26	4	-	-	4	34
Impairment allowance	-	-	-	-	-3	-3
Total loan portfolio	**344,743**	**34,199**	**9,054**	**5,955**	**28,805**	**422,756**
Total impairment allowance	-8,408	-2,353	-2,322	-2,119	-14,706	-29,908

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

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Note 7. Loan receivables from customers by contractual currency

As at	30 June 2018	31 Dec 2017
EUR (euro)	376,411	358,010
SEK (Swedish krona)	46,345	38,128
Total loan receivables from customers	**422,756**	**396,138**

Note 8. Impairment allowances for loan receivables from customers

Impairment allowances under IFRS 9 as at 30 June 2018

	Loan receivables	Impairment allowance for loans	Interest receivables	Impairment allowance for loan interest	Total receivables subject to impairment	Total impairment allowances
Stage 1	339,224	-6,041	2,077	0	341,301	-6,041
Stage 2	52,322	-7,922	1,221	0	53,543	-7,922
Stage 3	31,210	-15,945	6,151	-3,659	37,361	-19,604
Total	**422,756**	**-29,908**	**9,449**	**-3,659**	**432,205**	**-33,567**

Development of allowances for 6 months 2018

	Opening balance as at 1 Jan 2018	Increases due to origination	Decrease due to derecognition repayments and disposals	Changes due to change in credit risk (net)	Decrease in allowance account due to write-offs	Closing balance as at 30 June 2018
Stage 1	-11,020	-2,560	1,525	5,873	141	-6,041
Stage 2	-2,951	-1,300	223	-4,510	616	-7,922
Stage 3	-19,727	-283	659	-3,885	3,632	-19,604
Total	**-33,698**	**-4,143**	**2,407**	**-2,522**	**4,389**	**-33,567**

Impairment allowances under IAS 39 as at 31 December 2017

	Loan receivables	Impairment allowance for loans	Interest receivables	Impairment allowance 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**

Change in impairment of loans and related interest receivables in 2017

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

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Note 9. Other receivables

As at	30 June 2018	31 Dec 2017
Collection, recovery and other charges receivable	584	444
Miscellaneous receivables	2,103	2,559
Impairment allowance for other receivables	-335	-228
Total	**2,352**	**2,775**

Note 10. Prepayments

As at	30 June 2018	31 Dec 2017
Prepaid taxes	960	428
Other prepayments	541	487
Total	**1,501**	**915**

Note 11. Tangible assets

	Land and buildings	Other items	Total
Cost			
Balance at 1 January 2017	3,014	3,458	6,472
Purchases	-	1,513	1,513
Sales	-	-226	-226
Write-off	-	-1,228	-1,228
Transfer	-1,500	5	-1,495
Effect of movements in exchange rates	-	-	0
Balance at 31 December 2017	**1,514**	**3,522**	**5,036**
Balance at 1 January 2018	1,514	3,522	5,036
Purchases	-	1,101	1,101
Sales	-	-8	-8
Write-off	-	-167	-167
Balance at 30 June 2018	**1,514**	**4,448**	**5,962**
Depreciation			
Balance at 1 January 2017	-	-2,173	-2,173
Depreciation charge for the year	-58	-723	-781
Sales	-	165	165
Write-off	-	1,203	1,203
Transfer	-	-5	-5
Effect of movements in exchange rates	-	1	1
Balance at 31 December 2017	**-58**	**-1,532**	**-1,590**
Balance at 1 January 2017	-58	-1,532	-1,590
Depreciation charge for the year	-30	-486	-516
Sales	-	6	6
Write-off	-	158	158
Balance at 30 June 2018	**-88**	**-1,854**	**-1,942**

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	Land and buildings	Other items	Total
Carrying amount			
Balance at 1 January 2017	3,014	1,285	4,299
Balance at 31 December 2017	1,456	1,990	3,446
Balance at 30 June 2018	**1,426**	**2,594**	**4,020**

Note 12. Intangible assets

	30 June 2018	31 Dec 2017
Cost at beginning of year	**9,203**	**5,701**
Purchases	2,810	4,036
Of which purchased intangible assets	1,634	3,166
Of which capitalised payroll	1,176	870
Write-off	-320	-529
Reclassification	-	-5
Cost at end of period	**11,693**	**9,203**
Amortisation at beginning of year	**-1,731**	**-1,664**
Amortisation charge for the period	-431	-601
Write-off	34	529
Reclassification	-	5
Amortisation at end of period	**-2,128**	**-1,731**
Carrying amount at beginning of year	7,472	4,037
Carrying amount at end of period	**9,565**	**7,472**

Note 13. Deposits from customers

As at	30 June 2018	31 Dec 2017
Term deposits	**339,854**	**334,819**
Term deposits by customer type		
Individuals	327,274	322,754
Legal persons	12,580	12,065
Term deposits by currency		
EUR (euro)	287,989	284,606
SEK (Swedish krona)	51,865	50,213
Term deposits by maturity		
Maturing within 6 months	101,562	83,963
Maturing between 6 and 12 months	74,495	89,863
Maturing between 12 and 18 months	45,452	35,499
Maturing between 18 and 24 months	33,918	45,283
Maturing between 24 and 36 months	33,267	15,862
Maturing between 36 and 48 months	23,105	34,504
Maturing in over 48 months	28,055	29,845
Average deposit amount	23	23
Weighted average interest rate	1.7%	1.7%
Weighted average duration until maturity (months)	20	20
Weighted average total contract term (months)	37	36

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Note 14. Other reserves

As at	30 June 2018	Change	31 Dec 2017
Foreign currency translation	829	458	371
Asset revaluation reserve	304	-	304
Fair value changes of debt instruments measured at FVOCI	-92	-92	-
Total other reserves	**1,041**	**366**	**675**

Note 15. Net currency positions

Net currency positions as at 30 June 2018

	Position in the statement of financial position		Position off the statement of financial position		
	Assets	Liabilities	Assets	Liabilities	Net position
EUR (euro)	404,334	299,532	-	15,619	89,183
SEK (Swedish krona)	52,258	52,362	-	-	-104
GBP (British pound)	5	-	-	-	5

Net currency positions as at 31 December 2017

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

The loans provided by the Group are denominated in the currency of the corresponding region or in euros.

Note 16. Fair values of financial assets and financial liabilities

This note provides an update on the judgements and estimates made by the Group in determining the fair values of the financial instruments since the last annual financial report.

The fair values of the assets and liabilities reported in the consolidated statement of financial position as at 30 June 2018 do not differ significantly from their carrying amounts.

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).

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Fair value hierarchy as at 30 June 2018

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Debt instruments at fair value through other comprehensive income (note 3)	11,639	-	-	11,639
Land and buildings (note 11)	-	-	1,426	1,426
Investment properties	-	-	1,944	1,944
Assets for which fair values are disclosed				
Loans to customers (note 4-8)	-	-	398,638	398,638
Other financial receivables (note 9)			2,352	2,352
Total assets	**11,639**	**-**	**404,360**	**415,999**
Liabilities for which fair values are disclosed				
Deposits from customers (note 13)	-	-	339,854	339,854
Subordinated notes	-	-	4,957	4,957
Other financial liabilities	-	-	4,663	4,663
Total liabilities	**-**	**-**	**349,474**	**349,474**

Fair value hierarchy as at 31 December 2017

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets held for trading (note 3)	11,210	-	-	11,210
Land and buildings (note 11)	-	-	1,456	1,456
Investment properties	-	-	1,878	1,878
Assets for which fair values are disclosed				
Loans to customers (note 4-8)	-	-	377,458	377,458
Other financial receivables (note 9)			2,775	2,775
Total assets	**11,210**	**-**	**383,567**	**394,777**
Liabilities for which fair values are disclosed				
Deposits from customers (note 13)	-	-	334,819	334,819
Subordinated notes	-	-	4,977	4,977
Other financial liabilities	-	-	4,398	4,398
Total liabilities	**-**	**-**	**344,194**	**344,194**

Note 17. Contingent liabilities and assets pledged as collateral

As at	30 June 2018	31 Dec 2017
Irrevocable transactions, of which	**15,619**	**8,493**
Issued bank guarantees	-	90
Credit lines and overdrafts	15,619	8,403
Assets pledged and encumbered with usufruct*	**2,449**	**2,449**

* The liabilities related to mortgages have been settled by the date of release of this report.

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Note 18. Interest income

	Q2 2018	Q2 2017	6M 2018	6M 2017
Interest income on loans to customers	16,622	17,904	32,972	34,880
Interest income on debt instruments	57	91	112	182
Other assets	6	3	9	6
Total interest income	**16,685**	**17,998**	**33,093**	**35,068**

Note 19. Interest expense

	Q2 2018	Q2 2017	6M 2018	6M 2017
Interest expense on deposits	1,370	1,459	2,772	2,919
Interest expense on bonds	84	-	166	-
Total interest expense	**1,454**	**1,459**	**2,938**	**2,919**

Note 20. Other income

	Q2 2018	Q2 2017	6M 2018	6M 2017
Income from debt recovery proceedings	467	573	966	1,250
Miscellaneous income	111	57	203	114
Total other income	**578**	**630**	**1,169**	**1,364**

Note 21. Other operating expenses

	Q2 2018	Q2 2017	6M 2018	6M 2017
Marketing expenses	1,539	1,499	2,688	2,542
Office, rental and similar expenses	385	360	756	882
Miscellaneous operating expenses	1,033	802	2,091	1,683
Total other operating expenses	**2,957**	**2,661**	**5,535**	**5,107**

Note 22. Other expenses

	Q2 2018	Q2 2017	6M 2018	6M 2017
Expenses related to enforcement proceedings	140	295	263	578
Expenses related to registry inquires	284	297	648	546
Legal regulation charges	156	99	285	219
Expenses from investment properties	19	2	35	6
Onerous contracts and other provisions	392	-	392	-
Losses on disposals of property and equipment and intangible assets	294	-	294	-
Miscellaneous expenses	82	64	171	125
Total other expenses	**1,367**	**757**	**2,088**	**1,474**

Note 23. 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.

As at 30 June 2018, the Group had no interest and deposit liabilities to related parties.

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Statement by the Management Board

According to the knowledge and belief of the Management Board of Bigbank AS, as at the date of publication:

- the figures and additional information presented in the condensed consolidated interim report for the six months of 2018 are true and complete; and

- the condensed consolidated financial statements provide a true and fair view of the Group's financial position, financial performance and cash flows.

- The condensed consolidated interim report as at 30 June 2018 has been prepared in accordance with the international financial reporting standard IAS 34 *Interim Financial Reporting* as adopted by the European Union and with the information disclosure requirements established by the Bank of Estonia.

- Financial statements have been prepared on a going concern basis.

Sven Raba	**Pāvels Gilodo**	**Martin Länts**	**Mart Veskimägi**
Chairman of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board
29 August 2018	29 August 2018	29 August 2018	29 August 2018
[digitally signed]	[digitally signed]	[digitally signed]	[digitally signed]