Bigbank

# Interim condensed consolidated financial statements for the period ended 30 September 2018

# Bigbank AS

# Interim condensed consolidated financial statements for the period ended 30 September 2018

| | |
|---|---|
| **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 September 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.** |

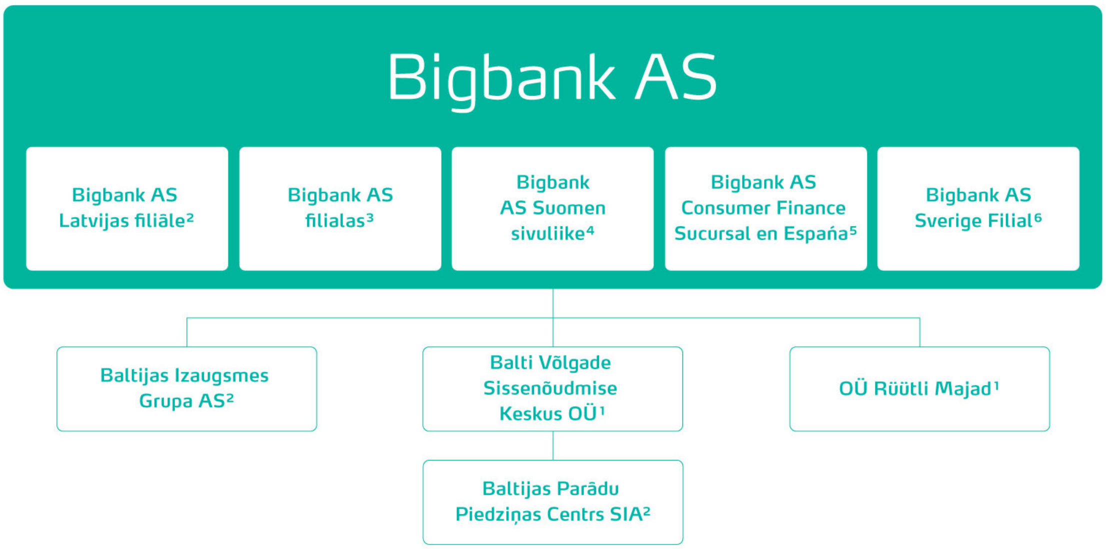
Interim report is available on the website of Bigbank AS at www.bigbank.ee.
The version in English is located at www.bigbank.eu.

# 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 third quarter of 2018, economic situation as well as economic outlook remained favourable in all Bigbank AS (hereinafter also “Bigbank” and the “Group”) home markets. GDP growth rates and employment levels are favourable which give a good bases for successful operations for the Group.

Results of the third quarter of 2018 remained strong for Bigbank. Growing performing loan portfolio as following the main strategic goal has been successful. In the third quarter performing loan portfolio increased by 19.2 million euros i.e. 4.9%, during the first 9 months of 2018 performing loan portfolio increased by 44.1 million euros i.e. 11.9%. Biggest portfolio growth were in Lithuanian branch and in Estonian business unit.

The Group’s net profit for the third quarter of 2018 amounted to 4.6 million euros. The corresponding figure for the third quarter of 2017 was 4.5 million euros. Group’s first 9 months net profit amounted to 15.0 million euros which is 2.2 million euros i.e. 17.5% more than in the same period of last year.

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.

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 434 employees at the end of the third quarter of 2018: 233 in Estonia, 87 in Latvia, 74 in Lithuania, 19 in Finland, 12 in Spain and 9 in Sweden.

## Key performance indicators and ratios

| **Financial position indicators** *(in thousands of euros)* | **30 Sep 2018** | **31 Dec 2017** | **Change** |
|---|---|---|---|
| Total assets | 512,164 | 459,336 | 11.5% |
| Loans to customers | 415,349 | 377,458 | 10.0% |
| of which loan portfolio | 437,526 | 396,138 | 10.4% |
| of which interest receivable | 8,150 | 10,291 | -20.8% |
| of which impairment allowances | -30,327 | -28,971 | 4.7% |
| Deposits from customers | 380,206 | 334,819 | 13.6% |
| Equity | 118,683 | 113,246 | 4.8% |

| **Financial performance indicators** *(in thousands of euros)* | **Q3 2018** | **Q3 2017** | **Change** | **9M 2018** | **9M 2017** | **Change** |
|---|---|---|---|---|---|---|
| Interest income | 16,807 | 17,265 | -2.7% | 49,900 | 52,333 | -4.6% |
| Interest expense | 1,534 | 1,432 | 7.1% | 4,472 | 4,351 | 2.8% |
| Expenses from impairment allowances | 2,839 | 3,735 | -24.0% | 7,742 | 13,367 | -42.1% |
| Income from debt collection proceedings | 357 | 593 | -39.8% | 1,323 | 1,842 | -28.2% |
| Profit before impairment allowances | 7,423 | 8,252 | -10.0% | 22,712 | 26,108 | -13.0% |
| Net profit | 4,584 | 4,517 | 1.5% | 14,970 | 12,741 | 17.5% |

| **Ratios** | **Q3 2018** | **Q3 2017** | **9M 2018** | **9M 2017** |
|---|---|---|---|---|
| Return on equity (ROE) | 15.7% | 17.0% | 17.2% | 16.2% |
| Equity multiplier (EM) | 4.2 | 4.1 | 4.2 | 4.0 |
| Profit margin (PM) | 25.2% | 24.1% | 36.9% | 30.0% |
| Asset utilization ratio (AU) | 14.8% | 17.2% | 14.9% | 18.0% |
| Return on assets (ROA) | 3.7% | 4.2% | 4.1% | 4.1% |
| Price difference (SPREAD) | 12.3% | 13.4% | 12.9% | 14.4% |
| Cost to income ratio (CIR) | 52.3% | 48.2% | 50.4% | 45.7% |

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 September 2018, the consolidated assets of Bigbank AS Group totalled 512.2 million euros, having increased by 46.0 million euros (9.9%) during the third quarter.

As at 30 September 2018, loans to customers accounted for 81.1% of total assets, the proportion of liquid assets (amounts due from banks and financial debt instruments) was 15.0%. At the end of the third quarter, liquid assets totalled 76.6 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 12.3 million euros as at 30 September 2018.

At the end of the third quarter, the Group had 130 thousand loan agreements, 48 thousand of them in Latvia, 31 thousand in Estonia, 27 thousand in Lithuania, 11 thousand in Finland, 10 thousand in Sweden and 3 thousand in Spain.

Geographical distribution of loans to customers:

- 28.0% Lithuania,
- 22.7% Latvia,
- 18.6% Estonia,
- 16.9% Finland,
- 10.9% Sweden,
- 2.9% Spain.

At 30 September 2018, loans to customers totalled 415.3 million euros, comprising of:

- the loan portfolio of 437.5 million euros. Loans to individuals accounted for 93.7% of the total;
- interest receivable on loans of 8.1 million euros;
- impairment allowances for loans and interest receivables of 30.3 million euros (consisting of an impairment allowance for loans of 27.3 million euros and an impairment allowance for interest receivables of 3.0 million euros).

Bigbank's loan portfolio is diversified – at the reporting date the average loan was 3,359 euros and as at 30 September 2018, 40 largest loans accounted for 6.3% of the loan portfolio.

Bigbank AS focuses on the provision of consumer loans. In line with the corporate strategy, as at 30 September 2018 loans against income accounted for 90.5%, loans against surety for 0.8% and loans secured with real estate for 8.7% 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 third quarter of 2018, the Group's liabilities totalled 393.5 million euros. Most of the debt raised by the Group, i.e. 380.2 million euros (96.6%) consisted of term deposits.

As at the end of the third quarter of 2018, the Group's equity was 118.7 million euros. The equity to assets ratio amounted to 23.2%.

**Financial performance**

Interest income for the third quarter reached 16.8 million euros, decreasing by 0.5 million euros (-2.7%) compared to the same period in 2017.

The period's ratio of interest income (annualised) to average interest-earning assets was 14.0% and (annualised) return on the loan portfolio accounted for 15.6% of the average loan portfolio.

Interest expense for the third 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 9.1%. The ratio of interest expense to average interest-bearing liabilities (annualised) was 1.7%.

Other operating expenses for the third quarter were 3.3 million euros, increasing by 0.6 million euros compared to the corresponding figure of the same period in 2017.

Salaries and associated charges for the third quarter of 2018 amounted to 3.8 million euros, including remuneration of 3.3 million euros. As at the end of the period, the Group had 434 employees.

In the third quarter, impairment losses were 2.8 million euros, consisting of:

- impairment losses on loan receivables of 2.2 million euros;
- impairment losses on interest receivables of 0.9 million euros; and
- impairment losses on other receivables of -0.3 million euros.

Other income for the third quarter of 2018 was 0.5 million euros, the largest proportion of which resulted from debt collection income. In the same period of 2017, other income was 0.7 million euros, as well.

Other expenses for the third quarter reached 1.2 million euros. In the same period of 2017, other expenses were 0.8 million euros.

The Group's net profit for the third quarter of 2018 amounted to 4.6 million euros. In comparison to the third quarter of 2017, net profit has remained at the same level.

## Capital ratios

### Own funds

| As at | 30 Sep 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 | 1,030 | 674 |
| Other intangible assets | -10,835 | -7,471 |
| Profit eligible | - | 7,298 |
| Adjustments to CET1 due to prudential filters | -158 | - |
| **Common equity Tier 1 capital** | **92,879** | **95,866** |
| **Tier 1 capital** | **92,879** | **95,866** |
| **Tier 2 capital** | **5,000** | **5,000** |
| **Deductions** | **-** | **-** |
| **Total own funds** | **97,879** | **100,866** |

### Total risk exposure amount

| | 30 Sep 2018 | 31 Dec 2017 |
|---|---|---|
| **Risk weighted exposure amounts for credit and counterparty credit (standardized approach)** | | |
| Central governments or central banks | 644 | 483 |
| Institutions | 8,957 | 4,966 |
| Corporates | 42,035 | 33,651 |
| Retail | 271,632 | 244,071 |
| Secured by mortgages on immovable property | 3,490 | 4,959 |
| Exposures in default | 15,521 | 16,552 |
| Other items | 9,406 | 9,014 |
| **Total risk weighted exposure amounts for credit and counterparty credit (standardized approach)** | **351,685** | **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** | **456,638** | **414,624** |

### Capital ratios

| | 30 Sep 2018 | 31 Dec 2017 |
|---|---|---|
| CET1 Capital ratio | 20.3% | 23.1% |
| T1 Capital ratio | 20.3% | 23.1% |
| Total capital ratio | 21.4% | 24.3% |
| Leverage ratio | 18.2% | 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, reviewed)

# Condensed consolidated interim financial statements

### Consolidated statement of financial position

| As at | Note | 30 Sep 2018 | 31 Dec 2017 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances at central banks | 2 | 26,485 | 36,235 |
| Cash and balances at banks | 2 | 37,801 | 17,947 |
| Debt instruments at fair value through other comprehensive income | 3 | 12,287 | 11,210 |
| Loans to customers | 4,5,6,7,8 | 415,349 | 377,458 |
| Other receivables | 9 | 2,186 | 2,775 |
| Prepayments | 10 | 1,487 | 915 |
| Property and equipment | 11 | 3,825 | 3,446 |
| Investment property | | 1,880 | 1,878 |
| Intangible assets | 12 | 10,835 | 7,472 |
| Assets classified as held for sale | | 29 | - |
| **Total assets** | | **512,164** | **459,336** |
| | | | |
| **Liabilities** | | | |
| Deposits from customers | 13 | 380,206 | 334,819 |
| Subordinated notes | | 5,041 | 4,977 |
| Provisions | | 1,513 | 667 |
| Other liabilities | | 5,092 | 4,398 |
| Deferred income and tax liabilities | | 1,629 | 1,229 |
| **Total liabilities** | | **393,481** | **346,090** |
| | | | |
| **Equity** | | | |
| Share capital | | 8,000 | 8,000 |
| Capital reserve | | 800 | 800 |
| Other reserves | 14 | 872 | 675 |
| Retained earnings | | 109,011 | 103,771 |
| **Total equity** | | **118,683** | **113,246** |
| **Total liabilities and equity** | | **512,164** | **459,336** |

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

## Consolidated statement of comprehensive income

| | Note | Q3 2018 | Q3 2017 | 9M 2018 | 9M 2017 |
|---|---|---|---|---|---|
| Interest income | 18 | 16,807 | 17,265 | 49,900 | 52,333 |
| Interest expense | 19 | -1,534 | -1,432 | -4,472 | -4,351 |
| **Net interest income** | | **15,273** | **15,833** | **45,428** | **47,982** |
| Fee and commission income | | 919 | 792 | 2,624 | 2,213 |
| Fee and commission expense | | -52 | -67 | -228 | -263 |
| **Net fee and commission income** | | **867** | **725** | **2,396** | **1,950** |
| Net gain/loss on financial transactions | | 107 | 2 | -344 | -171 |
| Other income | 20 | 455 | 667 | 1,624 | 2,031 |
| **Total income** | | **16,702** | **17,227** | **49,104** | **51,792** |
| | | | | | |
| Salaries and associated charges | | -3,785 | -4,518 | -11,228 | -12,699 |
| Other operating expenses | 21 | -3,257 | -2,648 | -8,792 | -7,755 |
| Depreciation and amortisation expense | | -549 | -356 | -1,496 | -974 |
| Impairment losses on loans and financial investments | | -2,839 | -3,735 | -7,742 | -13,367 |
| Impairment losses on other assets | | -61 | - | -61 | - |
| Other expenses | 22 | -1,152 | -782 | -3,240 | -2,256 |
| Profit/loss from assets classified as held for sale | | 2 | - | -258 | - |
| **Total expenses** | | **-11,641** | **-12,039** | **-32,817** | **-37,051** |
| | | | | | |
| **Profit before income tax** | | **5,061** | **5,188** | **16,287** | **14,741** |
| | | | | | |
| Income tax expense | | -477 | -671 | -1,317 | -2,000 |
| **Profit for the period** | | **4,584** | **4,517** | **14,970** | **12,741** |
| | | | | | |
| **Other comprehensive income/expense** | | | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | | | |
| Exchange differences on translation of foreign operations | | -102 | 10 | 356 | 67 |
| Changes in the fair value of debt instruments at FVOCI | | -67 | - | -159 | - |
| **Net other comprehensive income to be reclassified to profit or loss** | | **-169** | **10** | **197** | **67** |
| | | | | | |
| **Other comprehensive income for the period** | | **-169** | **10** | **197** | **67** |
| | | | | | |
| **Total comprehensive income for the period** | | **4,415** | **4,527** | **15,167** | **12,808** |
| | | | | | |
| Basic earnings per share (EUR) | | 57 | 56 | 187 | 159 |
| Diluted earnings per share (EUR) | | 57 | 56 | 187 | 159 |

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

## Consolidated statement of cash flows

| | Note | Q3 2018 | Q3 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 45,016 | 44,933 |
| Interest paid | | -3,487 | -3,869 |
| Salary and other operating expenses paid | | -24,474 | -22,506 |
| Other income and fees received | | 6,582 | 5,007 |
| Other expenses and fees paid | | -3,340 | -3,170 |
| Recoveries of receivables previously written off and received for sold portfolios | | 23,936 | 12,130 |
| Received for other assets | | - | 116 |
| Paid for other assets | | - | -95 |
| Loans provided | | -200,889 | -192,498 |
| Repayment of loans provided | | 132,280 | 132,793 |
| Change in mandatory reserves with central banks | | -159 | -296 |
| Proceeds from customer deposits | | 100,802 | 92,244 |
| Paid on redemption of deposits | | -53,637 | -52,853 |
| Net acquisition and disposal of debt instruments | | - | 1,147 |
| Income tax paid/received | | -1,561 | -2,453 |
| Effect of movements in exchange rates | | -194 | -31 |
| **Net cash from operating activities** | | **20,875** | **10,599** |
| | | | |
| **Cash flows from investing activities** | | | |
| Acquisition of property and equipment and intangible assets | | -4,415 | -3,478 |
| Proceeds from sale of property and equipment | | 3 | 72 |
| Proceeds from sale of investment properties | | 27 | 49 |
| Acquisition of financial instruments | | -1,266 | -600 |
| Proceeds from redemption of financial instruments | | 134 | 539 |
| **Net cash used in investing activities** | | **-5,517** | **-3,418** |
| | | | |
| **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 | | -246 | -17 |
| **Increase in cash and cash equivalents** | | **9,948** | **2,164** |
| Cash and cash equivalents at beginning of period | | 53,121 | 34,291 |
| **Cash and cash equivalents at end of period** | 2 | **63,069** | **36,455** |

(In thousands of euros, reviewed) 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 | - | - | - | 12,741 | 12,741 |
| **Other comprehensive income** | | | | | |
| Exchange differences on translation of foreign operations | - | - | 67 | - | 67 |
| **Total other comprehensive income** | **-** | **-** | **67** | **-** | **67** |
| **Total comprehensive income for the period** | **-** | **-** | **67** | **12,741** | **12,808** |
| Dividend distribution | - | - | - | -5,000 | -5,000 |
| **Total transactions with owners** | **-** | **-** | **-** | **-5,000** | **-5,000** |
| **Balance at 30 September 2017** | **8,000** | **800** | **1,436** | **98,408** | **108,644** |
| **Balance at 1 January 2018** | **8,000** | **800** | **675** | **103,771** | **113,246** |
| Changes on initial adoption of IFRS 9 (see note 1) | - | - | - | -4,730 | -4,730 |
| **Restated balance at 1 January 2018** | **8,000** | **800** | **675** | **99,041** | **108,516** |
| Profit for the period | - | - | - | 14,970 | 14,970 |
| **Other comprehensive income** | | | | | |
| Exchange differences on translating foreign operations | - | - | 356 | - | 356 |
| Net change in fair value of debt instrument at FVOCI | - | - | -159 | - | -159 |
| **Total other comprehensive income** | **-** | **-** | **197** | **-** | **197** |
| **Total comprehensive income for the period** | **-** | **-** | **197** | **14,970** | **15,167** |
| Dividend distribution | - | - | - | -5,000 | -5,000 |
| **Total transactions with owners** | **-** | **-** | **-** | **-5,000** | **-5,000** |
| **Balance at 30 September 2018** | **8,000** | **800** | **872** | **109,011** | **118,683** |

## 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 nine months ended 30 September 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 been 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 amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit - adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

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 D~~d~~efault (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 credit risk. The ECL will be computed using a 12-month PD that represents the probability of default occurring over the next 12 months. For those assets with a remaining maturity of less than 12 months, a PD is used that corresponds to remaining maturity.
>
> **Stage 2** – applies to claims, which have sign(s) of a material increase in credit risk, 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

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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

*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** | | | | | |
| Debt instruments at fair value through other comprehensive income | FVPL | 11,210 | - | FVOCI | 11,210 |
| Loans to customers | L&R | 377,458 | -4 730 | AC | 372,728 |
| **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 4,730 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:

### Adjustment to retained earnings from adoption of IFRS 9

| | Effect on retained earnings |
|---|---|
| **Opening retained earnings - IAS 39 as at 1 January 2018** | 103,771 |
| Reclassify financial assets held for trading from FVPL to FVOCI | - |
| Impairment allowance for loans and receivables | -4,730 |
| **Opening retained earnings - IFRS 9** | **99,041** |

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## Note 2. Cash and bank balances and cash equivalents

| As at | 30 Sep 2018 | 31 Dec 2017 |
|---|---|---|
| Demand and overnight deposits with credit institutions* | 25,303 | 17,447 |
| Term deposits with credit institutions with maturity of less than 1 year* | 12,500 | 500 |
| Surplus on mandatory reserves with central banks* | 25,266 | 35,174 |
| Mandatory reserves | 1,220 | 1,061 |
| Interest receivable from central banks | -2 | - |
| **Total cash and balances at banks** | **64,287** | **54,182** |
| | | |
| **of which cash and cash equivalents** | **63,069** | **53,121** |

* Cash equivalents

## Note 3. Debt instruments at fair value through other comprehensive income

| As at | 30 Sep 2018 | 31 Dec 2017 |
|---|---|---|
| **Debt instruments** | **12,287** | **11,210** |
| **Debt instruments by issuer** | | |
| General government bonds | 3,929 | 3,358 |
| Bonds issued by credit institutions | 2,699 | 2,718 |
| Other financial corporations' bonds | 515 | 522 |
| Non-financial corporations' bonds | 5,144 | 4,612 |
| **Debt instruments by currency** | | |
| EUR (euro) | 10,461 | 9,907 |
| SEK (Swedish krona) | 1,826 | 1,303 |
| **Debt instruments by rating** | | |
| Aaa-Aa3 | 4,302 | 3,802 |
| A1-A3 | 3,782 | 3,843 |
| Baa1-Baa3 | 4,203 | 3,565 |

## Note 4. Loans to customers

### Loans to customers as at 30 September 2018

| | Estonia | Latvia | Lithuania | Finland | Spain | Sweden | Total |
|---|---|---|---|---|---|---|---|
| Loan receivables from customers | 79,614 | 102,312 | 120,354 | 73,952 | 13,380 | 47,914 | 437,526 |
| Impairment allowances for loans | -3,307 | -9,577 | -4,714 | -5,355 | -1,459 | -2,926 | -27,338 |
| Interest receivable from customers | 1,816 | 3,419 | 655 | 1,810 | 202 | 248 | 8,150 |
| Impairment allowances for interest receivables | -956 | -1,589 | -77 | -336 | -4 | -27 | -2,989 |
| **Total loans to customers, incl. interest and allowances** | **77,167** | **94,565** | **116,218** | **70,071** | **12,119** | **45,209** | **415,349** |
| Share of region | 18.6% | 22.7% | 28.0% | 16.9% | 2.9% | 10.9% | 100.0% |

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### 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% |

## Note 5. Loan receivables from customers by due dates

| As at | 30 Sep 2018 | 31 Dec 2017 |
|---|---|---|
| Past due | 22,733 | 23,831 |
| Less than 1 month | 9,224 | 10,245 |
| 1-12 months | 106,921 | 98,927 |
| 1-2 years | 88,348 | 82,761 |
| 2-5 years | 166,036 | 150,649 |
| More than 5 years | 44,264 | 29,725 |
| **Total** | **437,526** | **396,138** |

## Note 6. Ageing analysis on loan receivables

### Ageing analysis as at 30 September 2018

| | Not past due | 30 days or less | 31-60 days | 61-90 days | Over 90 days | Total |
|---|---|---|---|---|---|---|
| **Loans against income** | | | | | | |
| Loan portfolio | 325,259 | 33,895 | 8,778 | 4,847 | 23,028 | 395,807 |
| Impairment allowance | -7,794 | -2,745 | -2,274 | -1,772 | -12,234 | -26,819 |
| **Surety loans** | | | | | | |
| Loan portfolio | 2,773 | 216 | 46 | 26 | 413 | 3,474 |
| Impairment allowance | -83 | -4 | -5 | -14 | -277 | -383 |
| **Loans secured with real estate** | | | | | | |
| Loan portfolio | 31,725 | 1,731 | 3,434 | 353 | 973 | 38,216 |
| Impairment allowance | -14 | -6 | - | - | -115 | -135 |
| **Loans against other collaterals** | | | | | | |
| Loan portfolio | 25 | 3 | - | - | 1 | 29 |
| Impairment allowance | - | - | - | - | -1 | -1 |
| **Total loan portfolio** | **359,782** | **35,845** | **12,258** | **5,226** | **24,415** | **437,526** |
| Total impairment allowance | -7,891 | -2,755 | -2,279 | -1,786 | -12,627 | -27,338 |

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### 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 |

## Note 7. Loan receivables from customers by contractual currency

| As at | 30 Sep 2018 | 31 Dec 2017 |
|---|---|---|
| EUR (euro) | 389,612 | 358,010 |
| SEK (Swedish krona) | 47,914 | 38,128 |
| **Total loan receivables from customers** | **437,526** | **396,138** |

## Note 8. Impairment allowances for loan receivables from customers

### Impairment allowances under IFRS 9 as at 30 September 2018

| | Loan receivables | Interest receivables | Total receivables subject to impairment | Total impairment allowances |
|---|---|---|---|---|
| Stage 1 | 354,052 | 2,017 | 356,069 | -6,052 |
| Stage 2 | 57,380 | 1,202 | 58,582 | -7,877 |
| Stage 3 | 26,094 | 4,931 | 31,025 | -16,398 |
| **Total** | **437,526** | **8,150** | **445,676** | **-30,327** |

### Development of allowances for 9 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 Sep 2018 |
|---|---|---|---|---|---|---|
| Stage 1 | -11,020 | -3,411 | 2,252 | 5,876 | 251 | -6,052 |
| Stage 2 | -2,951 | -1,934 | 361 | -4,087 | 735 | -7,876 |
| Stage 3 | -19,727 | -531 | 1,076 | -3,649 | 6,432 | -16,399 |
| **Total** | **-33,698** | **-5,876** | **3,689** | **-1,860** | **7,418** | **-30,327** |

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### 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** |

## Note 9. Other receivables

| As at | 30 Sep 2018 | 31 Dec 2017 |
|---|---|---|
| Collection, recovery and other charges receivable | 514 | 444 |
| Miscellaneous receivables | 1,939 | 2,559 |
| Impairment allowance for other receivables | -267 | -228 |
| **Total** | **2,186** | **2,775** |

## Note 10. Prepayments

| As at | 30 Sep 2018 | 31 Dec 2017 |
|---|---|---|
| Prepaid taxes | 964 | 428 |
| Other prepayments | 523 | 487 |
| **Total** | **1,487** | **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 |
| **Balance at 31 December 2017** | **1,514** | **3,522** | **5,036** |

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| | Land and buildings | Other items | Total |
|---|---|---|---|
| Balance at 1 January 2018 | 1,514 | 3,522 | 5,036 |
| Purchases | - | 1,202 | 1,202 |
| Sales | - | -21 | -21 |
| Write-off | - | -174 | -174 |
| Effect of movements in exchange rates | - | -2 | -2 |
| **Balance at 30 September 2018** | **1,514** | **4,527** | **6,041** |
| **Depreciation** | | | |
| Balance at 1 January 2017 | - | -2,173 | -2,173 |
| Depreciation charge for the year | -58 | -723 | -781 |
| Sales | - | 165 | 165 |
| Write-off | - | 1,203 | 1,203 |
| Transfer | - | -5 | -5 |
| Effect of movements in exchange rates | - | 1 | 1 |
| **Balance at 31 December 2017** | **-58** | **-1,532** | **-1,590** |
| Balance at 1 January 2018 | -58 | -1,532 | -1,590 |
| Depreciation charge for the year | -44 | -768 | -812 |
| Sales | - | 19 | 19 |
| Write-off | - | 165 | 165 |
| Effect of movements in exchange rates | - | 2 | 2 |
| **Balance at 30 September 2018** | **-102** | **-2,114** | **-2,216** |
| **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 September 2018** | **1,412** | **2,413** | **3,825** |

## Note 12. Intangible assets

| | 30 Sep 2018 | 31 Dec 2017 |
|---|---|---|
| **Cost at beginning of year** | **9,203** | **5,701** |
| Purchases | 4,334 | 4,036 |
| Of which purchased intangible assets | 2,345 | 3,166 |
| Of which capitalised payroll | 1,989 | 870 |
| Write-off | -320 | -529 |
| Reclassification | - | -5 |
| **Cost at end of period** | **13,217** | **9,203** |
| **Amortisation at beginning of year** | **-1,731** | **-1,664** |
| Amortisation charge for the period | -685 | -601 |
| Write-off | 34 | 529 |
| Reclassification | - | 5 |
| **Amortisation at end of period** | **-2,382** | **-1,731** |
| Carrying amount at beginning of year | 7,472 | 4,037 |
| **Carrying amount at end of period** | **10,835** | **7,472** |

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### Note 13. Deposits from customers

| As at | 30 Sep 2018 | 31 Dec 2017 |
|---|---|---|
| **Term deposits** | **380,206** | **334,819** |
| **Term deposits by customer type** | | |
| Individuals | 368,004 | 322,754 |
| Legal persons | 12,202 | 12,065 |
| **Term deposits by currency** | | |
| EUR (euro) | 323,533 | 284,606 |
| SEK (Swedish krona) | 56,673 | 50,213 |
| **Term deposits by maturity** | | |
| Maturing within 6 months | 93,860 | 83,963 |
| Maturing between 6 and 12 months | 106,490 | 89,863 |
| Maturing between 12 and 18 months | 38,935 | 35,499 |
| Maturing between 18 and 24 months | 44,258 | 45,283 |
| Maturing between 24 and 36 months | 45,427 | 15,862 |
| Maturing between 36 and 48 months | 21,721 | 34,504 |
| Maturing in over 48 months | 29,515 | 29,845 |

| As at | 30 Sep 2018 | 31 Dec 2017 |
|---|---|---|
| Average deposit amount | 24 | 23 |
| Weighted average interest rate | 1.6% | 1.7% |
| Weighted average duration until maturity (months) | 20 | 20 |
| Weighted average total contract term (months) | 36 | 36 |

### Note 14. Other reserves

| As at | 30 Sep 2018 | Change | 31 Dec 2017 |
|---|---|---|---|
| Exchange differences on translation of foreign operations | 727 | 356 | 371 |
| Asset revaluation reserve | 304 | - | 304 |
| Fair value changes of debt instruments measured at FVOCI | -159 | -159 | - |
| **Total other reserves** | **872** | **197** | **675** |

### Note 15. Net currency positions

#### Net currency positions as at 30 September 2018

| | Position in the statement of financial position | | Position off the statement of financial position | | |
|---|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities | Net position |
| EUR (euro) | 443,779 | 336,194 | - | 15,921 | 91,664 |
| SEK (Swedish krona) | 57,545 | 57,287 | - | - | 258 |
| GBP (British pound) | 6 | - | - | - | 6 |

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### 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 September 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).

### Fair value hierarchy as at 30 September 2018

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| Debt instruments at fair value through other comprehensive income (note 3) | 12,287 | - | - | 12,287 |
| Land and buildings (note 11) | - | - | 1,412 | 1,412 |
| Investment properties | - | - | 1,880 | 1,880 |
| **Assets for which fair values are disclosed** | | | | |
| Loans to customers (note 4-8) | - | - | 415,349 | 415,349 |
| Other financial receivables (note 9) | | | 2,186 | 2,186 |
| **Total assets** | **12,287** | **-** | **420,827** | **433,114** |
| | | | | |
| **Liabilities for which fair values are disclosed** | | | | |
| Deposits from customers (note 13) | - | - | 380,206 | 380,206 |
| Subordinated notes | - | - | 5,041 | 5,041 |
| Other financial liabilities | - | - | 5,092 | 5,092 |
| **Total liabilities** | **-** | **-** | **390,339** | **390,339** |

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### 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** |

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

The Level 3 *loans to customers* that amounts to 415,349 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. 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 1,412 thousand euros consists of real estate used by the Group in Tallinn.

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. Management has assessed that the fair value has not changed in year 2018.

The Level 3 *investment properties* that amount to 1,880 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 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. Management has assessed that the fair value has not changed in year 2018.

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

### Note 17. Contingent liabilities and assets pledged as collateral

| As at | 30 September 2018 | 31 Dec 2017 |
|---|---|---|
| **Irrevocable transactions, of which** | **15,921** | **8,493** |
| Issued bank guarantees | - | 90 |
| Credit lines and overdrafts | 15,921 | 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.

### Note 18. Interest income

| | Q3 2018 | Q3 2017 | 9M 2018 | 9M 2017 |
|---|---|---|---|---|
| Interest income on loans to customers | 16,751 | 17,175 | 49,723 | 52,055 |
| Interest income on debt instruments | 59 | 88 | 171 | 270 |
| Other assets | -3 | 2 | 6 | 8 |
| **Total interest income** | **16,807** | **17,265** | **49,900** | **52,333** |

### Note 19. Interest expense

| | Q3 2018 | Q3 2017 | 9M 2018 | 9M 2017 |
|---|---|---|---|---|
| Interest expense on deposits | 1,450 | 1,432 | 4,222 | 4,351 |
| Interest expense on bonds | 84 | - | 250 | - |
| **Total interest expense** | **1,534** | **1,432** | **4,472** | **4,351** |

### Note 20. Other income

| | Q3 2018 | Q3 2017 | 9M 2018 | 9M 2017 |
|---|---|---|---|---|
| Income from debt recovery proceedings | 357 | 593 | 1,323 | 1,842 |
| Gains on derecognition of non-financial assets | - | - | - | - |
| Miscellaneous income | 98 | 74 | 301 | 189 |
| **Total other income** | **455** | **667** | **1,624** | **2,031** |

### Note 21. Other operating expenses

| | Q3 2018 | Q3 2017 | 9M 2018 | 9M 2017 |
|---|---|---|---|---|
| Marketing expenses | 1,914 | 1,378 | 4,602 | 3,920 |
| Office, rental and similar expenses | 352 | 349 | 1,108 | 1,231 |
| Miscellaneous operating expenses | 991 | 921 | 3,082 | 2,604 |
| **Total other operating expenses** | **3,257** | **2,648** | **8,792** | **7,755** |

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

## Note 22. Other expenses

| | Q3 2018 | Q3 2017 | 9M 2018 | 9M 2017 |
|---|---|---|---|---|
| Expenses related to enforcement proceedings | 94 | 263 | 357 | 841 |
| Expenses related to registry inquires | 272 | 257 | 920 | 803 |
| Legal regulation charges | 207 | 194 | 492 | 413 |
| Expenses from investment properties | -20 | 4 | 15 | 9 |
| Other provisions | 498 | - | 890 | - |
| Losses on disposals of property and equipment and intangible assets | - | - | 294 | - |
| Miscellaneous expenses | 101 | 64 | 272 | 190 |
| **Total other expenses** | **1,152** | **782** | **3,240** | **2,256** |

## 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 September 2018, the Group had no interest and deposit liabilities to related parties.

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

# 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 September 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<br>of the Management Board<br>14 November 2018 | Member<br>of the Management Board<br>14 November 2018 | Member<br>of the Management Board<br>14 November 2018 | Member<br>of the Management Board<br>14 November 2018 |
| [digitally signed] | [digitally signed] | [digitally signed] | [digitally signed] |

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Translation of the Estonian Original

**Report on review of interim condensed consolidated financial statements**

**To the Shareholders of Bigbank AS**

***Introduction***

We have reviewed the accompanying interim condensed consolidated financial statements of Bigbank AS as at September 30, 2018, which comprise the interim statement of financial position as at September 30, 2018 and the related interim statements of comprehensive income, changes in equity and cash flows for the nine-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 Interim Financial Reporting (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

***Scope of review***

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

Tallinn, 15 November 2018

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

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