Bigbank

2014
Annual report

Content

Vision, mission and values

Bigbank's mission is to make financing simple, enabling people to improve their lives.

Bigbank's vision is to be among the leading European banks specialised on consumer loans.

Courage

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

Result orientation

We are professional and committed to high performance.

Development

We are innovative, we look for continuous improvement to be better tomorrow than we are today.

Caring

We listen, understand and support each other.

Simplicity

We create convenient and transparent solutions containing only relevant.

Bigbank's strategy

- We focus on consumer financing
- We provide simple services
- We focus on creditworthy loan customers
- We maintain profitable and organic growth
- We grow through geographical expansion
- We keep unified solutions, products and processes
- We are a company and an employer with a good reputation
- We hire talented people, developing them to become experts and leaders
- We rely on technological development and automatization
- We will not become a universal bank


Finland
Sweden
Estonia
Latvia
Lithuania
Netherlands
Germany
Austria
Spain

Operating countries

Estonia

Start of operations	1992
Loan portfolio, EUR mln	57.137
No. of loans, in thousands	~41
Deposit portfolio (including cross-border deposit portfolio), EUR mln	185.467
No. of deposits	~10,000
No. of employees	199

Finland

Start of operations	2009
Loan portfolio, EUR mln	53.088
No. of loans, in thousands	~15
Deposit portfolio, EUR mln	10.448
No. of deposits	~300
No. of employees	39

Lithuania

Start of operations	2007
Loan portfolio, EUR mln	43.159
No. of loans, in thousands	~32
No. of employees	67

Spain

Start of operations	2011
Loan portfolio, EUR mln	33.205
No. of loans, in thousands	~11
No. of employees	39

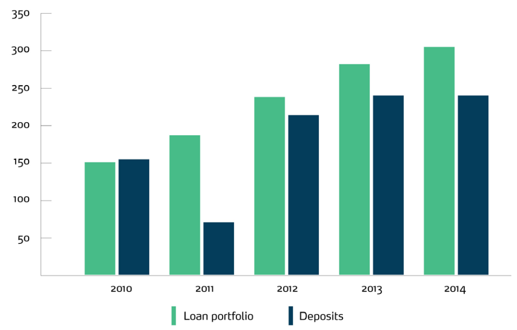
Latvia

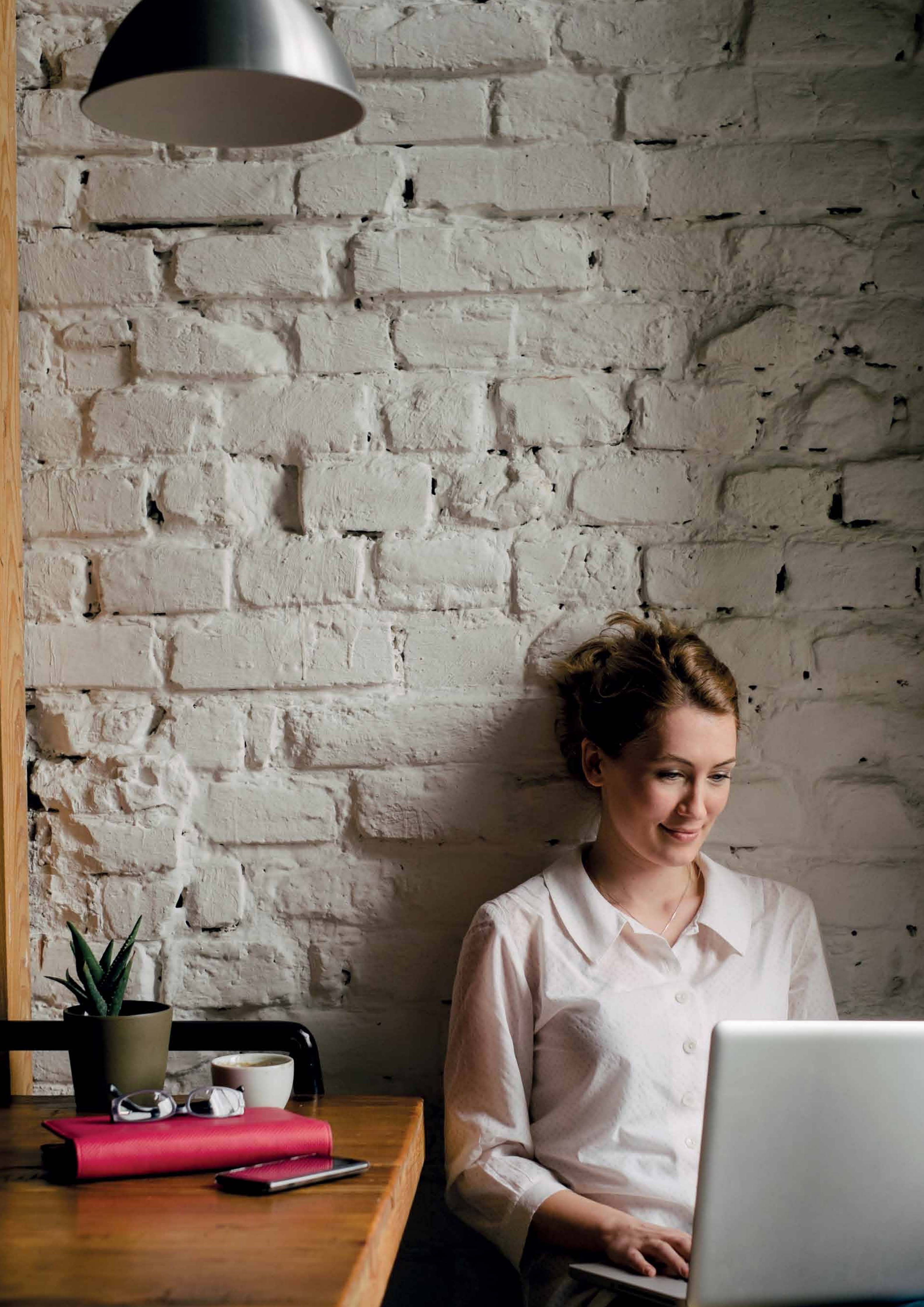
Start of operations	1996
Loan portfolio, EUR mln	75.336
No. of loans, in thousands	~70
Deposit portfolio, EUR mln	6.324
No. of deposits	~400
No. of employees	94

Sweden

Start of operations	2012
Loan portfolio, EUR mln	42.291
No. of loans, in thousands	~7
Deposit portfolio, EUR mln	36.794
No. of deposits	~1,000
No. of employees	22

Loan portfolio and deposits





Bigbank AS annual report 2014

Business name	BIGBANK AS
Registry	Commercial Register of the Republic of Estonia
Registration number	10183757
Date of entry	30 January 1997
Address	Rüütli 23, 51006 Tartu, Estonia
Telephone	+372 737 7570
Fax	+372 737 7582
E-mail	bigbank@bigbank.ee
Corporate website	www.bigbank.ee
Reporting period	1 January 2014 – 31 December 2014
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 review of operations and consolidated financial statements that have been appended an independent auditors' report and a profit allocation proposal. The document contains 95 pages.

The reporting currency is the euro and numerical financial data is presented in millions of currency units rounded to three digits after the decimal point.

The annual report will also 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.


Bigbank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Changed content changed the form

Year 2014 was successful for Bigbank – Group's net profit increased to 12.7 million euros compared with 10.8 million euros in year 2013. We are aiming at sustainable growth of high quality loan portfolio in the current year 2015. Bigbank is a bank specialised in loans and wants to be the best in it in all its target markets (today: 9) regardless of the market share

Banking has changed a lot and changed constantly during recent years – the word "risk" got a new meaning in the post-crisis era both for customers and banks alike. Bigbank has followed the trends and adjusted to the significantly changed market conditions in whole Europe and Estonia in year 2014. In other words, in all markets we operate in. New regulations were imposed and some of them are still in process. Some of them have been beneficial for the customer, the others not.

Bigbank started to implement the new business model last year, following which lowered our small credit interest rate ceiling by 20%. Although our goal has not been to become the bank offering consumer loans with the lowest interest rates, the last year proved that we can successfully compete with the large banks operating in target markets. As the name, Bigbank implies we think big and it has been our strong success factor.

Many loan customers have not yet realised that their home banks are offering significantly higher interest rates, than the market to their long-term regular customers. We have brought that idea to them and the customers are very thankful. Last year we established our perception as a specialised bank, which wants to become plan A to each of its customers instead of earlier plan B, for loan or time deposits alike. Now we have great interest rates on both directions.

Last year we managed to grow our loan portfolio significantly – 1.8 million in the second quarter and even 6.4 million euros in the third quarter. All branches gave positive impact for group results. Adjustments of strategy played an important role in it.

Our goal is to make the operations of bank simpler, faster and more effective – we optimised the work processes of all branches and we continue with it this year too. We believe that the customers value flexibility, comfort and beneficial price the most. Our task is to provide it.

We applied LEAN management principles in Bigbank in year 2014, allowing us to create bigger value to all our customers throughout Europe. More new things were implemented. As an example we started to test the usage of customer Facebook data, approved by customer, in the credit analysis. We started to provide car loan as a new product and satisfaction guarantee is offered as an additional service to all small credits, allowing requesting customers to repay the loan in 2 months without incurring repayment fees. These modifications are a sign of our commitment to be as close as possible to our customer, when it is needed, and understanding attitude the most.

We have not altered the signature of Bigbank – as a socially responsible company we continued the charity projects, where I would like to point out traditional charity dog show Bigbank Match Show and the support of volleyball, where Bigbank Tartu got to play in the euro-league.

Bigbank has received double recognition for its term deposit offering on the German market. It was awarded the "TOP term deposits 2014" certification mark by the leading business newspaper Handelsblatt and "TOP long-term deposits bank" by TV news channel n-tv.

A glimpse to this year and also the future. By today we have launched Bigbank's new trademark, which reflects the changed content also in a new form. We want to be a stable and modern specialised bank, known for its good reputation amongst its customers in all markets – Estonia, Latvia, Lithuania, Finland, Spain and Sweden as well as Germany, Austria and the Netherlands where we offer cross-border services. We continue the work to fulfil the vision.

Kaido Saar
Chairman of the Management Board

Review of operations

Overview of the year 2014

In 2014, Bigbank AS (hereafter also "Bigbank", the "Group" or the "company") succeeded in increasing the volume of loan portfolio as well as net profit and net interest income. At 31 December 2014, the Group's consolidated assets totalled 324.758 million euros, increasing 12.823 million euros (4.1%) during the year. Growth in total assets comes primarily from the 5.3% growth in loan portfolio reaching 275.101 million euros.

The Group issues loans continuously in the Baltic countries, Finland, Sweden and Spain. In 2014, the credit quality of loans improved. By the year-end the proportion of loans past due for at least one day had dropped to 39.7% compared with 42.4% at the end of 2013. The Group's year-end impairment allowances of loan principal totalled 44.905 million euros, accounting for 51.8% of loans past due for more than 90 days. The Bank introduced a satisfaction guarantee to the market in the 4th quarter of year 2014, whereby an option is granted to the customer to repay a 300 - 10,000 euro loan within 60 calendar days without incurring additional fees. The portfolio of products offered to Bank's customers also increased by car loan, as a new product offered.

Time 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 2014, Bigbank's liabilities totalled 243.499 million euros. Most of the debt raised by the Group, i.e. 239.033 million euros (98.2%) consisted of term deposits. Deposit portfolio's weighted average duration to maturity is more than two years as of year-end. As the overall interest environment was low in year 2014 the Group managed to decrease its ratio of interest expense to average interest-bearing liabilities (3.3% as of year-end).

The Group has accepted subordinated long term time deposits for the first time in summer 2014 in the nominal amount of 1.797 million euros, which account for Tier 2 capital under the new capital adequacy rules.

Bigbank ended year 2014 with a profit of 12.668 million euros, 1.873 million euros i.e. 17.4% more than in year 2013. The Group earned interest income of 59.680 million euros growing by 6.317 million euros (11.8%) compared with previous year. Interest expense for 2014 was 7.591 million euros compared with 7.981 million euros for 2013 (4.9% decrease). In 2014, impairment losses on loans and financial investments totalled 24.665 million euros, increasing 5.064 million euros (25.8%) from previous year. Tier 1 capital ratio stood at 24.7% at 31 December 2014 (31 December 2013 21.8%).

Key performance indicators

Financial position indicators (in millions of euros)	31 Dec 2014	31 Dec 2013
Total assets	324.758	311.935
Loans to customers	275.101	261.369
of which loan portfolio	304.216	281.426
of which interest receivable	23.405	24.758
of which impairment allowances	-52.520	-44.815
of which impairment allowances for loans	-40.832	-32.647
of which impairment allowances for interest receivables	-7.615	-6.305
of which additional impairment allowances	-4.073	-5.863
Deposits from customers	239.033	238.648
Equity	81.259	69.665

Financial performance indicators (in millions of euros)	2014	2013
Interest income	59.680	53.363
Interest expense	-7.591	-7.981
Salaries and associated charges	-12.267	-12.428
Other operating expenses	-8.741	-8.621
Net impairment loss on loans and financial investments	-24.665	-19.601
Profit for the year	12.668	10.795

For the year (in millions of euros)	2014	2013
Average equity	75.462	64.536
Average assets	318.347	296.332
Average interest-earning assets	308.762	285.928
Average interest-bearing liabilities	230.620	219.672
Total income	69.071	63.075

Ratios	2014	2013
Return of assets (ROA)	4.0%	3.6%
Return on equity (ROE)	16.8%	16.7%
Profit margin (PM)	18.3%	17.1%
Return on loans	22.7%	23.2%
Asset utilization ratio (AU)	21.7%	21.3%
Price difference (SPREAD)	16.0%	15.0%
Equity multiplier (EM)	4.2	4.6
Earnings per share (EPS)	158	135
Yield on interest-earning assets	19.3%	18.7%
Cost of interest-bearing liabilities	3.3%	3.6%

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 utilization 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 income + gains/income on financial transactions + other income + gains/income on changes in the values of investment property, property and equipment and intangible assets + gains/income on changes in the values of receivables and liabilities accounted for off the statement of financial position + extraordinary income

Tier 1 capital ratio = Tier 1 capital / total risk-weighted assets

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

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

People management in Bigbank

Change management. Year 2014 was an extraordinary year for the Bigbank people. Up to three times more resources were invested into employee training and development than in previous years. Three Group wide management quality programs were introduced - Agile, LEAN and 4Disciplines of Execution. More than half of the employees participated on those programs and the initiatives will continue in 2015. All three management disciplines value engagement of employees into decision making, giving them the power of making decisions regarding work organization with the objective to provide quality service to the customers through a more effective process management as well ensuring customer satisfaction.

Group-wide Employee Commitment and Satisfaction Survey was carried out in co-operation with TNS Emor for the first time allowing to benchmark Bigbank performance against European finance and service sector. Both the strengths and development needs were specified as the result of the survey:

Bigbank strengths:

- Interesting job
- Good colleagues
- Clear performance expectations
- Personal influence on business results
- Trusted and supportive managers
- Efficiency focused managers

Most important development needs:

- Development of IT systems
- Availability of necessary information
- Clarification of responsibilities
- Competitiveness of pay
- Development opportunities
- Managers "people skills"

Activity plans were developed in each country to address the development needs as well as to keep the strengths. We hope to see the positive impact on the year 2015 results.

Reward system. Establishment of the simple and fair reward system was one of the main objectives of Bigbank 2013-2017 HR Strategy. Following this objective, a group-wide Appraisal and Reward system was introduced with the objective to create a strong link between employee performance/ development and reward. The most challenging task was to define the KPI-s at group level and cascade them down to each employee. LEAN, Agile and 4DX all supported this process through establishment of new standards of setting objectives, defining problems, submitting recommendations as well weekly routines for performance management.

The Group has made strong efforts to increase the salaries of employees to the market median level. The process will continue also in 2015.

Work environment. The Group has continuously invested into improving the work environment and conditions of our employees. The Tallinn office was renovated and new multifunctional office space that supports cross-unit co-operation was created in 2014.

At the end of 2014, Bigbank employed 452 people: 199 in Estonia, 94 in Latvia, 67 in Lithuania, 31 in Finland, 39 in Spain and 22 in Sweden. Annual average number of employees working full time was 457.

Bigbank in society

Bigbank is committed to giving back to society by supporting culture, sport and initiatives benefiting large families. In 2014, our largest sponsoring projects were:

Bigbank Tartu. Since 2012 Bigbank is the main sponsor of the national champion volleyball team that bears the name Bigbank Tartu. The second season for the team was successful. Bigbank Tartu became a champion of Estonia in 2014 and reached the second place in the Schenker League. The team's goal for the next season is to play in the finals of the Schenker League and accomplish good results in the European CEV Cup.

Bigbank's Large Family Day. In partnership with the Estonian Association of Large Families, Bigbank offers families with four or more children an opportunity to spend a special active day together with its own and other large families already since 2005. In addition, Bigbank has instituted the tradition of promoting and recognising large families by awarding the Large Family of the Year title. In 2014, the 10th Large Family Day was celebrated.

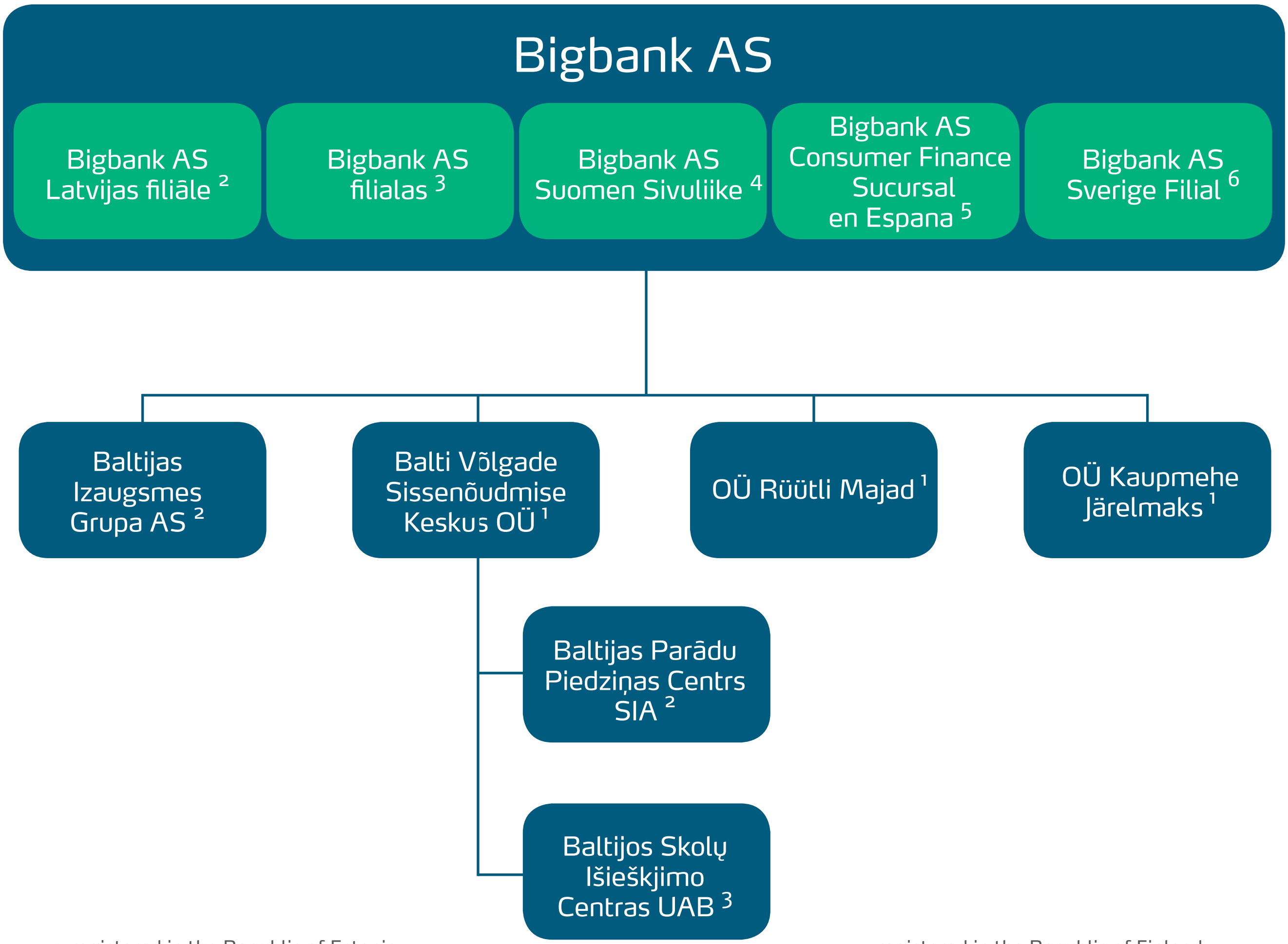
Bigbank Match Show. Bigbank and the Estonian Association of Dog Owners are the initiators of the largest annual charity dog show in the Baltic countries. The purpose of the event is to highlight the issue of stray animals and the ways for resolving it and to support animal shelters across Estonia. The organizers grant the Most Dog-friendly Deed of the Year award to the person or group of persons that in the past year contributed significantly to promoting and developing the Estonian dog-keeping culture and best dog-keeping practices as well as raising awareness of and mitigating the problem of stray animals. In 2014, the 10th anniversary was celebrated.

Ivo Linna jubilee gala 2014. In July 2014, Bigbank had an honour to host one of the most loved Estonian singers Ivo Linna's grand jubilee concert tour called Ivo Linna jubilee gala 2014 with concerts held in Tallinn, Tartu and Pärnu. In addition to Ivo Linna, many other musicians performed who have played an important role in his life and creative work.

Estonian Air Force 95th Birthday Air Show. In summer 2014, the Estonian Air Force celebrated the 95th anniversary of its founding with a magnificent air show at the Ämari air base to the general public. Bigbank had the honour of being the major sponsor of the event.

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 term deposits and consumer loans. 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 and OÜ Kaupmehe Järelmaks offers hire purchase services.

Shareholders

The shares in Bigbank AS are held by two individuals, each holding the same number of shares. At 31 December 2014, 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 2014, the Group was not involved in any significant litigation.

Prospects for 2015

Economic growth is expected to continue in year 2015 in the locations of economic activities of the Group, supported both by the increase in employment and income, and leading to the rise in consumer's confidence. Economies of countries are on the path of solid GDP growth and fairly restricted inflation. Somewhat weakening euro has a positive impact on export possibilities. Lack of skilled employees is supporting salary rises in many countries in year 2015, which again livens consumption.

Bigbank's market share is expected to grow in year 2015 in most of target markets based on a new online lender's business model, meaning lower interest rates, higher productivity and better loan quality. No plans have been made to expand to the new target markets in year 2015. Growth is supported by investments in technology, product development, optimisation of operations, enhancement of effectiveness and continuous rise in service quality.

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's governing bodies are the 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 28 February 2014 approved the company's annual report, allocation of profit for 2013 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 2014, the general meeting was not attended by the members of the management board, the auditor and the members of the supervisory board that are not shareholders (article 1.3.2). Bigbank AS does not make observing the general meeting possible by means of communication equipment (article 1.3.3).

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

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

Supervisory board

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

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

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

In 2014, the remuneration of the members of the supervisory board totalled 0.056 million 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 2014. As far as the company is aware, in 2014 the members of the supervisory board did not have any material conflicts of interest as defined in article 3.3.2 of the CGR, but the transactions made with the members of the supervisory board have been described in other parts of the annual report.

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

In 2014, no changes were made in the management board of Bigbank AS and as of 31 December 2014 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
- **Veiko Kandla** – member of the management board
- **Ingo Põder** – 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 2014, no conflicts of interest as defined in article 2.3.1 of the CGR were detected in the activity of the members of the management board. In 2014, Bigbank AS did not conduct any transactions with members of its management board or persons close or connected to them except for transactions arising from the board member status (e.g. signature or amendment of a service contract).

In 2014, 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 2014 was 0.563 million 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 2014, 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 bank 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 (audit engagement partner). 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.

Control functions

In addition to the management, financial accounting, and supervision reports system and risk management procedures in place, the company has established a risk management area which also includes risk management unit, controlling department and credit risk analysis and monitoring department. In addition to the risk management area the internal audit department, the compliance control unit and the management reporting department are the part of the internal controlling system. Collegial decision-making competence is implemented in the committees, which include among the other things the Group's credit committee, country-specific credit committees, the audit committee, the asset-liability committee (ALCO), and the development committee.

The internal audit department has a staff of four and, as a Group-wide unit, is accountable to the supervisory board that determines the department's audit plan.

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.

The company has also a compliance control unit accountable to the management board and that is responsible for managing the compliance risk, which includes performing compliance reviews.

The Group's credit committee, which has a staff of five, consists of members of the supervisory and management boards. The Group's credit committee sets the credit policy. In addition, the Group has country-specific credit committees.

ALCO has five members who set the policy for analysing and controlling interest rate, currency, liquidity, financing and market risks and devise the financing strategies and plans for the Group and all Group entities.

In addition to the members of the management board, the development committee comprises of heads of different areas. First and foremost the development committee is active in working on the IT strategy, arranging the development process, working on products and business processes and confirming the changes in products and business processes.

Remuneration policies

At Bigbank AS, decisions regarding the remuneration of the members of the management board and the staff of the internal audit department are made by the supervisory board, which determines their remuneration and their performance benefits whenever the latter are granted. Decisions regarding the remuneration of employees are made by the management board, which considers, where necessary, the proposals of relevant executive staff or the head of HR, and observes the Group's remuneration policy for members of the management board and other executive staff, which has been established by the supervisory board. No external advisers have been involved in developing Bigbank's remuneration policies. Nor has the company created a remuneration committee or any other body responsible for designing remuneration policies.

Bigbank's approach to management's remuneration is embedded in its remuneration policy for members of the management board and other executive staff (hereafter "the remuneration policy"), which was developed and adopted in accordance with the Credit Institutions Act.

A distinctive feature of Bigbank's remuneration policy is that performance benefits are paid on justified and objective bases, considering, above all, the targets and long-term performance of the Group and the persons involved. Performance and termination benefits are determined in consideration of personal and unit-specific performance metrics as well as credit institutions' general performance indicators and financial and other criteria outlined in Bigbank's internal rules and regulations. There has to be a reasonable correlation between performance benefits and responsibilities. The proportion of performance benefits to total remuneration has to be such that it would be possible not to allocate or pay any performance benefits. On the provision of performance and termination benefits, the Group considers their impact on the level of its own funds and liquidity as well as any existing and potential risks involved.

In line with the Group's remuneration policy, performance and termination benefits may only be paid in cash, not in the form of shares, share options or similar rights. The supervisory and management boards may decide not to provide any performance benefits or, under certain circumstances, may reduce allocated performance benefits, suspend payment of performance benefits, or demand partial or full reimbursement of performance benefits paid.

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

In 2014 the remuneration provided to management, which includes 17 positions in addition to the members of the management board, totalled 1.496 million euros, the figure consisting of base remuneration of 1.129 million euros and performance benefits of 0.385 million euros. Base remuneration was paid to people in 20 positions and performance benefits were paid to people in 20 positions. Performance benefits were paid in cash and allocated and paid out in 2014. There are no unpaid performance benefits allocated for performance in 2014.

In the reporting period, Bigbank AS did not pay any termination benefits.

(in millions of euros)

Consolidated financial statements

Consolidated statement of financial position

As at 31 December	Note	2014	2013
Assets			
Cash and balances at central banks	4	20.150	23.267
Due from banks	4	13.665	7.000
Loans to customers	5,6,7	275.101	261.369
Held-to-maturity financial assets	8	1.186	7.972
Derivatives with positive fair value	9	0.225	0.163
Other receivables	10	2.064	2.207
Prepayments	11	3.967	1.086
Property and equipment	12	3.426	3.563
Investment properties	14	1.100	1.382
Intangible assets	13	1.181	1.039
Deferred tax assets	29	2.693	2.887
Total assets		**324.758**	**311.935**
Liabilities			
Deposits from customers	15	239.033	238.648
Derivatives with negative fair value	9	0.075	0.182
Provisions		0.216	-
Other liabilities	16	3.032	2.411
Deferred income and tax liabilities	17	1.143	1.029
Total liabilities		**243.499**	**242.270**
Equity	18		
Share capital		8.000	8.000
Capital reserve		0.800	0.800
Other reserves		0.894	0.887
Retained earnings		71.565	59.978
Total equity		**81.259**	**69.665**
Total liabilities and equity		**324.758**	**311.935**

The notes on pages 33 to 90 are an integral part of these consolidated financial statements.

(in millions of euros)

Consolidated statement of comprehensive income

	Note	2014	2013
Interest income	19	59.680	53.363
Interest expense	20	-7.591	-7.981
Net interest income		**52.089**	**45.382**
Fees and commissions income		2.131	2.112
Fees and commissions expense		-0.185	-0.195
Net fees and commissions income		**1.946**	**1.917**
Net gain/loss on financial transactions	21	-0.358	-0.304
Other income	22	7.260	7.600
Total income		**60.937**	**54.595**
Salaries and associated charges	23	-12.267	-12.428
Other operating expenses	24	-8.741	-8.621
Depreciation and amortisation expense	12,13	-0.603	-0.581
Net impairment losses on loans and financial investments	7	-24.665	-19.601
Losses resulting from changes in the fair value of investment properties	14	-0.226	-
Other expenses	25	-3.241	-2.830
Total expenses		**-49.743**	**-44.061**
Profit before income tax		**11.194**	**10.534**
Income tax	29	1.474	0.261
Profit for the year		**12.668**	**10.795**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translating foreign operations		0.078	-0.451
Net loss on hedges of net investments in foreign operations		-0.071	-0.014
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	18	**0.007**	**-0.465**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of land and buildings		-	0.979
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	18	**-**	**0.979**
Other comprehensive income for the year		**0.007**	**0.514**
Total comprehensive income for the year		**12.675**	**11.309**
Basic earnings per share (EUR)	33	158	135
Diluted earnings per share (EUR)	33	158	135

The notes on pages 33 to 90 are an integral part of these consolidated financial statements.

(in millions of euros)

Consolidated statement of cash flows

	Note	2014	2013
Cash flows from operating activities			
Interest received		53.922	48.142
Interest paid		-7.234	-6.214
Salary and other operating expenses paid		-20.922	-21.916
Other income received		7.553	8.387
Other expenses paid		-4.571	-5.000
Fees received		1.550	1.487
Fees paid		-0.182	-1.208
Recoveries of receivables previously written off		3.965	3.491
Received for other assets		0.237	0.539
Paid for other assets		-0.336	-0.094
Loans provided		-145.190	-146.278
Repayment of loans provided		109.825	93.113
Change in mandatory reserves with central banks and related interest receivables	4	1.542	0.085
Proceeds from customer deposits		58.806	67.862
Paid on redemption of deposits		-57.299	-43.869
Income tax paid		-1.520	-0.247
Effect of movements in exchange rates		0.105	0.151
Net cash from/used in operating activities		**0.251**	**-1.569**
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets	12,13	-0.500	-0.546
Proceeds from sale of property and equipment		0.006	0.043
Proceeds from sale of investment properties		0.041	0.299
Proceeds from sale of subsidiary		-	0.046
Change in term deposits		-	0.173
Acquisition of financial instruments		-11.142	-15.190
Proceeds from redemption of financial instruments		17.961	15.852
Net cash from investing activities		**6.366**	**0.677**
Cash flows from financing activities			
Repayment of loans from central bank		-	-3.934
Repayment of loans from banks		-	-0.038
Dividends paid	18	-1.080	-1.052
Net cash used in financing activities		**-1.080**	**-5.024**
Effect of exchange rate fluctuations		-0.312	-0.315
Increase/decrease in cash and cash equivalents		**5.225**	**-6.231**
Cash and cash equivalents at beginning of year	4	28.377	34.608
Cash and cash equivalents at end of year	4	**33.602**	**28.377**

Cash equivalents are disclosed in note 4.

The notes on pages 33 to 89 are an integral part of these consolidated financial statements.

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(in millions 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 2013	**8.000**	**0.794**	**0.373**	**50.241**	**59.408**
Profit for the year	-	-	-	10.795	10.795
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	-0.451	-	-0.451
Net loss on hedges of net investments in foreign operations	-	-	-0.014	-	-0.014
Revaluation of land and buildings	-	-	0.979	-	0.979
Total other comprehensive income	**-**	**-**	**0.514**	**-**	**0.514**
Total comprehensive income for the year	**-**	**-**	**0.514**	**10.795**	**11.309**
Dividend distribution	-	-	-	-1.052	-1.052
Increase of statutory capital reserve	-	0.006	-	-0.006	-
Total transactions with owners	**-**	**0.006**	**-**	**-1.058**	**-1.052**
Balance at 31 December 2013	**8.000**	**0.800**	**0.887**	**59.978**	**69.665**
Balance at 1 January 2014	**8.000**	**0.800**	**0.887**	**59.978**	**69.665**
Profit for the year	-	-	-	12.668	12.668
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	0.078	-	0.078
Net loss on hedges of net investments in foreign operations	-	-	-0.071	-	-0.071
Total other comprehensive income	**-**	**-**	**0.007**	**-**	**0.007**
Total comprehensive income for the year	**-**	**-**	**0.007**	**12.668**	**12.675**
Dividend distribution	-	-	-	-1.080	-1.080
Total transactions with owners	**-**	**-**	**-**	**-1.080**	**-1.080**
Balance at 31 December 2014	**8.000**	**0.800**	**0.894**	**71.565**	**81.259**

Please refer note 18.

The notes on pages 33 to 90 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 2014 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, OÜ Balti Võlgade Sissenõudmise Keskus and OÜ Kaupmehe Järelmaks 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 35) in addition to required part prepared under International Financial Reporting Standards as adopted by the European Union because it is required by the Estonian Accounting Act and capital ratios (see note 3) for regulatory purposes that has 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 2015.

Basis of preparation

The figures reported in the financial statements are presented in millions of euros, rounded to three digits after the decimal point. 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 financial instruments classified as available-for-sale and derivatives and investment property) and on the revaluation method basis (land and buildings). Group entities apply uniform accounting policies.

In accordance with the Estonian Accounting Act, the parent company's separate 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 separate financial statements of Bigbank AS are presented in note 35 *Parent company's separate financial statements*. 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 separate financial statements investments in subsidiaries and associates are measured at cost.

(in millions of euros)

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.

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.

Subsidiary	Country of incorporation	2014	2013
OÜ Kaupmehe Järelmaks	Republic of Estonia	100%	100%
AS Baltijas Izaugsmes Grupa	Republic of Latvia	100%	100%
Balti Võlgade Sissenõudmise Keskus OÜ	Republic of Estonia	100%	100%
OÜ Rüütli Majad	Republic of Estonia	100%	100%

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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 millions of euros, which is the Group's presentation currency. Accordingly, the assets and liabilities of foreign operations, including fair value adjustments, are translated to euros at the foreign exchange rates of the European Central Bank ruling at the reporting date. The revenues and expenses of foreign operations are translated to euros using the average 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 financial investments, 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 comprises 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.

Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognised at fair value, net of transaction costs, on the date on which the derivative contract is entered into and are subsequently measured at their fair values. If a derivative financial instrument is quoted in an active market, fair value is obtained from its quoted market price. If the market for a derivative is not active, its fair value is established using valuation techniques. A derivative with a positive fair value is carried as an asset and a derivative with a negative fair value is carried as a liability. The fair values of derivatives classified as assets and liabilities in the statement of financial position are not offset.

The Group uses derivative financial instruments to hedge its exposure to foreign currency risks resulting from its operations in foreign markets. The derivatives are designated as hedging instruments in hedging relationships that qualify for hedge accounting. In accordance with hedge accounting requirements, the Group documents its risk management objective and strategy for undertaking the hedge. That documentation includes identification of the nature of the risk being hedged, the hedged item or transaction, the hedging instruments used and how the hedging instrument's effectiveness is assessed. Transactions are documented and designated as hedging relationships when they are performed. The Group assesses both at the inception of the hedging relationship as well as on an ongoing basis whether the hedging instruments are highly effective in offsetting the changes in fair value and documents those assessments. The fair values of derivatives designated as hedging instruments are presented in note 9 and associated changes in equity are presented in note 18.

The Group uses hedges of net investments in foreign operations. When a derivative financial instrument is designated as a hedging instrument in a hedge of a net investment in a foreign operation, the gain or loss on the effective portion of the hedging instrument is recognised in other comprehensive income. A gain or loss on the ineffective portion of the hedging instrument is recognised immediately in profit or loss within Net gain/loss on financial transactions. The amount of gains and losses accumulated in equity from re-measurement of hedging instruments to fair value is reclassified from equity to profit or loss in the period in which the foreign operation is disposed of or partially disposed of.

Hedge accounting is discontinued when the hedging instrument expires or is sold, when the hedge no longer meets the criteria for hedge accounting or when the Group revokes the designation of the instrument as a hedging instrument.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, cash flows are estimated considering all contractual terms of the financial instrument excluding future credit losses. The calculation includes all fees paid or received between parties to the contract, transaction costs, and all other premiums or discounts.

If there is objective evidence that an impairment loss on held-to-maturity financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is expensed as incurred.

Loans and receivables

Loans and 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. Starting from 2014 the statistical provisions are formed linearly within 24 (12 months in 2013) consecutive months after concluding credit facility and in the amount of 2 (1 year in 2013) year expected losses.

Recognition of impairment allowances for loan receivables

Loan receivables are reported in the statement of financial position under Loans to customers. The Group assesses receivables for impairment at both an individual, probable but individually not recognised statistical impairment allowances formed on working loan portfolio and at a grouped i.e. a collective level, and creates specific and collective impairment allowances. 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.

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 under the following circumstances:

- 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.
- When it is necessary to mitigate the impacts of changes in the national or regional economic or regulatory environment on the expected future cash flows from receivables. The changes include but are not limited to fluctuations during the assessment period in the following observable data: unemployment rates, property prices, the customers'

willingness to pay or payment behaviour, the extent to which claims can be defended in legal proceedings, etc. The above impairment allowances are created when necessary based on the judgement of the Group's management board.

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.

Collective impairment assessment is applied to all homogenous groups of receivables whose amount is not individually significant and whose individual assessment would be impracticable. 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.

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.

Statistical impairment allowances are created in equal instalments within 24 months after the signature of the loan agreement in an amount equal to the expected credit loss on agreements signed in the previous calendar month. The calculations are made based on the volume of loan agreements signed in the rating class, the credit rating of the receivable, the default probability of the rating class and the historical loss rate for the group of 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.

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.

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.

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

When a loan receivable is written off 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. 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 judgement. 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.

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

Intangible assets

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

Intangible assets are amortised on a straight-line basis over their estimated useful lives. Amortisation commences as of the acquisition of the asset.

An intangible asset is amortised over its estimated useful life which is generally 5 to 10 years.

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

Impairment of 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, such as derivatives and land and buildings at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in note 32.

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 held for distribution in discontinued operation. 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.

Customer deposits

The deposits are measured and recognised in the statement of financial position at amortised cost using the effective interest rate method.

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 capitalisation 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

(in millions of euros)

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;
- 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). 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 29.

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

	2015	2014
Latvia	15.0%	15.0%
Lithuania	15.0%	15.0%
Finland	20.0%	24.5%
Sweden	22.0%	22.0%
Spain	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

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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 33 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 following new and/or amended IFRSs have been adopted by the Group as of 1 January 2014:

Amendment to IAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets.* This amendment adds a few additional disclosure requirements about the fair value measurement when the recoverable amount is based on fair value less costs of disposal and removes an unintended consequence of IFRS 13 to IAS 36 disclosures. The amendment did not have any impact on the financial position or performance of the Group.

Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting.* The amendment provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendment did not have any impact on the financial position or performance of the Group.

IFRS 10 *Consolidated Financial Statements.* IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation — Special Purpose Entities. The implementation of this amendment had no impact on the financial statements of the Group.

New and revised International Financial Reporting Standards and Interpretations not yet adopted and therefore not applied on preparing these financial statements (not endorsed by EU)

A number of new standards, amendments to standards and interpretations have been published that are effective for the Group in annual periods beginning on or after 1 January 2015, which the Group has not adopted early.

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 01.01.2018, once endorsed by the EU) IFRS 9 will eventually replace IAS 39. The IASB has issued the first three parts of the standard, establishing a new classification and measurement framework for financial assets, requirements on the accounting for financial liabilities and hedge accounting. The Group has not yet evaluated 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 2017, once endorsed by the EU). 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.

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 2015 which accordingly do not have any significant impact on the Group's financial statements.

Amendments to IAS 1 *Presentation of financial statements: Disclosure Initiative* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU). The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 16 *Property, Plant & Equipment* and IAS 38 *Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization*

Amendments to IAS 19 *Employee Benefits*

Note 2. Use of estimates and judgements

The preparation of financial statements in conformity with IFRS 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 judgements 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 (see note 1, the section *Financial assets*, and note 3).

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 revaluation amount. The management uses the estimate of an asset's market value provided by an independent expert as a basis for fair value estimation.

Valuation of investment properties are reviewed on a regular basis and written down to reflect any impairment whenever necessary (see the section *Investment properties* in note 1). Fair value of investment properties is measured on regular basis.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax position. This assessment relies on estimates and assumptions and may involve a series of judgements about future events.

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. For uncertain tax positions please refer to section *Income tax* in note 1 for tax accounting principles and note 29 for related income recognised.

Note 3. Risk management

Risk management strategy

The Group has to face various risks in its daily operations. The Group's performance depends on its ability to identify, quantify, evaluate, price, take, manage and control different risks while maintaining an adequate capitalisation to meet unforeseen events.

Risk-taking is inevitable and essential for generating profit. In business, risks have to be taken at a level that offers the highest rate of return but is still reasonable.

The Group maintains a simple business model that has proven successful and a risk profile that is characterised by a well-balanced credit portfolio, limited financial risks and low operational risk.

The Group's risk management framework is designed to ensure that the Group maintains a high return on equity and a level of capital that at no time would decrease below the minimum prescribed by the law, and that the Group can continue its operation even when market conditions become unfavourable.

The overall objective of risk management is to create conditions and provide opportunities for making informed, and therefore more knowledgeable and better-quality business decisions.

Risk management organisation and system

The supervisory board has defined the Group's general risk management principles that describe risk-taking and management within the Group. The general principles derive from Bigbank's mission and strategic objectives. Within the framework of the general principles, risk management is administered by the Group's management board and the staff and units appointed by the management board.

Ultimate responsibility for the risks taken by the Group as well as ensuring that the Group meets the regulatory capital requirements rests with the Group's management board. The management board is responsible for designing, establishing and enforcing the Group's risk management, control and coordination policies and deciding the overall acceptable level of risk. The management board has to ensure the effectiveness of risk management.

Under the management board, there are a number of committees, which have decision-making authority in respect of different types of risk. The credit committee and the asset-liability committee play a significant role in managing risks, approving risk procedures, resolving general risk-related issues, and deciding and monitoring the risk limits.

Risk management in the Group is based on the model of three defence lines. The first defence line is formed by business units. Each of the Group's business units and subsidiaries is fully responsible for controlling the risks which have arisen or may arise in their operations. This means that responsible persons have to ensure that the risk management process is enforced in all areas of operation and at all units and that established standards are consistently observed.

The second defence line is formed by the Group's independent risk management and compliance function. In addition to measures applied at business unit level, risk management has been assigned to a separate, central management function that is independent of the business units. The risks of the Group as a whole are controlled at Group level. The Group's risk management function is responsible for designing and developing policies for managing, controlling and coordinating risks and risk management principles and methods, making recommendations to the management board regarding risk management and control, and preparing relevant reports. Centralised risk management ensures that uniform risk management principles and practices are pursued across the Group and that the Group can respond to any change effectively.

The compliance function deals with compliance risk detection, control and reporting. The compliance function performs monitoring and both regular and one-time checks on business activities, participates in the development of new products and services, and organises relevant trainings and counselling.

The third defence line of the Group is the internal audit unit that performs independent control over all the Group's activities, including the first and second defence line. The purpose of internal audit is to improve the quality of the Group's activities by giving objective and independent feedback on the Group's management practices, risk management and control efficiency and by making suggestions on enhancing the Group's internal control system. Risk management principles, policies, methods, assumptions and competencies are documented. The policies and procedures for all risks are regularly reviewed and updated when necessary.

The Group's internal regulations are reviewed and their relevance and applicability is assessed on a regular basis. The staff's awareness of and adherence to internal regulations is subject to rigorous control.

Internal control system

Effective risk management rests on a strong internal risk culture, a uniform and consistent approach to the risks encountered in operations and an effective control environment.

The Group's internal control system is an integral part of the Group's management system. Its purpose is to ensure that the Group's management principles are observed, the Group's assets are safeguarded, true and accurate financial and other accounts are maintained and reliable financial and management information is presented on a timely basis.

The internal control system encompasses the measures implemented by the Group to ensure that its operations are effective, efficient, properly overseen, and comply with regulatory and internally established requirements, its financial reporting is reliable, and decisions are made based on reliable, relevant and up-to-date information. The internal control system deals with all levels of management and operations and supports the Group's business units and operations

The Group's internal control system comprises three levels:

- Operational level. Local entities/business units are responsible for checking, supervising and coordinating operations within a function or entity. They decide application of control measures within the framework of Group-wide and local rules and regulations. The activities of the units are guided by clear objectives, codes of conduct and procedure of reporting.

- Group-wide level. In addition to the control and supervision performed by entities, the Group's structure includes Group-level units and staff that are independent of any specific entity/ business unit. Their role is to oversee application of operational control measures at the level of the Group. They are accountable to the manager of their business area and the management board. Such units include the sales and service quality management, risk management and compliance control units.
- Internal audit unit. The internal audit unit evaluates the Group's performance, assesses the adequacy and applicability of internal regulations in light of the nature, scope and complexity of the Group's operations, and checks observance of the Group's articles of association, the resolutions of the Group's supervisory and management boards, the Group's internal regulations, laws, other regulatory requirements and good banking practice. The unit monitors the Group's operation and its compliance with effective regulations, limits and other requirements. The unit is directly accountable to the supervisory board. The overall purpose of its work is to improve the Group's performance through evaluation and to enhance the effectiveness of the work done at other levels of the internal control system.

The compliance control function is Group-wide and independent of the Group's business units and functions. The compliance control function is an integral part of the Group's internal control system and its purpose is to ensure compliance of the Group's operations with regulatory requirements, prevent any non-compliance, introduce measures required for ensuring or achieving compliance, and help avoid conflicts of interest. The function oversees all subsidiaries and business and structural units as well as all levels of management and all business functions.

All of the Group's products, customers and customer groups, external rules and regulations, and internal rules, procedures and control techniques are subject to compliance control.

Organisation and operation of compliance control are the responsibilities of the Group's management board. Compliance control is performed by the compliance control unit that works closely with the risk management and internal audit units.

Definition of risk

The Group defines risk as a possibility or probability that a decision or event will result in undesired consequences for the Group. In measurable terms, risk is negative deviation from an expected financial result.

Significant risks comprise internal and external factors that may cause significant direct or indirect loss or damage to the Group.

Risk management principles

The Group defines risk management as a set of activities aimed at identifying, measuring, monitoring and controlling the risks that affect the Group's business operations.

Effective risk management assumes enhancing each staff member's risk awareness and creating a strong control environment.

The overall objective of risk management is to create conditions and provide opportunities for making informed, and therefore more knowledgeable and better-quality business decisions.

Risk management is aimed at ensuring an optimum risk-benefit ratio while maintaining the Group's steady profitability and continuity of operations as well as creating and retaining the trust of the Group's customers, investors and supervisory authorities.

The Group considers all risks it will or may encounter in its operation. All significant risks that may affect the Group's operation are identified, evaluated, analysed and reported.

Risks are identified and assessed for all products, activities, processes and systems. Implementation of any new product, activity, process, or system is preceded by risk assessment.

Risk management is preventive by nature and governed by the principles described below.

Risks are identified before any business decision is made. Risks are taken only in those areas that are familiar and where the Group has had positive experience and results.

The overriding risk control principles are dual control and segregation of functions. Reliable risk management is underpinned by the application of a uniform assessment system and recognised risk measuring and quantification techniques. The Group monitors the compliance of its risk assessment and control procedures with changing conditions and updates them when necessary.

The concept of business responsibility is observed – each Group employee is personally responsible for the quality of the product or assessing the risk profile of the counterparty.

Risks are identified in consideration of all internal and external factors that may impair the Group's ability to achieve the desired objectives.

When risks are taken in areas with an insufficient control environment, the Group adopts precautionary and counteractive measures in order to minimise the damage that may be caused by processes, systems and employee fraud or dishonesty. The Group avoids taking exceptionally large transaction risks that may jeopardise a major share of its equity.

The Group avoids taking risks in transactions that are exposed to significant legal risk. The Group does not take any unmanageable or unlimited risks. The Group observes the principle that the risk assessment function has to be independent and segregated from the business units.

Unusual events and risks are evaluated using simulation techniques and stress testing.

Credit risk

Credit risk is the risk that a counterparty to a transaction will fail to discharge an obligation in a satisfactory manner and will cause the Group to incur a loss. Credit risk arises mainly from loans, receivables from banks and the debt securities portfolio. Loan credit risk exposures include off-balance sheet commitments (e.g. loans committed but not yet disbursed).

Risks related to credit risk include:

- 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.

Credit risk management

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 2014, loans to individuals accounted for 94.6% 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 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 loans granted by the Group are smaller than average: 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 2014, the average loan balance was 1,726 euros and 100 largest loans accounted for 6.0% of the total loan portfolio.

In its lending operations, the Group focuses on the provision of 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 2014, the loans to companies accounted for 5.4% of the Group's loan portfolio.

The Group limits the size of its loan portfolio at two levels. First by determining limits for the ratio of the loan portfolio to total assets and secondly by assigning limits to the total size and regional size of the loan portfolio.

To obtain an overview of the exposures of the total loan portfolio, the credit risk analysis and monitoring 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 highly 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 at least once a quarter or 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 12th month after the assessment. Loss given default reflects the economic loss that may occur in the event of default of more than 90 days on the basis of country- and product-specific loss rates identified using historical loss statistics, which have been if needed adjusted to reflect expert opinions. The exposure is equal to the carrying amount of the receivable.

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

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

(in millions of euros)

- 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 liability 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. 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.

Loan portfolio by internal rating classes as at 31 December 2014

Rating class	Not past due and not impaired	Not past due and impaired	Past due and not impaired	Past due and impaired	Total loan porfolio
Very good	92.260	0.052	4.268	0.010	96.590
Good	57.534	0.037	16.515	0.021	74.107
Satisfactory	25.614	0.092	7.523	0.028	33.257
Weak	1.422	2.258	1.533	0.840	6.053
Inadequate	0.470	3.513	2.880	72.734	79.597
Irrecoverable	-	0.069	0.009	14.534	14.612
Total	**177.300**	**6.021**	**32.728**	**88.167**	**304.216**

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27.02.2015

(in millions of euros)

Loan portfolio by internal rating classes as at 31 December 2013

Rating class	Not past due and not impaired	Not past due and impaired	Past due and not impaired	Past due and impaired	Total loan porfolio
Very good	76.787	0.050	4.496	-	81.333
Good	50.723	0.072	15.298	0.139	66.232
Satisfactory	25.421	0.202	7.498	0.067	33.188
Weak	1.764	1.833	1.811	1.415	6.823
Inadequate	0.151	5.196	1.450	83.818	90.615
Irrecoverable	-	0.020	-	3.215	3.235
Total	**154.846**	**7.373**	**30.553**	**88.654**	**281.426**

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

Impairment allowances by ageing of loans as at 31 December 2014

	Loan receivable	Loan allowance	Risk position
Loan portfolio not past due	183.321	-2.063	181.258
Loan portfolio past due	120.895	-38.769	82.126
Past due portfolio according to days past due			
Up to 30 days	23.646	-0.469	23.177
31-60 days	6.924	-0.422	6.502
61-90 days	3.609	-0.393	3.216
Over 90 days	86.716	-37.485	49.231
Statistical impairment allowance (incl. IBNR)	-	-4.073	-4.073
Total	**304.216**	**-44.905**	**259.311**

Impairment allowances by ageing of loans as at 31 December 2013

	Loan receivable	Loan allowance	Risk position
Loan portfolio not past due	162.219	-1.792	160.427
Loan portfolio past due	119.207	-30.855	88.352
Past due portfolio according to days past due			
Up to 30 days	23.391	-0.676	22.715
31-60 days	7.178	-0.332	6.846
61-90 days	3.612	-0.188	3.424
Over 90 days	85.026	-29.659	55.367
Statistical impairment allowance	-	-5.863	-5.863
Total	**281.426**	**-38.510**	**242.916**

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 incurred but not reported credit losses, the Group has created impairment allowances, which at 31 December 2014 totalled 44.905 million euros, accounting for 14.8% of the total loan portfolio. Impairment allowances are made on a conservative basis. Further information on impairment allowances is presented in note 7.

(in millions of euros)

Cash and bank balances by the banks' credit ratings

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

As at 31 December	2014	2013
Aaa-Aa3	2.323	0.925
A1-A3	10.448	5.115
Baa1-Baa3	0.620	0.700
Ba1-Ba3	0.274	0.213
Other	-	0.047
Total	**13.665**	**7.000**

Held-to-maturity financial assets by ratings

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

As at 31 December	2014	2013
Baa1-Baa3	1.186	7.972

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.

At 31 December 2014, 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 questionnaires and 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 limits 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 collateral provided under the law of property such as a mortgage on immovable property). Smaller loans may be secured with surety agreements or the borrower's cash flows or assets. In making financing decisions, the Group does not rely simply on the borrower's business plan or economic activities.
- In the case of small and medium-sized loans it is expedient to accept collateral provided under the law of obligations. The Group is aware that the legal enforceability of real collateral (collateral provided under the law of property) and the regulation governing its realisation process restrict the use of such collateral in the Group's business activity. The value of collateral provided under the law of obligations does not depend directly on developments in the external environment, except for changes in the regulation governing such collateral.
- 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 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 collaterals include, above all, mortgages of the first ranking entered in the land register, which should ensure full satisfaction of the Group's claims even when the market value of the collateral decreases.
- The property put up as collateral under the law of property has to be insured throughout the loan term with an insurance company accepted by the Group at least to the extent of the replacement cost of the property.

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

Other risks related to credit risk

In addition to concentration risk and collateral risk, the Group takes into account the following risks associated with credit risk:

- Country risk is the risk that arises from the economic, political or social environment of the counterparty's domicile. Country risk is controlled by monitoring the size of the subsidiaries' and branches' portfolios. The main control technique is providing credit mostly to individuals who reside in a country where the Group operates and have regular income in that country.
- Business risk or strategic risk is the risk that arises from inappropriate operating decisions, deficient execution of operating decisions, changes in the operating environment or customer behaviour, or inappropriate responses to technological advances. The Group is aware that the credit risk inherent in financing the consumption of individuals may be influenced by changes in the economic cycle that may reduce its profit. The risk is mitigated by selecting a payment size that is appropriate for the customer.

Market risk

Market risk is the risk that arises from exposure to changes in market prices. The main market risks that impact the Group are currency risk and interest rate risk. The Group does not have an active trading portfolio. Therefore, there is no market risk resulting from the trading portfolio. The Group's exposure to market risks arises from positions that are affected by changes in market risk factors. The factors are interest rates and foreign exchange rates.

Currency risk is the risk that foreign exchange rates will change. The Group's currency risk arises from changes in exchange rates that are unfavourable for the euro.

Interest rate risk is the risk that interest rates will change.

Currency and interest rate risks are managed at the Group level. Market risks are managed by applying uniform risk-taking and management policies that have been established by the management and supervisory boards for all Group entities.

Management of the subsidiaries' and branches' currency and interest rate risks is organized by the Group. Overall currency and interest rate risk management is the responsibility of the Group's management board. Direct currency and interest rate risk management is the responsibility of the Group's chief financial officer.

The Group's core activity is provision of credit to individuals and small and medium-sized enterprises. As a rule, liquid funds are kept with central banks or commercial banks that operate in the Group's operating region or in securities. Generally the Group does not take market or trading risks. Debt instruments that are part of the liquidity portfolio are held until maturity.

The Group monitors currency and interest rate risks together, taking into account their sensitivity to the macroeconomic environment.

Currency and interest rates risks are managed by monitoring changes in the credit and financial markets both in Estonia and in the world on an ongoing basis. On the appearance of developments or trends that may have a significant impact on the Group's performance, the Group reviews and, where necessary, revises its short- and long-term financial plans in order to adapt to the change. The impacts of changes in the macroeconomic environment are also continuously monitored, taking into account potential developments. The Group measures the effect of various market risks with regular stress tests, which indicate what may happen when the market situation changes.

(in millions of euros)

The Group avoids interest rate risk on loans provided by fixing the interest rate in the loan agreement The Group performs regular stress tests to evaluate its interest rate risk.

The Group operates in different markets both in and outside the euro area. The Group's risk management strategy foresees mitigation of currency risks arising from significant currency risk exposures.

The loans provided by the Group are denominated in the currencies of the regions in which the Group operates or in euros.

To hedge the risks arising from its operation in the Swedish market, the Group enters into euro/Swedish krona currency swaps and forward foreign exchange contracts and accounts for those instruments as hedges of a net investment in a foreign operation.

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

Net currency positions as at 31 December 2014

	Position in the statement of financial position		Off-balance sheet position		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR (euro)	275.379	206.059	8.208	1.076	76.452
LTL (Lithuanian litas)*	1.755	0.256	-	-	1.499
SEK (Swedish krona)	46.086	37.108	-	8.107	0.871
GBP (British pound)	0.131	-	-	-	0.131

Net currency positions as at 31 December 2013

	Position in the statement of financial position		Off-balance sheet position		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR (euro)	270.723	221.559	13.641	0.770	62.035
LVL (Latvian lats)	6.315	1.966	-	-	4.349
LTL (Lithuanian litas)	0.880	0.331	-	-	0.549
SEK (Swedish krona)	32.747	18.229	-	14.028	0.490
GBP (British pound)	0.068	0.003	-	-	0.065

*On 1 January 2015, the Republic of Lithuania joined the euro area and all currency positions in Lithuanian litas were converted to euros on that date.

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

(in millions of euros)

Effect of a potential exchange rate change on profit and equity as at 31 December 2014

	Exposure	Monetary impact	% of equity
LTL (Lithuanian litas)	1.499	0.150	0.2%
SEK (Swedish krona)	0.871	0.087	0.1%
GBP (British pound)	0.131	0.013	0.0%
Total	**2.501**	**0.250**	**0.3%**

Effect of a potential exchange rate change on profit and equity as at 31 December 2013

	Exposure	Monetary impact	% of equity
LVL (Latvian lats)	4.349	0.435	0.6%
LTL (Lithuanian litas)	0.549	0.055	0.1%
SEK (Swedish krona)	0.490	0.049	0.1%
GBP (British pound)	0.065	0.006	0.0%
Total	**5.453**	**0.545**	**0.8%**

Liquidity and financing risks

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities on time or in full.

Financing risk is the risk of not being able to secure the necessary financing for the Group's operations.

Growth financing risk is the risk of not being able to secure financing for developing, expanding or increasing the Group's operations.

Financing and liquidity risks are managed at the Group level. The Group organizes the subsidiaries' and branches' financing and liquidity management.

The main body that manages financing and liquidity risks is the asset-liability committee (ALCO). ALCO has the authority to deal with the following issues:

- the policy for mitigating the Group's financial risks including liquidity, interest rate and currency risks;
- planning the capital of the Group and its subsidiaries;
- the financing and pricing policies of the Group and its entities;
- the Group's investment policy.

Financing and liquidity risk management is the responsibility of the Group's management board. Direct responsibility for this has been assigned to the Group's chief financial officer.

Financing and liquidity risk management is based on preparing regular cash flow and ratio reports and forecasts that are determined in the liquidity management plan, performing stress tests, and maintaining adequate liquidity buffers.

The following principles are applied:

- The objective of liquidity risk management is to ensure that the Group will always have sufficient funds for its operation, both in the short- and long-term perspective, and to ensure that the Group can meet its existing commitments both under normal and stressed circumstances.
- The guiding principle in liquidity planning is that no claim against the Group, which will or may fall due, considering all

(in millions of euros)

available sources of financing and the possibilities for limiting the provision of loans, may cause a lack of liquidity.

- The Group monitors the maturity structure of assets and liabilities on an ongoing basis and establishes ceilings to the maximum allowed differences between assets and liabilities over a certain period.
- The Group maintains a sufficient liquidity buffer so as to be able to meet its commitments at any time. Liquid assets are held with the central banks and invested in money market and liquidity funds, term deposits and bonds.
- The Group diversifies its financing sources by raising deposits in new markets.

Remaining maturities of financial assets and liabilities as at 31 December 2014

	Past due	Less than 1 month	1-12 months	1-5 years	Over 5 years	Total
Financial assets						
Cash and bank balances	-	31.229	2.466	0.120	-	33.815
Loans to customers	61.666	7.591	64.413	128.297	13.134	275.101
Of which loan portfolio	45.876	7.591	64.413	128.297	13.134	259.311
Of which interest receivables	15.790	-	-	-	-	15.790
Held-to-maturity financial assets	-	0.823	0.363	-	-	1.186
Derivatives with positive fair value	-	-	-	0.225	-	0.225
Total financial assets	**61.666**	**39.643**	**67.242**	**128.642**	**13.134**	**310.327**
Financial liabilities						
Deposits from customers	-	7.744	83.766	128.193	19.330	239.033
Derivatives with negative fair value	-	-	-	0.075	-	0.075
Total financial liabilities	**-**	**7.744**	**83.766**	**128.268**	**19.330**	**239.108**
Net exposure	**61.666**	**31.899**	**-16.524**	**0.374**	**-6.196**	**71.219**

Remaining maturities of financial assets and liabilities as at 31 December 2013

	Past due	Less than 1 month	1-12 months	1-5 years	Over 5 years	Total
Financial assets						
Cash and bank balances	-	29.774	0.493	-	-	30.267
Loans to customers	70.757	7.470	54.582	114.121	14.439	261.369
Of which loan portfolio	52.304	7.470	54.582	114.121	14.439	242.916
Of which net interest receivables	18.453	-	-	-	-	18.453
Held-to-maturity financial assets	-	-	7.972	-	-	7.972
Derivatives with positive fair value	-	-	0.055	0.108	-	0.163
Total financial assets	**70.757**	**37.244**	**63.102**	**114.229**	**14.439**	**299.771**
Financial liabilities						
Deposits from customers	-	8.030	79.342	133.795	17.481	238.648
Derivatives with negative fair value	-	-	0.001	0.181	-	0.182
Total financial liabilities	**-**	**8.030**	**79.343**	**133.976**	**17.481**	**238.830**
Net exposure	**70.757**	**29.214**	**-16.241**	**-19.747**	**-3.042**	**60.941**

(in millions of euros)

The Group monitors its financing and liquidity risks together, taking into account their inter-relatedness in its operations.

The Group monitors the maturity structure of its and its subsidiaries' assets and liabilities (matching of their volumes and due dates) and establishes limits to the maximum allowed differences between assets and liabilities over a certain period.

In addition to a liquidity buffer for meeting its forecast liquidity needs, the Group maintains a liquidity reserve that has to amount to at least 5% of the loan portfolio and which is generally not used for covering ordinary financing needs but is held for financing potential exceptional expenditures.

The Group has adopted a continuity and recovery plan for ensuring liquidity and financing, which sets out guidance and models for acting and behaving in exceptional liquidity and financing circumstances and resolving such situations.

The Group's specialization in consumer credit allows controlling its asset volumes. Changes in the size of the Group's loan portfolio are relatively stable. Owing to its contractual basis, the size of the portfolio cannot fluctuate significantly in the short- or medium-long perspective. The Group does not have a contractual obligation to provide new loans and the proportion of loans with unused credit limits is very small.

The Group controls financing and liquidity risks by adjusting (limiting and reducing) the proportion of the loan portfolio. Where prompt response is necessary, the Group will restrict provision of new loans. Should it appear that the Group is not capable of financing its ordinary operations to the required extent, provision of loans will be reduced to such an extent that repayments of previously provided loans will allow the Group to meet its existing financial obligations.

Expected future cash flows of the Group's financial liabilities as at 31 December 2014

	Carrying amount	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Payables to suppliers (note 16)	**0.502**	0.502	-	-	-	-	0.502
Deposits from customers (note 15)	**239.033**	7.768	14.290	71.846	138.944	22.633	255.481
Contingent liabilities (note 28)	**0.770**	-	0.020	0.130	0.836	-	0.986
Total liabilities	**240.305**	**8.270**	**14.310**	**71.976**	**139.780**	**22.633**	**256.969**

Expected future cash flows of the Group's financial liabilities as at 31 December 2013

	Carrying amount	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Payables to suppliers (note 16)	0.218	0.218	-	-	-	-	0.218
Deposits from customers (note 15)	238.648	8.080	12.879	67.804	139.276	19.979	248.018
Contingent liabilities (note 28)	0.770	0.021	0.022	0.111	0.616	-	0.770
Total liabilities	**239.636**	**8.319**	**12.901**	**67.915**	**139.892**	**19.979**	**249.006**

Operational risk

Operational risk is the possibility or probability that a decision or event arising from the Group's internal processes, people or systems or from the external environment will have undesirable consequences for the Group.

Operational risk entails the following risks:

- Legal risk is the possibility or probability that the Group's activity does not comply with effective legislation, contracts and agreements, generally accepted best practice and ethical standards or is based on their incorrect interpretation, or the Group as an entitled party cannot exercise its rights or expect fulfilment of obligations because the obligated party does not discharge its commitments.
- Compliance risk is the possibility or probability that the Group does not meet or comply with the requirements set forth in laws, regulations, policies or other applicable rules and regulations either in part or in full or that it operates under a conflict of interest.
- Strategic risk is the possibility or probability that achievement of the Group's business goals and targets and execution of the Group's decisions and activities will be hindered by competition, operating environment or the activity of the supervision authorities.
- Reputational risk is the possibility or probability that negative publicity, regardless of its veracity, will lead to a decrease in the customer base, a loss in revenue or an increase in expenses.
- Security risk is the possibility or probability that an incident in the external or internal environment will damage or destroy the usability, reliability, safety, integrity, completeness and confidentiality of the Group's resources (assets, people, data, documents, buildings and structures).
- Personnel risk is the possibility or probability that achievement of the Group's business goals and targets and execution of the Group's decisions and activities will be hindered or obstructed by lack of staff or employee disloyalty, incompetence or unsuitability for office.
- Control and management risk is the possibility or probability that control mechanisms and management measures are not in place or are inappropriate for achieving the Group's business goals and targets.
- Regulatory risk is the possibility or probability that the Group will not achieve its business goals and targets or achievement of those goals and targets will be hindered because of changes in the regulatory environment.
- Information technology risk is the possibility or probability that the Group's information technology systems will not function, will function inadequately, will be unusable, or will be used inadequately or wrongly.
- Procedural risk is the possibility or probability that the rules of procedure implemented by the Group are inadequate, are not applied or are applied inappropriately.

The Group treats operational and associated risks as an independent risk management area that is tightly related to its main risk - credit risk. The Group monitors operational and associated risks together, taking into account their significant inter-relatedness in its operation.

Operational and associated risks are controlled and coordinated at Group level. Overall management of operational and associated risks is the responsibility of the Group's management board. Direct management of operational and associated risks is the responsibility of the Group's risk manager and unit managers. The operational and associated risks of subsidiaries and branches are managed by the subsidiaries' and branches' managements.

The Group has defined a centralised basis for operational risk management activities. The concepts are fixed in the Group's policies, internal regulations and rules of procedure. Since operational risk management is a broad area, operational risks are regulated by different internal regulations and procedure documents.

The Group's risk management function is responsible for uniform reporting on the Group's operational risks. The levels of the Group's operational risks are analysed on a quarterly basis and the results are documented in a report that is submitted to the management of the Group and the managements of business units. Unusual events and risks are evaluated using various simulation techniques and stress testing.

The purpose of operational risk management is to achieve the lowest possible risk level while applying economically efficient risk management principles. The Group does not take unmanageable or unlimited risks regardless of potential revenue growth. Operational risks whose realization may harm the Group's reputation are carefully scrutinized and limited.

The Group manages its operational risks using the following methods:

- The key measures for preventing operational loss are assigning responsibility for risk management to business units, increasing each employee's risk recognition and awareness and creating a strong control environment. The Group believes that operational risk can be best controlled by designing and developing a risk conscious and responsible organisational culture that is supported by appropriate practices and policies, effective internal regulations and controls, insurance and, above all, sufficient operating income.
- The Group does not provide overly complex or integrated products. Its offering includes only simple products such as loans and deposits.
- The Group has developed a uniform, organisation-wide understanding of potential operational risk incidents, loss events and events resulting in unusual income and has put in place procedures for managing such events and incidents. The controls in place are updated on the basis of case analysis so as to mitigate and prevent potential future threats.
- Operational and associated risks are managed using preventive, forward-looking analyses of potential loss events that may be caused by the risks inherent in the Group's operations. The Group monitors, analyses and controls operational and associates risks on a regular basis using various risk indicators that are also applied to the Group's subsidiaries and branches.
- Operational and associated risks are identified and evaluated using self- and risk evaluation questionnaires and/or seminars and by mapping unit, function and process risks according to risk type.
- The Group identifies and evaluates the operational and associated risks of all

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products, significant activities, processes and systems. The evaluation is performed before the implementation of any new product, process, or system.

- The Group has implemented a system for business continuity planning that is designed to prepare the Group for unlikely but probable events, such as process and system interruptions, to protect life and health and to mitigate the impact of adverse events on the Group. Business continuity is supported by business continuity scenarios and specific action plans. The Group protects its assets against possible threats by pursuing preventive security management and applying appropriate technical, organisational and administrative measures. The main risks are mitigated by purchasing insurance cover.

One of the key mechanisms for assessing, monitoring and mitigating operational risk is compliance risk management. Compliance risk management is an ongoing process aimed at:

- achieving and maintaining compliance and thereby precluding, reducing or limiting the Group's regulatory or ethical liability to its employees, customers, legal authorities, transaction counterparties or the public;
- creating and building trust in the Group among the Group's customers and investors as well as the supervisory authorities.

Compliance risk management is preventive and proportionate and it is driven by a rule- and risk-based approach.

The Group screens external service providers and its relations with services providers are based on specific contracts.

The Group's historical experience indicates that operational risk events can be prevented. Identification of threats is facilitated by applying standardized processes and specializing in a small number of products whose risks can be easily recognised and detected because of historical experience and suitable operating routines. The Group has no experience of incidents causing significant loss or involving the possibility of significant loss. The Group has experienced only events with insignificant impact, which in their entirety have not exceeded the threshold for significant loss.

The Group applies the total own fund ratios under the standardized approach of the regulation (EU) No. 575/2013 of the European Parliament and of the Council in determining the risk position of unanticipated operational losses. The Group has implemented the required tools such as the operational loss database, self-assessment of risks and business scenario planning.

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 standardized approach.

Own funds

Own funds are a buffer for covering losses that may arise from the risks taken by the Group. The Group's ability to absorb losses depends on the effectiveness of its operations as well as various qualitative factors such as the Group's capacity for controlling risks, management quality and control.

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

- Paid-up share capital. The Group's paid-up share capital amounts to 8 million euros.

(in millions of euros)

- Common Equity Tier 1 Capital (CET1) including:
  - Paid-up share capital. The Group's paid-up share capital amounts to 8 million euros.
  - Statutory capital reserve. In line with the requirements of the Commercial Code, the Group has created a capital reserve which at 31 December 2014 amounted to 0.800 million euros.
  - Prior period retained earnings. Profits retained in previous periods have been audited by an independent external auditor. The figure has been determined by taking into account all relevant taxes and dividend distributions. At 31 December 2014, the Group's prior period retained earnings totalled 58.897 million euros.
  - Net profit for the reporting period that has been audited by an independent external auditor.
- Tier 2 Capital, which includes subordinated deposits in the amount of 1.823 million euros, complying with the conditions of Article 63 of the CRR.

At 31 December 2014, the Group's Tier 1 capital amounted to 78.578 million euros. Additionally, Tier 2 capital amounts to 1.689 million euros.

	Basel III 31 Dec 2014	Basel III 31 Dec 2013
Paid up capital instruments	8.000	8.000
Other reserves	0.800	0.800
Previous years retained earnings	58.897	49.183
Prior years accumulated other comprehensive income	1.087	1.009
Other intangible assets	-1.181	-1.039
Profit or loss eligible*	11.168	9.715
Adjustments to CET1 due to prudential filters	-0.193	-0.122
Common equity Tier 1 capital	**78.578**	**67.546**
Tier 1 capital	**78.578**	**67.546**
Tier 2 capital	**1.689**	**-**
Deductions	**-**	**-**
Total own funds	**80.267**	**67.546**

* The figure has been adjusted for the dividend proposed in the profit allocation proposal.

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 standardized method in calculating both the assets weighted with credit risk and the risk position.

(in millions of euros)

	Basel III 31 Dec 2014	Basel III 31 Dec 2013
Risk weighted exposure amounts for credit and counterparty credit (standardized approach)		
Central governments or central banks	0.635	8.373
Institutions	3.455	2.381
Corporates	13.680	14.882
Retail	146.966	131.878
Secured by mortgages on immovable property	4.488	5.329
Exposures in default	58.279	63.947
Other items	17.290	18.342
Total risk weighted exposure amounts for credit and counterparty credit (standardized approach)	**244.793**	**245.132**
Total risk exposure amount for foreign exchange risk (standardized approach)	**2.501**	**5.453**
Total risk exposure amount for operational risk (standardized approach)	**68.504**	**55.531**
Total risk exposure amount for credit valuation adjustment (standardized approach)	**2.924**	**3.794**
Total risk exposure amount	**318.722**	**309.910**

Capital ratios*	Basel III 31 Dec 2014	Basel III 31 Dec 2013
CET1 Capital ratio	24.7%	21.8%
T1 Capital ratio	24.7%	21.8%
Total capital ratio	25.2%	21.8%
Leverage ratio	22.9%	

* Profit for the year has been adjusted for the dividends proposed in the profit allocation proposal.

On 1 January 2015, the Republic of Lithuania joined the euro area and therefore net currency position of Lithuanian litas has no effect on capital requirement for foreign exchange risk from 1 January 2015. Considering aforementioned change in net currency position, total capital ratio as at 31 December 2014 would have been 0.1 percentage points higher.

Total capital ratio has been calculated for Bigbank AS group. At 31 December 2014, total capital ratio at the level of the parent company was 21.1%.

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 net loss on hedges of net investments in foreign operations, which has been recognised in other reserves in equity, has been deducted from Tier 1 capital.

Tier 2 capital includes subordinated deposits.

The Group has no Tier 3 capital.

Capital requirements have been determined using the standardized approach.

EY FOR IDENTIFICATION PURPOSES ONLY 27.02.2015

In determining the capital requirement for foreign exchange risk, the Group has taken into account the exposures covered by the devaluation clauses.

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 Group's target for 2014 was to maintain at least a 13.8% total capital ratio both at the level of the Group and the parent company. At 31 December 2014, the total capital ratio was 25.2%, significantly exceeding the regulatory requirement. Group's CET1 capital ratio was 24.7% at 31 December 2014, Group's Tier 1 ratio was the same.

The Group applies risk-based capital planning in order to ensure that all the risks inherent in its operation would be covered at all times with sufficient own funds. Capital planning is based on forecasts that take into account the Group's strategy, risk profile and risk appetite.

Capital needs are forecast and planned based on the calculation of the regulatory total capital ratio level which is increased by additional risk exposure amount for covering risks that are not considered in the regulatory total risk exposure amount. Capital needs are forecast taking into account how the strategic and reputation risk may affect the Group's operation.

In addition, an appropriate capital buffer is calculated for ensuring an internally desired total capital ratio level on the occurrence of unlikely but possible unfavourable macroeconomic developments.

The Group's capital structure changes mainly through changes in internally generated capital.

The Group realizes that it has no prompt or considerable means for increasing capital significantly when total capital ratio drops below the desired level. When total capital ratio falls below the desired level, the Group will change the structure of its assets (limit provision of new loans and place the funds received in low or lowest risk assets).

Internal capital adequacy assessment process

The internal capital adequacy assessment process (ICAAP) is a Group-wide process by which the Group ensures sufficient capital for covering the risks inherent in its operations and carrying out and developing its activities. The internal capital adequacy assessment process takes into account all relevant risks the Group may have to face. The Group ensures that aggregated risks are covered with sufficient capital at all times. The Group identifies itself as a specialised credit institution with a small market share and low systemic significance whose offering includes simple standardized financial products – loans and deposits.

(in millions of euros)

Note 4. Cash and bank balances and cash equivalents

Cash and balances at banks as at 31 December 2014

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	Total
Cash and balances at central banks	**13.450**	**3.000**	**-**	**3.700**	**-**	**-**	**20.150**
Of which mandatory reserves*	0.212	-	-	-	-	-	0.212
Of which surplus on mandatory reserves	13.238	3.000	-	3.700	-	-	19.938
Due from banks	**1.749**	**0.968**	**2.995**	**1.073**	**2.005**	**4.875**	**13.665**
Of which cash and balance at banks	1.749	0.968	2.995	1.073	2.005	4.874	13.664
Of which interest receivable from banks	-	-	-	-	-	0.001	0.001
Total	**15.199**	**3.968**	**2.995**	**4.773**	**2.005**	**4.875**	**33.815**

Cash and balances at banks as at 31 December 2013

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	Total
Cash and balances at central banks	**20.650**	**2.617**	**-**	**-**	**-**	**-**	**23.267**
Of which mandatory reserves*	0.406	1.479	-	-	-	-	1.885
Of which surplus on mandatory reserves	20.244	1.138	-	-	-	-	21.382
Due from banks	**1.162**	**1.544**	**0.752**	**0.924**	**0.814**	**1.804**	**7.000**
Of which cash and balance at banks	1.161	1.544	0.752	0.924	0.813	1.801	6.995
Of which interest receivable from banks	0.001	-	-	-	0.001	0.003	0.005
Total	**21.812**	**4.161**	**0.752**	**0.924**	**0.814**	**1.804**	**30.267**

* 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 2% 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 equivalents

As at 31 December	2014	2013
Demand and overnight deposits with credit institutions	11.079	5.488
Term deposits with credit institutions with maturity of less than 1 year	2.585	1.507
Surplus on the mandatory reserves with central banks	19.938	21.382
Total cash equivalents	**33.602**	**28.377**

(in millions of euros)

Note 5. Loans to customers

Loans to customers as at 31 December 2014

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	Total
Loan receivables from customers	57.137	75.336	43.159	53.088	33.205	42.291	304.216
Impairment allowance for loans	-8.690	-14.411	-5.663	-4.982	-4.508	-2.578	-40.832
Interest receivable from customers	7.180	9.689	2.158	1.421	1.573	1.384	23.405
Impairment allowances for interest receivables	-2.584	-3.279	-0.876	-0.239	-0.442	-0.195	-7.615
Statistical impairment allowance	-1.200	-2.035	-0.660	-0.065	-0.029	-0.084	-4.073
Total loans to customers, incl. interest and allowances	**51.843**	**65.300**	**38.118**	**49.223**	**29.799**	**40.818**	**275.101**
Share of region	18.9%	23.7%	13.9%	17.9%	10.8%	14.8%	100.0%

Loans to customers as at 31 December 2013

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	Total
Loan receivables from customers	63.856	72.264	37.835	52.506	23.691	31.274	281.426
Impairment allowance for loans	-8.445	-11.366	-4.347	-3.785	-3.298	-1.406	-32.647
Interest receivable from customers	8.061	10.085	2.899	1.911	1.099	0.703	24.758
Impairment allowances for interest receivables	-2.241	-2.571	-0.868	-0.244	-0.296	-0.085	-6.305
Statistical impairment allowance	-1.567	-2.846	-1.347	-0,056	-0,019	-0,028	-5.863
Total loans to customers, incl. interest and allowances	**59.664**	**65.566**	**34.172**	**50.332**	**21.177**	**30.458**	**261.369**
Share of region	22.8%	25.1%	13.1%	19.3%	8.1%	11.6%	100.0%

Loan receivables from customers* by loan type

As at 31 December	2014	2013
Loans against income	265.959	242.756
Surety loans	13.864	14.966
Loans secured with real estate	23.496	19.987
Loan with insurance cover	0.741	1.037
Loans against other collaterals	0.156	2.680
Total loan receivables from customers	**304.216**	**281.426**

Loan receivables from customers* by contractual currency

As at 31 December	2014	2013
EUR (euro)	261.417	242.710
LTL (Lithuanian litas)	0.508	0.876
LVL (Latvian lats)	-	6.566
SEK (Swedish kronor)	42.291	31.274
Total loan receivables from customers	**304.216**	**281.426**

* Loan receivables from customers comprise loan principal.

(in millions of euros)

Ageing analysis as at 31 December 2014*

	Not past due	30 days or less	31-60 days	61-90 days	Over 90 days	Total
Loans against income						
Loan portfolio	160.959	18.546	6.342	2.939	77.173	265.959
Impairment allowance	-3.916	-0.630	-0.426	-0.344	-34.195	-39.511
Surety loans						
Loan portfolio	6.003	1.224	0.301	0.471	5.865	13.864
Impairment allowance	-0.387	-0.089	-0.060	-0.096	-2.960	-3.592
Loans secured with real estate						
Loan portfolio	15.838	3.801	0.265	0.186	3.406	23.496
Impairment allowance	-0.403	-0.122	-0.017	-0.005	-1.114	-1.661
Loans with insurance cover						
Loan portfolio	0.374	0.075	0.010	0.013	0.269	0.741
Impairment allowance	-0.020	-0.005	-0.001	-0.002	-0.107	-0.135
Loans against other collaterals						
Loan portfolio	0.148	-	0.005	-	0.003	0.156
Impairment allowance	-0.004	-	-	-	-0.001	-0.005
Total loan portfolio	183.322	23.646	6.923	3.609	86.716	304.216
Total impairment allowance	-4.730	-0.846	-0.504	-0.447	-38.377	-44.904

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

Ageing analysis as at 31 December 2013*

	Not past due	30 days or less	31-60 days	61-90 days	Over 90 days	Total
Loans against income						
Loan portfolio	139.121	19.107	6.402	3.319	74.807	242.756
Impairment allowance	-4.112	-0.879	-0.374	-0.238	-27.585	-33.188
Surety loans						
Loan portfolio	5.732	1.452	0.476	0.174	7.132	14.966
Impairment allowance	-0.490	-0.156	-0.061	-0.021	-2.652	-3.380
Loans secured with real estate						
Loan portfolio	14.066	2.659	0.257	0.104	2.901	19.987
Impairment allowance	-0.608	-0.153	-0.047	-0.011	-0.950	-1.769
Loans with insurance cover						
Loan portfolio	0.625	0.171	0.043	0.015	0.183	1.037
Impairment allowance	-0.027	-0.010	-0.003	-0.002	-0.049	-0.091
Loans against other collaterals						
Loan portfolio	2.675	0.003	-	-	0.002	2.680
Impairment allowance	-0.080	-	-	-	-0.002	-0.082
Total loan portfolio	162.219	23.392	7.178	3.612	85.025	281.426
Total impairment allowance	-5.317	-1.198	-0.485	-0.272	-31.238	-38.510

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

(in millions of euros)

Note 6. Past due loans

Past due loans as at 31 December 2014

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	Total
Up to 30 days	0.547	0.658	0.282	0.146	0.088	0.099	1.820
31 - 60 days	0.557	0.41	0.131	0.126	0.09	0.029	1.343
61-90 days	0.798	0.236	0.097	0.103	0.059	0.001	1.294
Over 90 days	17.351	25.833	10.046	12.195	6.951	7.26	79.636
Total	**19.253**	**27.137**	**10.556**	**12.570**	**7.188**	**7.389**	**84.093**

Past due loans as at 31 December 2013

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	Total
Up to 30 days	1.930	0.640	0.691	0.142	0.092	0.073	3.568
31 - 60 days	0.451	0.436	0.243	0.116	0.056	0.038	1.340
61-90 days	0.185	0.316	0.144	0.171	0.030	0.014	0.860
Over 90 days	18.336	28.664	8.984	11.563	4.978	3.799	76.324
Total	**20.902**	**30.056**	**10.062**	**11.992**	**5.156**	**3.924**	**82.092**

The table above shows only loan principal that is past due. In accordance with the terms of the loan agreements, the Group may terminate the agreement unilaterally if at least three scheduled payments are in arrears. When an agreement is terminated, the customer has to settle the outstanding loan principal, any accrued interest, and any collateral claims resulting from the settlement delay.

Owing to the nature of the loans (as a rule, the loans are backed with the customer's regular income), amounts due under terminated agreements are satisfied over an extended period in smaller instalments, not in a lump sum raised by the disposal of collateral. As a result, despite regular receipts, the balances of past due loans decrease relatively slowly. At the same time, the items cannot be reported as part of the performing portfolio because they are being serviced through enforcement or other recovery proceedings.

EY FOR IDENTIFICATION PURPOSES ONLY 27.02.2015

(in millions of euros)

Note 7. Impairment of loans, receivables and financial investments

Change in impairment allowances for loans and related interest receivables

As at 31 December	2014	2013
Balance at beginning of year	-44.815	-37.148
Loan and interest receivables written off the statement of financial position	20.281	14.801
Increase in allowances for loan and interest receivables	-28.117	-22.622
Effect of movements in exchange rates	0.131	0.154
Balance at end of period	**-52.520**	**-44.815**

Impairment losses on loans, receivables and financial investments

	2014	2013
Recovery of loan and interest receivables written off the statement of financial position	4.102	3.359
Increase in allowances for loan and interest receivables	-28.117	-22.622
Impairment losses on financial investments	-	0.071
Impairment losses on other receivables	-0.650	-0.409
Total impairment losses	**-24.665**	**-19.601**

Impairment allowances by loan assessment category as at 31 December 2014

	Loans receivables	Impairment allowances for loans	Interest receivables	Impairment allowances for loan interest	Total impairment allowances
Collectively assessed items	268.955	-24.065	20.380	-5.015	-29.080
Individually assessed items	35.261	-16.767	3.025	-2.600	-19.367
Statistical impairment allowance	-	-4.073	-	-	-4.073
Total	**304.216**	**-44.905**	**23.405**	**-7.615**	**-52.520**

Impairment allowances by loan assessment category as at 31 December 2013

	Loans receivables	Impairment allowances for loans	Interest receivables	Impairment allowances for loan interest	Total impairment allowances
Collectively assessed items	251.198	-22.470	22.228	-4.699	-27.169
Individually assessed items	30.228	-10.177	2.530	-1.606	-11.783
Statistical impairment allowance	-	-5.863	-	-	-5.863
Total	**281.426**	**-38.510**	**24.758**	**-6.305**	**-44.815**

Collectively assessed items include homogenous groups of receivables whose individual amount is not significant, historical settlement pattern and collateralization 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.

EY FOR IDENTIFICATION PURPOSES ONLY 27.02.2015

(in millions of euros)

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

Note 8. Held-to-maturity financial assets

Debt securities portfolio

As at 31 December	2014	2013
Acquisition cost of the debt securities portfolio	1.186	7.942
Accrued interest	-	0.030
Total held-to-maturity financial assets	**1.186**	**7.972**
Held-to-maturity financial assets by issuer		
Corporate bonds	-	2.102
Government bonds	1.186	5.870
Held-to-maturity financial assets by currency		
EUR (euro)	-	7.972
LTL (Lithuanian litas)	1.186	-

Held-to-maturity financial assets comprise purchased debt securities that the Group has the ability and intention to hold until maturity. Interest income on held-to-maturity financial assets is presented in note 19.

(in millions of euros)

Note 9. Derivative financial instruments

The Group operates in different markets both in and outside the euro area. The Group's risk management strategy foresees mitigation of currency risks arising from significant currency risk exposures. To hedge the risks arising from its operation in the Swedish market, the Group enters into euro/Swedish krona currency swaps and forward contracts and accounts for those instruments as hedges of a net investment in a foreign operation. There is no ineffectiveness in the years ended 31 December 2014 and 31 December 2013.

	2014			2013		
As at 31 December	**Notional amount**	**Assets**	**Liabilties**	**Notional amount**	**Assets**	**Liabilties**
Currency swap contract	5.450	0.172	0.041	9.756	0.156	0.101
Currency forward contract	2.758	0.053	0.034	3.885	0.007	0.081
Total	**8.208**	**0.225**	**0.075**	**13.641**	**0.163**	**0.182**
Of which maturing within 1 year	-	-	-	3.433	0.055	0.001
Of which maturing within 1-5 year	8.208	0.225	0.075	10.208	0.108	0.181

Note 10. Other receivables

As at 31 December	2014	2013
Late payment interest and penalty payments receivable	0.010	0.017
Fees receivable	0.375	0.300
Collection, recovery and other charges receivable	2.454	2.496
Guarantee and deposit payments made	0.140	0.118
Miscellaneous receivables	0.266	0.185
Impairment allowance for other receivables	-1.181	-0.909
Total	**2.064**	**2.207**

Note 11. Prepayments

As at 31 December	2014	2013
Prepaid taxes*	3.238	0.410
Other prepayments	0.729	0.676
Total	**3.967**	**1.086**

*Please refer to the section Income tax in note 1 and note 29.

(in millions of euros)

Note 12. Property and equipment

	Land and buildings	Other items	Total
Cost			
Balance at 1 January 2013	2.586	2.697	5.283
Purchases	-	0.329	0.329
Improvements	0.051	-	0.051
Sales	-	-0.066	-0.066
Write-off	-	-0.150	-0.150
Revaluation recognised in other comprehensive income	0.979	-	0.979
Transfer*	-0.726	-	-0.726
Effect of movements in exchange rates	-	-0.005	-0.005
Balance at 31 December 2013	**2.890**	**2.805**	**5.695**
Balance at 1 January 2014	2.890	2.805	5.695
Purchases	0.015	0.186	0.201
Improvements	0.087		0.087
Sales	-	-0.030	-0.030
Write-off	-	-0.088	-0.088
Effect of movements in exchange rates	-	-0.001	-0.001
Balance at 31 December 2014	**2.992**	**2.872**	**5.864**
Depreciation			
Balance at 1 January 2013	-0.642	-1.971	-2.613
Depreciation charge for the year	-0.084	-0.354	-0.438
Sales	-	0.053	0.053
Write-off	-	0.137	0.137
Transfer*	0.726	-	0.726
Effect of movements in exchange rates	-	0.003	0.003
Balance at 31 December 2013	**-**	**-2.132**	**-2.132**
Balance at 1 January 2014	-	-2.132	-2.132
Depreciation charge for the year	-0.087	-0.325	-0.412
Sales	-	0.017	0.017
Write-off	-	0.088	0.088
Effect of movements in exchange rates	-	0.001	0.001
Balance at 31 December 2014	**-0.087**	**-2.351**	**-2.438**
Carrying amount			
Balance at 1 January 2013	1.944	0.726	2.670
Balance at 31 December 2013	2.890	0.673	3.563
Balance at 31 December 2014	**2.905**	**0.521**	**3.426**

* This transfer relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset, please refer note 32. Management has assessed the fair value of land and buildings as of 31 December 2014.

(in millions of euros)

Note 13. Intangible assets

Purchased software licences

As at 31 December	2014	2013
Cost at beginning of year	**1.910**	**1.697**
Purchases	0.333	0.215
Write-off	-	-0.002
Cost at end of year	**2.243**	**1.910**
Amortisation at beginning of year	**-0.871**	**-0.729**
Amortisation charge for the year	-0.191	-0.143
Write-off	-	0.001
Amortisation at end of year	**-1.062**	**-0.871**
Carrying amount at beginning of year	1.039	0.968
Carrying amount at end of year	**1.181**	**1.039**

Note 14. Investment properties

	2014	2013
Opening balance at 1 January	1.382	1.675
Sales	-0.050	-0.293
Net loss from fair value adjustment (note 32)	-0.232	-
Closing balance at 31 December	**1.100**	**1.382**

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

In prior years these items were recognised under other assets, reclassification was performed in year 2014. The management has reassessed the disclosure of assets acquired from collaterals of non-performing loans and reclassified them from Other assets to Investment properties, as the management believes it demonstrates better the purpose of assets.

The Group earned rental income derived from investment properties of 0.004 million euros in financial year 2014 (2013: 0.003 million euros). The operating expenses were 0.015 million euros, (2013: 0.024 million euros), please see note 26.

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.

(in millions of euros)

Note 15. Deposits from customers

As at 31 December	2014	2013
Term deposits	**239.033**	**238.648**
Term deposits by customer type		
Individuals	233.489	233.094
Legal persons	5.544	5.554
Term deposits by currency		
EUR (euro)	202.239	219.015
LVL (Latvian lats)	-	1.582
SEK (Swedish kronor)	36.794	18.051
Term deposits by maturity		
Maturing within 6 months	42.111	36.392
Maturing between 6 and 12 months	48.149	50.979
Maturing between 12 and 18 months	22.125	33.237
Maturing between 18 and 24 months	28.402	27.259
Maturing between 24 and 36 months	44.688	32.222
Maturing between 36 and 48 months	20.346	28.575
Maturing in over 48 months	33.212	29.984
Average deposit amount	0.019	0.018
Weighted average interest rate	3.1%	3.7%
Weighted average duration until maturity (months)	25.5	25.5
Weighted average total contract term (months)	45.3	43.6

Group has accepted subordinated term deposits in the nominal amount of 1.797 million euros in summer 2014, with an average interest rate of 5.18% p.a. maturing between 60 and 120 months. These subordinated deposits account for Tier 2 capital.

Annual interest rates of deposits offered to customers as at 31 December 2014

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 0.15% to 2.65% per year. Deposits with the shortest term of 1 month are offered in Estonia, Latvia and Finland. In Sweden the shortest term for deposits is 6 months, in Germany, Austria and the Netherlands 12 months. The minimum deposit amount is 300 euros or 10,000 Swedish kronor.

(in millions of euros)

Note 16. Other liabilities

As at 31 December	2014	2013
Payables to suppliers	0.502	0.218
Payables to employees	0.614	0.521
Other payables	1.916	1.672
Total other liabilities	**3.032**	**2.411**

Note 17. Deferred income and tax liabilities

As at 31 December	2014	2013
Taxes payable	0.763	0.668
Prepayments from customers	0.380	0.361
Total deferred income	**1.143**	**1.029**

Note 18. Equity

Share capital

Bigbank AS is a limited company, whose minimum and maximum authorised share capital amount to 5.113 million euros and 12.782 million euros respectively. Share capital as at 31 December 2014 and 31 December 2013 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.
- Net gain/loss on hedges of net investments in foreign operations. The portion of the gain or loss of the hedging instrument that is determined to be an effective hedge is recognised in equity. When the foreign operation is disposed of, the cumulative gain or loss on the hedging instrument relating to the effective portion of the hedge is reclassified from equity to profit or loss.
- Asset revaluation reserve comprises the increase in the carrying value of land and buildings classified as *Property and equipment* as a result of revaluation.

(in millions of euros)

As at 31 December	2014	Change	2013	Change	2012
Exchange differences on translating foreign operations	0.108	0.078	0.030	-0.451	0.481
Net loss on hedges of net investments in foreign operations	-0.193	-0.071	-0.122	-0.014	-0.108
Asset revaluation reserve	0.979	-	0.979	0.979	-
Total other reserves	**0.894**	**0.007**	**0.887**	**0.514**	**0.373**

Unrestricted equity

At 31 December 2014, the Group's unrestricted equity amounted to 71.565 million euros (31 December 201: 59.978 million euros).

Dividends

In 2014 and 2013, the company made the following dividend distributions:

- 2014: 13.50 euros per share, i.e. 1.080 million euros in aggregate.
- 2013: 13.15 euros per share, i.e. 1.052 million euros in aggregate.

Note 19. Interest income

	2014	2013
Interest income on loans to customers*	59.578	53.135
Interest income on deposits	0.049	0.106
Interest income on held-to-maturity financial assets	0.053	0.122
Total interest income	**59.680**	**53.363**

* Accruing interest of loans that are past due more than 90 days is suspended according to the Decree No. 9, 27.06.2000 (officially published: 10.07.2000 RTL 2000, 76, 1146) of Governor of Bank of Estonia. The application of IAS 39 would result in derecognition of interest income in 2014 and decrease of interest receivable by 0.7 million euros correspondingly (net of impairment provisions). Taxes are ignored in this calculation as not material. Prior year impact of unwinding of interest was 1,881 million euros (net of provisions).

Note 20. Interest expense

	2014	2013
Interest expense on deposits	7.591	7.981

Note 21. 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 (hedge accounting).

	2014	2013
Foreign exchange losses	-0.794	-0.886
Foreign exchange gains	0.436	0.582
Net loss on financial transactions	**-0.358**	**-0.304**

Note 22. Other income

	2014	2013
Income from debt recovery proceedings	7.019	7.066
Miscellaneous income	0.241	0.534
Total other income	**7.260**	**7.600**

Note 23. Salaries

	2014	2013
Salaries	9.160	9.276
Social security costs	2.802	2.804
Employee health costs and fringe benefits including associated taxes	0.301	0.340
Lease of labour	0.004	0.008
Total salaries and associated charges	**12.267**	**12.428**

EY FOR IDENTIFICATION PURPOSES ONLY 27.02.2015

(in millions of euros)

Note 24. Other operating expenses

	2014	2013
Marketing expenses	4.066	4.582
Office, rental and similar expenses	1.428	1.661
Other personnel-related expenses	0.886	0.690
Software licensing and other information technology costs	0.732	0.450
Other services	0.662	0.298
Postal supplies and charges	0.445	0.404
Telephone and other communications expenses	0.370	0.381
Miscellaneous operating expenses	0.152	0.155
Total other operating expenses	**8.741**	**8.621**

Note 25. Other expenses

	2014	2013
Expenses related to enforcement proceedings	1.572	1.491
Legal regulation charges	0.548	0.566
Expenses from investment properties	0.024	0.023
Onerous contracts provisions	0.215	-
Miscellaneous expenses	0.882	0.750
Total other expenses	**3.241**	**2.830**

Note 26. 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 three to six months' notice. Fixed-term lease contracts can be extended on market terms and conditions.

Operating lease expenses

	2014	2013
Operating lease payments made for office premises	0.809	0.982

Minimum non-cancellable operating lease rentals payable in subsequent periods

As at 31 December	2014	2013
Future operating lease rentals payable for office premises under fixed-term contracts, of which	0.384	0.786
Up to 1 year	0.320	0.585
1 to 5 years	0.064	0.201

The Group as a lessor
Minimum non-cancellable operating lease rentals receivable in subsequent periods

As at 31 December	2014	2013
Up to 1 year	0,004	0,002
1 to 5 years	0,012	0,003

For the rental income and operating expenses see note 14.

Note 27. Assets pledged as collateral

- Debt securities of 1.170 million euros have been pledged to DNB Bankas AB as the cover for the forward and swap contracts.

Although the following Group's assets have been pledged as collateral, the Group has no liabilities related to these pledged assets at 31 December 2014.

- The Group's immovable property at Rüütli 21/23 in Tartu is encumbered with a second-ranking mortgage of 0.671 million euros to secure liabilities to Danske Bank AS Estonian branch (formerly AS Sampo Pank).

EY 27.02.2015
FOR IDENTIFICATION PURPOSES ONLY

(in millions of euros)

- The Group's immovable property at Rüütli 21/23 in Tartu is encumbered with a first-ranking mortgage of 0.282 million euros to secure liabilities to AS SEB Liising.
- An apartment ownership at Tartu mnt 18 in Tallinn is encumbered with a mortgage of 0.601 million euros to secure liabilities to Swedbank AS.
- Apartment ownerships at Tartu mnt 18 in Tallinn are encumbered with a mortgage of 0.895 million euros to secure liabilities to Swedbank AS.

Note 28. Contingent liabilities

At 31 December 2014, the unused portions of the Group's credit lines totalled 0.986 million euros (31 December 2013: 0.700 million euros).

At 31 December 2014, the Group had provided guarantees of 0.090 million euros (31 December 2013: 0.070 million euros).

At 31 December 2014, the Group had ongoing dispute and provision in the amount of 0.216 million euros has been recorded (please see note 25).

Note 29. Income tax expense

Income tax expense

	2014	2013
Current income tax income/expense*	-1.550	1.383
Change in deferred income tax	0.076	-1.644
Total income tax income	**-1.474**	**-0.261**

* Current tax expense has been calculated on net profit earned in Latvia and Lithuania in 2014 and 2013 and in Sweden in 2014. The current tax income in the amount of 2.118 million euros for year 2014 is a result of correction of the prior period's taxation principles applied in Finland based on the advance ruling of the Finnish Tax Authority. The advance tax ruling relates to 2014 and 2015 and that a filing for retrospective application for 2009-2013 has been filed resulting in an uncertain tax receivable of 2.118 million euros being recognized in 2014 as it considered "more likely than not" that the ruling will be accepted by the Finnish tax authorities. Please refer to the section *Income tax* in note 1 for tax accounting principles.

Reconciliation of accounting profit and income tax expense

	2014	2013
Consolidated profit before tax	**11.194**	**10.534**
The parent company's domestic tax rate 0%	-	-
Effect of tax rates in foreign jurisdictions	0.621	0.424
Effect of exempt income and taxable expenses	0.101	0.999
Utilisation of unrealized tax losses carried forward	-0.039	-0.031
Change in deferred income tax	0.076	-1.644
Effect of income tax of previous years	-2.230	-0.009
Effect of exchange rate fluctuations	-0.003	0.000
Income tax income for the year	**-1.474**	**-0.261**

Recognised deferred tax assets

As at 31 December	2014	2013
Deductible temporary differences on		
Loans to customers	1.028	1.098
Property and equipment	-0.017	-0.006
Tax losses	1.659	1.776
Other liabilities (vacation pay liabilities to employees)	0.023	0.019
Total recognised deferred tax assets	**2.693**	**2.887**

Note 30. Contingent income tax liabilities

At 31 December 2014, the Group's undistributed profits totalled 71.565 million euros.

The maximum income tax liability that could arise if all of the undistributed profits were distributed as dividends amounts to 9.907 million euros. Thus, the maximum amount that could be distributed as the net dividend is 61.258 million euros. Under the Estonian

EY FOR IDENTIFICATION PURPOSES ONLY 27.02.2015

(in millions of euros)

Income Tax Act, in 2014 profit distributions, including dividend distributions, were subject to income tax calculated as 21/079 of the net distribution. As at 1 January 2015 the new rate 20/80 is applied. Income tax is paid in addition to a dividend 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 2014 cannot exceed total distributable profits as at 31 December 2014.

Note 31. 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 2014, the remuneration of the members of the Group's management and supervisory boards including relevant taxes amounted to 0.563 million euros (2013: 0.478 million euros) and 0.056 million euros (2013: 0.056 million euros) respectively.

As at 31 December 2014 and 31 December 2013, the Group had no interest and deposit liabilities to related parties.

The Group is financing Group subsidiaries and branches with long term loans under arm's length conditions. Such loans are eliminated in consolidated financial statements.

Note 32. Fair values of financial assets and financial liabilities

The fair values of the assets and liabilities reported in the consolidated statement of financial position as at 31 December 2014 do not differ significantly from their carrying amounts. The fair values of held-to-maturity financial assets have been determined by reference to their market price at 31 December 2014.

	Carrying amount		Fair value	
Financial assets as at 31 December	**2014**	**2013**	**2014**	**2013**
Cash and balances at central banks (note 4)	20.150	23.267	20.150	23.267
Cash and balances at banks (note 4)	13.665	7.000	13.665	7.000
Loans to customers (note 5,6,7)	275.101	261.369	275.101	261.369
Held-to-maturity financial assets (note 8)	1.186	7.972	1.185	7.968
Derivatives (note 9)	0.225	0.163	0.225	0.163
Other financial receivables (note 10)	2.064	2.207	2.064	2.207
Total financial assets	**312.391**	**301.978**	**312.390**	**301.974**

(in millions of euros)

Financial liabilties as at 31 December	Carrying amount 2014	Carrying amount 2013	Fair value 2014	Fair value 2013
Deposits from customers (note 15)	239.033	238.648	239.033	238.648
Derivatives (note 9)	0.075	0.182	0.075	0.182
Other financial liabilities (note 16)	3.032	2.411	3.032	2.411
Total	**242.140**	**241.241**	**242.140**	**241.241**

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 2014	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Loans to customers (note 5,6,7)	-	-	275.101	275.101
Held-to-maturity financial assets (note 8)	1.185	-	-	1.185
Derivatives used for hedging (note 9)				
Currency swap contract	-	0.172	-	0.172
Currency forward contract	-	0.053	-	0.053
Land and buildings (note 12)	-	-	2.905	2.905
Investment properties (note 14)			1.100	1.100
Assets for which fair values are disclosed				
Other financial receivables (note 10)			2.064	2.064
Total assets	**1.185**	**0.225**	**281.170**	**282.580**
Liabilities measured at fair value				
Deposits from customers (note 15)	-	239.033	-	239.033
Derivatives used for hedging (note 9)				
Currency swap contract	-	0.041	-	0.041
Currency forward contract	-	0.034	-	0.034
Liabilities for which fair values are disclosed				
Other financial liabilities (note 16)	-	-	3.032	3.032
Total liabilities	**-**	**239.108**	**3.032**	**242.140**

EY 27.02.2015
FOR IDENTIFICATION PURPOSES ONLY

(in millions of euros)

Fair value hierarchy as at 31 December 2013	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Loans to customers (note 5,6,7)	-	-	261.369	261.369
Held-to-maturity financial assets (note 8)	7.968	-	-	7.968
Derivatives used for hedging (note 9)				
Currency swap contract	-	0.156	-	0.156
Currency forward contract	-	0.007	-	0.007
Land and buildings (note 12)	-	-	2.890	2.890
Investment properties (note 14)			1.382	1.382
Assets for which fair values are disclosed				
Other financial receivables (note 10)			2.207	2.207
Total assets	**7.968**	**0.163**	**267.848**	**275.979**
Liabilities measured at fair value				
Deposits from customers (note 15)	-	238.648	-	238.648
Derivatives used for hedging (note 9)				
Currency swap contract	-	0.101	-	0.101
Currency forward contract	-	0.081	-	0.081
Liabilities for which fair values are disclosed				
Other financial liabilities (note 16)	-	-	2.411	2.411
Total liabilities	**-**	**238.830**	**2.411**	**241.241**

There have been no transfers between Level 1 and Level 2 during 2014 and 2013.

The Level 3 *loans to customers* that amounts to 275.101 million 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 2.905 consists of real estate used by the Group in Tallinn and in Tartu (see note 12).

The property in Tallinn is valued using the fair value model (discounted cash flow and sales comparison approach model).

The sales comparison method means that valuations performed by the valuer are based on active market prices, significantly adjusted for differences in the nature, location or condition of the specific property. For valuation of property in Tallinn, for prior year the valuer has taken as basis the prices per square metre of residentials in Tallinn city that are in the range of 2,264 – 2,485 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 3%, long-term vacancy rate 5%, and vacancy rate for the first year 15% and discount rate 9% for commercial property in Tallinn.

The property in Tartu is valued using the cost model (residual value method).

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 2,000 euros and development costs per square metre 706 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 not changed in year 2014.

The Level 3 *investment properties* that amount to 1.100 million euros is valued using the fair value model and valuations are performed by the management using sales comparison method.

Note 33. Earnings per share

As at 31 December	2014	2013
Net profit for the year, in millions of euros	12.668	10.795
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	**158**	**135**

At the end of 2014 and 2013 the Group did not have any potential dilutive ordinary shares. Therefore, diluted earnings per share equal basic earnings per share.

Note 34. Events after the reporting period

Adoption of euro as national currency in Lithuania on 1 January 2015

On 1 January 2015, the Republic of Lithuania joined the euro area and adopted the euro as its national currency, replacing the Lithuanian litas (LTL). As a result, the Group's Lithuanian subsidiary and branch converted their financial accounting and reporting to euros effective from the same date and the financial records for 2015 and subsequent years will be prepared in euros. Comparative figures will be recalculated to euros using the official exchange rate fixed for the changeover EUR 1=LTL 3.4528.

EY FOR IDENTIFICATION PURPOSES ONLY 27.02.2015

(in millions of euros)

Note 35. 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 "Consolidated and separate financial statements".

Statement of financial position

As at 31 December	2014	2013
Assets		
Due from central banks	20.150	23.267
Due from banks	11.609	6.725
Loans to customers	275.880	262.193
Receivables from subsidiaries	72.493	76.426
Held-to-maturity financial assets	1.186	7.972
Derivatives with positive fair value	0.225	0.163
Other receivables and prepayments	7.393	4.734
Investments in subsidiaries	0.611	0.611
Investment properties	0.583	0.794
Intangible assets	1.181	1.039
Property and equipment	0.908	1.050
Total assets	**392.219**	**384.974**
Liabilities		
Deposits from customers	239.033	238.648
Liabilities to subsidiaries	64.646	69.088
Derivatives with negative fair value	0.075	0.182
Other liabilities and deferred income	4.231	3.337
Total liabilities	**307.985**	**311.255**
Equity		
Share capital	8.000	8.000
Capital reserve	0.800	0.800
Other reserves	0.177	0.170
Earnings retained in prior years	63.669	55.066
Profit for the year	11.588	9.683
Total equity	**84.234**	**73.719**
Total liabilities and equity	**392.219**	**384.974**

FOR IDENTIFICATION PURPOSES ONLY 27.02.2015

(in millions of euros)

Statement of comprehensive income

	2014	2013
Interest income	61.342	56.493
Interest expense	-11.552	-12.443
Net interest income	**49.790**	**44.050**
Net fees and commissions	1.946	1.923
Net gain/loss on financial transactions	-0.357	-0.357
Other income	7.087	6.937
Total income	**58.466**	**52.553**
Salaries and associated charges	-11.790	-11.956
Other operating expenses	-8.552	-8.452
Depreciation and amortisation expense	-0.518	-0.494
Impairment losses on loans and financial investments	-24.148	-19.324
Losses resulting from changes in the fair value of investment properties	-0.155	-
Other expenses	-3.311	-3.043
Total expenses	**-48.474**	**-43.269**
Profit before income tax	**9.992**	**9.284**
Income tax income/expense	1.596	0.399
Profit for the year	**11.588**	**9.683**
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		-
Exchange differences on translating foreign operations	0.078	0.048
Net loss on hedges of net investments in foreign operations	-0.071	-0.014
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**0.007**	**0.034**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Revaluation of land and buildings	-	0.244
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**-**	**0.244**
Other comprehensive income for the year	**0.007**	**0.278**
Total comprehensive income for the year	**11.595**	**9.961**

EY FOR IDENTIFICATION PURPOSES ONLY 27.02.2015

(in millions of euros)

Statement of cash flows

	2014	2013
Cash flows from operating activities		
Interest received	54.254	47.681
Interest paid	-7.234	-6.213
Salary and other operating expenses paid	-20.407	-21.359
Other income received	7.706	8.424
Other expenses paid	-4.622	-4.865
Fees and commissions received	1.547	1.485
Fees and commissions paid	-0.176	-1.201
Recoveries of receivables previously written off	3.928	3.501
Received for other assets	0.237	0.537
Paid for other assets	-0.336	-0.243
Loans granted	-137.341	-141.110
Repayment of loans granted	109.346	88.168
Change in mandatory reserves with central banks and related interest receivables	1.541	0.085
Proceeds from customer deposits	58.806	69.862
Paid on redemption of deposits	-57.299	-43.869
Income tax paid	-1.519	-1.407
Effect of movements in exchange rates	0.105	0.155
Net cash from/used in operating activities	**8.536**	**-0.369**
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	-0.413	-0.481
Proceeds from sale of property and equipment	0.007	0.025
Proceeds from sale of investment properties	0.041	0.299
Change in term deposits	-	0.150
Acquisition of financial instruments	-11.143	-15.190
Proceeds from redemption of financial instruments	17.961	15.852
Net cash from investing activities	**6.453**	**0.655**
Cash flows from financing activities		
Repayment of loans from central banks	-	-3.934
Proceeds from loans from companies	-	0.201
Repayment of loans from companies	-8.400	-0.335
Dividends paid	-1.080	-1.052
Net cash used in financing activities	**-9.480**	**-5.120**
Effect of exchange rate fluctuations	-0.314	-0.299
Increase/decrease in cash and cash equivalents	**5.195**	**-5.133**
Cash and cash equivalents at beginning of period	28.102	33.235
Cash and cash equivalents at end of period	**33.297**	**28.102**

(in millions of euros)

Cash equivalents

As at 31 December	2014	2013
Demand and overnight deposits with banks	10.774	5.223
Term deposits with banks	2.585	1.497
Surplus on mandatory reserves with central banks	19.938	21.382
Total	**33.297**	**28.102**

Statement of changes in equity

	Share capital	Statutory capital reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2013	8.000	0.794	-0.108	56.124	**64.810**
Profit for the year	-	-	-	9.683	9.683
Other comprehensive income/					
Exchange differences on translating foreign operations	-	-	0.048	-	0.048
Net loss on hedges of net investments in foreign operations	-	-	-0.014	-	-0.014
Revaluation of land and buildings	-	-	0.244	-	0.244
Total other comprehensive income	**-**	**-**	**0.278**	**-**	**0.278**
Total comprehensive income for the year	**-**	**-**	**0.278**	**9.683**	**9.961**
Dividend distribution	-	-	-	-1.052	-1.052
Increase of statutory capital reserve	-	0.006	-	-0.006	-
Total transactions with owners	**-**	**0.006**	**-**	**-1.058**	**-1.052**
Balance at 31 December 2013	**8.000**	**0.800**	**0.170**	**64.749**	**73.719**
Balance at 1 January 2014	8.000	0.800	0.170	64.749	**73.719**
Profit for the year	-	-	-	11.588	11.588
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	0.077	-	0.077
Net loss on hedges of net investments in foreign operations	-	-	-0.070	-	-0.070
Total other comprehensive income	**-**	**-**	**0.007**	**-**	**0.007**
Total comprehensive income for the year	**-**	**-**	**0.007**	**11.588**	**11.595**
Dividend distribution	-	-	-	-1.080	-1.080
Total transactions with owners	**-**	**-**	**-**	**-1.080**	**-1.080**
Balance at 31 December 2014	**8.000**	**0.800**	**0.177**	**75.257**	**84.234**

(in millions of euros)

As at 31 December	2014	2013
Unconsolidated equity at end of period	**84.234**	**73.719**
Investments in subsidiaries:		
Carrying value	-0.611	-0.611
Carrying value under the equity method*	-2.364	-3.443
Adjusted unconsolidated equity at end of period	**81.259**	**69.665**

* Carrying value under the equity method is negative due to the elimination of the intragroup profit earned by the subsidiary selling the loan portfolio to the branch in 2010.

Signatures

The management board has prepared the review of operations and financial statements of Bigbank AS for 2014.

Kaido Saar
Chairman of
the Management Board

27 February 2015

Veiko Kandla
Member of
the Management Board

27 February 2015

Ingo Põder
Member of
the Management Board

27 February 2015

Building a better working world

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Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS BIGBANK

We have audited the accompanying consolidated financial statements of AS BIGBANK, which comprise the consolidated statement of financial position as at 31 December 2014, 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 a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AS BIGBANK as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Tallinn, 27 February 2015

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

Tiina Leif
Authorised Auditor's number 441

Profit allocation proposal

The total consolidated distributable profits of Bigbank AS comprise of:

Earnings retained in prior years as at 31 December 2014	58.897 million euros
Net profit for 2014	12.668 million euros
Total distributable profits as at 31 December 2014	**71.565 million euros**

The management board proposes that the general meeting allocate the distributable profits as follows:

1.	Dividend distribution (18.75 euros per share)	1.500 million euros;
2.	Transfer to retained earnings	11.168 million euros;
	Balance of retained earnings after allocations	70.065 million euros.

Kaido Saar
Chairman of
the Management Board

27 February 2015

Veiko Kandla
Member of
the Management Board

27 February 2015

Ingo Põder
Member of
the Management Board

27 February 2015

2014