Bigbank AS
Annual report 2016

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Business name	Bigbank AS
Registry	Commercial Register of the Republic of Estonia
Registration number	10183757
Date of entry	30 January 1997
LEI code	5493007SWCCN9S3J2748
Address	Riia 2, 51004 Tartu, Estonia
Telephone	+372 737 7570
E-mail	bigbank@bigbank.ee
Corporate website	www.bigbank.ee
Reporting period	1 January 2016 – 31 December 2016
Chairman of the management board	Kaido Saar
Core business line	Provision of consumer loans and acceptance of deposits
Auditor	Ernst & Young Baltic AS

This annual report of Bigbank AS consists of a chairman's statement, review of operations, corporate governance report and consolidated financial statements together with an independent auditors' report and a profit allocation proposal. The document contains 93 pages.

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

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

Contents

Bigbank group at a glance

VISION, MISSION AND VALUES

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

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


Finland
Estonia
Sweden
Latvia
Lithuania
Netherlands
Germany
Austria
Spain

OPERATING COUNTRIES

ESTONIA

Start of operations	1992
Loan portfolio, EUR thousand	61,044
No. of loans in thousands	38
Deposit porfolio, EUR thousand	212,616
No. of deposits	10,110
No. of employees	211

LATVIA

Start of operations	1996
Loan portfolio, EUR thousand	90,433
No. of loans in thousands	68
Deposit porfolio, EUR thousand	17,548
No. of deposits	913
No. of employees	74

LITHUANIA

Start of operations	2007
Loan portfolio, EUR thousand	86,949
No. of loans in thousands	27
Deposit porfolio, EUR thousand	-
No. of deposits	-
No. of employees	70

FINLAND

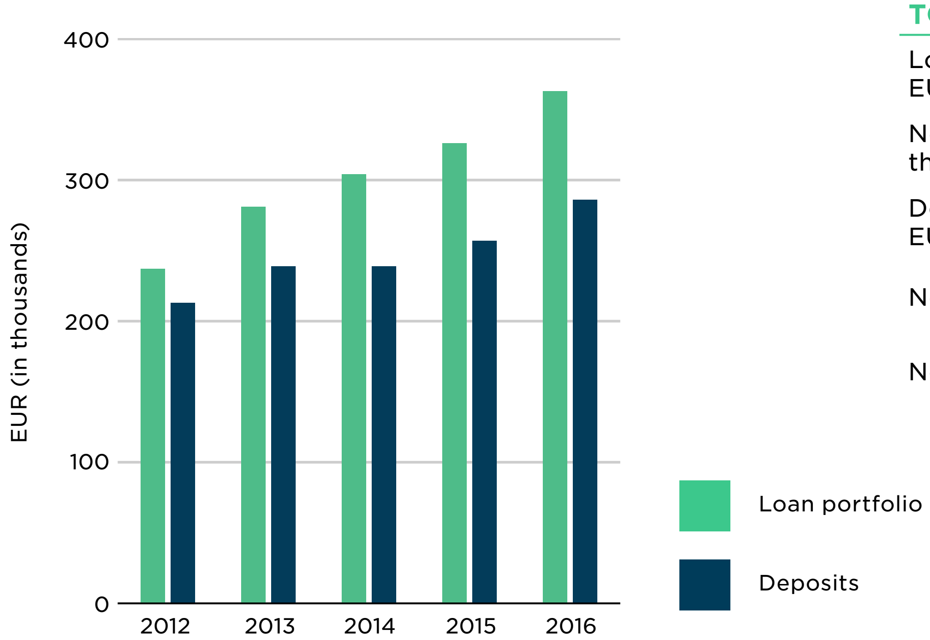
Start of operations	2009
Loan portfolio, EUR thousand	66,933
No. of loans in thousands	12
Deposit porfolio, EUR thousand	21,125
No. of deposits	542
No. of employees	31

SWEDEN

Start of operations	2012
Loan portfolio, EUR thousand	27,801
No. of loans in thousands	5
Deposit porfolio, EUR thousand	34,286
No. of deposits	888
No. of employees	13

SPAIN

Start of operations	2011
Loan portfolio, EUR thousand	29,970
No. of loans in thousands	8
Deposit porfolio, EUR thousand	-
No. of deposits	-
No. of employees	35



TOTAL

Loan portfolio, EUR thousand	363,130
No. of loans in thousands	158
Deposit porfolio, EUR thousand	285,575
No. of deposits	12,453
No. of employees	434

Letter of the chairman of the management board

2016 – A YEAR OF STABLE GROWTH

For Bigbank Group the year 2016 was, above all, a year of growth – we increased our total assets by 42 million euros and earned 5% more net profit than the year before. Net profit grew by half a million euros to almost 12 million and total assets increased from 352 million to 394 million euros. Similarly to previous years, Bigbank achieved the greatest success in the Lithuanian market. We continued to enhance the bank's risk management and improve the quality of our loan portfolio – thanks to efforts made the share of loans past due for 90 or more days decreased substantially.

In developing the bank, our main focus was on improving customer experience through product automation. In Sweden we began working with the provider of the Upgraded solution and the resellers of Apple products. The partnership provides the Swedes with an opportunity to use the Upgrade Plan – a solution popular in the United States, which allows consumers to replace their smart devices as soon as an upgrade comes out. In addition, we launched, as a pilot project, Bigbank's mobile credit card, which can also be used as a mobile wallet and a means of payment.

Bigbank values its employees and cares about them. We believe that the bank's success depends on the satisfaction of its staff. This prompted us to move to new premises in Riga, Madrid and the bank's birthplace Tartu where our oldest and largest office is situated. We wish to offer our people an inspiring and attractive work environment.

In 2016, we continued to support culture and sports events because we value healthy lifestyles and cultivation of the mind. We participated in the corporate social responsibility index survey which provided us with valuable feedback on our activities so far. We used the results of the survey to develop action plans, which will help us create higher value for our key stakeholders: customers, employees, business partners and society.

As a member of FinanceEstonia we take an active interest in developing financial technology and the financial services environment. We are members of the organisation because we want the financial services market to offer diverse services and have reasonable regulations.

In the second half of the year we prepared and approved the bank's strategy for the period 2017-2021. The new strategy focuses on sustainable growth which we expect to achieve through consistent improvement of customer experience. We know that a satisfied customer is key to the achievement of business goals. This is also upheld by our new vision – to become the most recommended financial services provider in all the markets where we operate.

In the reporting period, long-term employees Martin Länts, Pāvels Gilodo and Sven Raba joined Bigbank's management board. The responsibilities of the member of the board responsible for risk management were taken over by Mart Veskimägi. Ingo Põder and Agur Jõgi left the bank's management board.

Kaido Saar continues as chairman of the management board. The purpose of expanding the board and making it more international is to increase our competitiveness in all the markets where we operate, offer a better customer experience, and sustain profitable growth.

Kaido Saar

Chairman of the Management Board,
Bigbank Group

Review of operations

OVERVIEW OF THE YEAR 2016

In 2016, Bigbank AS (hereafter also "Bigbank" or the "Group") succeeded in increasing the volume of loan portfolio as well as net profit before taxes. At 31 December 2016, the Group's consolidated assets totalled 394,128 thousand euros, increasing 42,176 thousand euros (12.0%) during the year. Growth in total assets comes primarily from the 11.1% growth in loans to customers reaching 332,725 thousand euros.

The Group issues loans continuously in the Baltic countries, Finland, Sweden and Spain. In 2016, the credit quality of loan portfolio has significantly improved. By the year-end the proportion of loans past due for more than 90 days had dropped from 19.8% to 12.9%.

Term deposits are continuously accepted from customers in Estonia, Finland, Sweden and Latvia but also in Germany, Austria and the Netherlands as cross-border services. The Group's funding is based on its deposit portfolio, which is diversified in terms of countries, maturities and customers. At the end of 2016, Bigbank's liabilities totalled 293,292 thousand euros. Most of the liabilities of the Group, i.e. 285,575 thousand euros (97.4%) consisted of term deposits. Deposit portfolio's weighted average duration to maturity is more than 600 days as of year-end. As the overall interest environment was low in year 2016 the Group managed to decrease its ratio of interest expense to average interest-bearing liabilities (to 2.3% as of year-end, 2.8% year earlier).

Bigbank Group ended year 2016 with a profit after tax of 11,703 thousand euros, 509 thousand euros i.e. 4.5% more than in year 2015. The Group earned interest income of 69,225 thousand euros decreasing by 2,734 thousand euros (3.8% decrease) compared with previous year. Interest expense for 2016 was 5,940 thousand euros compared with 6,660 thousand euros for 2015 (10.8% decrease). In 2016, impairment losses on loans and financial investments totalled 25,887 thousand euros, decreasing 5,047 thousand euros (16.3% decrease) from previous year. Tier 1 capital ratio was 23.4% at 31 December 2016 (31 December 2015 24.6%).

KEY PERFORMANCE INDICATORS

Financial position indicators (in thousands of euros)	31 Dec 2016	31 Dec 2015
Total assets	394,128	351,952*
Loans to customers	332,725	299,531
of which loan portfolio	363,130	326,037
of which interest receivable	16,916	22,974
of which impairment allowances	-47,321	-49,480
of which impairment allowances for loans	*-27,699*	*-32,942*
of which impairment allowances for interest receivables	*-8,298*	*-9,530*
of which statistical impairment allowance	*-11,324*	*-7,008*
Deposits from customers	285,575	257,181
Equity	100,836	90,112*

Financial performance indicators	2016	2015
Interest income	69,225	71,959
Interest expense	-5,940	-6,660
Salaries and associated charges	-14,762	-13,802
Other operating expenses	-11,073	-9,552
Net impairment loss on loans and financial investments	-25,887	-30,934
Profit for the year	11,703	11,194

For the year	2016	2015
Average equity	95,474	85,686
Average assets	373,040	337,858
Average interest-earning assets	374,171	337,415
Average interest-bearing liabilities	263,961	240,387
Total income (gross)	75,159	79,079

Ratios	2016	2015
Return on assets (ROA)	3.1%	3.3%
Return on equity (ROE)	12.3%	13.1%
Profit margin (PM)	15.6%	14.2%
Return on loans	20.0%	22.8%
Asset utilisation ratio (AU)	20.1%	23.4%
Price difference (SPREAD)	16.3%	18.6%
Equity multiplier (EM)	3.9	4.0
Earnings per share (EPS), euros	146.29	139.93
Yield on interest-earning assets	18.5%	21.3%
Cost of interest-bearing liabilities	2.3%	2.8%

* Please refer note 2.

Explanations

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

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

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

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

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

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

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

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

Price difference (SPREAD) = interest income / interest-earning assets – interest expense / interest-bearing liabilities

Equity multiplier (EM) = total assets / total equity

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

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

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

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

BIGBANK EMPLOYEES AND ORGANISATIONAL CULTURE

The strategic decisions of the last three years which have been aimed at increasing employee engagement and competence, establishing clear performance and remuneration principles, improving Bigbank's reputation among employees both as an employer and a service provider, have started to deliver positive results.

According to a group-wide survey conducted in December 2016, employee engagement and commitment has increased significantly (from 52 points to 62, European financial sector average is 66 points) and in many countries exceeds the average for the financial services sector. Excellent results have been achieved in customer focus where Bigbank's employees substantially exceed the sector average (70 points compared to 63), which creates a solid basis for achieving the Group's long-term objective to be recognised as the best financial services provider by customers. Compared to 2015 our employees take more pride in the organisation and are more willing to recommend Bigbank both as an employer and a service provider. According to employees, Bigbank's strengths lie in the nature of the work, direct managers' leadership quality, effective teamwork and clear performance management and remuneration policies.

In 2016, the Group invested in improving the work environment and increasing employee competence. Group-wide training programs *(Lean, Agile, 4 Disciplines of Execution)* continued, the induction program for new and rotating employees was significantly enhanced. Additionally, the main group-wide responsible lending and work arrangement policies were updated and we dealt with stakeholder-related activities through the recommendations given at the Estonian CSR index, we participated in 2015. New public communication channels were introduced to increase Bigbank's international reputation both as an employer and a financial services provider *(@lifeatbigbank, jobs.bigbank.eu)*.

At the end of 2016, Bigbank employed 434 people: 211 in Estonia, 74 in Latvia, 70 in Lithuania, 31 in Finland, 35 in Spain and 13 in Sweden. Annual average number of employees working full time was 415.

BIGBANK IN SOCIETY

Bigbank is committed to giving back to society by supporting culture, sport, young people and initiatives benefiting large families. In 2016, our largest sponsoring projects were as follows.

Estonia

Bigbank Tartu. Since 2012 Bigbank has been the main sponsor of the national champion volleyball team Bigbank Tartu. We also support their youth team.

Tartu University Hospital Children's Foundation. In 2016, Bigbank supported the permanent charity campaign of the Tartu University Hospital Children's Foundation with 6,000 euros.

Bigbank's Large Family Day. Since 2005, Bigbank has been working with the Estonian Association of Large Families to offer families with four or more children an opportunity to enjoy a special active day full of fun. In addition, we recognise hard-working large families by presenting the Large Family of the Year award. We support Kaidy and Keidy Kaasik, talented young skiers who were among the winners of the Large Family of the Year award in 2015.

Promoting golf in Estonia. Our partnership with the Estonian Golf Association, which began in 2015, continued also in 2016.

Bigbank's employees volunteer at the Food Bank. Since December 2016 Bigbank's employees have volunteered at Food Bank's food gathering events.

Latvia

Bigbank Latvia runs. Since 2015 Bigbank has been the main sponsor of the biggest running series which is held in the seven largest cities of Latvia and attracts more than 22,000 enthusiasts of an active lifestyle from all age groups.

Midsummer celebration – an open air festival. Midsummer celebration is a well-known tradition in Latvian culture. Families get together to spend the shortest night of the year near a bonfire, eat national food and listen to traditional music while singing along. In 2016, Bigbank was the main sponsor of the Midsummer song festival Līgo held in Talsi. The festival was broadcast live by the biggest Latvian radio and TV channels.

Bigbank Pearls of Latvia – a music festival. For several years, Bigbank has been organising a music festival in Jūrmala. In 2016, the festival had three themes – theatre and film songs sung by beloved actors, well-known duets, and songs written by the legendary Latvian composer Imants Kalniņš.

#laiBigbankziedo Since 2015, Bigbank has organised a yearly project #laiBigbankziedo, which raises public awareness of animal welfare issues and provides much needed support to the animal shelter Labās mājas. In social media networks such as Facebook and Instagram social media users are invited to post selfies of themselves with their pets using the hashtag #laiBigbankziedo (#Bigbankwilldonate). For each selfie, Bigbank donates 2 euros to the animal shelter. In 2016, the total donation of 4,000 euros was collected in less than a day.

MicRec anniversary concert "20 years in Latvian music". MicRec, the biggest music record company in Latvia, celebrated its 20th anniversary by organising a massive concert in cooperation with Bigbank which featured the most famous Latvian singers, bands, composers and musicians, including Brainstorm, Laima Vaikule, Intars Busulis, Marhils, and many others.

Social project “Bigbank makes dreams come true” At the end of 2016, Bigbank started a new social project for primary and secondary schools in Latvia to help them organise Christmas events. Students in cooperation with their teachers and parents made creative pictures, videos and descriptions of their dream Christmas celebrations at school to win the prize – a fully planned and paid for Christmas event at their school

Lithuania

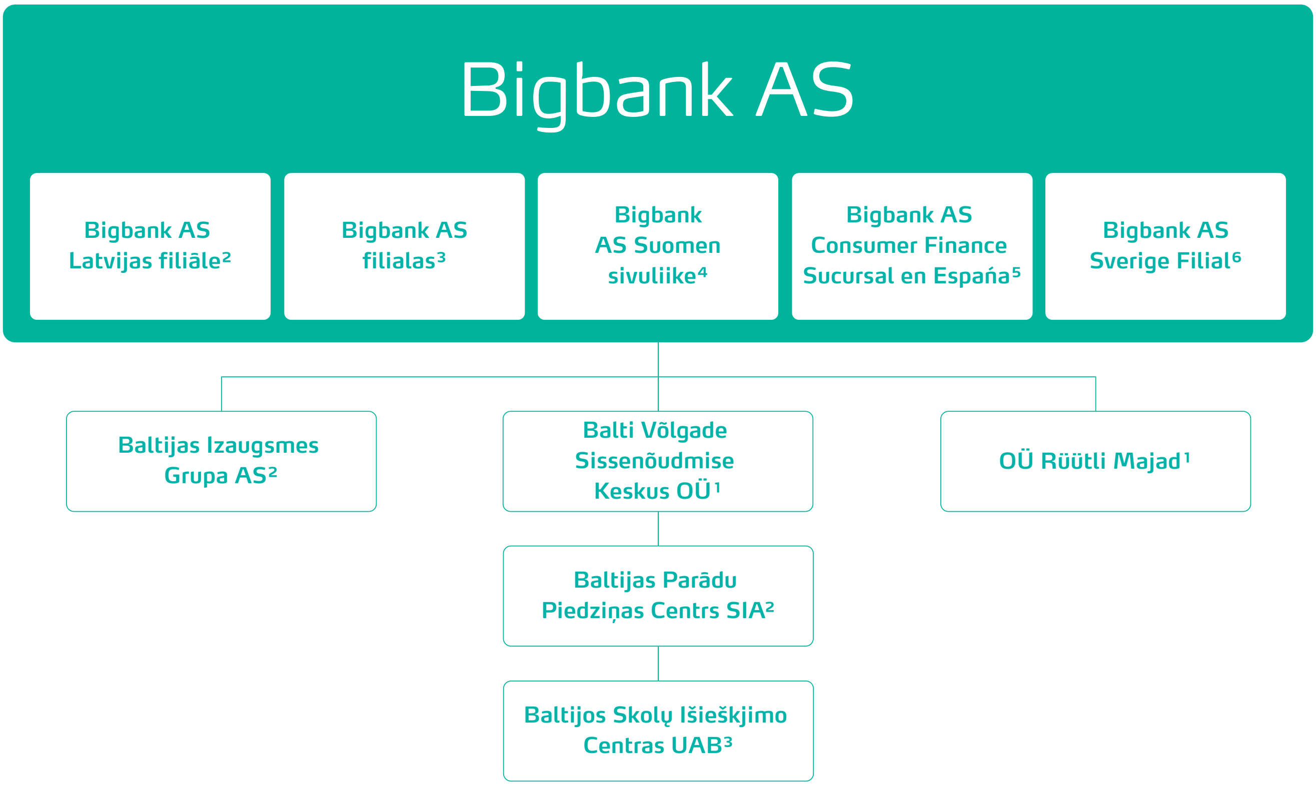
Bigbank Road-cycling Cup. In 2016, Bigbank continued to sponsor the Bigbank Road-cycling Cup for both professional and amateur cyclists. The series of events, which took place in Lithuania’s biggest cities, consisted of six rounds which started in spring and continued till autumn 2016.

Bigbank Family Day. In spring 2016, Bigbank Lithuania and news portal Delfi again joined their forces to arrange a special family event. An online photo competition of the best family was announced. Families uploaded pictures of themselves along with descriptions. The family which submitted the most original picture and description won a monetary prize and Family of the Year title.

ABOUT BIGBANK GROUP

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

The Group's structure at the reporting date:



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

The branches in Latvia, Lithuania, Finland, Sweden and Spain offer lending services similar to those of the parent. 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 used in the parent's business in Estonia. OÜ Balti Võlgade Sissenõudmise Keskus and its subsidiaries support the parent and its branches in debt collection. OÜ Kaupmehe Järelmaks offered hire purchase products until 1 March 2016 when its active portfolio was sold to Bigbank, after which the subsidiary was merged with OÜ Balti Võlgade Sissenõudmise Keskus and OÜ Kaupmehe Järelmaks was deleted from Estonian commercial register on 25 August 2016.

SHAREHOLDERS

The shares in Bigbank AS are held by two individuals, each holding the same number of shares. At 31 December 2016, the shareholders were:

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

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

Litigation

At 31 December 2016, the Group was not involved in any significant litigation.

PROSPECTS FOR 2017

Increasing consumer confidence and decreasing unemployment sets the base for economic growth in the countries of Group operations also in year 2017, supported by the low interest rates and continuing quantitative easing by the European Central Bank. Expected decrease in unemployment is continuing to push up labour costs. Political uncertainty grows as there are elections coming up in the Netherlands, France, Germany and possible extraordinary elections in Italy, in addition to the effects of Brexit and change in presidency of the USA.

Bigbank's market share is expected to grow in year 2017 in Lithuania and Finland based on escalation of Bigbank's online lender's business model, meaning lower interest rates, bigger loan portfolio and better loan quality. No plans have been made to expand to new markets in 2017. The main challenges for the Group will be reaching higher credit quality in Spain and Sweden, and maintaining performance under increasing regulations and decreasing margins environment in the Baltics. The Group will continue to invest heavily into technology and product development to become a compliant highly automated digital bank.

Corporate Governance Report

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

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

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

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

GENERAL MEETING

The general meeting that convened on 29 February 2016 approved the company's annual report, allocation of profit for 2015 and decided to extend the mandate of the members of the supervisory board. 100% of the votes determined by shares were represented at the meetings.

Bigbank AS does not comply with the provisions of the CGR under which the company should publish on its website notice of a general meeting (article 1.2.1), essential information on the agenda of a general meeting (article 1.2.3), and the proposals of the supervisory board and the shareholders regarding the agenda items (article 1.2.4). In 2016, the general meeting was not attended by the members of the management board, the auditor and the members of the supervisory board that are not shareholders (article 1.3.2). Bigbank AS does not make observing the general meeting possible by means of communication equipment (article 1.3.3).

The above requirements are not applicable to a company that has only two shareholders who are also members of the supervisory board and are therefore informed about the company's activity on a current basis. Bigbank AS uses the simplified method of giving notice of the general meeting that is allowed by section 294(1^1) of the Commercial Code or the company exercises the right of adopting decisions without calling a general meeting that is provided in section 305(2) of the Commercial Code because Bigbank has only two shareholders and consensus in the adoption of decisions is customary.

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

SUPERVISORY BOARD

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

Parvel Pruunsild – chairman of the supervisory board

Vahur Voll – member of the supervisory board

Andres Koern – member of the supervisory board

Juhani Jaeger – member of the supervisory board

Raul Eamets – member of the supervisory board

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

In 2016, the remuneration of the members of the supervisory board totalled 65 thousand euros including taxes. The company does not deem it necessary to provide more detailed information about the remuneration of the members of the supervisory board because the effect of the remuneration on the company's financial performance is not significant (article 3.2.5). All members of the supervisory board attended at least half of the meetings held in 2016. As far as the company is aware, in 2016 the members of the supervisory board did not have any material conflicts of interest as defined in article 3.3.2 of the CGR. There have been no transactions with the members of the supervisory board in the reporting period.

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

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

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

MANAGEMENT BOARD

New member – Bigbank's head of financial area Sven Raba – was elected in April 2016, while Agur Jõgi was recalled from the management board in December 2016. Supervisory board decided to recall Ingo Põder from the management board effective as of 6 February 2017. Also, supervisory board elected Pāvels Gilodo and Martin Länts as new management board members as of 1 January 2017 and Martin Veskimägi as of 6 February 2017.

As of 31 December 2016 the management board had three members (under the articles of association the number may range from three to five):

Kaido Saar – chairman of the management board

Ingo Põder – member of the management board

Sven Raba – member of the management board

The activities of the management board are governed, among other legislation, by the Credit Institutions Act that sets forth specific requirements for members of the management board and the organisation of the internal audit, risk management and reporting functions as well as guidance on how to behave in a conflict of interest and how to avoid breaching the prohibition on competition. According to the Commercial Code and the articles of association, the company may be represented by any member of the management board acting alone.

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

In 2016, Bigbank AS did not comply with article 2.2.7 of the CGR, which provides that the benefits and bonus schemes of each member of the management board should be published on the corporate website and in the corporate governance report and that the principles of remunerating management board members should be explained at the general meeting.

Bigbank AS publishes the aggregate remuneration of the members of the Group's management board in its annual report. The figure for 2016 was 704 thousand euros including taxes. In addition, the company observes the requirements of the legislation regulating the disclosure of a credit institution's remuneration policy. The requirement of disclosing the remuneration of each member of the management board is primarily aimed at informing the shareholders. In view of the shareholder structure of Bigbank AS, detailed disclosure of this information in the company's corporate governance report is not necessary. The principles of remunerating the members of the management board were not explained at the general meeting because the shareholders are on the supervisory board and thus aware of the principles.

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

DISCLOSURE OF INFORMATION

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

In 2016, Bigbank AS did not publish its financial calendar because the regularity of reporting is provided, among other things, in the Credit Institutions Act. The company issues quarterly reports within two months after the end of each quarter. Disclosure of a term for publishing a notice of calling a general meeting is not relevant in view of the small number of shareholders.

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

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

REPORTING

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

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

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

RISK GOVERNANCE, RISK MANAGEMENT AND CONTROL FUNCTIONS

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

Bigbank has three general levels where risk management decisions are made – the supervisory board, the management board, and risk and credit committees. Based on general-level decisions and authorities granted, operational risk management decisions are made by risk owners, i.e. the staff responsible for managing, monitoring and controlling identified risks, and operating units. The Group´s organisational structure ensures a segregation of duties between the operational and control functions in order to prevent conflict of interests.

The supervisory board establishes the general risk strategy, common risk definitions, the target risk profile, risk governance and high-level principles for risk and capital management. The supervisory board approves the risk and capital management policy and the policies for all main material risks identified such as credit risk, operational risk, technology risk, liquidity risk and market risk.

The management board is responsible for promoting a strong risk culture and implementing both organisational drivers (e.g. training strategy, remuneration, KPI, risk management quality, tone at the top, appropriate governance structure) and individual drivers (e.g. attitude to risk management, knowledge of risk, personal risk tolerance) to achieve this.

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

The risk committee, which is established and nominated by the Group's management board, acts as the asset-liability committee (ALCO), oversees the risk profile, and approves and monitors the risk management framework of the Group and its controlled entities. In fulfilling its obligations, the risk committee observes the strategy determined by the Group's supervisory board.

The Group's risk governance structure is based on the three lines of defence model. Under the concept, everybody who works for Bigbank – the front-line staff as well as the staff of the branches and risk, compliance, internal control, and support functions – is responsible for managing risk. The functions are separated into three lines as follows:

- functions that own and manage risks (risk owners);
- functions that oversee risks (risk control functions); and
- functions that provide independent assurance (internal audit and audit committee).

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

Bigbank's risk control functions are carried out by the risk management and compliance units.

The compliance function is responsible for ensuring that the Group complies with all applicable laws, rules and regulations because failure to comply may result in regulatory sanctions (including restrictions on business activities, fines or enhanced reporting requirements) and financial and/or reputational damage.

In the risk management area, risk management and control functions are executed by credit risk department, risk control unit, operation security and control unit as follows:

- the role of the credit risk department is to ensure sound day-to-day credit risk management and act as a second line of defence (Group head of credit risk and local credit risk officers);
- the risk control unit's responsibility is to develop and implement risk management frameworks; assist risk owners and management in developing processes and

controls to manage and assess risks; facilitate and monitor implementation of risk management practices by risk owners; conduct independent risk identification, assessment, monitoring and reporting; provide guidance and training on risk management processes for raising risk awareness; and identify risk-related issues;

- the operation security and control unit's role is to ensure that the Group fulfils its obligations in relation to anti-money laundering, terrorist financing prevention and monitoring politically exposed persons as required by law and internal regulations and to facilitate the development of controls that support the detection and prevention of fraud.

The internal audit unit is a structural unit of the Group, which is directly subordinated to the supervisory board of the Group and is therefore independent from the management board of the Group. The unit has two internal auditors and head of the unit. The aim of the internal audit unit is to perform independent and objective supervision over the efficiency and effectiveness of risk management, governance and control processes. The internal audit unit acts on the basis of the statutes approved by the supervisory board of the Group. The statutes of the internal audit unit describe the requirements on the internal audit with regard to independence, proficiency, its authority, tasks, and scope of activities and principles of quality assurance. The internal audit work plan is approved by the supervisory board of the Group.

The internal audit has the following tasks:

- to assess the ordinary business activities of the Group and compliance of the internal regulations and procedure rules with the requirements and adequacy of the activities of the Group;
- to analyse the risks inherent in the Group's activities, as a result of which the unit shall determine the priorities of its activities and prepare an internal audit work plan;
- to identify the management and control measures implemented for achieving the objectives of the Group, assess their adequacy and efficiency;
- to assess the lawfulness, purposefulness, economy and efficiency of using the resources;
- to verify the compliance with valid legislation, regulations, procedure rules and other norms enacted by the supervisory board and the management board of the Group and the heads of subsidiaries and branches;
- to verify that substantial information concerning finances, management and operations would be precise, reliable and usable in a timely manner;
- to analyse any deficiencies detected in the activities of the Group and its employees, make proposals for eliminating the deficiencies and improving the efficiency of internal control systems;
- to fulfill other tasks established by laws and regulations on the internal audit activities and tasks given by the supervisory board which do not endanger the functional independence of internal auditors.

The audit committee has two members. The audit committee is an advisory body whose primary responsibility is to provide assistance in the area of financial reporting and auditing, risk management, internal control and auditing, supervision and budgeting as well as legal and regulatory compliance.

WHISTLEBLOWING HOTLINE

In 2015, Bigbank introduced a whistleblowing hotline in the Group and the supervisory board established internal rules for notification and processing of internal misconduct.

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

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

Notification may be done via e-mail, phone or letter. Identity of the employee and information regarding the notice shall be processed confidentially.

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

REMUNERATION PRINCIPLES

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

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

The remuneration structure consists of two parts:

Fixed remuneration including:

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

Variable remuneration including:

- performance pay agreed with the employee, which depends on the achievement of the Group's long term objectives and fulfilment of relevant, measurable and balanced criteria;

- performance pay paid on objective grounds and generally on a one-off basis, e.g. for fulfilling additional responsibilities or ensuring business continuity in emergency situations.

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

As required by the law, Bigbank has defined material risk takers which include the senior management (members of the supervisory and management boards); employees responsible for control functions; employees who have a significant impact on the Group's risk profile; and staff whose remuneration equals or exceeds the lowest remuneration of the members of the Group's management board. The supervisory board approves the list of material risk takers at least once a year based on the proposal of the management board. As at 31 December 2016, the list included 31 positions. The list is changed based on changes in staff or the Group's work arrangement. The principles underlying the fixed remuneration of material risk takers are the same as for the rest of the Group's employees. The share of performance related pay in the total annual remuneration may not exceed 30% which should ensure carefully calculated risk-taking. The Group may withhold performance related pay either in full or in part, reduce performance related pay, or demand partial or full repayment of disbursed performance related pay when the Group's results do not meet the target.

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

In 2016, the remuneration (excluding social costs and pensions) provided to management, which included 31 positions together with the members of the management board and supervisiory board, totalled 1,842 thousand euros, the figure consisting of fixed remuneration of 1,478 thousand euros, performance related pay of 356 thousand euros and severance payment of 8 thousand euros. Fixed remuneration was paid to people in 31 positions and performance related pay was paid to people in 21 positions. Performance related pay was paid in cash and allocated and paid out in 2016. There is no unpaid performance related pay allocated for performance in 2016.

(In thousands of euros)

Consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	2016	2015	Restated 1 January 2015*
Assets				
Cash and balances at central banks	5	20,551	15,328	20,150
Due from banks	5	14,382	13,993	13,665
Financial assets held for trading	6	14,891	14,464	-
Loans to customers	7,8	332,725	299,531	275,101
Held-to-maturity financial assets		-	633	1,186
Derivatives with positive fair value		-	-	225
Other receivables	9	1,303	1,086	2,064
Prepayments	10	1,420	1,106	3,967
Property and equipment	11	4,299	3,389	3,426
Investment properties	12	509	797	1,100
Intangible assets	13	4,037	1,611	1,181
Deferred tax assets	28	11	14	1,698
Total assets		**394,128**	**351,952**	**323,763**
Liabilities				
Deposits from customers	14	285,575	257,181	239,033
Derivatives with negative fair value		-	-	75
Provisions		133	-	216
Other liabilities	15	4,783	3,000	3,032
Deferred income and tax liabilities	16	2,801	1,659	1,143
Total liabilities		**293,292**	**261,840**	**243,499**
Equity	17			
Share capital		8,000	8,000	8,000
Capital reserve		800	800	800
Other reserves		1,369	1,048	894
Retained earnings		90,667	80,264	70,570
Total equity		**100,836**	**90,112**	**80,264**
Total liabilities and equity		**394,128**	**351,952**	**323,763**

* Please refer note 2.

The notes on pages 33 to 86 are an integral part of these consolidated financial statements.

(In thousands of euros)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2016	2015
Interest income	18	69,225	71,959
Interest expense	19	-5,940	-6,660
Net interest income		**63,285**	**65,299**
Fee and commission income		2,510	2,322
Fee and commission expense		-198	-180
Net fee and commission income		**2,312**	**2,142**
Net profit/loss on financial transactions	20	235	-565
Other income	21	3,424	4,798
Total income		**69,256**	**71,674**
Salaries and associated charges	22	-14,762	-13,802
Other operating expenses	23	-11,073	-9,552
Depreciation and amortisation expense	11,13	-764	-661
Net impairment losses on loans and financial investments	8	-25,887	-30,934
Losses resulting from changes in the fair value of investment properties	12	-70	-144
Other expenses	24	-2,849	-2,710
Total expenses		**-55,405**	**-57,803**
Profit before income tax		**13,851**	**13,871**
Income tax	28	-2,148	-2,677
Profit for the year		**11,703**	**11,194**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translating foreign operations		98	-39
Net income on hedges of net investments in foreign operations		-	193
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	17	**98**	**154**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of land and buildings	30	223	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	17	**223**	**-**
Other comprehensive income for the year		**321**	**154**
Total comprehensive income for the year		**12,024**	**11,348**
Basic earnings per share (EUR)	31	146	140
Diluted earnings per share (EUR)	31	146	140

The notes on pages 33 to 86 are an integral part of these consolidated financial statements.

(In thousands of euros)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2016	2015
Cash flows from operating activities			
Interest received		58,500	58,628
Interest paid		-5,333	-5,691
Salary and other operating expenses paid		-25,199	-24,233
Other income received		5,362	6,098
Other expenses paid		-4,092	-4,367
Fees received		1,100	1,135
Fees paid		-199	-177
Recoveries of receivables previously written off		18,628	15,100
Received for other assets		495	615
Paid for other assets		-622	-689
Loans provided		-220,578	-177,815
Repayment of loans provided		153,085	125,110
Change in mandatory reserves with central banks and related interest receivables	5	-214	-215
Proceeds from customer deposits		90,659	69,420
Paid on redemption of deposits		-61,018	-53,296
Change in financial assets held for trading	6	881	-14,625
Income tax paid		-1,331	1,970
Effect of movements in exchange rates		-30	-6
Net cash from/used in operating activities		**10,094**	**-3,038**
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets	11,13	-3,405	-1,016
Proceeds from sale of property and equipment		74	14
Proceeds from sale of investment properties		32	106
Acquisition of financial instruments		-713	-3,864
Proceeds from redemption of financial instruments		762	4,420
Net cash used in investing activities		**-3,250**	**-340**
Cash flows from financing activities			
Dividends paid	17	-1,300	-1,500
Net cash used in financing activities		**-1,300**	**-1,500**
Effect of exchange rate fluctuations		-147	170
Increase/decrease in cash and cash equivalents		**5,397**	**-4,708**
Cash and cash equivalents at beginning of year	5	28,894	33,602
Cash and cash equivalents at end of year	5	**34,291**	**28,894**

The notes on pages 33 to 86 are an integral part of these consolidated financial statements.

(In thousands of euros)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent				
	Share capital	Statutory capital reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2015 (as previously reported)	8,000	800	894	71,566	81,260
Correction of error*	-	-	-	-996	-996
Restated total equity at the beginning of period	**8,000**	**800**	**894**	**70,570**	**80,264**
Profit for the year	**-**	**-**	**-**	**11,194**	**11,194**
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	-39	-	-39
Net profit on hedges of net investments in foreign operations	-	-	193	-	193
Total other comprehensive income	**-**	**-**	**154**	**-**	**154**
Total comprehensive income for the year	**-**	**-**	**154**	**11,194**	**11,348**
Dividend distribution	-	-	-	-1,500	-1,500
Total transactions with owners	**-**	**-**	**-**	**-1,500**	**-1,500**
Balance at 31 December 2015	**8,000**	**800**	**1,048**	**80,264**	**90,112**
Balance at 1 January 2016	**8,000**	**800**	**1,048**	**80,264**	**90,112**
Profit for the year	**-**	**-**	**-**	**11,703**	**11,703**
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	98	-	98
Revaluation of land and buildings	-	-	223	-	223
Total other comprehensive income	**-**	**-**	**321**	**-**	**321**
Total comprehensive income for the year	**-**	**-**	**321**	**11,703**	**12,024**
Dividend distribution	-	-	-	-1,300	-1,300
Total transactions with owners	**-**	**-**	**-**	**-1,300**	**-1,300**
Balance at 31 December 2016	**8,000**	**800**	**1,369**	**90,667**	**100,836**

* Please refer note 2.

Please refer note 17.

The notes on pages 33 to 86 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

Bigbank AS is a company incorporated and domiciled in Estonia that holds an activity licence of a credit institution. The consolidated financial statements as at and for the year ended 31 December 2016 comprise Bigbank AS (also referred to as the "parent company"), its Latvian, Lithuanian, Finnish, Spanish and Swedish branches and its subsidiaries AS Baltijas Izaugsmes Grupa, OÜ Rüütli Majad and OÜ Balti Võlgade Sissenõudmise Keskus and the subsidiaries of OÜ Balti Võlgade Sissenõudmise Keskus - SIA Baltijas Parādu Piedziņas Centrs and UAB Baltijos Skolų Išieškojimo Centras (together referred to as the "Group").

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

STATEMENT OF COMPLIANCE

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

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

These consolidated financial statements include the primary statements of the parent company (see note 32) in addition to required part prepared under International Financial Reporting Standards as adopted by the European Union because it is required by the Estonian Accounting Act and capital ratios (see note 4) for regulatory purposes that have been prepared in accordance with Regulation (EU) no 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms. These parent company primary statements are not separate financial statements as defined by IAS 27.

The management board of Bigbank AS has prepared these consolidated financial statements and authorised them for issue on 27 February 2017.

BASIS OF PREPARATION

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

(In thousands of euros)

In accordance with the Estonian Accounting Act, the parent company's unconsolidated financial statements (statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity) are disclosed in the notes to the consolidated financial statements. The financial statements of Bigbank AS are presented in note 32 *Unconsolidated statements of parent company as a separate entity*. The parent company's financial statements are prepared using the same accounting policies and measurement bases as those applied on the preparation of the consolidated financial statements except that in the unconsolidated financial statements investments in subsidiaries and associates are measured at cost.

CONSOLIDATION

Branches

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

Subsidiaries

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

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

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

SUBSIDIARY	Country of incorporation	Ownership interest 2016	Ownership interest 2015
AS Baltijas Izaugsmes Grupa	Republic of Latvia	100%	100%
OÜ Rüütli Majad	Republic of Estonia	100%	100%
Balti Võlgade Sissenõudmise Keskus OÜ	Republic of Estonia	100%	100%
SIA Baltijas Parādu Piedziņas Centrs	Republic of Latvia	100%	100%
UAB Baltijos Skolų Išieškojimo Centras	Republic of Lithuania	100%	100%

Transactions eliminated on consolidation

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

FOREIGN CURRENCY

Foreign currency transactions

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

Financial statements of the Group's foreign operations

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

OFFSETTING

Financial assets and financial liabilities are set off and the net amount is presented in the statement of financial position only when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

FINANCIAL ASSETS

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

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

Cash and cash equivalents

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

Financial assets held for trading

Financial assets held for trading comprise debt securities.

Debt securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a shorter period after purchase, usually before maturity.

The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through the profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through the profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future, or until maturity.

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

Group is not taking equity positions outside trading book.

Loans and receivables

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

Recognition of impairment allowances for loan receivables

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

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

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

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

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

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

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

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

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

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

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

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

- There is objective evidence such as observable data, which indicates a measurable decrease in the future cash flows from the group of receivables, or an analysis of the Group's historical loss experience, which suggests that the group of receivables contains impaired items but the individual impaired items cannot yet be identified.
- The need for statistical impairment allowances is assessed and such allowances are made once a month for the following groups of receivables:
- loan receivables not secured with real estate or other physical assets;
- loan receivables secured with real estate;
- receivables from companies.

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

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

PROPERTY AND EQUIPMENT

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

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

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

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful life of each part of an item of property and equipment. Depreciation commences as of the acquisition of the item.

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

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

Depreciation rates are reassessed at each reporting date and whenever circumstances arise, which may have a significant impact on the useful life of an asset or asset class. The effect of changes in estimates is recognised in the current and subsequent periods.

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

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

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

INTANGIBLE ASSETS

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

The Group's intangible assets have definite useful life and primarily include capitalised computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. External development costs that are directly associated with identifiable and unique software controlled by the

Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include software related consultancy costs. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

An intangible asset is amortised on a straight line basis over expected useful lives of 5 to 10 years. Amortisation expense is recognised as *Depreciation and amortisation expense* in the statement of comprehensive income.

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

INVESTMENT PROPERTIES

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

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

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

FAIR VALUE MEASUREMENT

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

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

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

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

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

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

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

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

LEASES

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

The Group as a lessor

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

The Group as a lessee

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

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

FINANCIAL LIABILITIES

Financial liabilities comprise deposits from customers, liabilities arising from securities, bank loans, accrued expenses and other liabilities.

A financial liability is initially recognised at its fair value plus transaction costs directly attributable to financial liability. After initial recognition, financial liabilities are measured at their amortised cost using the effective interest rate method.

A financial liability is removed from the statement of financial position when it is discharged or cancelled or expires.

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

STATUTORY CAPITAL RESERVE

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

INTEREST INCOME AND INTEREST EXPENSE

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

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

FEE INCOME AND EXPENSE

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

OTHER INCOME

Other income comprises:

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

OTHER EXPENSES

Other expenses comprise:

- expenses related to enforcement proceedings (including notaries' fees, bailiffs' and debt collection charges, state fees and levies);
- regulatory and supervision charges (contributions to the Guarantee Fund and supervision charges);
- costs of registry queries and similar items;

(In thousands of euros)

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

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

EMPLOYEE BENEFITS

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

INCOME TAX

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

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

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

Corporate income tax rates

	2017	2016	2015
Latvia	15.0%	15.0%	15.0%
Lithuania	15.0%	15.0%	15.0%
Finland	20.0%	20.0%	20.0%
Sweden	22.0%	22.0%	22.0%
Spain	30.0%	30.0%	30.0%

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

EARNINGS PER SHARE

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

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

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

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

The accounting policies adopted are consistent with those of the previous financial year except for the following new and/or amended IFRSs which have been adopted by the Group as of 1 January 2016, but did not have any material impact on the Group:

Amendments to IAS 1 *Presentation of financial statements: Disclosure Initiative* The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The amendments are effective for annual periods beginning on or after 1 January 2016. The Group has not made use of this amendment.

IAS 16 *Property, Plant & Equipment* and IAS 38 *Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortisation* The amendment is effective for annual periods beginning on or after 1 January 2016. The amendment provides additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. This amendment clarifies that a revenue-based method is not considered to be an appropriate manifestation of consumption. The Group has not made use of this assessment.

IAS 19 *Defined Benefit Plans (Amended): Employee Contributions* The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment addresses accounting for the employee contributions to a defined benefit plan. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Group does not have any plans that fall within the scope of this amendment.

The IASB has issued the *Annual Improvements to IFRSs 2010 – 2012 Cycle*, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015. None of these had an effect on the Group's financial statements:

- IFRS 2 *Share-based Payment*;
- IFRS 3 *Business combinations*;
- IFRS 8 *Operating Segments*;
- IFRS 13 *Fair Value Measurement*;
- IAS 16 *Property Plant & Equipment*;

- IAS 24 *Related Party Disclosures*;
- IAS 38 *Intangible Assets*.

The IASB has issued the *Annual Improvements to IFRSs 2012 – 2014 Cycle*, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. None of these had an effect on the Group's financial statements:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- IFRS 7 *Financial Instruments*;
- IAS 19 *Employee Benefits*;
- IAS 34 *Interim Financial Reporting*.

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

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

IFRS 9 *Financial Instruments: Classification and Measurement*. The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Group is evaluating the impact of the implementation of this standard.

IFRS 15 *Revenue from Contracts with Customers* (effective for financial years beginning on or after 1 January 2018). IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The implementation of this standard will not have any significant impact on the Group.

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

IFRS 16 *Leases* is effective for annual periods beginning on or after 1 January 2019, once endorsed by the EU. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged. The Group is currently assessing the impact of the new standard on its financial statements.

A number of new standards, amendments to standards and interpretations have been published but not effective for the Group for annual periods beginning on or after 1 January 2017 which accordingly do not have any significant impact on the Group's financial statements.

Amendments to IAS 7 *Statement of Cash Flows: Disclosure Initiative* (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

Amendments to IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses* (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

IFRS 2 *Classification and Measurement of Share based Payment Transactions (Amendments)* (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)* (In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.)

Amendments to IAS 40 *Transfers to Investment Property (Amendments)* (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

IFRIC INTERPETATION 22 *Foreign Currency Transactions and Advance Consideration* (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The IASB has issued the *Annual Improvements to IFRSs 2014 – 2016 Cycle*, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU.

- IFRS 1 *First-time Adoption of International Financial Reporting Standards*
- IAS 28 *Investments in Associates and Joint Ventures*
- IFRS 12 *Disclosure of Interests in Other Entities*

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

NOTE 2. CORRECTION OF AN ERROR

In 2010, Bigbank AS Latvian subsidiary Baltijas Izaugsmes Grupa AS sold its portfolio to the branch Bigbank AS Latvijas filiāle and the income tax arising from the intragroup transaction was recognised as deferred tax asset. In subsequent years the income tax asset was reduced against the received interest and other claims of the sold portfolio using the Latvian income tax rate. In August 2016, the management conducted a detailed review and discovered an error in the tax recording model and as a consequence, the income tax asset was overstated in the prior periods' financial statements. The deferred tax asset has been derecognised and the error has been corrected by restating the earnings retained in prior years in the amount of 996 thousand euros.

NOTE 3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS EU requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making estimates about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.The impact of management's estimates is most critical regarding impairment allowances for loans and interest receivables (see note 1, the section *Financial assets*, and note 7).

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

Fair value of investment properties is measured on regular basis, and book values adjusted to reflect any changes in market values (see the section *Investment properties* in note 1 and note 12 and 30).

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

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

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

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

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

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

NOTE 4. RISK AND CAPITAL MANAGEMENT

RISK MANAGEMENT PRINCIPLES

Supervisory board of Bigbank AS has enacted the following main risk management principles covering entire Group in internal strategy documents. The primary objectives of risk and capital management are to protect the Group's financial strength and limit the impact of potential adverse events on the Group's capital, liquidity, and financial results. The following principles form the basis of the Group's risk and capital management strategy:

- Risk-taking is an essential part of the Group's business, every activity involves risk-taking. Risk management is business-oriented. It supports business activities and decision-making by making as clear as possible the risk and reward balances of different options.
- Risk management is an integral part of all the Group's business activities and organisational processes and is present at all levels and applied to all activities within the Group.
- The Group only takes those risks, which are understandable and where it has sufficient knowledge and experience to assess and manage the risks.
- Adequate and proportional risk management ensures that every material risk taken is covered by appropriate and proportional risk management framework, policies and procedures.
- The Group determines its target risk profile for all material risks, carefully taking into consideration its organisational and capital capacity to manage such risks.
- The Group establishes clear ownership for managing and reporting risks throughout the organisation.
- The Group has strong and comprehensive internal controls and sound safeguards to mitigate risks in line with its risk management strategy and target risk profile.
- The Group continuously develops a culture of understanding risk, recognising the importance of risk management, and taking personal responsibility for identifying and managing risks.

RISK MANAGEMENT FRAMEWORK AND TARGET RISK PROFILE

Supervisory board of Bigbank AS has stipulated the following main risk management framework principles covering entire Group in internal strategy documents. Bigbank's risk management framework consists of four key elements: risk culture, risk governance, risk tolerance and risk management.

The risk culture is set by common values and principles which are upheld in managing risk and return throughout the Group, which are as follows:

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

Risk tolerance is the maximum risk that the Group is willing to assume in order to achieve its business objectives. The Group has defined risk tolerance for all main risk categories identified and has established processes and measures for assessing and controlling its actual risk profile accordingly. The risk tolerance framework consists of established risk limits and thresholds (e.g. target levels for capital and earnings ratios, market and liquidity risk limits and credit and operational risk targets) and the Red-Amber-Green method of defining risk levels.

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

The target risk profile describes the risks the Group is willing to assume within its risk capacity and in line with its business model to achieve its strategic objectives. The Group describes in its target risk profile the nature and level of every material risk identified. Determination and updating of the target risk profile is an inseparable part of annual planning. The actual risk profile is assessed against the target risk profile by the risk committee and the management board on a quarterly basis.

MAIN RISKS

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

The main risk categories that the Group has identified in its operations are credit risk, market risk, liquidity risk, operational risk, business risks and capital risk. The Group assesses and identifies the risks continuously, as part of its internal capital adequacy assessment process and internal liquidity assessment process (ICAAP/ILAAP).

The Group's target risk profile describes the Group's risk appetite for all the main risk categories and compliance risk, which is part of operational risk, as well as the Group's attitude to risk-taking using a five-step scale as follows:

- *High* – Innovative. Priority on business needs. High risk and maximum return.
- *Open* – Ready to consider all options. Proactive. Decisions made based on the balance of risk and return.
- *Cautious* – Safe solutions are preferred. Reactive. Moderate risk level and potentially lower return.

- *Minimal* – Safe and proven solutions are preferred. Low risk and minimal return.
- *Averse* – The target is to avoid the risk and uncertainty.

CREDIT RISK

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

- Concentration risk - the risk of being significantly exposed to a single counterparty or related counterparties or counterparties that are influenced by the same risk factor.
- Country risk - the risk arising from the economic, political or social environment in the counterparty's domicile.
- Collateral risk - the risk associated with the type, value, form and disposal procedure of the asset pledged as collateral in a transaction.
- FX lending risk – the risk that value of loans that have been given out in foreign currency changes due to the changes in currency exchange rates.

Credit risk management

Group is open to credit risk in all its asset positions excluding fixed assets and investment properties. Credit risk is managed at the level of the Group by the Group's management board and credit committees. Branches and subsidiaries manage their credit risk in accordance with the policies and rules adopted by the Group.

The Group manages its credit risk in accordance with the provisions of the Credit Institutions Act, the regulations issued by the Governor of the Bank of Estonia, the regulations applicable to the Group's foreign operations in their domiciles, and its own credit policy.

The Group's credit policy and the principles applied on analysing and granting loans are regularly reviewed and updated to reflect changes in the economic environment and the counterparties' settlement behaviour.

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

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

- Loans are mostly provided to individuals. At 31 December 2016, loans to individuals accounted for 91.9% of the loan portfolio. The repayment ability of private persons is by nature more stable than that of companies and less influenced by stress scenarios of economic environment than enterprises.
- Loans are granted under carefully drafted legal agreements and recovery proceedings are conducted in full compliance with applicable law. According to the Group's assessment, there are currently no features in the Baltic, Scandinavian and Spanish legislation or legal practice that might exert a significant additional negative impact on the recovery of loan receivables.
- The Group applies proactive and flexible debt management and results-oriented recovery proceedings.
- Risks are controlled by diversifying the credit portfolio. The average loan balance

does not exceed the two-fold average monthly salary. Smaller receivables are generally easier to recover even in the circumstances of a severe economic downturn because the borrower's settlement power is not weakened by the scarcity of (re)financing opportunities and the Group's receivables can usually be settled with regular monthly income.

- The Group's loan portfolio is highly diversified – at 31 December 2016, the average loan balance was 2,302 euros and 100 largest loans accounted for 8.7% of the total loan portfolio.

In its lending operations, the Group focuses on consumer loans that are granted against income and hire-purchase services. In addition, in Estonia and Lithuania, the Group provides loans and financial guarantees to small and medium-sized enterprises. At 31 December 2016, the loans to companies accounted for 8.1% of the Group's loan portfolio.

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

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

Measurement and classification of credit risk

The Group uses a system of internal credit ratings to assess the credit risk of both individuals and companies. A customer's credit rating is embedded in the Group's risk management system and it is used for assessing the customer's payment ability and the probability of default, creating impairment allowances, assigning credit limits, measuring receivables and determining the frequency of credit risk assessments and the principles of monitoring credit risk.

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

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

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

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

- Low probability of collecting payments. The loan (agreement) is performing but on the basis of objective evidence it is reasonable to assume that the customer is unable to meet the existing financial obligations (loan principal, associated interest and contract fee) in full and the situation cannot be resolved in a satisfactory manner.

- Default on meeting a significant financial obligation. The loan (agreement) is classified as non-performing when the customer is over 90 days in default on the obligation to pay a significant amount of loan principal, interest or fees or the loan is materially restructured so that the remaining balance of loan principal or the accrued interest is reduced and the circumstances causing the customer's financial difficulty have not been eliminated.

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

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

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

- *Satisfactory*. The customer's estimated ability and willingness to pay and factual payment behaviour are satisfactory. There may occur up to 60-day defaults and the receivable may have to be restructured in order to eliminate weaknesses. The customer's credit risk is moderate, i.e. ordinary.

- *Weak*. The customer has clearly identifiable economic weaknesses. The customer is making payments but there may occur up to 60-day defaults, which is why the receivable has to be restructured. Repayment of the loan is probable but the customer's credit risk is high.

- *Inadequate*. The customer is more than 90 days in default on significant commitments or there have been done restructuring activities without which the customer would be in default. Settlement of the entire receivable is unlikely if the situation does not change.

- *Irrecoverable*. The customer is insolvent, repayment is unrealistic and the Group does not have economically effective measures for collecting the receivable or the customer has been declared bankrupt.

(In thousands of euros)

Loan portfolio by internal rating classes as at 31 December 2016

Rating class	Not past due and not impaired	Not past due and impaired	Past due and not impaired	Past due and impaired	Total loan portfolio
Very good	129,150	5	2	-	129,157
Good	88,393	4	23,230	1	111,628
Satisfactory	46,367	26	11,312	12	57,717
Weak	1,183	931	5,720	542	8,376
Inadequate	1,263	4,743	2,129	34,305	42,440
Irrecoverable	-	142	3	13,667	13,812
Total	**266,356**	**5,851**	**42,396**	**48,527**	**363,130**

Loan portfolio by internal rating classes as at 31 December 2015

Rating class	Not past due and not impaired	Not past due and impaired	Past due and not impaired	Past due and impaired	Total loan portfolio
Very good	112,552	4	50	-	112,606
Good	69,592	-	19,591	11	89,194
Satisfactory	33,578	43	9,310	3	42,934
Weak	1,371	1,412	4,107	541	7,431
Inadequate	1,056	5,278	2,024	53,381	61,739
Irrecoverable	-	69	5	12,059	12,133
Total	**218,149**	**6,806**	**35,087**	**65,995**	**326,037**

Loans whose principal or interest payments are in arrears break down as follows:

Impairment allowances by ageing of loans as at 31 December 2016

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

(In thousands of euros)

Impairment allowances by ageing of loans as at 31 December 2015

	Loan receivable	Loan allowance	Risk position
Loan portfolio not past due	224,955	-2,607	222,348
Loan portfolio past due	101,082	-30,335	70,747
Past due portfolio according to days past due:			
Up to 30 days	24,997	-383	24,614
31-60 days	7,742	-309	7,433
61-90 days	3,820	-135	3,685
Over 90 days	64,523	-29,508	35,015
Statistical impairment allowance (incl IBNR)	-	-7,008	-7,008
Total	**326,037**	**-39,950**	**286,087**

Policy for creation of impairment allowances

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

The Group creates impairment allowances to mitigate the risk of a decline in the value of its loan receivables, i.e. their impairment. To mitigate the risks associated with the customers' payment behaviour and to cover credit losses, the Group has created impairment allowances, which at 31 December 2016 totalled 39,023 thousand euros, accounting for 10.7% of the total loan portfolio. Further information on impairment allowances is presented in note 8.

Cash and bank balances by the banks' credit ratings*

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

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

As at 31 December	2016	2015
Aaa-Aa3	13,181	12,777
A1-A3	658	860
Baa1-Baa3	543	356
Total	**14,382**	**13,993**

Financial assets held for trading by ratings

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

As at 31 December	2016	2015
Aaa-Aa3	3,190	2,446
A1-A3	4,354	4,926
Baa1-Baa3	7,347	7,092
Total	**14,891**	**14,464**

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

Exposure to counterparty credit risk

Counterparty credit risk means the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. The Group had no exposure to counterparty credit risk as at 31 December 2016.

CONCENTRATION RISK

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

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

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

At 31 December 2016, the Group did not have any customers with a high risk concentration, i.e. customers whose liability would have exceeded 10% of the Group's net own funds.

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

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

COLLATERAL RISK

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

The Group consciously limits its collateral risk, assuming that its lending policies and volumes mitigate credit risk more effectively than receipt of collateral and associated cash flows.

The Group monitors the effects of fluctuations in the market value of collateral.

Collateral risk is managed using the following principles:

- The Group applies the principle that loans that are provided have to be backed with the borrower's income.
- Requirements for collateral depend on the amount of the loan. As a rule, larger loans have to be secured with physical collateral (real estate provided under the law of property such as a mortgage on immovable property). Smaller loans may be secured with surety agreements or the borrower's cash flows or assets. In making financing decisions, the Group does not rely simply on the borrower's business plan or economic activities.
- In the case of small and medium-sized loans it is expedient to accept collateral

provided under the law of obligations. The Group is aware that the legal enforceability of real estate (collateral provided under the law of property) and the regulation governing its realisation process restrict the use of such collateral in the Group's business activity.

- Loans are granted in accordance with the limits established by the Group, taking into account the size of the loan and the ratio of the loan amount to the value of the collateral.

- The sufficiency and value of acceptable real estate or other collateral is determined based on its current value considering the changes that will occur over time. Where necessary, the value of collateral is determined with the assistance of experts (e.g. real estate appraisers).

- The Group accepts as loan collateral only such immovable properties whose market value has been determined in a written valuation report issued by a real estate company with whom the Group has a corresponding agreement. Collateral risk is estimated by reference to the valuation report prepared by the real estate company and subjective valuation performed by the Group's staff.

- The agreements made with real estate companies regarding the valuation of assets set out the real estate company's liability for incorrect appraisal.

- The Group accepts only collateral located in an area with an active and transparent real estate market. Such areas are determined in partnership with real estate companies and experts accepted by the Group. Acceptable real estate include, above all, mortgages of the first ranking entered in the land register, which should ensure full satisfaction of the Group's claims even when the market value of the collateral decreases.

- The property put up as collateral under the law of property has to be insured throughout the loan term with an insurance company accepted by the Group at least to the extent of the replacement cost of the property.

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

MARKET RISK

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

Market risk may arise from the Group's activity in the financial markets and most of the Group's products (loans, deposits) and trading portfolio. Market risk arises from the core business activities, taking market risk is not the Group's main activity. Market risk which arises from funding and investment activities is identified, managed and controlled through the asset-liability management processes. The Group avoids excessive market concentration risk. Policies enacted by the supervisory board of Bigbank AS state that the Group's market risk strategy is conservative and in the target risk profile the Group's general market risk appetite is on the "*Cautious*" (average) level.

(In thousands of euros)

Foreign currency risk is the risk of loss due to changes in spot or forward prices or the volatility of currency exchange rates. In the target risk profile, the Group's appetite for foreign currency risk is on the *Minimal* level. The target is to minimise open net currency positions. The Group's open net currency positions may not exceed 2% of net own funds. The Group avoids taking speculative positions.

At the moment, the Group provides loans in euros and in Swedish krona.

Net currency positions as at 31 December 2016

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

Net currency positions as at 31 December 2015

	Position in the statement of financial position		Off-balance sheet position		Net position
	Assets	Liabilities	Assets	Liabilities*	
EUR (euro)	306,030	216,618	-	9,760	79,652
SEK (Swedish krona)	45,270	45,222	-	-	48
GBP (British pound)	36	-	-	-	36

* For off-balance sheet position liabilities see note 27.

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

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

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

Effect of a potential exchange rate change on profit and equity as at 31 December 2015

	Exposure	Monetary impact	% of equity
SEK (Swedish krona)	48	5	0.0%
GBP (British pound)	36	3	0.0%
Total	**84**	**8**	**0.0%**

Trading portfolio risk is the risk that future interest rates may constitute a risk to the earnings or market value of the portfolio. The trading book position risks comprise general risk and specific risk components. General risk is potential loss resulting from general market fluctuations, specific risk arises from issuer-specific factors. In the target risk profile, the Group's appetite for trading portfolio risk is on the *Cautious* (moderate) level. Taking trading portfolio positions is not the Group's core activity and risk tolerance in its treasury operations is driven by the goal to maintain a strong liquidity and funding position to support lending activities. Following the principles regulating the market risk management the Group applies a conservative risk versus return approach in treasury activities. The Group does not take speculative trading positions and does not provide customer-focused trading activities.

Equity risk is the risk of loss due to changes in the prices or volatility of individual equity instruments and equity indices. Following the principles enacted by the supervisory board of Bigbank AS in the target risk profile, the Group's appetite for equity risk is Minimal.

Interest rate risk in banking book (IRRBB) is the risk to the Group's earnings and own funds arising from adverse movements in interest rates caused by banking book assets and liabilities. IRRBB is a significant risk for the Group. The main sources of structural IRRBB are adverse changes in loan and/or deposits interest rates. In the target risk profile, the Group's appetite for this risk is on the *Cautious* (moderate) level following the policies enacted by the supervisory board of Bigbank AS. Risk versus return considerations are applied. The basis of the Group's IRRBB strategy is to maintain a balanced position in the short-term (next 12-24 months) perspective and a controlled open risk position in the longer perspective by active management of the structure and maturities interest-sensitive assets and liabilities. An acceptable level of open long term IRRBB risk to the economic value of equity (EVE) is 3% of own funds, the portion of long term IRRBB risk to economic value of equity which exceeds 3% of own funds is covered with capital.

LIQUIDITY RISK

Liquidity risk is the risk that the Group is unable to fulfil its obligations in a timely manner or in the full extent without incurring significant costs.

Within liquidity risk the Group has identified funding risk, which is the risk of being unable to raise resources without harming daily activities or financial position.

The Group's liquidity risk strategy is to maintain a low and conservative liquidity risk profile and maintain rather large liquidity reserves. Strong liquidity is one of the Group's first priorities.

The main objective of the Group's funding strategy is to ensure sufficient and stable funding for the core activities using the Group's own capital and external financing in the form of time deposits mainly. The secondary objective of funding management is optimisation of the costs, size and composition of external resources raised, but cost-effectiveness and cost-competitiveness may not override sufficient, stable and conservative funding requirements. Diversification is a key part of the Group's overall funding and liquidity management strategy. The Group avoids the concentration of funding. The Group has a contingency plan in place which defines the actions to be taken should the Group encounter a liquidity shortfall in a stressed emergency situation. Long-term stable funding is secured by the Group's shareholders' equity.

In the Group's target risk profile, the appetite for liquidity risk is on the *Minimal* level and the appetite for taking funding risk is on the *Cautious* level.

(In thousands of euros)

Remaining maturities of financial assets and liabilities as at 31 December 2016

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

Remaining maturities of financial assets and liabilities as at 31 December 2015

	Past due	Less than 1 month	1-12 months	1-5 years	Over 5 years	Total
Financial assets						
Cash and bank balances	-	29,151	120	50	-	29,321
Loans to customers	45,922	8,548	72,718	153,942	18,401	299,531
Of which loan portfolio	32,478	8,548	72,718	153,942	18,401	286,087
Of which interest receivables	13,444	-	-	-	-	13,444
Financial assets held for trading	-	-	-	7,815	6,649	14,464
Held-to-maturity financial assets	-	-	633	-	-	633
Total financial assets	**45,922**	**37,699**	**73,471**	**161,807**	**25,050**	**343,949**
Financial liabilities						
Deposits from customers	-	16,510	103,939	121,315	15,417	257,181
Total financial liabilities	**-**	**16,510**	**103,939**	**121,315**	**15,417**	**257,181**
Net exposure	**45,922**	**21,189**	**-30,468**	**40,492**	**9,633**	**86,768**

(In thousands of euros)

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

	Carrying amount	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Payables to suppliers (note 15)	**1,354**	1,354	-	-	-	-	1,354
Deposits from customers (note 14)	**285,575**	11,307	20,598	111,733	134,778	19,329	297,745
Unused portions of credit lines and bank guarantees (note 27)	**8,013**	828	1,268	3,342	2,575	-	8,013
Total liabilities	**294,942**	**13,489**	**21,866**	**115,075**	**137,353**	**19,329**	**307,112**

Expected future cash flows of the Group's financial liabilities as at 31 December 2015

	Carrying amount	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Payables to suppliers (note 15)	**870**	870	-	-	-	-	870
Deposits from customers (note 14)	**257,181**	9,541	15,454	94,038	132,138	18,802	269,973
Unused portions of credit lines and bank guarantees (note 27)	**9,760**	2,572	6	1,326	5,856	-	9,760
Total liabilities	**267,811**	**12,983**	**15,460**	**95,364**	**137,994**	**18,802**	**280,603**

OPERATIONAL RISK

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

Operational risk entails the following risks:

- Legal risk is the risk resulting from non-conformity with or misinterpretation of legislation, contracts, good practice and standards of ethics. Legal risk may materialise in any of the above risk types, as the Group may become subject to claims or proceedings in connection with its contractual or other legal responsibilities.
- Compliance risk is the risk that failure to fully meet laws, regulations, internal rules and obligations to customers, employees and other stakeholders may impair the Group's business model, reputation and financial condition.
- Information and communication technology (ICT) risk is the risk of losses due to the inappropriateness or failure of hardware and software, which can compromise the availability, integrity, accessibility and security of technical infrastructure and data.

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

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

(In thousands of euros)

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

OWN FUNDS AND CAPITAL

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

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

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

- Common Equity Tier 1 Capital (CET1) including:
  - o Paid-up share capital. The Group's paid-up share capital amounts to 8,000 thousand euros.
  - o Statutory capital reserve. In line with the requirements of the Commercial Code, the Group has created a capital reserve which at 31 December 2016 amounted to 800 thousand euros.
  - o Prior period retained earnings. Profits retained in previous periods have been audited by an independent external auditor. The figure has been determined by taking into account all relevant taxes and dividend distributions. At 31 December 2016, the Group's prior period retained earnings totalled 78,964 thousand euros.
  - o Net profit for the reporting period that has been verified by an independent external auditor in the review of the financial information (2016: nine months), less foreseeable dividends proportionally and following the permit of the Estonian Financial Supervision Authority.

At 31 December 2016, the Group's Tier 1 capital amounted to 89,213 thousand euros.

As at 31 December	Basel III 2016	Basel III 2015	Corrected Basel III 2015
Paid up capital instruments	8,000	8,000	8,000
Other reserves	800	800	800
Previous years retained earnings	78,964	70,065	69,070
Other accumulated comprehensive income	1,369	1,047	1,047
Other intangible assets	-4,037	-1,611	-1,611
Profit or loss eligible	4,117	7,381	7,381
Adjustments to CET1 due to prudential filters	-	-	-
Common equity Tier 1 capital	89,213	**85,682**	**84,687**
Tier 1 capital	89,213	**85,682**	**84,687**
Tier 2 capital	-	-	-
Deductions	-	**-**	**-**
Total own funds	89,213	**85,682**	**84,687**

(In thousands of euros)

Tier 2 Capital does not include subordinated deposits following the precept of the Estonian Financial Supervision Authority.

TOTAL RISK EXPOSURE

The methods used by the Group for calculating the total risk exposure and single risk positions are stipulated in the regulation (EU) No. 575/2013 of the European Parliament and of the Council.

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

As at 31 December	Basel III 2016	Basel III 2015	Corrected Basel III 2015
Risk weighted exposure amounts for credit and counterparty credit risks (standardised approach)			
Central governments or central banks	1,128	1,214	1,214
Regional governments or local authorities	-	372	372
Institutions	5,159	5,423	5,423
Corporates	39,543	35,906	35,906
Retail	202,022	167,994	167,994
Secured by mortgages on immovable property	5,277	5,498	5,498
Exposures in default	26,297	42,032	42,032
Other items	7,558	8,901	6,414
Total risk weighted exposure amounts for credit and counterparty credit risks (standardised approach)	**286,984**	**267,340**	**264,853**
Total risk exposure amount for foreign exchange risk (standardised approach)	**-**	**84**	**84**
Total risk exposure amount for operational risk (standardised approach)	**93,585**	**80,860**	**80,860**
Total risk exposure amount for credit valuation adjustment (standardised approach)	**-**	**-**	**-**
Total risk exposure amount	**380,569**	**348,284**	**345,797**

(In thousands of euros)

CAPITAL RATIOS

As at 31 December	Basel III 2016	Basel III 2015	Corrected Basel III 2015
CET1 Capital ratio	23.4%	24.6%	24.5%
T1 Capital ratio	23.4%	24.6%	24.5%
Total capital ratio	23.4%	24.6%	24.5%
Leverage ratio	22.4%	23.7%	23.4%

Total capital ratio has been calculated for Bigbank AS Group. At 31 December 2016, total capital ratio at the level of the parent company was 21.7% (31 December 2015: 19.8%).

The composition of the Group's own funds, their treatment and the calculation of capital ratios are in accordance with the regulation (EU) No 575/2013 of the European Parliament and of the Council.

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

The Group has no Tier 2 nor Tier 3 capital.

Capital requirements have been determined using the standardised approach.

The own funds requirement for foreign exchange risk has not been calculated in 2016, as it does not exceed corresponding limit.

Minimum regulative capital requirement as at 31 December 2016

	Common equity Tier 1 capital ratio	Tier 1 capital ratio	Total capital ratio
Basic requirement	4.5%	6.0%	8.0%
Capital preservation buffer	2.5%	2.5%	2.5%
Systemic risk buffer	1.0%	1.0%	1.0%
Minimum regulative capital requirement	**8.0%**	**9.5%**	**11.5%**

The Group meets the minimum regulative capital requirement.

CAPITAL MANAGEMENT

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

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

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

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

- Ensuring capital adequacy is an integral part of strategic and daily business decision-making as well as an integral part of the daily risk management process.
- The Group evaluates and estimates the risk level and the capital need for covering all identified material risks on a continuous basis.
- The Group's capital must, at all times, be adequate for covering all of its material risks (must at all times exceed its aggregated risks).
- The Group assesses on a continuous basis its possible future capital requirements (capital planning) for ensuring a prudent level of capitalisation taking into account additional capital needs (planned growth, strategic plans), dividend policy, potential changes in the regulatory environment as well as severe macroeconomic downturns.
- The Group performs capital adequacy assessment both on a solo and consolidated basis.
- The Group defines the minimum capital requirement and the target capital requirement needed for ensuring the sustainability of its operations;
- The Group does not accept risk, if its capital is inadequate for covering future losses resulting from the materialisation of the risk.

The Group's target for 2016 was to maintain at least a 19.7% total capital ratio both at the level of the Group and the parent company. At 31 December 2016, the total capital ratio was 23.4%, significantly exceeding the regulatory requirement. At 31 December 2016, the Group's CET1 capital ratio was 23.4%, Tier 1 ratio was the same.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

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

- the risk of unexpected losses, and expected losses insufficiently covered by provisions, over a 12-month period (except where otherwise specified in Regulation (EU) 575/2013 or internal regulations) for all material risk categories;
- the risk of underestimation of risk due to model deficiencies identified;
- the risk arising from deficiencies in internal governance, including internal control arrangements and other deficiencies.

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

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

(In thousands of euros)

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

NOTE 5. CASH AND BANK BALANCES AND CASH EQUIVALENTS

Cash and balances at banks as at 31 December 2016

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

Cash and balances at banks as at 31 December 2015

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	Total
Cash and balances at central banks	10,127	2,751	-	2,450	-	-	15,328
Of which mandatory reserves*	427	-	-	-	-	-	427
Of which surplus on mandatory reserves	9,700	2,751	-	2,450	-	-	14,901
Due from banks	1,023	935	1,014	847	1,146	9,028	13,993
Total	**11,150**	**3,686**	**1,014**	**3,297**	**1,146**	**9,028**	**29,321**

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

Cash and cash equivalents

As at 31 December	2016	2015
Demand and overnight deposits with credit institutions	14,382	13,823
Term deposits with credit institutions with maturity of less than 1 year	-	170
Surplus on the mandatory reserves with central banks	19,909	14,901
Total cash and cash equivalents	**34,291**	**28,894**

(In thousands of euros)

NOTE 6. FINANCIAL ASSETS HELD FOR TRADING

As at 31 December	2016	2015
Financial assets held for trading	**14,891**	**14,464**
Financial assets held for trading by issuer		
General governments' bonds	4,277	3,544
Credit institutions' bonds	4,082	4,661
Other financial corporations' bonds	1,241	1,229
Non-financial corporations' bonds	5,291	5,030
Financial assets held for trading by currency		
EUR (euro)	14,165	14,464
SEK (Swedish krona)	726	-

NOTE 7. LOANS TO CUSTOMERS

Loans to customers as at 31 December 2016

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

Loans to customers as at 31 December 2015

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	Total
Loan receivables from customers	55,657	79,673	62,022	55,867	32,516	40,302	326,037
Impairment allowance for loans	-5,235	-11,150	-4,161	-1,819	-6,018	-4,559	-32,942
Interest receivable from customers	5,260	10,141	1,629	1,313	3,021	1,610	22,974
Impairment allowances for interest receivables	-2,269	-4,103	-702	-203	-1,766	-487	-9,530
Statistical impairment allowance	-1,311	-3,097	-594	-654	-572	-780	-7,008
Total loans to customers, incl. interest and allowances	**52,102**	**71,464**	**58,194**	**54,504**	**27,181**	**36,086**	**299,531**
Share of region	17.4%	23.9%	19.4%	18.2%	9.1%	12.0%	100.0%

(In thousands of euros)

Loan receivables from customers* by loan type

As at 31 December	2016	2015
Loans against income	317,821	284,368
Surety loans	9,240	11,360
Loans secured with real estate*	35,784	30,152
Loans against other collaterals	285	157
Total loan receivables from customers	**363,130**	**326,037**

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

Loan receivables from customers* by contractual currency

As at 31 December	2016	2015
EUR (euro)	335,329	285,735
SEK (Swedish kronor)	27,801	40,302
Total loan receivables from customers	**363,130**	**326,037**

* Loan receivables from customers comprise loan principal.

Ageing analysis as at 31 December 2016*

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

(In thousands of euros)

Ageing analysis as at 31 December 2015*

	Not past due	30 days or less	31-60 days	61-90 days	Over 90 days	Total
Loans against income						
Loan portfolio	193,421	21,649	6,782	2,970	59,546	284,368
Impairment allowance	-6,726	-801	-442	-195	-28,104	-36,268
Surety loans						
Loan portfolio	6,775	932	557	122	2,974	11,360
Impairment allowance	-403	-64	-33	-8	-1,648	-2,156
Loans secured with real estate						
Loan portfolio	24,677	2,393	399	728	1,955	30,152
Impairment allowance	-659	-99	-13	-24	-702	-1,497
Loans against other collaterals						
Loan portfolio	82	23	4	-	48	157
Impairment allowance	-3	-1	-	-	-25	-29
Total loan portfolio	224,955	24,997	7,742	3,820	64,523	326,037
Total impairment allowance	-7,791	-965	-488	-227	-30,479	-39,950

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

NOTE 8. IMPAIRMENT OF LOANS, RECEIVABLES AND FINANCIAL INVESTMENTS

Change in impairment allowances for loans and related interest receivables

	2016	2015
Balance at beginning of year	-49,480	-52,520
Write-off of fully impaired loan and interest receivables	47,152	47,649
Increase in allowances for loan and interest receivables	-45,391	-44,475
Effect of movements in exchange rates	398	-134
Balance at end of year	**-47,321**	**-49,480**

Impairment losses on loans, receivables and financial investments

	2016	2015
Recovery of written-off loan and interest receivables	19,042	14,157
Increase in allowances for loan and interest receivables	-45,391	-44,475
Impairment losses on other receivables	462	-616
Total impairment losses	**-25,887**	**-30,934**

(In thousands of euros)

Impairment allowances by loan assessment category as at 31 December 2016

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

Impairment allowances by loan assessment category as at 31 December 2015

	Loans receivables	Impairment allowances for loans	Interest receivables	Impairment allowances for loan interest	Total impairment allowances
Collectively assessed items	287,092	-19,651	19,144	-6,129	-25,780
Individually assessed items	38,945	-13,291	3,830	-3,401	-16,692
Statistical impairment allowance	-	-7,008	-	-	-7,008
Total	**326,037**	**-39,950**	**22,974**	**-9,530**	**-49,480**

Collectively assessed items include homogenous groups of receivables whose individual amount is not significant, historical settlement pattern and collateralisation or other features are similar and which are not assessed for impairment individually.

Individually assessed items include receivables from companies, receivables exceeding 100,000 euros and other receivables that have not been grouped.

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

NOTE 9. OTHER RECEIVABLES

As at 31 December	2016	2015
Collection, recovery and other charges receivable	805	1,275
Miscellaneous receivables	1,001	512
Impairment allowance for other receivables	-503	-701
Total	**1,303**	**1,086**

NOTE 10. PREPAYMENTS

As at 31 December	2016	2015
Prepaid taxes	436	435
Other prepayments	984	671
Total	**1,420**	**1,106**

(In thousands of euros)

NOTE 11. PROPERTY AND EQUIPMENT

	Land and buildings	Other items	Total
Cost			
Balance at 1 January 2015	2,992	2,872	5,864
Purchases	21	335	356
Improvements	38	-	38
Sales	-	-81	-81
Write-off	-	-418	-418
Effect of movements in exchange rates	-	1	1
Balance at 31 December 2015	**3,051**	**2,709**	**5,760**
Balance at 1 January 2016	3,051	2,709	5,760
Purchases	-	1,144	1,144
Sales	-	-84	-84
Write-off	-	-309	-309
Revaluation	7	-	7
Revaluation recognised in other comprehensive income	223	-	223
Transfer*	-267	-	-267
Effect of movements in exchange rates	-	-2	-2
Balance at 31 December 2016	**3,014**	**3,458**	**6,472**
Depreciation			
Balance at 1 January 2015	-87	-2,351	-2,438
Depreciation charge for the year	-94	-320	-414
Sales	-	66	66
Write-off	-	415	415
Balance at 31 December 2015	**-181**	**-2,190**	**-2,371**
Balance at 1 January 2016	-181	-2,190	-2,371
Depreciation charge for the year	-86	-329	-415
Sales	-	40	40
Write-off	-	306	306
Transfer*	267	-	267
Balance at 31 December 2016	**-**	**-2,173**	**-2,173**
Carrying amount			
Balance at 1 January 2015	2,905	521	3,426
Balance at 31 December 2015	2,870	519	3,389
Balance at 31 December 2016	**3,014**	**1,285**	**4,299**

* In 2013, the Group has changed its accounting policy for the measurement of land and buildings to the revaluation model. The accumulated depreciation as at the revaluation date was eliminated against the gross carrying amount of the revalued asset, see note 30.

(In thousands of euros)

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

As at 31 December	2016	2015
Cost	2,784	2,784
Depreciation	-997	-905
Net carrying amount	**1,787**	**1,879**

NOTE 12. INVESTMENT PROPERTIES

	2016	2015
Opening balance at 1 January	797	1,100
Additions	-	13
Sales	-218	-172
Net loss from fair value adjustment (note 30)	-70	-144
Closing balance at 31 December	**509**	**797**

The investment properties comprise plots, houses and apartments originally pledged by customers as loan collateral and later bought by the Group through auctions.

The Group earned rental income derived from investment properties of 8 thousand euros in financial year 2016 (2015: 5 thousand euros). The operating expenses were 15 thousand euros, (2015: 20 thousand euros), please see note 25.

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

NOTE 13. INTANGIBLE ASSETS

	2016	2015
Cost at beginning of year	**2,919**	**2,243**
Purchases	2,782	677
Write-off	-	-1
Cost at end of year	**5,701**	**2,919**
Amortisation at beginning of year	**-1,308**	**-1,062**
Amortisation charge for the year	-356	-247
Write-off	-	1
Amortisation at end of year	**-1,664**	**-1,308**
Carrying amount at beginning of year	1,611	1,181
Carrying amount at end of year	**4,037**	**1,611**

The Group has substantially increased its investments into intangible assets, mainly the new banking system, which will be gradually implemented to live use in next reporting periods. Related prepayments to vendors totalling 2,315 thousand euros as at 31 December 2016 have been recognised under intangible assets.

(In thousands of euros)

NOTE 14. DEPOSITS FROM CUSTOMERS

As at 31 December	2016	2015
Term deposits	**285,575**	**257,181**
Term deposits by customer type		
Individuals	274,281	247,033
Legal persons	11,294	10,148
Term deposits by currency		
EUR (euro)	251,289	212,508
SEK (Swedish kronor)	34,286	44,673
Term deposits by maturity		
Maturing within 6 months	64,764	57,428
Maturing between 6 and 12 months	75,610	63,021
Maturing between 12 and 18 months	26,909	34,437
Maturing between 18 and 24 months	39,349	32,540
Maturing between 24 and 36 months	35,312	30,330
Maturing between 36 and 48 months	14,101	17,794
Maturing in over 48 months	29,530	21,631
Average deposit amount	22	21
Weighted average interest rate	2.1%	2.5%
Weighted average duration until maturity (months)	20.6	20.5
Weighted average total contract term (months)	39.7	40.5

Annual interest rates of deposits offered to customers as at 31 December 2016

Interest rates of deposits offered to customers depend on the country as well as the deposit term, currency and amount, and interest payment method. Deposit terms range from 1 month to 10 years. Respective interest rates range from 0.3% to 2.50% per year. Deposits with the shortest term of 1 month are offered in Estonia, Latvia, Finland, Austria and Germany. In Sweden, the shortest term for deposits is 6 months and in the Netherlands 12 months. The minimum deposit amount is 500 euros or 10,000 Swedish krona.

NOTE 15. OTHER LIABILITIES

As at 31 December	2016	2015
Payables to suppliers	1,354	870
Payables to employees	1,001	799
Other payables	2,428	1,331
Total other liabilities	**4,783**	**3,000**

(In thousands of euros)

NOTE 16. DEFERRED INCOME AND TAX LIABILITIES

As at 31 December	2016	2015
Income taxe payable (note 28)	1,237	399
Other taxes payable	1,098	831
Prepayments from customers	466	429
Total deferred income and tax liabilities	**2,801**	**1,659**

NOTE 17. EQUITY

Share capital

Bigbank AS is a limited company, whose minimum and maximum authorised share capital amount to 5,113 thousand euros and 12,782 thousand euros respectively. Share capital as at 31 December 2016 and 31 December 2015 consists of 80,000 fully paid in ordinary shares with a par value of one hundred euros each. Each share carries one vote at meetings of the company, granting the holder the right to participate in the management of the company, the distribution of profits and the distribution of residual assets on the dissolution of the company.

Statutory capital reserve

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

Other reserves

Other reserves comprise:

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

As at 31 December	2016	Change	2015	Change	2014
Exchange differences on translating foreign operations	167	98	69	-39	108
Net loss on hedges of net investments in foreign operations	-	-	-	193	-193
Asset revaluation reserve	1,202	223	979	-	979
Total other reserves	**1,369**	**321**	**1,048**	**154**	**894**

(In thousands of euros)

Unrestricted equity

At 31 December 2016, the Group's unrestricted equity amounted to 90,667 thousand euros (31 December 2015: 80,264 thousand euros).

Dividends

In 2016 and 2015, the company made the following dividend distributions:

- 2016: 16.25 euros per share, i.e. 1,300 thousand euros in aggregate;
- 2015: 18.75 euros per share, i.e. 1,500 thousand euros in aggregate.

NOTE 18. INTEREST INCOME

	2016	2015
Interest income on loans to customers	68,812	71,710
Interest income on financial assets held for trading	371	213
Interest income on deposits	27	16
Interest income on held-to-maturity financial assets	-	3
Other interest income	15	17
Total interest income	**69,225**	**71,959**

NOTE 19. INTEREST EXPENSE

	2016	2015
Interest expense on deposits	5,940	6,660

NOTE 20. NET GAIN/LOSS ON FINANCIAL TRANSACTIONS

Foreign exchange losses and gains arise from open net foreign currency positions, currency exchange transactions and currency forward and swap contracts.

	2016	2015
Foreign exchange losses	-238	-22
Foreign exchange gains	137	119
Profit/losses on debt securities	336	-375
Loss on cancelling derivative instruments	-	-287
Net gain/loss on financial transactions	**235**	**-565**

NOTE 21. OTHER INCOME

	2016	2015
Income from debt recovery proceedings	3,184	4,486
Gains on derecognition of non financial assets	9	36
Miscellaneous income	231	276
Total other income	**3,424**	**4,798**

(In thousands of euros)

NOTE 22. SALARIES AND ASSOCIATED CHARGES

	2016	2015
Salaries	11,026	10,342
Social security costs	3,411	3,130
Employee health costs and fringe benefits including associated taxes	325	330
Total salaries and associated charges	**14,762**	**13,802**

Annual average number of employees working full time was 415 (2015: 441).

NOTE 23. OTHER OPERATING EXPENSES

	2016	2015
Marketing expenses	6,399	5,315
Office, rental and similar expenses	1,348	1,272
Other personnel-related expenses	1,099	915
Software licensing and other information technology costs	613	517
Other services	452	464
Postal supplies and charges	311	370
Telephone and other communications expenses	641	457
Miscellaneous operating expenses	210	242
Total other operating expenses	**11,073**	**9,552**

NOTE 24. OTHER EXPENSES

	2016	2015
Expenses related to enforcement proceedings	1,037	1,149
Expenses related to registry inquires	959	832
Legal regulation charges	417	445
Expenses from investment properties	96	20
Onerous contracts provisions	133	58
Miscellaneous expenses	207	206
Total other expenses	**2,849**	**2,710**

NOTE 25. OPERATING LEASES

THE GROUP AS A LESSEE

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

(In thousands of euros)

Operating lease expenses

	2016	2015
Operating lease payments made for office premises	611	659

Minimum non-cancellable operating lease rentals payable in subsequent periods

As at 31 December	2016	2015
Future operating lease rentals payable for office premises under fixed-term contracts, of which	866	652
Up to 1 year	358	249
1 to 5 years	508	403

THE GROUP AS A LESSOR

Minimum non-cancellable operating lease rentals receivable in subsequent periods

As at 31 December	2016	2015
Up to 1 year	10	4
1 to 5 years	34	11

For the rental income and operating expenses see note 12.

NOTE 26. ASSETS PLEDGED AS COLLATERAL

Asset encumbrance arises from collateral pledged against secured funding and other collateralised obligations. No encumbered positions were held by the Group as at 31.12.2016.

Although the following Group's assets have been pledged as collateral, the Group had no liabilities related to these pledged assets at 31 December 2016.

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

NOTE 27. CONTINGENT LIABILITIES

At 31 December 2016, the unused portions of the Group's credit lines totalled 7,923 thousand euros (31 December 2015: 9,670 thousand euros).

At 31 December 2016, the Group had provided guarantees of 90 thousand euros (31 December 2015: 90 thousand euros).

(In thousands of euros)

Contingent income tax liabilities

At 31 December 2016, the Group's undistributed profits totalled 90,667 thousand euros.

The maximum income tax liability that could arise if all of the undistributed profits were distributed as dividends amounts to 10,979 thousand euros. Thus, the maximum amount that could be distributed as the net dividend is 79,688 thousand euros. Under the Estonian Income Tax Act, in 2016 profit distributions, including dividend distributions, were subject to income tax calculated as 20/80 of the net distribution. The income tax payable on dividends is reduced by the corresponding tax rate of the dividends received from subsidiaries.

The maximum contingent income tax liability has been calculated under the assumption that the net dividend and the dividend tax expense reported in the income statement for 2016 cannot exceed total distributable profits as at 31 December 2016.

NOTE 28. INCOME TAX EXPENSE

Income tax expense

	2016	2015
Current income tax expense*	2,145	994
Change in deferred income tax	3	1,683
Total income tax expense	**2,148**	**2,677**

* Current tax expense has been calculated on net profit earned in Latvia, Lithuania and Finland in 2016 and in 2015.

The Group has unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of 3,211 thousand euros related to earned losses in Spain and Sweden (2015: 1,320 thousand euros).

Reconciliation of accounting profit and income tax expense

	2016	2015
Consolidated profit before tax	13,851	13,871
The parent company's domestic tax rate 0%	-	-
Effect of tax rates in foreign jurisdictions	262	1,003
Effect of exempt income and taxable expenses	-11	-584
Addition of tax losses	1,891	545
Change in recognised deferred tax assets	3	1,683
Effect of income tax of previous years	3	30
Income tax expense reported in statement of comprehensive income	**2,148**	**2,677**

(In thousands of euros)

Recognised deferred tax assets

As at 31 December	2016	2015
Deductible temporary differences on		
Loans to customers*	-	7
Property and equipment	29	23
Other liabilities (vacation pay liabilities to employees)	**-18**	**-16**
Total recognised deferred tax assets	**11**	**14**

* In 2016, the deferred tax asset has been derecognised by restating the earnings retained in prior years in the amount of 996 thousand euros (see note 2).

NOTE 29. RELATED PARTIES

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

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

In 2016, the remuneration of the members of the Group's management and supervisory boards including relevant taxes amounted to 704 thousand euros (2015: 702 thousand euros) and 65 thousand euros (2015: 56 thousand euros) respectively.

As at 31 December 2016 and 31 December 2015, the Group had no claims nor liabilities to related parties.

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

NOTE 30. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Management believes that the fair values of the assets and liabilities reported in the consolidated statement of financial position as at 31 December 2016 do not differ significantly from their carrying amounts.

	Carrying amount		Fair value	
	2016	2015	2016	2015
Cash and balances at central banks (note 5)	20,551	15,328	20,551	15,328
Cash and balances at banks (note 5)	14,382	13,993	14,382	13,993
Financial assets held for trading (note 6)	14,891	14,464	14,891	14,464
Loans to customers (note 7,8)	332,725	299,531	332,725	299,531
Held-to-maturity financial assets	-	633	-	633
Other financial receivables (note 9)	1,303	1,086	1,303	1,086
Total financial assets	**383,852**	**345,035**	**383,852**	**345,035**

(In thousands of euros)

Financial liabilties as at 31 December	Carrying amount 2016	Carrying amount 2015	Fair value 2016	Fair value 2015
Deposits from customers (note 14)	285,575	257,181	285,575	257,181
Other financial liabilities (note 15)	4,783	3,000	4,783	3,000
Total	**290,358**	**260,181**	**290,358**	**260,181**

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

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

Fair value hierarchy as at 31 December 2016

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets held for trading (note 6)	14,891	-	-	14,891
Land and buildings (note 11)	-	-	3,014	3,014
Investment properties (note 12)	-	-	509	509
Assets for which fair values are disclosed				
Loans to customers (note 7, 8)	-	-	332,725	332,725
Other financial receivables (note 9)	-	-	1,303	1,303
Total assets	**14,891**	**-**	**337,551**	**352,442**
Liabilities measured at fair value				
Liabilities for which fair values are disclosed				
Deposits from customers (note 14)	-	-	285,575	285,575
Other financial liabilities (note 15)	-	-	4,783	4,783
Total liabilities	**-**	**-**	**290,358**	**290,358**

(In thousands of euros)

Fair value hierarchy as at 31 December 2015

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Financial assets held for trading (note 6)	14,464	-	-	14,464
Land and buildings (note 11)	-	-	2,870	2,870
Investment properties (note 12)	-	-	797	797
Assets for which fair values are disclosed				
Loans to customers (note 7, 8)	-	-	299,531	299,531
Held-to-maturity financial assets (note 8)	633	-	-	633
Other financial receivables (note 9)	-	-	1,086	1,086
Total assets	**15,097**	**-**	**304,284**	**319,381**
Liabilities measured at fair value				
Liabilities for which fair values are disclosed				
Deposits from customers (note 14)	-	-	257,181	257,181
Other financial liabilities (note 15)	-	-	3,000	3,000
Total liabilities	**-**	**-**	**260,181**	**260,181**

There have been no transfers between Level 1 and Level 2 during 2016 and 2015.

The Level 3 loans to customers that amounts to 332,725 thousand euros is measured at amortised cost using the effective interest rate method less any impairment losses as the management believes that it most effectively demonstrates the fair value of these financial assets . The Group's accounting policy on loans to customer is discussed in note 1 (section *Financial assets*) and 3. Management estimates that the selected accounting policy on loans reflects the fair value of loans to customers.

The Level 3 *land and buildings* that amounts to 3,014 thousand euros consists of real estate used by the Group in Tallinn and in Tartu (see note 11).

The property in Tallinn was 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, the valuer has taken as basis the prices per square metre of residen tials in Tallinn city that are 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.

The 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 valuation of the properties in Tartu: price per square metre of flats in Tartu old town 2,200 euros and development costs per square metre 698 euros.

Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount (see note 1, the section *Property and equipment* and *Fair value measurement*, and note 2). Management has assessed that the fair value has changed and therefore the revaluation was made in year 2016.

The Level 3 *investment properties* that amount to 509 thousand euros are measured at the fair value in the financial statements and valuations are performed by the management using market approach.

NOTE 31. EARNINGS PER SHARE

	2016	2015
Net profit for the year, in thousands of euros	11,703	11,194
Number of shares at beginning of year	80,000	80,000
Number of shares at end of year	80,000	80,000
Weighted average number of ordinary shares outstanding	80,000	80,000
Earnings per share, in euros	**146**	**140**

At the end of 2016 and 2015 the Group did not have any potential dilutive ordinary shares. Therefore, diluted earnings per share equal basic earnings per share.

(In thousands of euros)

NOTE 32. UNCONSOLIDATED STATEMENTS OF PARENT COMPANY AS A SEPARATE ENTITY

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

Statement of financial position

As at 31 December	2016	2015
Assets		
Cash and balances at central banks	20,551	15,328
Due from banks	14,108	13,734
Financial assets held for trading	14,891	14,464
Loans to customers	332,406	290,223
Receivables from subsidiaries	1,027	69,038
Held-to-maturity financial assets	-	633
Investments in subsidiaries	579	611
Other receivables	1,295	1,030
Prepayments	1,400	1,002
Property and equipment	1,702	936
Investment properties	312	509
Intangible assets	4,037	1,611
Deferred tax assets	11	7
Total assets	**392,319**	**409,126**
Liabilities		
Deposits from customers	285,575	257,181
Liabilities to subsidiaries	1,863	60,448
Provisions	133	-
Other liabilities	4,762	2,940
Deferred income and tax liabilities	2,778	1,605
Total liabilities	**295,111**	**322,174**
Equity		
Share capital	8,000	8,000
Capital reserve	800	800
Other reserves	434	330
Retained earnings	87,974	77,822
Total equity	**97,208**	**86,952**
Total liabilities and equity	**392,319**	**409,126**

(In thousands of euros)

Statement of comprehensive income

	2016	2015
Interest income	70,710	72,930
Interest expense	-7,854	-9,504
Net interest income	**62,856**	**63,426**
Net fee and commission income	2,312	2,140
Net gain/loss on financial transactions	235	-565
Other income	3,378	4,892
Total income	**68,781**	**69,893**
Salaries and associated charges	-14,450	-13,346
Other operating expenses	-11,069	-9,373
Depreciation and amortisation expense	-695	-572
Impairment losses on loans and financial investments	-25,805	-30,457
Losses resulting from changes in the fair value of investment properties	-70	-2
Other expenses	-3,102	-2,765
Total expenses	**-55,191**	**-56,515**
Profit before income tax	**13,590**	**13,378**
Income tax	-2,140	-2,679
Profit for the year	**11,450**	**10,699**
Other comprehensive income/expense		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations	98	-40
Net loss on hedges of net investments in foreign operations	-	193
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**98**	**153**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Revaluation of land and buildings	6	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**6**	**-**
Other comprehensive income for the year	**104**	**153**
Total comprehensive income for the year	**11,554**	**10,852**

(In thousands of euros)

Statement of cash flows

	2016	2015
Cash flows from operating activities		
Interest received	60,487	60,081
Interest paid	-5,360	-5,692
Salary and other operating expenses paid	-24,991	-23,614
Other income received	5,327	6,277
Other expenses paid	-4,265	-4,369
Fees and commissions received	1,100	1,129
Fees and commissions paid	-199	-174
Recoveries of receivables previously written off	18,546	14,942
Received for other assets	493	610
Paid for other assets	-622	-687
Loans granted	-219,306	-169,083
Repayment of loans granted	157,730	121,355
Change in mandatory reserves with central banks and related interest receivables	-214	-215
Proceeds from customer deposits	90,659	69,420
Paid on redemption of deposits	-61,018	-53,296
Change in financial assets held for trading	881	-14,626
Income tax paid	-1,299	1,989
Effect of movements in exchange rates	-30	-6
Net cash from operating activities	**17,919**	**4,041**
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	-3,405	-1,006
Proceeds from sale of property and equipment	25	14
Proceeds from sale of investment properties	32	103
Proceeds from aquisition of subsidiary's portfolio and its merge	299	-
Acquisition of financial instruments	-713	-3,864
Proceeds from redemption of financial instruments	762	4,420
Net cash used in investing activities	**-3,000**	**-333**
Cash flows from financing activities		
Repayment of loans from companies	-8,090	-7,041
Dividends paid	-1,300	-1,500
Net cash used in financing activities	**-9,390**	**-8,541**
Effect of exchange rate fluctuations	-147	171
Decrease/increase in cash and cash equivalents	**5,382**	**-4,662**
Cash and cash equivalents at beginning of period	28,635	33,297
Cash and cash equivalents at end of period	**34,017**	**28,635**

Cash and cash equivalents

As at 31 December	2016	2015
Demand and overnight deposits with banks	14,108	13,564
Term deposits with banks	-	170
Surplus on mandatory reserves with central banks	19,909	14,901
Total	**34,017**	**28,635**

(In thousands of euros)

Statement of changes in equity

	Share capital	Statutory capital reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2015 (as previously reported)	8,000	800	177	75,257	84,234
Correction of error	**-**	**-**	**-**	**-6,634**	**-6,634**
Restated total equity at the beginning of period	8,000	800	177	68,623	77,600
Profit for the year	-	-	-	10,699	10,699
Other comprehensive expense					
Exchange differences on translating foreign operations	-	-	-40	-	-40
Net loss on hedges of net investments in foreign operations	-	-	193	-	193
Revaluation of land and buildings	**-**	**-**	**-**	**-**	**-**
Total other comprehensive expense	**-**	**-**	**153**	**-**	**153**
Total comprehensive income for the year	**-**	**-**	**153**	**10,699**	**10,852**
Dividend distribution	-	-	-	-1,500	-1,500
Total transactions with owners	**-**	**-**	**-**	**-1,500**	**-1,500**
Balance at 31 December 2015	**8,000**	**800**	**330**	**77,822**	**86,952**
Balance at 1 January 2016	**8,000**	**800**	**330**	**77,822**	**86,952**
Profit for the year	-	-	-	11,450	11,450
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	98	-	98
Revaluation of land and buildings	-	-	6	-	6
Total other comprehensive income	**-**	**-**	**104**	**-**	**104**
Total comprehensive income for the year	**-**	**-**	**104**	**11,450**	**11,554**
Dividend distribution	-	-	-	-1,300	-1,300
Other corrections	-	-	-	2	2
Total transactions with owners	**-**	**-**	**-**	**-1,298**	**-1,298**
Balance at 31 December 2016	**8,000**	**800**	**434**	**87,974**	**97,208**

As at 31 December	2016	2015
Unconsolidated equity at end of period	**97,208**	**86,952**
Investments in subsidiaries:		
Carrying value	-579	-611
Carrying value under the equity method	4,207	3,771
Adjusted unconsolidated equity at end of period	**100,836**	**90,112**

(In thousands of euros)

Signatures

The management board has prepared the review of operations and financial statements of Bigbank AS for 2016.

Kaido Saar Chairman of the Management Board 27 February 2017	*[signed digitally]*
Pāvels Gilodo Member of the Management Board 27 February 2017	*[signed digitally]*
Martin Länts Member of the Management Board 27 February 2017	*[signed digitally]*
Sven Raba Member of the Management Board 27 February 2017	*[signed digitally]*
Mart Veskimägi Member of the Management Board 27 February 2017	*[signed digitally]*

Building a better working world

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

Äriregistri kood 10877299
KMKR: EE 100770654

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

Code of legal entity 10877299
VAT payer code EE 100770654

Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Bigbank AS

Opinion

We have audited the consolidated financial statements of Bigbank AS and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of as the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

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

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

Other information

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Tallinn, 28 February 2017

/signed digitally/	/signed digitally/
Olesia Abramova	Tiina Leif
Ernst & Young Baltic AS	Authorised Auditor's number 441
Audit Company's Registration number 58	

(In thousands of euros)

Profit allocation proposal

The total consolidated distributable profits of Bigbank AS as at 31 December 2016 comprise of:

Earnings retained in prior years as at 31 December 2016	78,964	thousand euros
Net profit for 2016	11,703	thousand euros
Total distributable profits as at 31 December 2016	**90,667**	**thousand euros**

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

Dividend distribution (62.50 euros per share)	5,000	thousand euros
Transfer to retained earnings	6,703	thousand euros
Balance of retained earnings after allocations	**85,667**	**thousand euros**

Kaido Saar
Chairman of the Management Board *[signed digitally]*
27 February 2017

Pāvels Gilodo
Member of the Management Board *[signed digitally]*
27 February 2017

Martin Länts
Member of the Management Board *[signed digitally]*
27 February 2017

Sven Raba
Member of the Management Board *[signed digitally]*
27 February 2017

Mart Veskimägi
Member of the Management Board *[signed digitally]*
27 February 2017