Annual report 2021

Bigbank AS
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Business name	Bigbank AS
Registry	Commercial Register of the Republic of Estonia
Registration number	10183757
Date of entry	30 January 1997
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Corporate website	www.bigbank.ee
Reporting period	1 January 2021 – 31 December 2021
Chairman of the management board	Martin Länts
Core business line	Provision of loans and acceptance of deposits
Auditor	KPMG Baltics OÜ

The annual report of Bigbank AS consists of a letter from the chairman, a review of operations, a social responsibility and sustainability report, a corporate governance report and consolidated financial statements together with an independent auditors' report, risk and capital management report and a profit allocation proposal. The document contains 151 pages.

The reporting currency is the euro.

The annual report is 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.

Caring

We listen, understand as well as support our customers and each other.

Aleksandra Degterjova
Product Manager

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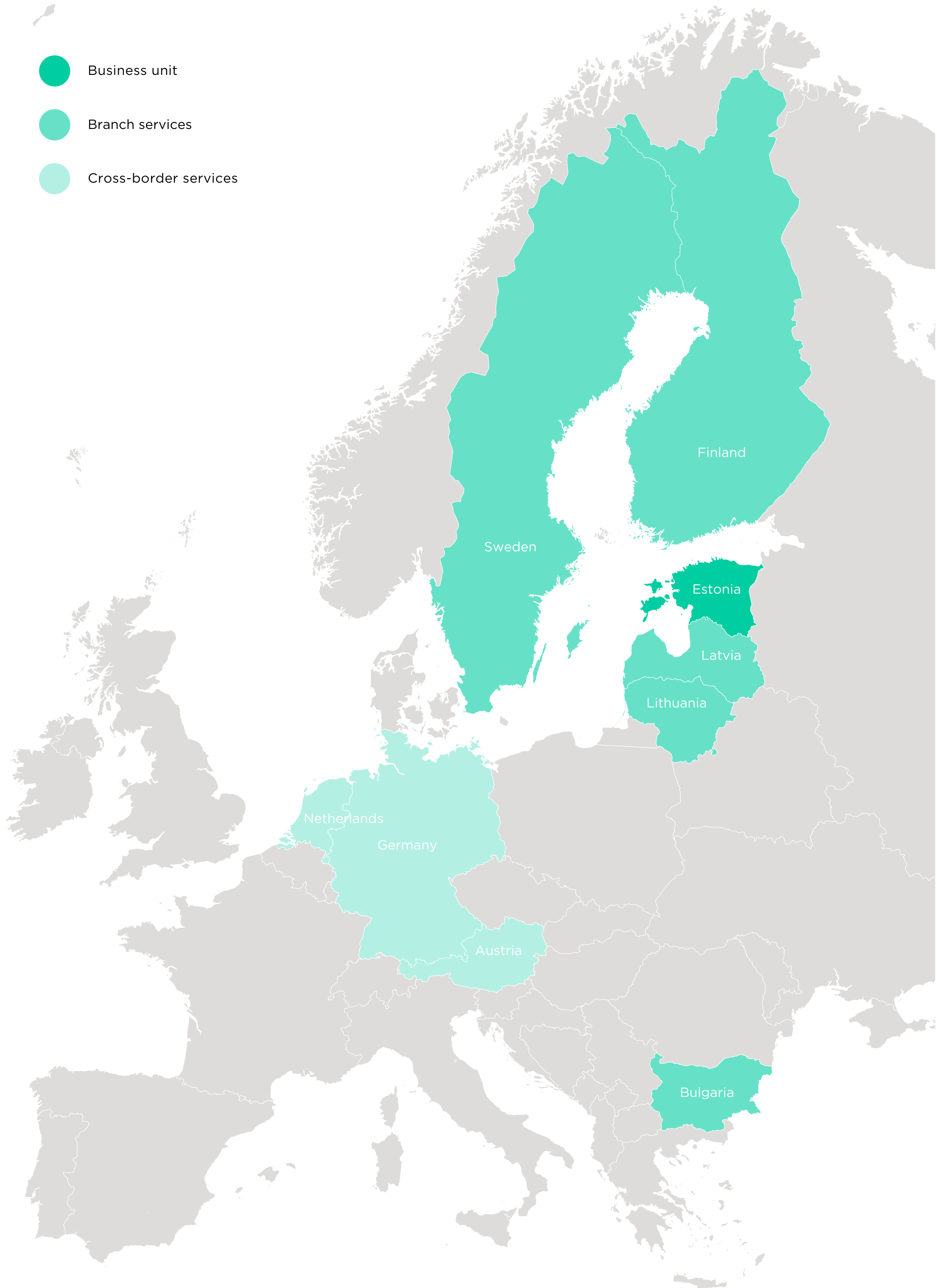
We aim at simplicity in our solutions and in customer experience.

Jaan Anvelt
Chief Information Security Officer

Bigbank Group at a glance

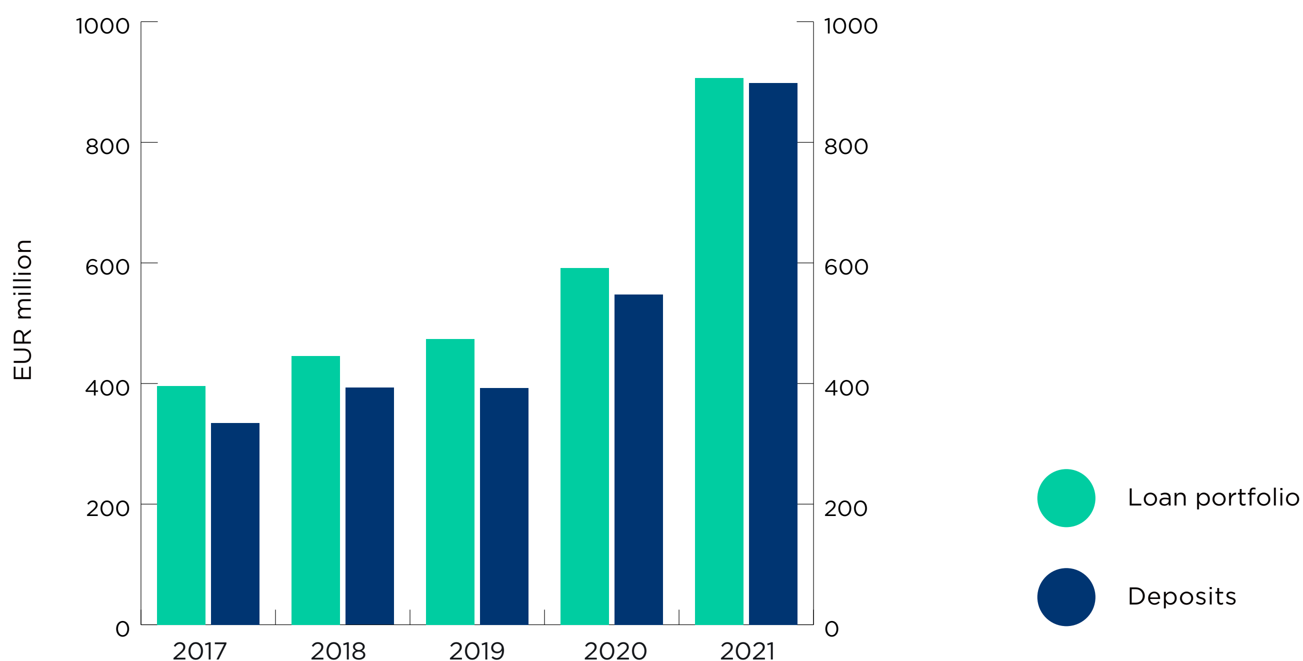
BIGBANK VALUES


Business unit
Branch services
Cross-border services
Finland
Sweden
Estonia
Latvia
Lithuania
Netherlands
Germany
Austria
Bulgaria

Countries of operation

	Estonia	Latvia	Lithuania	Finland	Sweden	Bulgaria	Total
Start of operations	1992	1996	2007	2009	2012	2021	
Loan portfolio, EUR million	287.7	152.9	283.0	105.6	75.8	1.6	**906.6**
Number of loans, thousands*	21	32	40	15	10	-	**118**
Deposit portfolio, EUR million*	752.6	20.2	-	42.9	82.6	-	**898.3**
Number of deposits, thousands*	29	1	-	1	2	-	**33**
Number of employees*	279	70	82	17	8	8	**464**

* At 31 December 2021



Letter of the Chairman of the Management Board

A YEAR OF RECORDS

Despite the ongoing pandemic and an unstable economic environment, 2021 was a year of spectacular success for Bigbank. The Group's assets exceeded the 1 billion-euro milestone for the first time, closing the year at 1.2 billion euros with annual growth of 52%. The rapid increase was driven mainly by the loan portfolio and investment properties. Comprehensive income for the year grew by 69% to almost 36 million euros. Along with a strong financial performance, and equally importantly for us, we made significant progress in customer service: our Net Promoter Score rose from 42 to 50 points.

I would like to thank the Bigbank team – you have played a decisive part in our strong performance and in taking our customer service to the next level. I would also like to thank our customers for their trust, and our partners for their continued support.

EMPLOYEE ENGAGEMENT

Outstanding teamwork and a strong corporate culture are the cornerstones of a company's success. Our annual survey shows that Bigbank's employee engagement increased significantly last year, in terms of team spirit, customer focus and personal commitment. As a result, overall employee satisfaction rose from 65 to 73 points.

ACTIVE PRODUCT DEVELOPMENT

The key to our success lies in our attractive and market-defining product offering. Last year we passed another milestone in product portfolio development when the Bigbank home loan, a product already popular in Estonia, was launched in Latvia and Lithuania. Services offered to private customers were expanded with car leasing in Lithuania and consumer loans in Bulgaria.

In the corporate customer segment, we started to provide agricultural and forest land loans in Estonia and Latvia. Also, we invested in increasing and upgrading the functionality of our online services.

BIGBANK HOME LOANS NOW AVAILABLE ACROSS THE BALTICS

Besides Estonia, where the product was launched in 2020, we now offer home loans in Latvia and Lithuania. Attractive terms have made us a strong competitor in the segment to universal banks across the region.

In addition to the usual annuity loans, from 2021 Estonian customers can apply for a unique loan product that allows deferring principal payments for up to 20 years. This means that towards the beginning of the loan term the borrower makes only interest payments, which leaves more funds available to cover other expenses or take on additional obligations, such as a car lease.

Significant growth in the corporate banking portfolio

For Bigbank, 2021 was a year of breakthrough in corporate banking. Looking back, Ingo Põder, our Head of Corporate Banking, said he felt, for the first time, that we have become a viable option for corporate customers in all three Baltic countries and his whole team feels proud to be part of Bigbank. I agree wholeheartedly.

Last year's figures confirm it: Bigbank's sales of corporate loans and leases grew by an exceptional 158%. In Estonia, for example, our growth rate was nearly six times faster than that of the market. Our gross corporate loan and lease portfolio grew by 269% year on year.

We raised the standard limit for corporate loans to 30 million euros but we can also grant larger loans when necessary. The main growth drivers were long-term investment loans to the commercial property and agriculture sectors, which accounted for almost half of the sales. These sectors have been a priority for us and we are willing to offer them the best conditions in the market, including longer loan terms and low interest margins. Our competitive offering in all markets should sustain rapid growth in the loan portfolio.

GROWTH IN MORE FAVOURABLE SOURCES OF FINANCING

Financing costs continued to decrease in 2021 and the average interest rate for debt fell from 1.2% to 0.9% despite the expenses of a private placement of subordinated notes. Financing costs declined mainly due to growth in share of savings deposits in the deposit portfolio, which surged from 12% to 38%. We continue to offer savings deposits on a cross-border basis to customers in Germany, Austria and the Netherlands and, as the product allows customers to use their funds at any time, it is priced more favourably for the bank.

At the end of 2021, we extended the term of financing available under the ECB's TLTRO III facility: after early repayment of the amount drawn so far, we received the same amount of funding from the tenth TLTRO III operation. Under the special terms on TLTRO III, now expected to apply until June 2022, the borrowing rate for these operations can be even lower than the deposit facility rate if the lending performance threshold is met.

EXPANSION TO BULGARIA

Our plans for international expansion focused on Bulgaria in 2021. On 19 November 2020, Bigbank's branch in Bulgaria was registered in the local commercial register. In 2021, we began to offer consumer loans as the only fully digital bank in the market. As expected, our Bulgarian customers have shown a great interest in contemporary banking services and our first year of operations was a success. We are planning to launch our deposit and housing loan products in the Bulgarian market in 2022.

FUTURE OUTLOOK

2021 was the final year of Bigbank's business strategy for 2017–2021. Our financial performance and continuing growth reflect the success of the choices made.

In 2022, we enter the new strategy period of 2022–2026. Over the past two years, the world and the global economy have been affected by a health crisis. The year 2022, however, has brought a completely different crisis – Russia's military attack against Ukraine. I personally and the Bigbank Group firmly hold that any military aggression is unacceptable and that the sovereignty of nations must be respected. I hope with all my heart that the aggression will end soon and that Europe will live in peace again.

Despite the uncertain environment, I can state that Bigbank's financial position is strong and stable and our capital buffers are solid. This enables us to make ambitious plans for the future and to focus on what matters to us the most: creating value for our customers and offering them best-in-class service, while also delivering on our growth targets.

Bigbank is a bank that specializes in loans. Our continuously growing market share proves that we provide loans on terms that are attractive for customers and our return on equity shows that we do it very efficiently. We have a strong 30-year track record as well as a technological edge. We do not try to do everything but what we do, we do very well. Let us continue this journey together.

I wish you all a very successful 2022.

Martin Länts

Chairman of the Management Board

Review of operations

ECONOMIC ENVIRONMENT

The EU economy has rebounded from the pandemic recession faster than expected. Households responded to the improving epidemiological situation and the gradual relaxation of containment measures with a spending spree that propelled EU private consumption growth, according to the European Commission (EC) 2021 autumn forecast. The rebound of economic activity was broad-based, with all components of domestic demand contributing positively.

The supply side of the economy however struggles to keep pace with the abrupt swings in the level and composition of the global demand. This affects several key industries, including global logistics and the production of raw materials and microprocessors. Sporadic localised pandemic-related lockdowns together with emerging labour shortages add to the disruptions.

Surging energy prices, most notably for natural gas and electricity, are also expected to dampen the growth momentum in the short term. After falling sharply in 2020, energy prices have increased at a tumultuous pace in the last quarter of 2021 to above pre-pandemic levels. High wholesale energy prices are making their way to retail prices for households and producers, though at a varying degree and pace across countries, with potential knock-on effects on consumption and business investment.

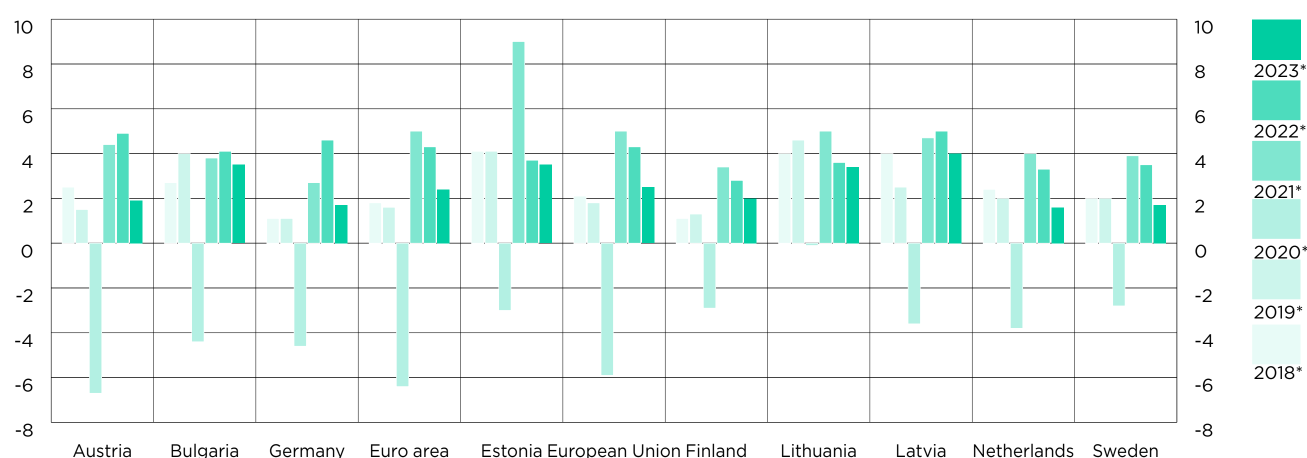
Despite these headwinds, based on EC 2021 autumn forecast, the EU is projected to achieve a growth rate of 5.0% for 2021 as a whole. In 2022, the positive effect from the re-opening is set to fade out, while supply bottlenecks loosen and energy prices abate. Growth is however expected to be supported by an improving labour market, still high savings, favourable financing conditions and the full deployment of the European Recovery and Resilience Facility (RRF). Economic activity in the EU is thus projected to expand by a solid 4.3% (same as in the euro area) in 2022, before decelerating to 2.5% (2.4% in the euro area) in 2023.

Employment in the EU remained shy of its pre-pandemic level throughout 2021, and the amount of labour market slack had not yet been fully re-absorbed, on account of a still high number of unemployed people and inactive people who are available to work but not actively seeking job. As the economy expands, the labour market is forecasted to complete its recovery in 2022. An estimated 3.4 million jobs are projected to be created in 2022 and 2023 by the EC forecast, bringing the unemployment rate in the EU down to 6.5% in 2023.

In the last quarter of 2021, increases in energy prices well above the pre-pandemic levels fuelled new inflationary pressures and price increases have become broad-based, partly also due to the impact of supply disruptions. As a result, core inflation in the euro area is set to peak at 3.7% in the last quarter of 2021 and continue recording high prints in the first half of 2022. After reaching 2.4% on an annual basis in 2021, inflation in the euro area is forecasted by EC to decline to 2.2% in 2022 and 1.4% in 2023, as energy prices are set to gradually level out as from the second half of 2022 and the imbalances between supply and demand solve.

Although the impact of the pandemic on economic activity has weakened considerably, COVID-19 has not yet been defeated and recovery is heavily dependent on its evolution, both within and outside the EU. In the EU, this risk is particularly relevant in member states with relatively low vaccination rates. Besides the risks around the evolution of the pandemic, economic risks also relate to the potential protracted impact of the current supply constraints and bottlenecks. Inflation may turn out higher than forecasted if supply constraints are more persistent and above-productivity wage increases are passed on to consumer

GDP GROWTH (% YOY)



Source: European Commission

prices. The main upside risk to the growth outlook is related to potential strong efficiency gains and durable productivity advances triggered by the pandemic-induced structural changes. A new risk that has emerged is the war started by Russia against Ukraine, which is adding to inflationary pressure across the EU through rising commodity prices. Depending on the course of the war and the collateral effects of the sanctions against Russia, it may start affecting the economic confidence of the countries in the region. Further risks from the external side come from the ongoing debt crisis in China's real estate sector, which primarily risks undermining the growth outlook in China, but with potential spill-overs to the rest of the world. Extreme weather events related to climate change and the deterioration of the environment may be also occurring at a frequency and scope that takes on macroeconomic relevance.

BALTIC COUNTRIES – ESTONIA, LATVIA AND LITHUANIA

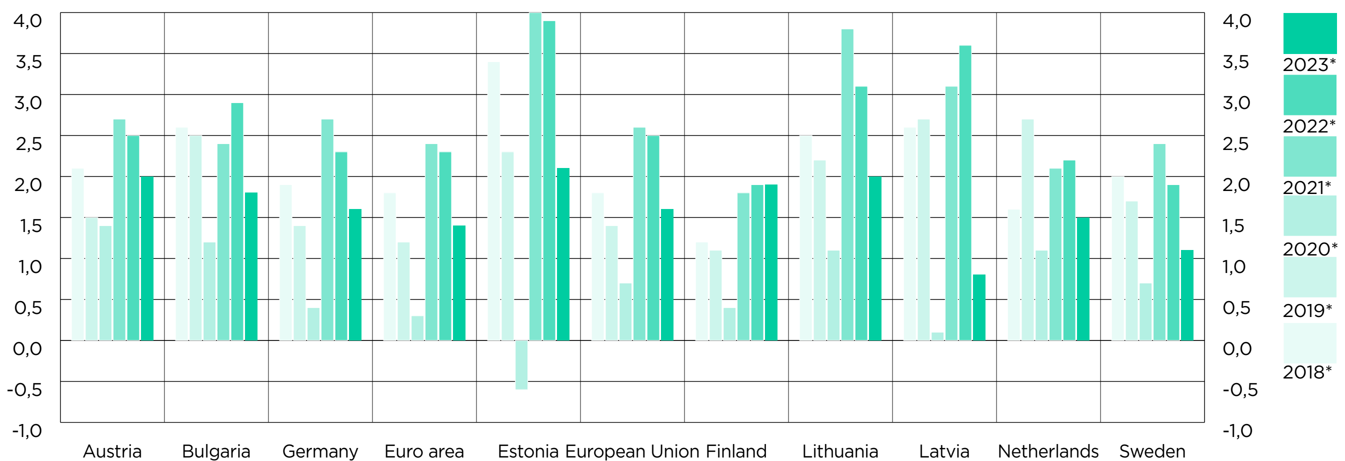
Following a moderate contraction in 2020, Estonia's GDP was forecasted by the EC to increase by 9% in real terms in 2021, driven by private demand, government stimulus and buoyant exports. The expected sizeable increase in household consumption is driven by several factors: the removal of COVID-19 restrictions, some persisting fiscal support measures and the early withdrawal of assets from the second pillar of the pension system for a net amount of around 4% of GDP, about half of which are expected to lift consumption. Growth is expected to remain strong in 2022-23 supported by a recovery in employment, sustained wage growth and dynamic foreign demand.

Inflation surged in 2021, fuelled by the transitory increases in imported energy prices gradually passing through to other goods and services. Annual HICP inflation is forecasted at 4.0% in 2021, 3.9% in 2022, and 2.1% in 2023. The recent energy price hikes and global supply bottlenecks are bound to raise manufacturing, transport and delivery costs, affecting price developments in a significant portion of the economy.

Latvia's economy was rebounding strongly in 2021 thanks to sizeable government support measures and solid export performance. Following a temporary slowdown toward the end of 2021, GDP is forecasted to return to strong growth in the second quarter of 2022 as the unwinding of excess savings drive up private consumption and a pick-up in EU fund inflows boosts investments. Private consumption will take over as the main growth driver supported by strong wage growth and extra savings accumulated over the past years. Inflation is set to rise due to a significant increase in energy prices. The labour market is expected to improve in line with economic activity, with the unemployment rate approaching pre-crisis lows by the end of 2023.

Lithuania's economy returned to its pre-pandemic growth path in 2021. Despite a still elevated unemployment rate, strong economic growth is resulting in rising shortages in the labour market with an impact on wage developments. Going forward, while growth is set to moderate, the economy is projected to continue to be supported by the good financial position of businesses, accumulated household savings, and rising household income. Increasing prices of energy and non-energy industrial goods, both influenced by developments in external markets, are pushing up inflation. A possible worsening of the COVID-19 situation remains a downside risk as it could lead to new containment measures.

HARMONISED INDEX OF CONSUMER PRICES (% YOY)



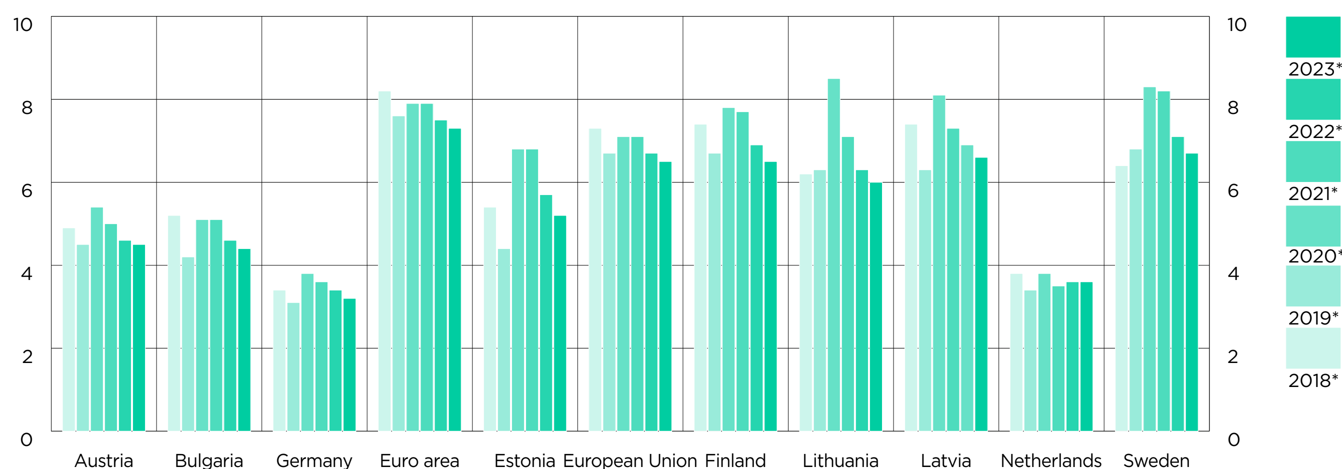
Source: European Commission

NORDIC COUNTRIES – FINLAND AND SWEDEN

Thanks to a strong GDP rebound in the second quarter of 2021 and a relatively mild economic contraction in 2020, economic activity already reached the pre-crisis level in mid-2021 in Finland. Economic growth is expected to continue over the forecast horizon, driven by private consumption and investment favourably impacting the labour market. Following a contraction of 2.9% in 2020, annual GDP is forecasted to grow by 3.4% in 2021. While the economy has recovered overall, the worst-hit sectors still need time to recover fully, relying heavily on further normalisation in the external environment. GDP is forecasted to grow by 2.8% in 2022 when the growth momentum is expected to take full effect, with a normalisation of the services sector. Domestic demand is also set to drive GDP growth in the medium term. Employment is expected to continue growing towards pre-pandemic levels, with crisis-hit sectors expected to catch up substantially during 2022. Wages are expected to rise moderately in 2022 and 2023. Consumer prices rose strongly in 2021 primarily because of a strong upswing in energy prices. This factor is expected to fade away in 2022.

Despite supply chain disruptions, economic growth in Sweden remained strong in the second half of 2021, driven by private consumption and investments. Growth rates are projected to remain relatively high in 2022 before moderating in 2023 as the impulses from the recovery fade. Inflation is forecasted to peak in 2021 at 2.5% largely due to increases in energy prices, particularly electricity, before gradually moving back to around 1.5% in 2023, as the rise in energy prices is forecasted to end. This partly mirrors trends in European electricity wholesale markets and was reinforced by weather-related factors such as low water levels in the basins supplying Swedish hydro-electricity plants as well as unusually low generation of wind power. Unemployment is set to fall to just below 7% by 2023, however, long-term unemployment data point at a heightened risk of persistent unemployment for those with weak links to the labour market.

UNEMPLOYMENT RATE (%)



Allikas: Euroopa Komisjon

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

In Germany real GDP was projected to rebound by 2.7% in 2021 by the EC. In 2022, the level of activity is forecasted to be 4.6% higher than the year before, as all final demand components regain pre-crisis levels. In 2023, GDP is expected to grow by 1.7%, assuming a normalisation of supply and demand dynamics. Easing of containment measures spurred spending on services at the end of 2021; however, supply bottlenecks are slowing down manufacturing and putting a lid on the rebound of exports and investment. Shortage of materials is also likely to add to inflation pressures, together with base effects and higher energy prices. Still, the economy and the labour market are well set to recover. Lingering supply bottlenecks and elevated energy prices are expected to keep inflation above 2% in 2022. Even if tightening, the labour market is not expected to generate significant additional price pressures. In 2023 inflation is then expected to slow to below 2%.

In Austria the COVID-19 pandemic and related containment measures led to a strong economic contraction in 2020. In 2021, economic activity started to recover on the back of strong pent-up demand. The economic expansion is expected to accelerate in 2022 and continue in 2023, mainly driven by domestic demand. Both pent-up demand and the unleashing of precautionary savings are expected to boost private consumption over the forecast horizon. Overall, real GDP is expected to grow by 4.9% in 2022 and 1.9% in 2023. The unemployment rate is forecasted to drop to 5.0% in 2021 and to stabilise at pre-crisis levels from 2022 onwards, in line with the projected economic expansion. Rising oil and gas prices drove the noticeable increase of the HICP over the course of 2021, but the energy inflation is expected to normalise as from the second quarter of 2022 as base effects fade.

In the Netherlands the economic recovery in 2021 was broad-based, with private consumption, investment, government consumption and net exports all contributing to growth. Economic growth is projected to remain robust in 2022, by the EC, with a strong contribution from private consumption. In 2023, growth is forecasted to moderate to 1.6%. With support measures still in place for a large part of the year and economic activity rebounding, the unemployment rate is expected to decrease to 3.5% in 2021. Evidence of a tight labour market has started to emerge, with the number of vacancies surpassing the number of the unemployed and several sectors experiencing labour shortages. HICP inflation is forecasted to increase from 1.1% in 2020 to around 2.1% in 2021 and to 2.2% in 2022, before decreasing again to 1.5% in 2023. The increase in inflation in 2021 and 2022 is mainly driven by

oil and gas price increases while the temporary surge in demand due to the economic rebound and, to a limited degree, higher intermediate input prices also play a role. Given the strong dependency on natural gas in the Netherlands, the gas price increase is expected to have a larger impact on households.

BULGARIA

In the first half of 2021, the economic recovery in Bulgaria was held back by high economic uncertainty and containment measures. Investment and services exports remained suppressed, while domestic consumption and goods exports contributed positively to aggregate demand. These two factors, combined with the implementation of the Recovery and Resilience Plan, are set to drive economic growth in the next two years. In 2022, GDP growth is forecasted to accelerate to 4.1% and remain strong at 3.5% in 2023. Recent hikes in energy and food prices are set to erode the purchasing power of low-income households. However, increases in social transfers and pensions in 2021 and 2022 should offset the effect of higher prices on households' budgets. The expansion of consumer demand is set to continue on the back of a tight labour market, high consumer confidence and strong lending activity. In the next two years, the favourable economic outlook is set to tighten the labour market further, with unemployment rates gradually declining to 4.6% in 2022 and 4.4% in 2023. HICP inflation accelerated sharply in the second and third quarters of 2021 on account of higher prices of the energy and unprocessed food. Annual inflation is seen at 2.4% in 2021 and 2.9% in 2022 on the back of high energy prices and their second- round effects. Inflation is then forecast to decelerate to 1.8% in 2023 as these effects are expected to dissipate.

OVERVIEW OF PERFORMANCE IN 2021

For Bigbank AS (Bigbank, the Group), 2021 was a year of unprecedented success in terms of both asset growth and profitability. Total assets grew to 1.2 billion euros, an increase of 393 million euros (51.9%), driven mainly by the loan portfolio. The loan portfolio (loans to customers) grew by 55.1%, reaching an all-time high of 896 million euros by the year-end. It is also worth noting that the loan portfolio increased in all the countries where Bigbank operates.

Loans to customers showed the strongest growth in Estonia: an increase of 152 million euros. At 288 million euros, the loan portfolio of the Estonian entity is now the largest in the Group. It is closely followed by the loan portfolio of the Lithuanian branch, which grew to 283 million euros by the year-end. The Finnish branch recorded remarkable growth with loans to customers exceeding 100 million euros for the first time and reaching 106 million euros by year-end.

The Group's net profit for 2021 was close to 36 million euros, almost 15 million euros (68.1%) up on 2020. Growth was supported mainly by three factors.

Firstly, interest income increased by approximately 8 million euros as a direct result of growth in the loan portfolio. The 11.1% increase in interest income lagged considerably behind the growth in the loan portfolio. This was, however, expected, as in the Group's loans to customers, relatively stronger growth was recorded for products with lower interest rates, such as loans to corporate customers and home loans to individuals. Moreover, there was continuing price pressure on the interest rates of consumer loans in all Bigbank's home markets.

Secondly, loss allowances for loans decreased by almost 3 million euros (18.9%) year on year. This is also attributable to growth in the share of loans to corporate customers and home loans. Even though the interest margin is lower for both of these products, the risk level associated with them, and consequently the need for loss allowances, is lower as well. Loss allowances for consumer loans also declined, reflecting the improved credit quality of the loan portfolio. The share of non-performing loans declined to 2.0% of the loan portfolio, a record low for recent years.

Thirdly, all Group entities performed well. Due to the combined effects of a favourable macroeconomic environment and carefully

considered investment decisions, the subsidiaries' net profit for the year was over 10 million euros in 2021, accounting for 28.8% of the Group's net profit.

Thanks to strong net profit growth, the Group's equity increased by 19.1% to 186 million euros. The Group's capitalisation continues to be solid. Return on equity (ROE) increased to 21.0%, a record level for recent years. The Group is well ahead of its long-term target of at least 15%.

Our outstanding performance in 2021 was achieved thanks to our committed and experienced team and our earlier long-term investments in our modern banking solution Nest. Our exceptional people and modern banking technology have enabled us to achieve profitable growth in the loan portfolio in all our markets.

As regards new products, the key developments in 2021 included the launch of home loans in Latvia and Lithuania, leasing to private customers in Lithuania and consumer loans in Bulgaria.

The COVID-19 crisis did not have a significant negative impact on the Group's financial performance in 2021. By monitoring closely the behaviour of loan customers, we were able to offer solutions to customers in difficulties that helped them get back to servicing their loans. This is also evidenced by a record-low percentage of non-performing loans in the total loan portfolio.

Payroll expenses grew by nearly 4 million euros (26.7%) and administrative expenses by over 3 million euros (29.4%) in 2021. These additional expenses were necessary to keep our team strong and motivated, especially after the challenging year 2020, when due to the public health crisis we could not carry out our training and motivation initiatives to the extent planned.

2021 was the final year of Bigbank's five-year business strategy for 2017–2021. Based on very strong financial performance in 2021, the period may be considered a success.

OUTLOOK FOR 2022

For Bigbank, 2022 marks the beginning of a new five-year strategy period: 2022–2026. For the next five years, we will target a 20% return on equity through a customer-centric approach and asset growth.

Our key plans for 2022 are to increase the loan portfolio and to continue profitable operations in the property field through our subsidiaries.

We expect to increase the loan portfolio mainly through loans to corporate customers and home loans to private customers. We believe that this approach will also ensure a high credit quality of the loan portfolio. While we are not planning to expand to new markets in 2022, we expect to take some of our existing products to new markets where they were not yet available in 2021.

As regards investment properties, we do not expect gains in 2022 to be comparable to 2021, but we expect them to continuously support achievement of Bigbank's profit target.

Investing in Bigbank's team will remain a priority. The macroeconomic situation is placing significant upward pressure on payroll in 2022 but Bigbank is committed to invest in its people even more than required by the market.

A major factor is the continuing market pressure on the interest rates of loan products, which the Group will seek to compensate with economies of scale and a rise in overall efficiency. Growth will be supported by Bigbank's banking software Nest, which facilitates launching existing products in markets where they have not been available so far. We will continue substantial investments in Nest in 2022 to make it even more functional and technologically advanced.

KEY PERFORMANCE INDICATORS

Financial position indicators *(in millions of euros)*	**31 Dec 2021**	**31 Dec 2020**
Total assets	1,151.1	757.8
Loans to customers	896.2	577.7
of which loan portfolio	906.7	591.6
of which interest receivable	16.2	13.5
of which loss allowances	-26.7	-27.5
Deposits from customers	898.3	547.5
Equity	186.1	156.3
Financial performance indicators		
Interest income	77.5	69.8
Interest expense	-7.8	-7.0
Salaries and associated charges	-17.8	-14.1
Administrative expenses	-14.3	-11.1
Net loss allowances on loans and financial investments	-11.4	-14.0
Profit for the year	35.9	21.4
Annual indicators		
Average equity	171.2	148.6
Average assets	954.5	666.0
Average interest-earning assets	890.3	619.9
Average interest-bearing liabilities	764.3	497.7
Total income (gross)	87.8	76.4
Ratios		
Common equity Tier 1 capital ratio	16.6%	21.1%
Tier 1 capital ratio	16.6%	21.1%
Total capital ratio	18.3%	21.9%
Leverage ratio	12.7%	17.2%
Liquidity coverage ratio (LCR)	257.8%	659.0%
Net stable funding ratio (NSFR)	127.0%	130.0%
Minimum requirement for eligible liabilities (MREL)	18.3%	18.7%
Return on assets (ROA)	3.8%	3.2%
Return on equity (ROE)	21.0%	14.4%
Profit margin (PM)	40.9%	27.9%
Return on loans	10.2%	13.1%
Asset utilization ratio (AU)	9.2%	11.5%
Price difference (SPREAD)	7.7%	9.8%
Cost to income ratio (CIR)	54.9%	45.7%
Equity multiplier (EM)	5.6	4.5
Earnings per share (EPS), euros	449	267
Yield on interest-earning assets	8.7%	11.3%
Cost of interest-bearing liabilities	1.0%	1.4%

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

Common equity Tier 1 capital ratio (%) = common equity Tier 1 capital / total risk exposure amount * 100

Tier 1 capital ratio (%) = Tier 1 capital / total risk exposure amount * 100

Total capital ratio (%) = total own funds / total risk exposure amount * 100

Leverage ratio (%) = Tier 1 capital / total leverage ratio exposure * 100

Liquidity coverage ratio (LCR, %) = high-quality liquid assets / net cash outflows over the next 30 days * 100

Net stable funding ratio (NSFR, %) = stable funding / required stable funding * 100

Minimum requirement for own funds and eligible liabilities (MREL, %) = (total own funds + eligible liabilities) / total exposure * 100

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 / average loan portfolio

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

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

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

Equity multiplier (EM) = average assets / average equity

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

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

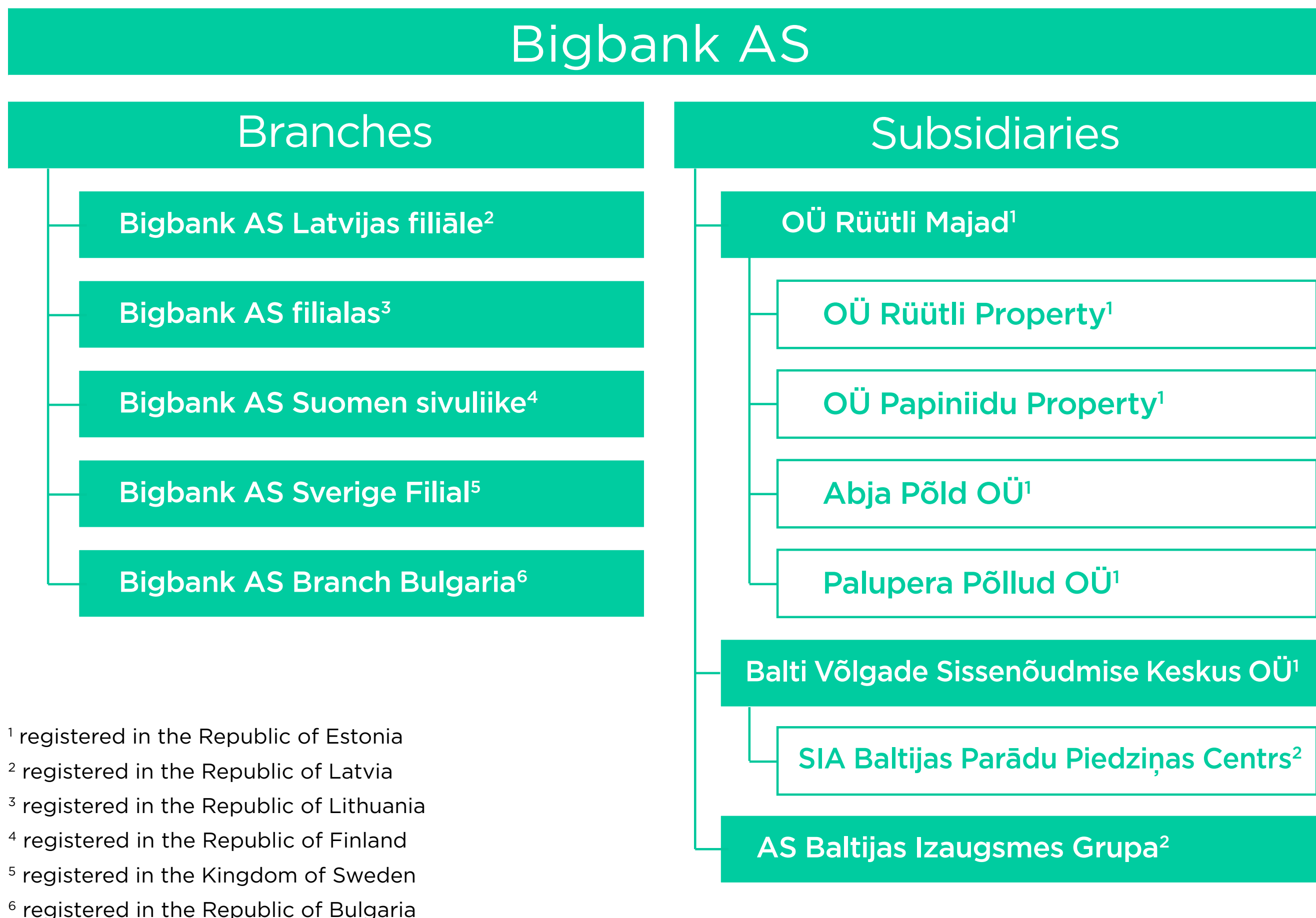
Yield on interest-earning assets = interest income / average interest-earning assets

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

ABOUT BIGBANK GROUP

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

The Group's structure at the reporting date:



The branches in Latvia, Lithuania, Finland, Sweden and Bulgaria offer lending services similar to those of the parent. The parent and its Latvian, Finnish and Swedish branches also offer deposit services. In addition, Bigbank AS provides deposit services on a cross-border basis in Germany, the Netherlands and Austria.

The core business of OÜ Rüütli Majad and its subsidiary OÜ Papiniidu Property, which was established in the second quarter of 2021, is property management, and the subsidiary OÜ Rüütli Property and Baltijas Izaugsmes Grupa AS are involved in agricultural land management. The subsidiaries Abja Põld OÜ and Palupera Põllud OÜ, both acquired in 2021, are agricultural enterprises engaged in grain growing, milk production and dairy farming. Balti Võlgade Sissenõudmise Keskus along with its subsidiary are not engaged in active business operations.

SHAREHOLDERS

At 31 December 2021, the shares in Bigbank AS were held by two individuals, each holding the same number of shares:

Shareholder	Number of shares	Interest
Parvel Pruunsild (chairman of the supervisory board)	40,000	50%
Vahur Voll (member of the supervisory board)	40,000	50%

The shares in Bigbank AS are registered in the Estonian Central Register of 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 2021, the Group was not involved in any significant litigation; there was a pending lawsuit with a former employee but its impact on the Group is not significant.

EMPLOYEES

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

EMPLOYEE PROFILE BY COUNTRY AT 31 DECEMBER 2021

Country	Number of employees	Number of male employees	Number of female employees	Share of male employees	Share of female employees	Average length of service	Average age
Estonia	247	109	138	44%	56%	54 months	36 years
Finland	17	9	8	53%	47%	58 months	40 years
Latvia	70	10	60	14%	86%	69 months	34 years
Lithuania	82	33	49	40%	60%	55 months	33 years
Sweden	8	3	5	38%	62%	28 months	35 years
Bulgaria	8	4	4	50%	50%	12 months	37 years
Total	**432**	**168**	**264**	**39%**	**61%**	**56 months**	**35 years**

At the reporting date, the Group had 464 employees compared with 383 at the end of 2020. The table above does not include information on employees (32) of agricultural subsidiaries acquired in September. When planning our most important activities in human resource management in 2022, we take into account that 38% of employees have been with us for less than 23 months as well as the fact that technology staff are the second biggest (19%) group of our employees.

EMPLOYEE EXPERIENCE STRATEGY FOCUS AREAS FOR 2018-2021:

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

The main results of 2021 by focus areas were as follows:

Focus 1: Bigbank is an attractive employer and we apply value-based recruitment principles.

In 2021, major changes took place in the labour market. At the beginning of the year, there was a rise in perceived labour shortage as the employment expectations of employers improved, which led to an increase in voluntary employee turnover and a wage rise. This, along with the impact of the COVID-19 pandemic, has made finding and keeping good employees very hard for companies. Today employers need to put much more effort into persuading their existing or future employees to stay with them or join them. We at Bigbank have also reviewed our value proposition and recruitment process in order to remain an attractive employer for our current and future staff.

To support our value-based recruitment process, we introduced a new career page in 2021, designed with input from the HR managers in all the countries where we operate and employees from different focus groups. In addition to job vacancies, the new career page provides information about our values, corporate culture and the success stories of our people.

As a result, we were able to recruit 86% more employees in 2021, compared with the average result for the past five years.

To understand and regularly monitor employee experience, we collect quarterly employee feedback in all cities where Bigbank has an office and staff. We also carry out a comprehensive employee satisfaction survey each year. The results of 2021 hit five-year highs in all the aspects measured by the index.

EMPLOYEE SATISFACTION INDEX

We fill vacancies by recruiting first from within the Group. A significant number of key positions at branches and group level units were also filled internally in 2021. This provides capable employees with an opportunity to move between different management levels, areas, countries and cities. We are proud that a large number of candidates come through the recommendations of our employees and that we have a strong positive trend among Bigbank alumni who come back to us.

We reached out to prospective employees, introducing Bigbank's work culture and experience in social media. We started sharing employee success and experience stories across all major channels, recognising our employees and illustrating our value proposition through real-life experiences. Our official pages (such as Lifeatbigbank on Instagram) offered visuals and stories about what makes us who we are today and our staff shared their #bigbankwow experiences through photos and stories in different social media channels.

ABOUT US

More than just a job

Our culture, the way we do business and empower our employees is guided by our values. We believe that a diverse and inclusive workforce is critical for running a sustainable and successful business, and we build talented teams to drive business results.

We organise in-house training programmes and improve our expertise and skills in external training courses and conferences, do work-shadowing and experience sharing between teams and units across Bigbank.

Nobody, who ever gave their best regretted it! Take a deep breath and go for it. In my experience, there are plenty of caring and professional colleagues, who appreciate this and join in. #bigbankwow

Rainer Punga

Head of Data Migration Unit - Estonia

REVIEWS

Here's what our employees say about us...

Our new career page

Focus 2: We provide excellent support for new and internally rotating employees.

Due to the development of the organisation, the situation in the Baltic labour market and the ongoing COVID-19 pandemic restrictions, supporting the induction of both new and rotating employees remained a priority in 2021.

Bigbank has an in-depth induction programme, the content of which we adjust to each employee, based on his or her duties and background. The main focus in 2021 was on optimising the programme. Many of the training courses that previously took place on site were transferred to a self-study or hybrid format, which allows for a more flexible and playful approach to training. In comparing our programme to that of their previous employers, new staff positively highlighted the employee-centric, well-planned and excellently organised nature of our approach.

Focus 3: We provide excellent management and leadership service to employees, including employees on long-term leave (e.g. parental leave).

In 2021, one of the priorities of the Group's HR team and management board was to develop and introduce a leadership competency model and a development programme to support it.

Managers of different levels contributed to the development of the competency model. Together with the cooperation partner they defined the specific competencies needed in our company to provide excellent management services to our employees. The input was used to create a competency model as well as a value proposition for excellent management services for our existing and new employees.

TOP LEVEL LEADERSHIP

By considering your unique qualities, your manager prepares a personal induction program for you to make joining Bigbank **simple** and easy.

By facilitating cooperation, your manager helps you to achieve set goals and be **result-oriented**.

By noticing your progress, your manager boosts your **courage** to take up new challenges and grow professionally.

By being demanding and supportive, your manager is **caring** about how you are doing and your success.

By using the knowledge and experience, your manager helps you to **develop** your career and become the top talent.

Leadership as part of Bigbank's value proposition

To improve management quality, we carried on with a number of initiatives at all levels of management, including the following.

- In connection with the introduction of the leadership competencies model, we conducted pilot evaluations with an external partner for the members of the management in order to practice the use of the model and to obtain input for further development needs.
- In 2021, we had several external coaches who supported our top managers in their most challenging employee and leadership related topics.
- Managers participated in external training events consistent with their development goals.
- We launched a new manager's induction programme, which covers the main leadership topics based on the manager's prior experience and individual needs.
- We introduced a 6-month in-house leadership training programme.
- Once a quarter, we arrange execution seminars for top management, where we address financial performance as well as customer and employee experience issues. The focus of the development of management competencies is on the knowledge and skills required to manage change.

The employee satisfaction survey confirmed

that the activities carried out during the year met their objectives, as there was a significant increase in satisfaction with the Group's management and overall team spirit compared to previous years.

Improvement of leadership skills will continue to be a priority in our action plans for 2022.

Focus 4: Our remuneration system works well.

While there were no major changes in the remuneration policy and principles in 2021, we reviewed the descriptions of work families to ensure a well-functioning remuneration system. We also adjusted salaries in teams where the content of work has become significantly more complex over the past few years.

The employees' assessment of our remuneration system continues to be above average, and "competitive salary, interesting work and excellent opportunities for self-development" are continuously regarded as some of Bigbank's key strengths for our people.

Focus 5: We ensure short- and long-term replacement staff for business-critical positions and functions.

Short- and long-term replacement is a topic we have been dealing with since 2018. Due to COVID-19, the issue became particularly important in 2020. This is one of the key factors in ensuring Bigbank's continuity of operations and improving employee experience. At the beginning of 2021 we reviewed the contingency plan for business critical positions in light of the crisis caused by the pandemic and the adjustments made have proven to be effective. One of the goals for 2022 is to review the principles of the in-house professional development of young talent, in order to ensure that critical positions will remain filled even in today's challenging labour market conditions.

Focus 6: Our work environment and tools help employees do their job well and efficiently and stay healthy.

We monitor employee satisfaction with the work environment and regularly ask feedback at the country, city and office level. In 2021, we paid particular attention to mental health topics, offering employees and managers an opportunity to participate in various mental health courses and training courses. We shared relevant information on the company's internal website and invited employees to participate in various programmes supporting healthy lifestyles.

We develop ourselves to deliver better value tomorrow than today.

Hannes Aasamets
Product Engineering Manager

Social responsibility and sustainability report

Bigbank's social responsibility and sustainability report is based on the G4 Sustainability Reporting Guidelines (G4 Guidelines) of the Global Reporting Initiative (GRI). The G4 Guidelines offer two options for preparing a sustainability report: the comprehensive option and the core option. Bigbank has prepared its social responsibility and sustainability report using the core option.

CUSTOMERS

Bigbank strives to offer an excellent customer experience to people using its products and services. We therefore regularly ask customers what we could do differently to ensure that the customer experience we offer would meet or exceed their expectations and would encourage them to recommend us to their family, friends and acquaintances.

It matters to us what customers feel when they are using Bigbank's services, what they think of us and what they say about us. Customer feedback is read regularly by management, heads of business lines and the staff of business units. Each customer's experience is important to us.

Bigbank has customers in the Baltic countries, Finland, Sweden, Bulgaria, Germany, Austria and the Netherlands. Bigbank's mission is to help people improve their lives through seamless financial services.

During the past five years, we have been working systematically to improve customer experience with a view to increasing customers' trust and loyalty. We are encouraged by positive feedback: customers praise our service and fast and convenient processes and are increasingly willing to recommend us to others.

Bigbank cares about its customers and thus customer experience is enhanced by the entire team. All employees have at least one annual goal which is related to improving customer experience. This enables us to provide exceptional customer service that inspires customers to tell positive stories.

Customer experience management

At Bigbank, we want to meet our customers' expectations from the moment they take an interest in our products and services to the moment they cease using these products and services.

Our business strategy for 2017-2021 focused on sustainable growth, which assumes, among other things, consistent improvement of customer experience. Bigbank's customer experience strategy was developed in partnership with customers. In implementing the strategy in 2021, we focused on the following.

- In the fourth quarter, we expanded the collection of customer feedback to the processing of home loan applications. Now we can easily identify weaknesses that negatively affect customer experience. Based on feedback obtained, we significantly improved the efficiency of the processing of home loan applications in Estonia and Lithuania. In 2022, the work will continue across the Baltics.
- We improved customer experience at several touchpoints: signing a contract (the Net Promoter Score rose by 8% in 2021), one year after signing a contract (+13%), debt handling (+19%), customer service (+15%) and online banking (+17%).
- We continued to analyse how many customers are referred to us by friends or acquaintances. In the Baltic countries where Bigbank is well-known, the figure increased by 13% on average compared to 2020. The figure also increased in other countries: by 9% on average.

- We continued to share customer feedback and relevant statistics with all Bigbank employees on a regular basis. In doing that, we explained how we have provided added value to customers and highlighted what we could do even better.
- We continued to assess the quality of customer communication. Both assessment results and customer feedback confirm that our communication is professional, friendly and supportive. We implemented a new tool across the bank for transparent quality assessment, which helps us identify the training needs of our customer service teams and improve our training programmes in order to enhance skills and competencies and increase process efficiency.
- We improved the functionality of our online banking channel. Our customers in Estonia, Lithuania, Finland and Bulgaria can now conveniently apply for and sign a modification of their loan terms. Our home loan customers in Estonia, Latvia and Lithuania are notified of changes in Euribor. We also added the option of displaying messages and campaigns so that customers could choose to be informed about our news, offers and new products. Customers interested in deposits can now use a new digital form to submit their application.
- We continued to invest in regular employee training and development with a particular focus on quality improvement and the implementation of lean work methods.
- We organised the first bank-wide Customer Service Superstar competition to thank and recognise the colleagues who provide an exceptional customer experience on a daily basis. In tight competition, the winner was **Zane Bērziņa** from our Latvian office.

- In Latvia, we introduced a new tool to assess the quality of calls made to the call centre, which lets the customer evaluate our employee's professionalism immediately after the call.
- We offered existing products to new customer segments and introduced new products: home loans are now available in Latvia and Lithuania, car leases in Lithuania, credit accounts with added features in Sweden, refinancing loans in Finland, consumer loans in Bulgaria, leasing products for corporate customers in Latvia and Estonia, and agricultural and forest land loans in Estonia.
- We launched new websites in all countries, with a focus on simplicity and convenience of use.

Monitoring and measuring customer experience

We monitor customer feedback regularly and systematically to identify the strengths and weaknesses of our services and to understand whether our services meet customer expectations. Analysing feedback helps us understand what increases customers' loyalty and what does not. Increasing customer satisfaction and loyalty is also important for our business partners.

To measure customer experience, we:

- regularly request feedback on different customer experience touchpoints through the Net Promoter Score, First Contact Resolution and Customer Satisfaction Index (around 3,000 respondents per month in 2021);
- measure the effectiveness of customer communication by analysing call centre statistics and assess our employees' communication quality;
- study Bigbank's general brand positioning and image in all markets where we operate through annual brand perception surveys and compare the results with those of our competitors (based on a representative sample of around 1,000 respondents in each country);
- analyse the feedback provided by customers after they have contacted us by phone or e-mail.

With the above techniques we cover the main touchpoints of different customer groups' customer journeys and gain valuable insights into our customer service, products and pricing.

Customer complaints at Bigbank

Each customer is important to us. During the period under review, we responded to every complaint and analysed what we could do better to prevent the recurrence of issues of a similar nature. Customer complaints were filed at all branches and handled mainly by the front line staff. Where the prevention of a complaint requires major technological developments, the issue is passed on to the manager responsible for the area who determines a further action plan.

Responsible customer service

Responsible customer service is a key element of quality customer relationships. The responsible nature of our customer service is primarily reflected in six aspects:

1. We communicate with the customer proactively. Before signing a product agreement, we inform our customers of their obligations and potential risks.
2. We provide top-quality customer service. We review communication quality based on our approved quality model and service standard. To make sure that our people have the knowledge they need, we provide training and professional development opportunities, and regularly test our employees' knowledge.
3. We systematically review and analyse customer experience. Based on customer feedback we prevent potential problems.
4. We continuously monitor complaints and problems. We observe the complaint handling procedure and make changes to our products, services and processes where necessary.
5. We keep our promises and provide information effectively. We respond quickly to our customers' needs and inquiries.
6. We issue loans responsibly. We provide sufficient information and explanations and help our customers avoid a situation where they are unable to repay their loans.

Customer feedback on customer experience

In implementing the bank's strategy, we have worked hard to offer better customer experience and increase customer loyalty. We maintained a customer-centric approach in 2021 and our customers' loyalty and trust reached new highs.

We collect regular feedback on our products and services. As in previous years, the keywords

that frequently appeared in customer feedback were the following: professional, friendly, fast, convenient, and good contract terms and conditions.

We assess customer experience using the Net Promoter Score, which measures customer loyalty. The overall score increased again: for the bank as a whole, the average score for 2021 was 16% higher than in 2020. This is a considerable increase, which we have achieved through consistent improvement of our products and services based on customer feedback. In terms of countries, Finland (+37%), Latvia (+22%) and Estonia (+15%) showed the greatest improvement. As in previous years, customer loyalty is at its highest immediately after signing a contract.

Bigbank's vision is to be the most recommended digital financial service provider in the countries where it operates. The feedback received from our customers in 2021 reflects that we have taken a big step closer to achieving our vision. We are grateful to all our employees and customers.

BIGBANK AS A RESPONSIBLE EMPLOYER

One of Bigbank's most important strategic objectives has always been to become a company and an employer with a good reputation. We wish to develop a strong brand both internally and externally.

We pay attention to human rights issues in our values, code of ethics and whistleblowing hotline communication.

- Values: One of our values is caring – we listen, understand and support each other.
- Whistleblowing hotline: This is part of Bigbank's administrative culture and aims to support Bigbank's commitment to values and agreed rules of conduct, to promote openness and respect for employees.
- Code of Ethics: In addition to the above, the code of ethics covers the social responsibility of employees, the role of Bigbank as a responsible company that observes laws and regulations in all countries in which we operate, the obligation of employees to treat all colleagues and customers equally and not to discriminate against another person on the grounds of nationality, sex, race, colour, appearance, religion or belief, disability, age or sexual orientation.

Introducing and discussing the values, whistleblowing hotline, and code of ethics is the responsibility of each manager and is a mandatory part of the induction program for all new employees.

Besides the above, the rights of employees are regulated by their employment contract as well as our internal rules of work, remuneration policy and remuneration principles.

- Internal rules of work contain information about overtime, absences, holidays, travel, health and wellbeing, safety of the work environment and other topics related to employee rights.
- Remuneration policy provides a framework for fair and transparent remuneration within the Group. In 2021, we supplemented the Group's remuneration policy with control measures aimed at ensuring that the principle of gender neutrality is respected and that male and female employees are remunerated based on criteria related to the capabilities, competence, qualifications, experience and knowledge of the employee or material risk taker.
- Remuneration principles set clear guidelines for fair and transparent remuneration. Among other things, the remuneration principles define benefits provided by the bank that all employees are entitled to.

In 2021, we clarified the principles of equal opportunities and non-discrimination in the relevant internal procedures. We are convinced that gender equality is not only a fundamental human right, but also a necessary foundation for a peaceful, prosperous and sustainable world. When assessing the suitability of a candidate for a new job, we follow the criteria set out in our internal regulations, including the candidate's education, skills and previous work experience.

We also increased the diversity of our team by balancing, among other things, the proportions of different age groups. To

improve our employees' work-life balance, we offer, where necessary, flexible options to work from home and/or attend meetings via videoconferencing. We did it already before the COVID-19 restrictions were imposed, we are doing it now and we will continue doing it when the restrictions are lifted.

The UN 2030 Agenda requires ensuring occupational safety for all employees. In 2021, we once again paid more attention to raising our employees' health awareness. We shared information about how employees can protect themselves against viral diseases and worked hard to provide employees with information and support in creating optimal working conditions in the home office and understanding the importance of mental health care.

The UN 2030 Agenda sets the goal of achieving higher economic productivity through diversification and technological innovation. In 2017–2020, we launched our new information system Nest. In addition to supporting growth plans, it supports the creation of smart jobs, entrepreneurship, creativity and innovation, and increasing the availability of financial services.

Our strategy for 2017–2021 envisaged organic growth through rapid response to market needs, the launch of new products, the introduction of a new information system and the improvement of employees' digital literacy. In 2021, we made significant progress in meeting all of these strategic objectives. Among other things, we diversified job profiles, reduced the number of repetitive and trivial tasks, and enabled employees to focus on topics that require creativity and innovation.

At Bigbank, establishment of Group-level regulations related to services offered to employees as well as relevant supervision and reporting is the responsibility of the head of support services.

At the end of 2021, Bigbank had 464 employees: 279 in Estonia, 70 in Latvia, 82 in Lithuania, 17 in Finland, 8 in Sweden and 8 in Bulgaria. The annual average number of full-time employees was 412.

RESPONSIBLE ACTIVITIES

In recent years, we have consciously managed our activities as a responsible business, analysing our key stakeholder groups, increasing the benefits we provide to society, developing our employees and work environment and managing the company consistent with the values that are important to our main stakeholder groups. We believe that a commitment to sustainability, both in terms of mindset and plans and activities, supports the success of the whole society.

Bigbank values social contribution and ethical conduct and acts based on the principle of responsibility to ensure that laws, regulations and best practices are followed. To implement this in Bigbank's everyday operations, we have developed policies and internal rules of procedure that govern the daily work of the organisation.

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

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

Responsible lending, raising relevant awareness, and improving general financial education are our daily priorities. In partnership with other leading banks operating in Estonia,

we contribute to these causes through the activities of the financial education and communication committee of the Estonian Banking Association. As a member of FinanceEstonia, we are also actively involved in designing the Estonian financial services environment and developing financial technology. We participate in this organisation because we want our financial services market to have a diverse range of services and reasonable regulation.

Bigbank's customer service priorities include the prevention of money laundering and terrorist financing, and the implementation of all relevant requirements with a view to lowering the probability of the Estonian financial sector being used for criminal purposes, reducing systemic risks and increasing the stability, reliability and transparency of the financial sector.

ECONOMIC ACTIVITIES

Bigbank is a successful growth-oriented international credit institution whose main priority is the wellbeing of its customers. According to the new five-year strategy (2022-2026), Bigbank wishes to maintain its return on equity above 20%. This level of profitability allows the Group to grow without raising additional Tier 1 capital. In the previous strategy period (2017-2021), a strong foundation was laid for Bigbank's further growth through the creation and retention of a strong team as well as vigorous technological development, which is mainly reflected in investments in the Group's own banking software Nest. The results of 2021 showed that the path chosen brings success.

In 2022 and beyond, Bigbank expects to significantly increase its operating volumes while meeting its profitability target. The year 2021 saw a new trend in the Group's operations: the share of corporate loans and private home loans in the total loan portfolio grew significantly. The trend is expected to continue in 2022.

Bigbank's mission is to continuously improve people's lives by providing them with seamless financial services. The aim is to do this with a modern and automated product portfolio that has expanded year by year and is planned to expand in the future.

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

We have established internal regulations for organising sourcing and outsourcing activities and carefully select our business partners and vendors.

According to Bigbank's dividend policy, the precondition for a dividend distribution is that all regulatory requirements are met. Every calendar year the Group may distribute a minimum of 3 million euros of its audited net profit as dividends, including income tax, but not more than 6 million euros. For both 2019 and 2020, the dividend distribution was 6 million euros (6 million euros is also expected for 2021).

ENVIRONMENTAL ACTIVITIES

We make a continuous effort to reduce the environmental impacts of our activities. One of the guiding principles of the new strategy period is that for Bigbank the goal of carbon neutrality is not a restriction but an opportunity. This means that for the next five years the Group will take new steps towards carbon neutrality and continue to promote sustainability through its operations and product portfolio.

In our daily business, we are guided by the goal of minimising our carbon footprint. We continue to cut down on corporate travel and have virtual meetings instead. As a digital bank, we use increasingly less. We use our hardware to the maximum and keep its energy costs under control. For example, we have installed a program on our desktop computers, which significantly reduces their electricity consumption at night-time and weekends when no one is using them. In addition, we sort waste as required by the building managers.

For example, at our Tartu office, which has a class C energy efficiency certificate, we have set up containers for sorting waste into biodegradable and municipal waste as well as plastic, metal and glass packaging.

We continue to optimise our processes, primarily through three methods:

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

RESPONSIBLE TAXPAYER

As a member of the Estonian Taxpayers' Association (EML), we have been defending the interests and rights of taxpayers since 1995. Being a member of the EML helps ensure that we are always up-to-date on tax matters. We support the EML's activities by helping make sure that tax laws are fair and understandable, that the tax burden is optimal, that the tax authority acts honestly and professionally, and that taxpayers' money is used purposefully.

Bigbank operates through branches in five European countries, where it is registered as a local taxpayer. We pay all applicable taxes in all these countries in a proper and timely manner and act in compliance with laws and regulations.

COMMUNITY AND SOCIETY

At Bigbank, we believe that each of us can help make the world a better place. We are engaged and observe the principles of responsible lending in our daily work, contribute actively to the advancement of financial education in all the markets where we operate, and support initiatives important for society through sponsoring and charity work.

As a bank, we understand and recognise our role in the communities where we operate and contribute to the development of those communities. We value healthy lifestyles, cultivation of the mind and sustainability of the community. Accordingly, for years we have been supporting culture, sports, young people and large families through various charity and sponsoring projects.

SPONSORSHIP AND CHARITABLE ACTIVITIES

Bigbank's most significant and outstanding support activities in 2021 were as follows:

Supporting volleyball. Bigbank has been the name sponsor of the Estonian men's volleyball team, **Bigbank Tartu** since 2012 and the name sponsor of the Estonian women's team **Tartu Ülikool/Bigbank** since 2018. In 2021, Bigbank AS and the volleyball club SK Duo extended their cooperation for the next three years, concluding a sponsorship contract on 500,000 euros.

The purpose of our long-standing collaboration is to support the development of volleyball and Estonian sports. We are proud that during our partnership Estonian volleyball has developed rapidly. Within that time, the Estonian national men's team has repeatedly qualified for the European Volleyball Championship.

In 2021, Bigbank Tartu again became the Estonian champion after a seven-year break. At the same time, they won the first place at the Estonian Cup and came fourth at the Baltic Championships. In addition, Bigbank Tartu participated in the strongest volleyball series in Europe for the first time in the long history of the club. Two rounds were played in the CEV Champions League and the team narrowly missed out on qualifying for the main competition.

The University of Tartu / Bigbank women's team won first place at the Estonian Cup and took third place at both the Estonian Championships and the Baltic Championships.

With great gratitude and pride, Bigbank accepted the title issued by the Ministry of Culture and the Estonian Olympic Committee in 2021: Sports Friend 2021.

Bigbank's Large Family Day. Since 2005, Bigbank has been working with the Estonian Association of Large Families to offer families with four or more children an opportunity to enjoy a special day full of fun activities. Additionally, every year we recognise an active large family that has made a positive impact on the community with the Large Family of the Year title and award. The winner of the Large Family of the Year 2021 title and an award of 10,000 euros put up by Bigbank was the Gužov family from Vihterpalu that has five children.

According to Jonna Pechter, the head of Bigbank Estonia, the purpose of the 10,000-euro award is to make small – or bigger – dreams come true in a large family, for example by enabling the children to pursue a hobby or an interest.

The Large Family of the Year prize was given out in 2021 for the twelfth time. This year, 68 families from all over Estonia participated in the competition.

Bigbank cares about the environment. In June 2021, the Estonian Recycling Centre launched the initiative of setting up mobile collection boxes at organisations, which is a new and convenient way for people to donate the things that are in good condition but that they do not need any longer. The first collection boxes were set up in Bigbank Estonia's Tallinn and Tartu offices. As Bigbank's employees believe in recycling, the boxes were filled quicky.

Animal shelter campaign. For the eighth consecutive year we organised the charitable social media campaign #laiBigbankziedo (#letBigbankDonate) in Latvia. The purpose of the project is to raise the public's awareness of animal welfare issues and support the Labās mājas animal shelter. We invited the users of Facebook and Instagram to post pictures of themselves with their pets using the hashtag #laiBigbankziedo. For each posted picture we supported the shelter with 1 euro. We raised 4,000 euros in 2021 which was donated to heat the shelter's 1,000 square metre premises during the winter season.

Volunteering for a Salvation Army fundraiser. The Christmas Cauldron is an annual charity fundraiser organised by the Salvation Army in Finland to help families in need. Cauldron-shaped containers placed on streets have been symbols of help for the entire nearly 130-year history of the Salvation Army and have become a prominent part of the Finnish Christmas tradition. There are collection points all over Finland where people can leave their donations. Also, presents such as clothes and toys are welcome. The employees of our Finnish branch contributed to the fundraiser by helping receive donations in several shifts on five days before Christmas.

MEMBERSHIP IN ORGANISATIONS

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

Bigbank is a long-term member of the Estonian Chamber of Commerce and Industry and FinanceEstonia. Bigbank is also a member of the Estonian Banking Association and participates actively its working groups. In addition, the Group is a member of the Estonian Association of Information Technology and Telecommunications and the Estonian Leasing Association.

Bigbank is a member of the payment system SWIFT (the Society for Worldwide Interbank Financial Telecommunication) and the Eurosystem's cross border settlement system in TARGET2 (the Trans-European Automated Real-time Gross Settlement Express Transfer system). Bigbank has joined the SEPA (Single Euro Payments Area) Credit Transfer and Instant Credit Transfer scheme as an indirect member.

Result oriented

We are professional and committed to sustainable knowledge-based performance.

Simon Werner Schneider
Head of Cross-Border Unit

Corporate governance report

Bigbank complies with the Corporate Governance Recommendations (CGR) promulgated by the Estonian Financial Supervision and Resolution Authority consistent with the principle of proportionality. The CGR are advisory guidelines which are primarily intended for listed companies and companies with a large number of shareholders.

As a credit institution, Bigbank AS is subject to the supervision of the Estonian Financial Supervision and Resolution Authority. In addition to other legislation, the Group's operations are governed by the Credit Institutions Act, which sets out requirements for the Group's management, governance and reporting. The Group's governing bodies are the general meeting, the supervisory board and the management board.

The sections below provide an overview of the governance of Bigbank AS and the guidance of the CGR that is currently not complied with together with relevant explanations. Most of the explanations are related to the shareholder structure of Bigbank AS and resulting differences.

GENERAL MEETING

The shareholders' general meeting is the highest governing body of Bigbank AS. The powers of the general meeting are based on legislation and the articles of association.

General meetings are called by the management board. Shareholders must be given at least three weeks' notice of an annual general meeting and at least one week's notice of an extraordinary general meeting. Notice of a general meeting is sent to a shareholder by registered mail to the address entered in the share register. Notice of a general meeting may also be sent by regular mail, electronically or by fax, provided that the letter or electronic or fax message includes a note requiring prompt acknowledgment of receipt. The shareholders of Bigbank AS have the right to adopt decisions without calling a general meeting.

The shareholders had one annual general meeting and five extraordinary general meetings in 2021.

Bigbank AS does not comply with the article of the CGR according to which a notice of a general meeting should include the address where shareholders can send questions regarding agenda items (article 1.1.1). Nor does Bigbank AS comply with the articles of the CGR according to which a notice of a general meeting should be published on the corporate website (article 1.2.1) along with reasons for calling the general meeting and explanations of agenda items relating to significant changes (article 1.2.2), essential information related to the agenda should be published on the corporate website (article 1.2.3) and the proposals of the supervisory board and shareholders regarding agenda items should be published on the corporate website (article 1.2.4).

The above requirements are not relevant to the Group as it has only two shareholders who are also members of the supervisory board and thus continuously informed about the Group's activities.

Bigbank AS partially complies with article 1.3.2 of the CGR according to which the members of the management board, the chairman of the supervisory board and, if necessary, the members of the supervisory board should attend the general meeting. The attendance of the above persons depends on the matters to be decided at the meeting. Bigbank AS does not make observing a general meeting possible by means of communication equipment (article 1.3.3.) because all shareholders can vote on agenda items electronically.

MANAGEMENT BOARD

The responsibilities of the management board are regulated by the articles of association of Bigbank AS and the Commercial Code and the Credit Institutions Act of the Republic of Estonia. The management board makes everyday management decisions, taking

into account the best interests of the bank and the shareholders, and makes sure that the company develops sustainably and in accordance with the goals set and the strategy approved by the supervisory board.

The supervisory board selects the members of the management board and appoints the chairman of the management board. The suitability of management board members, including their education, qualifications and previous work experience, is assessed based on the internal rules of Bigbank AS. Upon the appointment of a member of the management board, the supervisory board defines the member's area of responsibility and powers in the contract of service signed with the member of the management board. The term of office of a member of the management board is three years and a member of the management board can be reappointed. The management board prepares the strategy and budget of Bigbank AS which are submitted for approval to the supervisory board.

The management board of Bigbank AS has four members (according to the articles of association, three to five members):

- **Martin Länts** – chairman of the management board
- **Sven Raba** – member of the management board
- **Mart Veskimägi** – member of the management board
- **Argo Kiltsmann** – member of the management board

The members of the management board submit a declaration of economic interests on an annual basis. At 31 December 2021, the members of the parent company's management board were represented in the governing bodies of the Group's subsidiaries as follows:

- Argo Kiltsmann - chairman of the supervisory board of Baltijas Izaudzmes Grupa AS
- Martin Länts - member of the supervisory board of Baltijas Izaudzmes Grupa AS
- Mart Veskimägi - member of the supervisory board of Baltijas Izaugsmes Grupa AS

The remuneration principles for the members of the management board are described in the Principles of remuneration for members of the management board and employees section of this report. In 2021, Bigbank AS did not comply with article 2.2.7 of the CGR according to which the benefits and bonus schemes of a member of the management board should be disclosed on the corporate website and in the corporate governance report and the principles of remuneration of the members of the management board should be presented at the general meeting. Bigbank AS discloses summarised information about the remuneration of the members of the Group's management board in its annual report and transactions with related parties are disclosed in note 31.

SUPERVISORY BOARD

The activities of the supervisory board of Bigbank AS are regulated by the articles of association of Bigbank AS and the Commercial Code and the Credit Institutions Act of the Republic of Estonia, which set out the requirements for the members of the supervisory board, the cooperation between the supervisory board and the management board and the controls established by the supervisory board.

The supervisory board is responsible for regularly overseeing the activities of the management board of Bigbank AS. The supervisory board gives instructions to the management board for organising the management of Bigbank AS and participates in the adoption of important decisions related to the operation of Bigbank AS. The supervisory board, in cooperation with the management board, ensures long-term planning of Bigbank's activities. The work of the supervisory board is coordinated by the chairman of the supervisory board who is elected by the members of the supervisory board from among themselves.

The members of the supervisory board are elected by the general meeting for a term of

two years. The supervisory board of Bigbank AS has five members (according to the articles of association, five to seven members):

- **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 supervisory board had five scheduled meetings in 2021 and on 23 occasions decisions were adopted electronically. All members of the supervisory board attended at least half of the meetings held in 2021.

The general meeting decides on the remuneration of the supervisory board. The remuneration of the members of the supervisory board consists of fixed remuneration. Bigbank AS does not deem it necessary to comply with article 3.2.5 of the CGR according to which the company should disclose detailed information about the remuneration of each member of the supervisory board because the impact of the remuneration of the supervisory board on the Group's financial results is not significant. Transactions with related parties are disclosed in note 31.

Two of the five members of the supervisory board of Bigbank AS are shareholders, each holding 50% of the shares. Bigbank 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 decisions detrimental to Bigbank AS and that the independence of the supervisory board is ensured. Other members of the supervisory board are independent as required by article 3.2.2 of the CGR.

AUDIT COMMITTEE

The audit committee is a functional body set up by the supervisory board that is responsible for advising the supervisory board in matters related to accounting, auditing, risk management, internal control and internal audit, budgeting, and legal and regulatory compliance. The committee monitors the statutory audit process of the company's annual report and consolidated financial statements and the independence of the external auditor. The audit committee has two members: Raul Eamets is the chairman of the committee and Parvel Pruunsild is the member of the committee. The members of the audit committee are not remunerated.

The audit committee had six meetings in 2021.

Bigbank AS does not disclose the committees set up by the supervisory board and their tasks, composition and place in the organisation on the corporate website (CGR article 3.1.3). Considering that the audit committee is appointed by the supervisory board whose members include the shareholders and that the members of the audit committee are elected from among the members of the supervisory board, disclosure of the above information on the corporate website is not relevant to the interests of shareholders and investors.

COOPERATION BETWEEN THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

The management board and the supervisory board work closely to best protect the interests of Bigbank AS. Their co-operation is, above all, based on an open exchange of opinions between and within the management board and the supervisory board. At least once a quarter, the members of the management board of Bigbank AS attend the meetings of the supervisory board where the supervisory board reviews, among other things, the Groups' financial performance. Also, the members of the management board are generally invited to other meetings of the supervisory board to discuss issues related to the Group's operation.

The division of responsibilities between the supervisory board and the management board is described in the articles of association of Bigbank AS. In cases not covered by the articles of association, the governance of Bigbank AS is primarily based on the provisions

of the Commercial Code. The management board also notifies the supervisory board of significant events related to Bigbank AS's management and activities outside meetings to ensure that the supervisory board receives all necessary and relevant information without delay. The management board provides the information which requires sufficient time for decision-making (e.g. reports to be approved) to the members of the supervisory board before the meeting of the supervisory board. In managing Bigbank AS, the management board observes the strategic instructions of the supervisory board and regularly discusses strategic management issues with the supervisory board.

DIVERSITY AND INCLUSION POLICY

Bigbank AS did not apply a diversity policy in 2021 because in selecting both managers and employees Bigbank is guided by the best interests of the Group and in selecting of the members of the governing bodies Bigbank also observes the requirements and the selection procedure for the members of the governing bodies set out in the Credit Institutions Act.

When assessing the suitability of the members of the governing bodies, Bigbank AS relies on relevant internal rules and, among other factors, takes into account the candidate's education, qualifications and previous professional experience. The candidate's reputation, experience, competencies and skills, management experience, other management-related criteria and other relevant known factors are also considered when assessing suitability. The Group observes the principle of avoiding gender-based or other discrimination of candidates.

DISCLOSURE OF INFORMATION

Bigbank AS treats all shareholders equally and notifies shareholders of all relevant circumstances, first and foremost, by e-mail. Bigbank AS makes its reports available on the corporate website. The Group's annual reports and interim reports are disclosed in Estonian and in English in compliance within the time-limits provided by law.

In 2021, Bigbank AS did not publish a financial calendar (CGR article 5.2.) because the regularity of reporting is also set out in the Credit Institutions Act. Also, Bigbank AS did not make responses to analysts' and shareholders' questions (CGR article 5.5.) or the dates of meetings with analysts, investors and the press (CGR article 5.6.) available on the corporate website, as this is not relevant in view of the small number of shareholders and the fact that they are well informed.

FINANCIAL REPORTING AND AUDITING

Bigbank AS publishes an annual report every year and quarterly reports during the financial year and makes them available on its website. The annual report of Bigbank AS is audited.

Bigbank AS submits to the general meeting an annual report that has been signed by the members of the management board. Contrary to the guidance of the CGR, the members of the supervisory board do not sign the annual report. Their position is included in the supervisory board's written report on the annual report and the annual report is approved by the supervisory board (CGR article 6.1.1.). Also, the auditor of Bigbank AS does not attend the approval of the annual report (CGR article 6.1.1.).

The auditor is appointed by the general meeting. In choosing the auditor, the company considers the candidate's competence and earlier experience in the field of financial services. The auditor is appointed for up to five years. Bigbank AS complies with the auditor rotation requirement. In autumn 2019, the management board organised a tender for audit services. Based on the outcome, KPMG Baltics OÜ (registry code 10096082) was chosen and appointed as the auditor of the Group by the shareholders' decision of 3 June 2020. A three-year contract was signed with KPMG Baltics OÜ for auditing the Group's annual reports for the years 2020-2022. The lead auditor is Eero Kaup.

During the reporting period, the auditor did not inform the supervisory board of any significant circumstances that had come to its attention and could affect the work of the supervisory board and the management of the Group. In

addition to the statutory audit, in the reporting period the auditor provided some non-audit services permitted by the Auditors Activities Act, including translation and training services and other services such as income tax return consulting in Sweden.

RISK MANAGEMENT AND CONTROL FUNCTIONS

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

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

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

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

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

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

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

The risk management area consists of the operational risk control unit, the quality control unit, the financial crime prevention unit, the information security unit, and the risk reporting and financial risk control unit. The heads of the units of the risk management area report regularly to the management board on the Group's risk profile and overall developments in the risk level.

Within the risk management area, the financial crime prevention unit's (FCPU) role is to ensure that the Group fulfils its obligations in relation

to anti-money laundering, terrorist financing prevention and monitoring politically exposed persons as required by the law and internal regulations and to facilitate the development of controls that support the detection and prevention of fraud. The FCPU reports directly to the management board.

The objectives and principles of risk management are described in more detail in note 3.

The internal audit unit is a structural unit of the Group, which is directly accountable to the Group's supervisory board and is therefore independent of the Group's management board. The unit consists of two internal auditors and the head of the unit. Internal audit is an independent, objective assurance and consulting activity designed to add value to and improve the Group's operations by using a systematic and disciplined approach to evaluate the efficiency and effectiveness of the risk management, governance and control processes. Internal audit adds value if it is in concordance with the Group's strategic objectives, focuses on important business risks, operates proactively and proficiently, and meets the expectations of the stakeholders. The internal audit unit acts on the basis of the statute approved by the Group's supervisory board. The statute of the internal audit unit describes the requirements to the staff of the internal audit unit with regard to independence, proficiency, authority, tasks, and scope of activities as well as the principles of quality assurance. The internal audit unit's work plan is approved by the Group's supervisory board.

WHISTLEBLOWING HOTLINE

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

Bigbank's employees can notify of possible internal misconduct, which may include breaches of the general rules of conduct established by the Group and procedures regulating internal work organisation as well as violation of legislation and neglect of the principles of good banking practice.

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

PRINCIPLES OF REMUNERATION FOR MEMBERS OF THE MANAGEMENT BOARD AND EMPLOYEES

The Group's remuneration policy is established by the supervisory board and its purpose is to ensure a fair and transparent remuneration system that is in compliance with prudent and efficient risk management principles and supports achievement of the Group's long-term objective – to be recognised as the best financial service provider that has strong risk management and a reputation for being an outstanding employer. The purpose is to ensure that remuneration decisions deliver sustainable value growth for all key stakeholders, including customers, shareholders and employees; to promote desired performance, conduct and value-based behaviour and to ensure that the manner of remuneration does not impede employees' honest, fair, transparent and professional behaviour, taking into account the rights and interests of customers; and to prevent the risk that remuneration drives excessive risk taking and conflicts of interest. The remuneration system ensures equal treatment of employees as rewards are based on the employee's performance and professional development during the year.

The supervisory board approves the Group's remuneration policy and reviews it annually in the fourth quarter or more often when needed. According to the policy, the management board approves the remuneration principles, including the principles for establishing annual key performance indicators (KPIs), evaluating employee performance and reviewing fixed pay. Remuneration principles also include guidelines for establishing the principles for performance related pay at the branch or unit level. Branch- and area-specific remuneration decisions are made by heads of branches and areas in line with the Group's policy and rules. The management board monitors the implementation of the remuneration principles, asking feedback from employees at least once

a year in December.

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

The remuneration provided by the Group consists of two parts:

- Fixed remuneration including:
  - a basic monthly salary fixed in the employment contract, which is determined based on the employee's responsibilities and competence and reviewed annually based on the employee's performance and the trends prevailing in the labour market of the country involved;
  - benefits provided by the Group to all employees in all countries at the same rate, for example sports benefits, compensated absences for taking care of health, birth benefits etc.;
  - benefits arising from local legislation or collective agreements.
- Variable remuneration including:
  - performance related pay agreed with the employee, which depends on the achievement of the Group's long-term objectives and fulfilment of relevant, measurable and balanced criteria;
  - performance related pay paid on objective grounds and generally on a one-off basis, based on extraordinary results and/or engagement of the employee, timely fulfilment of specific projects and other similar situations;
  - severance pay paid upon the termination of the employment contract. The amounts in excess of what is provided for by applicable local legislation must be in proportion to the employee's performance during the term of employment and must not reward unsound risk-taking. The Group must be able to explain the reasons for the severance payment, the appropriateness of the amount awarded and the criteria used to determine the amount, including that it is linked to the performance achieved over time and that it does not reward failure or misconduct.

To ensure that employees of the internal audit unit are remunerated independently of the businesses they oversee, the Group's remuneration policy sets out that for the employees with an audit or control unit, the performance related pay is based on achieving the goals of the target unit and not on the performance of the businesses under their oversight.

The Group's remuneration policy provides that the Group has the right to reduce the performance related pay payable to a material risk taker or to suspend payment of the performance related pay or to demand a partial or full refund of the performance related pay paid if:

- the Group's overall financial results have deteriorated significantly compared to the previous period;
- the material risk taker no longer meets the performance criteria or does not comply with the requirements established by law for a member of the management board of a credit institution or for a material risk taker;
- the Group no longer complies with prudential requirements or the Group's risks are not sufficiently covered by the Group's own funds;
- the performance related pay has been paid on the basis of data which has subsequently proven to be materially inaccurate or incorrect;
- the material risk taker has participated in causing damage to the credit institution or is liable for the damage incurred.

Exceptions are permitted if allowed by local law.

The Group is not a large institution within the meaning of point (146) of Article 4(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council and applies the derogation provided for in Article 94(3)(a) of Directive 2013/36/EU of the European Parliament and of the Council to the remuneration of all employees.

The establishment of a separate remuneration committee is not deemed to be necessary, and the role of the remuneration committee is fulfilled by Bigbank's supervisory board which is responsible for approving and supervising the group-wide remuneration policy and adopting decisions related to the remuneration of the members of the management board, the internal audit unit and material risk takers. The remuneration policy is reviewed by the supervisory board at least once a year. Preparation of the policy and related group-wide internal regulations is the responsibility of the head of support services who makes amendment proposals to the management board, which submits relevant proposals for approval to the supervisory board. The Group's internal audit unit evaluates the implementation of the remuneration system annually and presents the results to the Group's supervisory board.

In 2021, we supplemented the Group's remuneration policy with control measures aimed at ensuring that the principle of gender neutrality is respected and that male and female employees are paid on the basis of criteria related to the capabilities, competence, qualifications, experience and knowledge of the employee or material risk taker.

As required by law, Bigbank AS has defined material risk takers which include the senior management (members of the supervisory and management boards); employees responsible for control functions; employees who have a significant impact on the Group's risk profile; and staff whose remuneration equals or exceeds the lowest remuneration of the members of the Group's management board. Self-assessment is performed on a consolidated level and includes all branches and subsidiaries of the bank. The list of material risk takers is reviewed at least once a year or whenever changes in the Group's structure or the establishment of new positions affect the list of material risk takers. The supervisory board approves the list of material risk takers based on the proposal of the management board. In 2021, the list included 25 material risk takers. The principles underlying the fixed remuneration of material risk takers are the same as for the rest of the Group's employees. The share of performance related pay in total annual remuneration may not exceed 100% of annual fixed remuneration which ensures carefully calculated risk-taking. If variable remuneration exceeds 100% of the earned annual fixed remuneration, the requirements of the Estonian Credit Institutions Act will apply. The Group may withhold performance related pay either in full or in part, reduce performance related pay, or demand partial or full repayment of disbursed performance related pay when the Group's results do not meet the target.

In 2021, the remuneration (excluding social security charges) provided to material risk takers of the Group and its subsidiaries totalled 2.4 million euros, the figure consisting of fixed remuneration of 1.9 million euros and performance related pay of 0.5 million euros. No severance benefits were paid during the financial year. The performance related pay allocated for performance in 2021, will be determined at the end of the first quarter of the following financial year, and according to management's estimate the amount of the provision made at 31 December 2021 is sufficient. At the year-end, there was no performance related pay awarded but not paid for performance in 2021.

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

Kaido Kariste
Head of Data Warehouse Unit

Consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December *(in millions of euros)*	**Note**	**31 Dec 2021**	**31 Dec 2020**
Assets			
Cash balances at central banks	5	78.7	48.3
Due from other banks	5	37.2	27.1
Debt instruments at fair value through other comprehensive income	6	45.3	45.8
Loans to customers	7, 8	896.2	577.7
Other receivables and inventories	9	2.7	1.2
Prepayments	10	1.5	1.2
Property, plant and equipment	11	20.9	4.4
Investment properties	12	41.6	27.2
Intangible assets	13	27.0	24.2
Assets classified as held for sale		-	0.7
Total assets		**1,151.1**	**757.8**
Liabilities			
Loans from central banks	14	36.5	36.5
Deposits from customers	15	898.3	547.5
Subordinated notes	30	15.0	5.0
Lease liabilities	16	1.8	2.1
Provisions		0.3	1.5
Deferred income and tax liabilities	17	1.9	1.0
Other liabilities	18	11.2	7.9
Total liabilities		**965.0**	**601.5**
Equity	19		
Paid-in share capital		8.0	8.0
Capital reserve		0.8	0.8
Other reserves		1.1	1.1
Retained earnings		176.2	146.4
Total equity		**186.1**	**156.3**
Total liabilities and equity		**1,151.1**	**757.8**

The notes on pages 50 to 129 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in millions of euros)	Note	2021	2020
Interest income	20	77.5	69.8
Interest expense	21	-7.8	-7.0
Net interest income		**69.7**	**62.8**
Fee and commission income		6.7	5.2
Fee and commission expense		-0.2	-0.2
Net fee and commission income		6.5	**5.0**
Loss on debt instruments at fair value through other comprehensive income		-0.2	-0.2
Net gain (loss) on exchange differences		-0.1	0.3
Net income (loss) on financial assets		**-0.3**	**0.1**
Other income	22	3.5	1.4
Other expenses	23	-5.1	-2.9
Total net operating income		**74.3**	**66.4**
Salaries and associated charges	24	-17.8	-14.1
Administrative expenses	25	-14.3	-11.1
Depreciation, amortisation and impairment	11, 13	-3.4	-3.5
Provision expenses		1.2	0.6
Gains (losses) resulting from changes in the fair value of investment properties	12	6.4	-0.4
Loss on impairment of goodwill		-0.7	-
Gain on bargain purchase	32	4.6	-
Total expenses		**-24.0**	**-28.5**
Profit before loss allowances		**50.3**	**37.9**
Net loss allowances on loans and financial investments	8	-11.4	-14.0
Profit before income tax		**38.9**	**23.9**
Income tax	28	-3.0	-2.4
Profit for the year		**35.9**	**21.5**
Other comprehensive income	19	**-**	**-0.1**
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		-0.2	-0.2
Exchange differences on translating foreign operations		*0.1*	*-0.3*
Changes in the fair value of debt instruments at fair value through other comprehensive income		*-0.3*	*0.1*
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		0.2	0.1
Revaluation of land and buildings		*0.2*	*0.1*
Total comprehensive income for the year		**35.9**	**21.4**
Basic earnings per share (EUR)	33	449	267
Diluted earnings per share (EUR)	33	449	267

The notes on pages 50 to 129 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions of euros)	Note	2021	2020
Cash flows from operating activities			
Interest received		73.2	65.6
Interest paid		-6.7	-5.1
Salary, administrative and other expenses paid		-42.0	-31.5
Other income and fees received		11.3	7.3
Recoveries of receivables previously written off		8.7	10.1
Received for other assets		0.8	0.1
Loans provided		-615.2	-364.9
Repayment of loans provided		299.4	231.5
Change in mandatory reserves with central banks and related interest receivables	5	-2.4	-0.8
Proceeds from customer deposits		710.7	340.4
Paid on redemption of deposits		-359.1	-190.1
Income tax paid		-2.1	-1.7
Effect of movements in exchange rates		-	-0.2
Net cash from operating activities		**76.6**	**60.7**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets	11, 13	-4.5	-7.2
Acquisition of investment properties	12	-29.3	-23.9
Proceeds from sale of investment properties		0.1	0.1
Paid in connection with business combinations	32	-7.3	-
Cash acquired in business combinations	31	0.3	-
Acquisition of financial instruments	6	-4.6	-15.8
Proceeds from redemption of financial instruments	6	5.2	1.9
Net cash used in investing activities		**-40.1**	**-44.9**
Cash flows from financing activities			
Proceeds from issue of notes		10.0	-
Interest paid on subordinated notes	30	-0.3	-0.3
Proceeds from loans from central bank	14, 30	-	13.5
Proceeds from negative interest on loans from central bank	14, 20	0.5	-
Repayment of loan from shareholders		-	-2.0
Repayment of other loans	32	-1.7	-
Payment of principal portion of lease liabilities	16, 30	-0.7	-0.7
Dividends paid	19	-6.0	-6.0
Net cash from financing activities		**1.8**	**4.5**
Effect of exchange rate fluctuations		-0.2	0.4
Increase in cash and cash equivalents		**38.1**	**20.7**
Cash and cash equivalents at beginning of year	5	73.7	53.0
Cash and cash equivalents at end of year	5	**111.8**	**73.7**

The notes on pages 50 to 129 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent				
(in millions of euros)	Share capital	Capital reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2020	**8.0**	**0.8**	**1.2**	**131.0**	**141.0**
Profit for the year	**-**	**-**	**-**	**21.3**	**21.3**
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	-0.3	-	-0.3
Net change in fair value of debt instruments at fair value through other comprehensive income	-	-	0.1	-	0.1
Revaluation of land and buildings	-	-	0.1	-	0.1
Total other comprehensive income	**-**	**-**	**-0.1**	**-**	**-0.1**
Total comprehensive income for the year	**-**	**-**	**-0.1**	**21.3**	**21.2**
Dividend distribution	-	-	-	-6.0	-6.0
Total transactions with shareholders	**-**	**-**	**-**	**-6.0**	**-6.0**
Balance at 31 December 2020	**8.0**	**0.8**	**1.1**	**146.3**	**156.2**
Balance at 1 January 2021	**8.0**	**0.8**	**1.1**	**146.3**	**156.2**
Profit for the year	**-**	**-**	**-**	**35.9**	**35.9**
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	0.1	-	0.1
Net change in fair value of debt instruments at fair value through other comprehensive income	-	-	-0.3	-	-0.3
Revaluation of land and buildings	-	-	0.2	-	0.2
Total other comprehensive income	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**35.9**	**35.9**
Dividend distribution	-	-	-	-6.0	-6.0
Total transactions with shareholders	**-**	**-**	**-**	**-6.0**	**-6.0**
Balance at 31 December 2021	**8.0**	**0.8**	**1.1**	**176.2**	**186.1**

Please refer to note 19.

The notes on pages 50 to 129 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

NOTE 1. GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

1.1 GENERAL INFORMATION

Bigbank AS is a credit institution incorporated and domiciled in Estonia. The consolidated financial statements for the year ended 31 December 2021 comprise Bigbank AS (also referred to as the 'parent company'), its Latvian, Lithuanian, Finnish, Swedish and Bulgarian branches and its subsidiaries AS Baltijas Izaugsmes Grupa, OÜ Rüütli Majad and the subsidiaries of OÜ Rüütli Majad – OÜ Rüütli Property, OÜ Papiniidu Property, Abja Põld OÜ and Palupera Põllud, and OÜ Balti Võlgade Sissenõudmise Keskus OÜ and the subsidiary of Balti Võlgade Sissenõudmise Keskus OÜ – SIA Baltijas Parādu Piedziņas Centrs (together referred to as the 'Group').

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 otherwise indicated.

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 the preparation of a new annual report.

In addition to the part presented under International Financial Reporting Standards as adopted by the European Union, these consolidated financial statements include the primary financial statements of the parent company (see note 35), which have to be presented in accordance with the Estonian Accounting Act, and capital ratios (see note 3) for regulatory purposes, which have been prepared in accordance with Regulation (EU) no 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation, CRR). Net currency positions, liquidity risk ratios, total own funds, total risk exposure and capital ratios are presented at the supervisory reporting group level: the companies Palupera Põllud OÜ and Abja Põld OÜ have been accounted for using the equity method based on the CRR scope of consolidation, not using consolidation according to the IFRS accounting treatment. These parent company primary financial statements are not separate financial statements as defined in IAS 27.

The management board of Bigbank AS has prepared these consolidated financial statements and authorised them for issue on 28 February 2022. The group annual report, which has been authorised for issue by the management board, needs to be approved by the supervisory board and the shareholders. The shareholders may decide not to approve the group annual report but they have never done so and there is no reason to expect that they will.

BASIS OF PREPARATION

The figures reported in the financial statements are presented in millions of euros. The financial statements have been prepared on a historical cost basis, except that:

- certain financial assets and liabilities (including debt instruments) and investment property are measured at fair value;
- land and buildings are measured at fair value less any subsequent deprecation and impairment losses;
- assets held for sale are measured at fair value less costs to sell; and
- part of biological assets are measured at fair value less costs to sell.

Group entities apply uniform accounting policies. Significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

In accordance with the Estonian Accounting Act, the parent company's primary financial statements (statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity) are disclosed in the notes to the consolidated financial statements. The financial statements of Bigbank AS are presented in note 34 *Primary financial statements of the parent*. The parent company's financial statements are prepared using the same accounting policies and measurement bases as those applied on the preparation of the consolidated financial statements except that in the unconsolidated financial statements investments in subsidiaries and associates are measured at cost.

1.2 SIGNIFICANT ACCOUNTING POLICIES

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 the majority of voting rights results in control. Subsidiaries are fully consolidated from the date the Group obtains control until the date the Group loses control.

Subsidiary	Country of incorporation	Ownership interest 2021	2020
OÜ Rüütli Majad	Republic of Estonia	100%	100%
OÜ Rüütli Property	Republic of Estonia	100%	100%
OÜ Papiniidu Property	Republic of Estonia	100%	-
Abja Põld OÜ	Republic of Estonia	100%	-
Palupera Põllud OÜ	Republic of Estonia	100%	-
Balti Võlgade Sissenõudmise Keskus OÜ	Republic of Estonia	100%	100%
SIA Baltijas Parādu Piedziņas Centrs	Republic of Latvia	100%	100%
AS Baltijas Izaugsmes Grupa	Republic of Latvia	100%	100%

Business combinations

Acquisitions of subsidiaries are accounted for by applying the acquisition method (except for business combinations involving entities under common control, which are accounted for using the modified acquisition method). Under the acquisition method, the acquiree's assets, liabilities and contingent liabilities are recognised at their fair values and any difference between the cost of the interest acquired and the fair value of the net assets acquired is recognised as goodwill or a gain from a bargain purchase. From the date of acquisition, the acquiree's assets, liabilities and contingent liabilities and any goodwill acquired is recognised in the consolidated statement of financial position and the interest in the acquiree's income and expenses is recognised in the consolidated statement of comprehensive income. A gain from a bargain purchase is recognised as income immediately. Acquisition-related costs are not included in the acquisition cost (except for the costs to issue debt or equity securities) and are recognised immediately in profit or loss.

Business combinations involving entities under common control are accounted for using the modified acquisition method: the interest acquired is recognised at the carrying amount of the net assets acquired (i.e. as the assets acquired and liabilities assumed were recorded in the acquiree's statement of financial position). The difference between the acquisition cost and the carrying amount of the net assets acquired is recognised as an increase or decrease in the acquirer's equity.

Transactions eliminated on consolidation

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

FOREIGN CURRENCY

Foreign currency transactions

A transaction in a foreign currency is recorded in the functional currency by applying the exchange rate quoted by the central bank at the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated 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 translated

to the functional currency at the exchange rate at the date 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 translation are recognised in the statement of comprehensive income within *Net gain (loss) on exchange differences*.

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 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 consolidated 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 INSTRUMENTS

Financial instruments – key measurement terms

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 best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The quoted market price used to value financial assets is the current bid price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure the fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed based on the level in the fair value hierarchy to which the inputs to valuation techniques used to measure fair value are categorised as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs

do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost (AC) is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument.

The effective interest rate discounts the cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For purchased or originated credit-impaired (POCI) financial assets – assets that are credit-impaired at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Financial instruments – initial recognition

Financial instruments at fair value through profit or loss (FVTPL) are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and the transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (regular way purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories

The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related portfolio of assets and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual

cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

The business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio.

Financial assets – reclassification

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows the change in the business model.

Financial assets – write-off

Financial assets are written off, in whole or in part, when the Group has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due but there is no reasonable expectation of recovery.

Financial assets – derecognition

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial assets – contract modifications

The Group sometimes renegotiates or otherwise modifies the contractual terms of financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a significant increase in credit risk (SICR) has occurred. The Group also assesses whether the new loan or debt instrument meets the solely payments of principal and interest (SPPI) criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group compares the original and revised expected cash flows to assess whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash

flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets) and recognises a modification gain or loss in profit or loss.

Payment holidays granted by the Group in response to the COVID-19 pandemic are treated as modifications of the terms of related loans and advances.

Financial liabilities – measurement categories

Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. The statement of cash flows is prepared using the direct method.

Mandatory reserves with central banks. Mandatory reserves with central banks are carried at AC and represent non-interest bearing mandatory reserves, which are not available to finance the Group's day to day operations, and hence are not considered part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Due from other banks. Amounts due from other banks are recognised when the Group advances money to counterparty banks.

Investments in debt securities

Based on the business model and the cash flow characteristics, the Group classifies investments in debt securities as carried at FVOCI. Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year.

All other changes in the carrying value are

recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss. Interest income from these financial assets is included in *Interest income*.

The Group's debt instruments at FVOCI comprised solely of quoted bonds that are graded in the top investment category by Moody's Investors Service and, therefore, are considered to be in stage 1 as low credit risk investments. It is the Group's policy to measure such instruments on a 12-month ECL basis. In all cases, the Group assumes that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. At the reporting date, there were no instruments that would have had to be classified to stages 2 or 3.

Loans to customers

Loans and advances to customers are recognised when the Group advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Group classifies loans and advances to customers into AC measurement category: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL. Loss allowances are determined based on the forward-looking ECL models.

Impairment methodology for financial assets

The Group assesses and accounts for loan receivables using a three-stage approach, which depends on whether the loan is performing (the debtor is meeting obligations) or not and if the loan is performing, whether there are any signs that credit risk has increased compared to its initial measurement at the issuance of the loan. The methodology is based on the Expected Credit Loss (ECL) formula. The ECL is calculated by multiplying the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The Group has implemented country-specific PD and LGD estimates by product types where sufficient statistical data is available. For product types where sufficient statistical data is not yet available the PD and LGD estimates are calculated using the data for the closest similar product type(s).

The three-stage approach for classifying receivables using common credit quality characteristics is as follows:

Stage 1 – 12-month ECL is recognised for all loans which have no signs of a material increase in credit risk. The ECL is computed using a 12-month PD that represents the probability of default occurring over the next 12 months. For those assets with a remaining maturity of less than 12 months, a PD is used that corresponds to remaining maturity.

Stage 2 – includes loans which have sign(s) of a material increase in credit risk demonstrated by being more than 30 days past due at the reporting date or in the last six months prior to the reporting date. The ECL is computed based on a lifetime PD that represents the probability of default occurring over the remaining estimated life of the financial asset.

Stage 3 – includes doubtful, defaulted and uncollectible loans as well as loans which are restructured due to financial difficulties of a counterparty. Similarly to stage 2, the allowance for credit losses will continue to capture lifetime expected credit losses where the PD is equal to 100%. Stage 3 loans are subject to a one-year monitoring period. If no contractual payment is over 30 days past due during this period, the monitoring stops. If a contractual payment is over 30 days past due, the monitoring period is renewed for another year.

Signs of a significant increase in risk include a past due status of 30 or more days for a contractual payment exceeding the amount of 10 euros during the last six months of a reporting period. A past due status of 30 or more days is assessed based on actual occurrence. Other signs of increased risk and their impact are analysed case by case and

the customer's risk level is changed based on management's judgement. This assessment is dynamic in nature, allowing the financial assets to be upgraded to stage 1 if the associated credit risk has decreased and there is no evidence of an increase in credit risk in the last six-month period.

POCI (purchased or originated credit impaired) financial assets are categorised within stage 3 with a carrying value already reflecting their lifetime expected credit losses.

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

Definition of default and write-off

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

(i) a contractual payment of over 10 euros is more than 90 days past due;

(ii) a contractual payment of over 100 euros for retail loans and of over 500 euros for corporate loans that accounts for more than 1% of the total amount of the underlying loan is more than 90 consecutive days past due;

(iii) a letter of contract termination, including a demand for payment, has been sent to the customer;

(iv) the customer is, or recently was, in financial difficulties and is now being restructured;

(v) the customer is bankrupt or deceased or bankruptcy, liquidation or debt restructuring proceedings have been initiated against the customer;

(vi) identity theft, i.e. misuse of the credit receiver's identity has been identified.

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

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

Loss allowances, changes in loss allowances and reversals of loss 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 loss allowances on loans and financial investments.*

Impairment methodology for receivables secured with collateral

Receivables secured with real estate or other 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.

Impairment methodology for corporate loans

Corporate loans secured with real estate are assessed for impairment on an individual basis. A specific impairment allowance is 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. In individual assessment, the unsecured portion is determined by evaluating the net realisable value of collateral. After that the impairment loss on the unsecured portion is identified using the discounted cash flow method. The discount rate is the effective interest rate of the loan. Any accruals associated with a loan assessed

for impairment individually are applied the same impairment rate that is assigned to the underlying loan. Collective impairment assessment is applied to all homogenous groups of receivables whose amount is not individually significant and whose individual assessment would be unreasonable.

PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

Items of property, plant and equipment, excluding land and buildings, are carried at cost less any accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repair and maintenance costs are recognised in profit or loss in the reporting period in which they are incurred.

When the recoverable amount of an item of property, plant and equipment decreases below its carrying amount, the item is written down to its recoverable amount. Impairment losses are recognised as an expense as incurred. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

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, plant and equipment. Depreciation commences from the date the asset is acquired.

Right-of-use assets are presented together with property, plant and equipment in the statement of financial position. Right-of-use assets are depreciated on a straight-line basis over the lease term.

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

Asset class	Useful life
Land and buildings	
Land	Is not depreciated
Buildings	25–50 years
Other items of property, plant and equipment	
Office equipment, furniture and other fixtures and fittings	5 years
Computers	3–4 years

The residual values and useful lives of items of property, plant and equipment are reviewed at each reporting date and adjusted 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.

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

Land and buildings are measured at fair value at the date of the latest revaluation less any subsequent depreciation on buildings and any subsequent impairment losses. Fair value is based on the market value determined by independent asset valuers or management's estimates. 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 recognised in other comprehensive income and accumulated in *Other reserves* in equity. However, to the extent

that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation decrease 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 is adjusted to the revalued amount of the asset. When an asset is sold or reclassified, any revaluation reserve relating to the asset is transferred to retained earnings. The revaluation reserve is used only when the asset is derecognised.

BIOLOGICAL ASSETS

Biological assets are measured on initial recognition and at the end of each reporting period at fair value less estimated costs to sell. Gains and losses arising on initial recognition of a biological asset at fair value and from subsequent changes in fair value are recognised in *Other income* and *Other expenses* in the statement of comprehensive income, respectively.

As an exception, biological assets whose fair value cannot be measured reliably are carried at cost. Growing winter crops are recognised at actual costs incurred, as their biological transformation cannot be reliably measured at the reporting date, and perennial grasslands are recognised at deemed cost. The carrying amount of a grassland is expensed within four years after its establishment in equal amounts through the line item *Other expenses* in the statement of comprehensive income.

The Group's biological assets include livestock (dairy cattle and young stock), planted perennial grasslands and growing crops, which are reported in *Property, plant and equipment* in the statement of financial position. Biological assets as inventories include agricultural produce (bull calves), which is reported in *Other receivables and inventories.*

INVENTORIES

Inventories are initially recognised at cost, which comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories is assigned using the weighted average cost formula.

Inventories are measured at the lower of cost and net realisable value. Agricultural produce is carried at fair value less estimated costs to sell.

INTANGIBLE ASSETS

Costs associated with software maintenance are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads. Capitalised development costs are recognised as an intangible asset and amortised from the date the asset is ready for use.

The Group's intangible assets primarily include capitalised information and banking technology solution called Nest and other capitalised computer software. 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 expected useful lives, which extend from 5 to 15 years. Amortisation expense is recognised in *Depreciation, amortisation and impairment* in the statement of comprehensive income.

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

INVESTMENT PROPERTIES

Investment properties are land and buildings held to earn rental income or for capital appreciation, or both and which are not used in the Group's own operating activities. An investment property is initially recognised at cost, including transaction costs. After initial recognition, an investment property is measured at 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 in *Gains (losses) resulting from changes in the fair value of investment properties*. Fair value is determined based on a valuation annually performed by an independent asset valuer or management's estimates.

Rental income earned is recognised in profit or loss for the period in *Other income*.

Investment properties are derecognised on disposal or when they are permanently withdrawn from use and no future economic benefits are expected from their disposal. Gains and losses arising from derecognition of investment property are recognised in profit or loss in the period of derecognition.

NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE (OR DISPOSAL GROUPS)

Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as held for sale if their carrying amounts will be recovered principally through a sale transaction, which may include loss of control of a subsidiary holding the assets, within 12 months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management has approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single

transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Non-current assets are assets that include amounts expected to be recovered or collected more than 12 months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups are measured in their entirety at the lower of their carrying amount and fair value less costs to sell. Held for sale buildings and equipment are not depreciated or amortised. Reclassified non-current financial instruments are not written down to the lower of their carrying amount and fair value less costs to sell.

FAIR VALUE MEASUREMENT

The Group measures financial instruments such as derivatives, biological assets, land and buildings at fair value at each reporting date. The fair values of financial instruments measured at amortised cost are also disclosed in note 4.

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 (e.g. investment properties and unquoted financial assets) and for non-recurring measurement (e.g. items of property, plant and equipment such as land and buildings). External valuers are involved in the valuation of significant assets, such as land and buildings and investment properties.

Management discusses valuation processes and fair value changes at least annually. 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

comparing the information in the valuation computation to contracts and other relevant documents.

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

For the disclosure of fair value, 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

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Rent concessions granted to the lessee in connection with COVID-19 are accounted as lease modifications.

The Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the lease term. Right-of-use assets are presented together with property, plant and equipment in the statement of financial position.

Right-of-use assets are presented in note 11 *Property, plant and equipment* and are subject to impairment in line with the Group's policy which is described in note 1 *Impairment of non-financial assets*.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs. Non-recoverable value-added tax charged on rental services is recognised as an expense on short-term leases at the invoice date.

The Group leases commercial premises. Rental contracts are typically made for fixed periods of 3 to 10 years and, as a rule, include extension and termination options. Leases are negotiated on an individual basis and may contain different terms and conditions. The Group also leases agricultural equipment with a lease term of 5 years.

The Group as a lessor

Leases where the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income is recognised on a straight-line basis over the lease terms and it is included in revenue in the statement of profit or loss due to its nature. Initial direct

costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

FINANCIAL LIABILITIES

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

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

Subordinated notes

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

Provisions

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

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

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

Financial guarantees and loan commitments

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

Financial guarantees are initially recognised at their fair value, which is amortised over the life of the financial guarantee. Provisions for expected credit losses are recognised in accordance with the Group's policies for calculating ECL, as described above. Credit limits are only offered to corporate customers and are fully secured with a mortgage. Unused but committed credit limits can be used if the customer fulfils all credit conditions including the customer does not have any overdue payments to the Group. Therefore, the credit risk of unused credit limits is assessed as low.

Financial guarantees issued and loan commitments are accounted off the statement of financial position. Provisions for expected credit losses are recognised in profit or loss.

STATUTORY CAPITAL RESERVE

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

INTEREST INCOME AND 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 AND COMMISSION INCOME AND EXPENSE

Fee and commission income comprises various fees received from customers during the reporting period such as monthly loan management fees, fees charged for changing customer details, amending contracts and terminating contracts early, fees for issuing statements of accounts and similar charges. Fee and commission expense comprises fees paid to other credit institutions including transfer fees. Fee and commission income is recognised at the fair value of the consideration received or receivable for the services provided in the ordinary course of the Group's activities. Fee and commission income and expense are recognised on an accrual basis: as a rule, at the point in time when the performance obligation is satisfied, which is usually the time when the transaction is conducted. Fee and commission income on loans (less directly attributable expenses) is 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 that includes income from the sale of goods, which is recognised when the goods are sold to the customer, and income on the sale services, which is recognised in the accounting period in which the services are rendered (i.e. rental income and revenue from sales of agricultural produce);
- gains on changes in the fair value of biological assets;
- 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 inquiries and similar items;
- expenses related to investment properties;
- costs of agricultural produce sold and losses on changes in the fair value of biological assets;
- 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

Income tax is recognised in the consolidated

financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. Income tax comprises current tax and is recognised in profit or loss for the year unless it is recognised directly in equity because it relates to transactions that in the same or different period are also recognised directly in equity. Current tax is the amount expected to be paid, or recovered, in respect of taxable profits or losses for the current and prior periods.

Taxable profits or losses are based on estimates if the consolidated financial statements are authorised for issue prior to the filing of relevant tax returns. Taxes other than income tax are recorded within *Salaries and associated charges* and *Administrative expenses.*

Advance payments of income tax, charged at the rate of 14% of quarterly profit before tax, which credit institutions have been required to make in Estonia since 2018, are recognised as tax expense. In accordance with the Estonian Income Tax Act, corporate income tax is not levied on profit earned but on profit distributed as dividends. The standard tax rate is 20% (20/80 of the amount distributed as the net dividend). Regularly distributed dividends are eligible to a reduced, 14% tax rate. This rate may be applied to a dividend extending to up to three previous calendar years' average dividend distribution on which income tax has been paid (2018 is the first year included in the calculation). The income tax payable on dividends is reduced by the amount of any advance payments made. Corporate income tax payable on dividends is recognised as an expense in the period in which the dividends are declared, irrespective of when the dividends are distributed. Because of the 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. Since 2018, the Latvian corporate income tax legislation has been similar to the Estonian one: profit is taxed when it is distributed and deferred tax assets and liabilities do not arise. The tax rate is 20% (the rate is applied to the gross taxable amount).

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

In Lithuania, the standard income tax rate is 15% but the taxable profits of credit institutions that exceed the threshold of 2 million euros are taxed at 20%.

Corporate income tax rates

	2022	2021	2020
Estonia*	14.0%	14.0%	14.0%
Bulgaria	10.0%	10.0%	10.0%
Finland	15.0–20.0%	15.0–20.0%	15.0–20.0%
Latvia	-	-	-
Sweden	20.6%	20.6%	21.4%
Finland	20.0%	20.0%	20.0%

* In Estonia, corporate income tax is not levied on profit earned but on profit distributed as dividends (the standard tax rate is 20% and the amount of tax payable is calculated as 20/80 of the amount distributed as the net dividend). Credit institutions are required to make advance payments of income tax on profit earned at the rate of 14%.

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

In accordance with paragraph 39 of IAS 12,

an entity recognises a deferred tax liability for all investments in subsidiaries, associates, joint ventures and branches that give rise to temporary taxable differences, unless: (a) the entity is able to control the timing of the reversal of the temporary difference; and (b) it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is not recognised if the investment meets both criteria (a) and (b) above. To meet criterion (a), an entity must have control over its investment. Control generally exists over subsidiaries and branches. In the case of associates and joint ventures, there is generally no control, so the temporary taxable differences in these investments are usually subject to the recognition of an income tax liability. To meet criterion (b), the entity must be able to demonstrate that the temporary difference will not reverse in the foreseeable future. Reversal refers to transactions such as the distribution of profits, the sale of a business, liquidation, etc. Foreseeable future is not explained in the standard, but the common view is that it is 12 months from the reporting date and planned transactions of that period should be taken into account.

The Group's management analysed the investments made in the subsidiaries and branches and decided that in those subsidiaries and branches where there is a temporary taxable difference in the investment, both exclusion criteria (a) and (b) are met at the same time and a deferred income tax liability should not be recognised at the reporting date.

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.

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE

The following new standards, interpretations and amendments were not yet effective for the annual reporting period ended 31 December 2021 and have therefore not been applied in preparing these financial statements. The Group plans to adopt these pronouncements when they become effective and have been adopted by the EU.

COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)

(Effective for annual periods beginning on or after 1 April 2021; to be applied retrospectively. Early application is permitted.)

In May 2020, *COVID-19-Related Rent Concessions* (the 2020 amendment) was issued, which amended IFRS 16 *Leases*. The 2020 amendment introduced an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. Under that practical expedient, a lessee is not required to assess whether eligible rent concessions are lease modifications. Instead the lessee can account for them in accordance with other applicable guidance.

The practical expedient introduced in the 2020 amendment only applies to rent concessions for which any reduction in lease payments affects solely payments originally due on or before 30 June 2021. The 2021 amendment provides a one-year extension to the practical expedient for COVID-19 related rent concessions under IFRS 16 – i.e. permitting lessees to apply it to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied as the Group has not received any rent concessions from lessors.

Amendments to IAS 1 *Presentation of Financial Statements*

(Effective for annual periods beginning on or after 1 January 2023; to be applied retrospectively. Early application is permitted. These amendments are not yet endorsed by the EU.)

The amendments clarify that the classification of liabilities as current or non-current is based solely on the entity's right to defer settlement at the end of the reporting period. The company's right to defer settlement for at least 12 months from the reporting date need not be unconditional but must have substance. The classification is not affected by management's intentions or expectations about whether and when the entity will exercise its right. The amendments also clarify the situations that are considered settlement of a liability.

The Group does not expect the amendments to have a material impact on its financial statements as the Group uses the statement of financial position format for credit institutions, which does not classify liabilities as current or non-current.

Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*

(Effective for annual periods beginning on or after 1 January 2023. Early application is permitted. These amendments are not yet endorsed by the EU.)

The amendments to IAS 1 aim to help entities provide accounting policy disclosures that are more useful by:

- requiring companies to disclose their material accounting policies rather than their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The Board also amended IFRS Practice Statement 2 to include guidance and two additional examples on the application of materiality to accounting policy disclosures.

The amendments are consistent with the refined definition of material:

"Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements".

The Group does not expect the amendments to have an impact on its financial statements when initially applied.

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

(Effective for annual periods beginning on or after 1 January 2023; to be applied prospectively. Early application is permitted. These amendments are not yet endorsed by the EU.)

The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The amendments are not expected to have a material impact on the Group as these amendments provide guidance in determining whether changes are to be treated as changes in estimates, changes in policies, or errors.

Amendments to IAS 12 *Income Taxes*

(Effective for annual periods beginning on or after 1 January 2023. Early application is permitted. These amendments are not yet endorsed by the EU.)

The amendments clarify the accounting for deferred tax on transactions that involve recognising both an asset and a liability with a single tax treatment related to both. The amendments narrow the scope of the initial recognition exemption (IRE) so that it does not

apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IFRS 3 *Business Combinations*

(Effective for annual periods beginning on or after 1 January 2022. Early application is permitted)

The amendments to IFRS 3 update a reference in IFRS 3 to the 2018 Conceptual Framework for Financial Reporting instead of the 1989 Framework. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IAS 16 *Property, Plant and Equipment*

(Effective for annual periods beginning on or after 1 January 2022; to be applied retrospectively. Early application is permitted)

The amendments to IAS 16 require that the proceeds from selling items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended must be recognised, together with the cost of those items, in profit or loss and that the entity must measure the cost of those items applying the measurement requirements of IAS 2.

The amendments must be applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The cumulative effect of initially applying the amendments will be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented (if necessary).

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

(Effective for annual periods beginning on or after 1 January 2022; to be applied retrospectively. Early application is permitted)

In determining costs of fulfilling a contract, the amendments require an entity to include all costs that relate directly to a contract. The amendments clarify that the cost of fulfilling a contract comprises both: the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

An entity must apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The entity will not restate comparative information. Instead, the entity will recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied, because in determining costs of fulfilling a contract the Group takes into account both incremental costs and other costs that relate directly to fulfilling contracts.

Annual improvements to IFRS standards 2018-2020

(Effective for annual periods beginning on or after 1 January 2022. Early application is permitted)

Improvements to IFRS (2018-2020) include three amendments to the standards:

- the amendments to IFRS 9 Financial

Instruments clarify that, when assessing whether an exchange of debt instruments between an existing borrower and lender is on terms that are substantially different, the fees to include together with the discounted present value of the cash flows under the new terms include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

- the amendments IFRS 16 Leases remove illustrative example 13 accompanying IFRS 16, which in practice creates confusion in accounting for leasehold improvements for both lessee and lessor. The purpose of the amendment is to remove the illustrative example that creates confusion.
- the amendments to IAS 41 Agriculture removes the requirement to use pre-tax cash flows to measure fair value of agriculture assets. Previously, IAS 41 had required an entity to use pre-tax cash flows when measuring fair value but did not require the use of a pre-tax discount rate to discount those cash flows.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

NOTE 2. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Expected credit loss allowances

The impact of management's estimates is most critical regarding loss allowances for loans and interest receivables. The measurement of expected credit loss (ECL) allowances for financial assets measured at amortised cost and FVOCI is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in note 1 (see the section *Impairment methodology for financial assets*) and the loss allowances in note 8. The following components have a major impact on credit loss allowance: definition of default, determining criteria for significant increase in credit risk, probability of default (PD), exposure at default (EAD), and loss given default (LGD), forming groups of similar financial assets for the purpose of measuring ECL, as well as models of macro-economic scenarios. The Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. The Group uses supportable forward looking information for measurement of ECL, primarily outcomes of its own macro-economic forecasting model.

Property, plant and equipment

The carrying amounts of property, plant 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, plant and equipment* in note 1). Land and buildings are initially recognised at the acquisition cost and subsequently measured at the revalued amount. Management uses the estimate of an asset's market value provided by an independent expert as a basis for fair value estimation, if needed (see note 31).

The fair values of the assets acquired and the liabilities assumed in business combinations have been determined using purchase price allocation. The fair values of land and buildings (see notes 4 and 32) are based on a valuation report issued by an asset valuer.

Investment property

The fair values of investment properties are

measured annually and carrying amounts are adjusted to reflect any changes in market values (see the section *Investment properties* in note 1 and notes 4 and 12).

Intangible assets

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

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

The Group capitalises the costs of developing information and banking technology solution Nest. Initial capitalisation of the costs is based on management's judgement that the technological and economic feasibility is certain. This usually occurs when the development phase has reached a defined milestone according to an established project management model.

In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash flow generation of the project, discount rates to be applied and the expected period of benefits, which for Nest is 15 years. If the expected period of benefits of the asset were 5 years, as it is for other software, the carrying amount of the asset at the reporting date would be 38% smaller and depreciation expense for 2021 would be 291% larger.

Tax treatments

Since the Group operates in a complex multinational environment, management considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The tax filings of Bigbank and its branches and subsidiaries in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge the tax treatments.

Management has determined, based on the Group's tax compliance and transfer pricing principles, that it is probable that the Group's tax treatments (including those for the branches) would be accepted by the tax authorities if the Group has appropriate transfer pricing documentation to support its approach.

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

NOTE 3. RISK AND CAPITAL MANAGEMENT

Risk and capital management principles

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

Effective risk and capital management is an essential component of the Group's management. It has a crucial impact on the long-term results and sustainability of the business model. The aim of risk and capital management is to manage volatility in financial performance and to maintain the trust of customers, shareholders and regulators.

The following principles are followed in risk and capital management:

- **Well-balanced portfolio.** The Group maintains a well-diversified loan portfolio and takes limited risk in financial markets. Since uncertain changes in any individual position may seriously affect Group's overall risk position, over-reliance on single counterparties and concentrations of risk are avoided.
- **Risk profile by significant countries and significant product groups.** The loan portfolio is reasonably balanced between different countries of operation and products. The management board determines at least annually the maximum exposure limits for individual countries of operation and significant product groups. Any target risk profile change must take into account established limits and potential effects. The actual risk profile is regularly measured against such limits.

- **Quality of assets.** Any changes in the target risk profile that may significantly affect the quality of assets are properly analysed and assessed before the changes are made.
- **Strong liquidity position.** The Group maintains a conservative liquidity risk profile and a sufficient portfolio of liquid assets at all times. Concentrations of funding and liquid assets are avoided.
- **Adequate capital.** The Group maintains a strong and rather conservative capitalisation level (capital adequacy). The Group makes sure that it has adequate capital to cover its risks and comply with regulatory (Pillar 1) and internal (Pillar 2) capital requirements as well as the minimum capital requirement. Detailed capital requirements are outlined in the *Own funds and capital* section of this note.
- **Reasonable risk level.** The Group does not accept unreasonably high risk even when there is potential for exceptionally high profit as a result of risk taking. Risks which the Group cannot assess or manage adequately or for which it does not have sufficient experience or knowledge are avoided.
- **Low tolerance to specified types of risks.** The Group has low tolerance to certain risk types as specified in the policies for individual risks. Target risk profiles which increase such risks are avoided.
- **Reliable structure of the statement of financial position.** The Group is not required to maintain a specific structure of the statement of financial position but any target risk profile that may have a significant impact on the structure of the statement of financial position is carefully assessed (the impacts of the changes in the structure of the statement of financial position are analysed) and changed, where necessary, before it is approved.

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

Risk management principles for the Group are established in the risk policy approved by the supervisory board of Bigbank AS. Risk taking is an unavoidable part of the Group's business activities and risk management supports business activities and decision making, ensuring that there is as clear information as possible about the risk and reward of different choices. Risk management is an integral part of the strategic decision making and daily business decision making process. The primary goals of risk management are to ensure that the outcomes of risk-taking activities are consistent with the Group's strategies and risk appetite, and that there is an appropriate balance between risk and reward.

The main risk the Group has identified in its operations is credit risk, which arises in lending to customers. Other material risks are market risk (including IRRBB, i.e. interest rate risk in the banking book), liquidity risk, operational risk, reputational risk, business and strategic risk. In order to cover these risks Group holds a capital buffer and liquidity reserves for unforeseen events. The Group assesses and identifies the risks continuously, as a part of its internal capital adequacy assessment process (ICAAP) and internal liquidity assessment process (ILAAP).

RISK MANAGEMENT FRAMEWORK

The supervisory board of Bigbank AS has established the Group's risk management framework, which is set out in the risk policy. The Group's risk management framework consists of four key elements: 1) risk culture, 2) risk governance, 3) risk appetite and 4) risk management.

Fig. Risk management framework

Risk culture

Risk culture means norms, attitudes and behaviours related to risk awareness, risk-taking and risk management, and the controls that shape decisions on risks in the Group. Risk culture influences the decisions of management and employees during the day-to-day activities and has an impact on the risks they assume. A sound and consistent risk culture is a key element of the Group's effective risk management and allows making sound and informed decisions. Risk culture is developed through policies, communication and staff training regarding the Group's activities, strategy and risk profile.

Employees should be fully aware of their responsibilities relating to risk management. Risk management is not confined to risk specialists or internal control functions. Business units are primarily responsible for managing risks on a day-to-day basis in line with the Group's policies, procedures and controls, taking into account the Group's risk appetite and risk capacity.

A strong risk culture includes:

- Tone from the top – the management board is responsible for setting and communicating the Group's core values and expectations. Group's management, including key function holders, contribute to the internal communication of core values and expectations to employees.
- Accountability – relevant employees at all levels must know and understand the core values of the Group and, to the extent necessary for their role, its risk appetite and risk capacity. They must be capable of performing their roles and ware that they will be held accountable for their actions in relation to the Group's risk- taking behaviour.
- Effective communication and challenge – a sound risk culture helps promote an environment of open communication and effective challenge in which decision-making processes encourage a broad range of views, allow for testing of current practices, stimulate a constructive critical attitude among employees, and promote an environment of open and constructive engagement throughout the entire organisation.
- Incentives – appropriate incentives play a key role in aligning risk-taking behaviour with the Group's risk profile and its long-term interest.

Risk governance

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

The general risk governance structure is based on the three lines of defence model. Under the concept, all employees of the Group are responsible for managing risk, but all have their specific roles and responsibilities. The functions are separated into three lines as follows:

- **first line of defence** - functions that own and manage risks (risk owners);
- **second line of defence** - functions that oversee risks (risk management and compliance functions);
- **third line of defence** - functions that provide independent assurance (internal audit and audit committee)

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

Fig. Three lines of defence model

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

Second line of defence includes the risk management and compliance functions. These functions have to ensure that the first line of defence is properly designed, operating as intended and risks are properly managed.

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

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

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

Based on general-level decisions and the authorities granted, operational decisions are made by risk owners and operational units. The Group keeps the functions of risk management, decision-making and monitoring processes as separate and independent as possible. Due to the size of the Group, some of the above functions may be mixed. However, the Group's organisational structure is designed so that it ensures the segregation of duties between operational and monitoring/control functions in order to prevent conflicts of interest.

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

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

The system of credit committees consists of the Group's credit committee, country credit committees and their sub-committees. The Group's credit committee is the highest level decision-making body which is responsible for supervising country credit committees and adopting lending decisions exceeding 1 million euros.

The purpose of the risk committee is to support the management board in fulfilling its risk management responsibilities. In particular, the committee discusses strategic issues related to specific operational risks (including information security and compliance risks), coordinates and makes agreements. The committee includes representatives of both the first and the second line of defence to ensure adequate representation and effective coordination and communication of risks within the Group. The members of the risk committee are appointed and its rules of procedure are approved by the management board.

Risk appetite

Risk appetite expresses the level of aggregated risks that the Group is willing to take according to the business model and within the risk tolerance in order to achieve strategical goals.

The Group has defined its risk appetite for all main risk types that have been identified and has established processes and measures for how the actual risk profile is assessed and managed. Risk appetite is forward-looking, in line with the strategic planning horizon and regularly reviewed.

Fig. Elements of risk appetite

Risk appetite comprises the following elements:

- **Financial objectives**. Risk management must support the achievement of financial objectives as long as these objectives include sustainable growth in earnings, maintenance of capital adequate for the Group's risk profile, and the availability of financial resources for meeting financial obligations on a timely basis and at reasonable prices.
- **Strategic principles**. Risk strategy and the target risk profile are based on the overall strategy while risk management and risk capacity are inherent in the strategy making process. The Group's strategy takes into account risks and capital as well as the risk strategy and is regularly reviewed and updated to reflect changes in strategic plans.
- **Risk tolerance measures**. Risk tolerance is the maximum risk level the Group can accept within a particular risk category, taking into account the capital, risk management and risk control capacity and regulatory restrictions. Risk tolerance is established based on quantitative metrics.
- **Risk management principles**. Applicable external regulations, best practice and risk management principles specified in the Group's internal regulations provide the qualitative foundation for the risk tolerance framework. Business needs may not override risk management principles.
- **Risk capacity**. Risk capacity is defined as the maximum level of risk that the Group can assume in both normal and distressed situations before breaching regulatory constraints and obligations to stakeholders.

Risk management

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

- risk identification;
- risk assessment;
- risk monitoring;
- risk control;
- risk measurement; and
- risk reporting.

Fig. Risk management process

Risk identification. Risk identification is a regular process the Group uses to identify risks material for the Group. Risk identification must be comprehensive and take both normative and economic perspectives into account.

Risk assessment. A risk assessment of new products and systems must be performed before they are implemented. The principles of proportionality and efficiency apply – the extent of assessment must be in accordance with the potential impact and importance of risk in the aggregated risk profile of the Group. The actual risk profile is regularly assessed against the Group's risk appetite.

Risk monitoring. A regular monitoring system ensures that business activities are within approved limits and in line with regulations as well as aligned with the Group's strategies and target risk profile. Any breaches of limits or regulations must be immediately reported by the head of the respective unit and escalated to the senior management, committees, management board and/or the supervisory board depending on the limit or internal regulation. The Group has in place system of risk indicators (including escalation levels) addressing all identified material risk categories and regular monitoring of key financial and non-financial risk indicators to monitor changes in the financial condition and risk profile of the Group.

Risk control. A significant part of risk management is risk control – the framework of internal procedures, processes and limits. The necessity for internal rules arises from internal needs for proper risk management and from regulatory minimum requirements. All identified material risks and related processes are covered with internal rules, limits and the control system. All internal regulations are guided by the Group's general risk management principles and target risk profile and they set the limits and controls within which the Group and its subsidiaries can operate. The development of internal rules is actively coordinated at Group level. However, the head of each area, branch and subsidiary is fully responsible for compliance with local regulations in their areas of responsibility or country of operations. All internal regulations must comply with the principles for the establishment of Group level internal regulations.

Key risk policies and general risk management strategies, principles, risk governance and general limits are approved by the supervisory board. Management level general risk procedures are approved by the management board. Risk management policies are reviewed and updated once a year.

Risk measurement. The risk management area is responsible for developing and maintaining an appropriate suite of risk measurement techniques to support the operations of the various business lines (risk owners), and measurement of capital adequacy on a Group-wide basis. All material risks are measured using quantitative metrics and regularly monitored. The management board reviews and approves the risk measurement principles annually. Stress testing, sensitivity analysis and scenario analysis are proactive methods used to evaluate the impact of various factors on the risk profile and respective capital needs. Stress testing is integrated with the Group's risk management framework and capital adequacy assessment process and it enables to evaluate the possible impact of relevant business and strategic decisions. Stress testing of material risks is performed at least once every year or more frequently and results are reported to the management board and supervisory board.

Risk reporting. Risks are monitored and reported by all material risk types, products and branches. The head of the risk management area is responsible for implementing appropriate work arrangements, policies, procedures and systems to ensure that risks are measured, evaluated, aggregated, analysed and regularly reported to the management board. The chairman of the management board and the head of risk management area inform the supervisory board about the development of the Group's overall risk situation as well as other risk related matters on a quarterly basis.

RISK APPETITE AND TARGET RISK PROFILE

The target risk profile is based on the risk appetite and it includes the level and types of

risks the Group is willing to take within its risk capacity and in line with its business model to achieve its strategic objectives. The Group describes in its target risk profile the nature and level of each material risk identified. Determination and updating the target risk profile is an integral part of annual strategic planning during the budgeting process.

The Group uses a four-step scale to determine the levels of risk appetite:

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

The actual risk profile is assessed and compared with the target profile at least quarterly. The assessment results are reported to the management board and supervisory board in regular risk reports.

CREDIT RISK

Credit risk is the risk that a counterparty to a transaction is not be able or willing to discharge its contractual obligations and the bank will incur a credit loss. Within credit risk, the Group has identified the following sub-risks:

- **Concentration risk** - the risk resulting from a risk exposure to a counterparty, or connected counterparties and/or risk exposures that are affected by a common risk factor or risk factors with a strong positive correlation.
- **Country risk** - the risk resulting from the economic, political or social situation in the country where the counterparty is located or from the probability of an event (e.g. environmental or political) that may cause a large number of debtors to become insolvent (collective debtor risk)
- **Collateral risk** - the risk arising from collateral for a transaction, including additional legal risk or the risk associated with the market price of the collateral.

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

Credit risk of the loan portfolio is the most significant risk for the Group and the most significant driver of risk-weighted assets. The Group determines the credit risk levels in the loan portfolio based on the ECL estimates as follows:

- Low risk – ECL not higher than 2%
- Moderate risk – ECL higher than 2% and not higher than 6%
- Above average risk – ECL higher than 6% and not higher than 10%
- High risk – ECL higher than 10%

The Group's credit risk appetite is moderate, while risk appetite in sub-profiles of the loan portfolio may be low (1) to above average (3), depending on the strategic objectives of the Group.

The Group controls the credit risk of the loan portfolio by:

- using credit risk assessment and fraud detection models in selecting consumer loan customers;
- making home and corporate loan decisions on the basis of a standardised and thorough solvency analysis;
- using internal and external databases in making loan decisions;
- focusing only on creditworthy private customers and companies whose solvency can be adequately assessed;
- setting credit risk limits and key risk indicators;

- monitoring and controlling credit risk limits and key risk indicators at the level of products, partners and major customers.

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

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

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

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

Credit risk of the bond portfolio arises from debt instruments. The strategy and risk appetite for the credit risk of the bond portfolio is set, managed and monitored as part of liquidity and market risk management. The finance area as the first line of defence in managing the credit risk of the bond portfolio. Risk management area acts as the second line of defence.

Concentration risk

The Group determines concentration risk taking into account exposures to a single counterparty, related counterparties, credit products and countries of operation. The Group's loan portfolio concentration risk strategy is to avoid a significant impact of the default of any single counterparty by maintaining a well-diversified loan portfolio, where the majority of single customer or related customers' concentrations are below 0.1% of the total loan portfolio.

The Group has set the following limits for concentration risk:

- maximum loan amount to a counterparty or related counterparties (corporate loans);
- maximum loan amount to a counterparty (consumer loans);
- maximum share of a specific country in the Group's credit portfolio;
- maximum share of corporate and real estate loans in the Group's credit portfolio.

Risk concentration is defined as an exposure to a single customer or related customers that equals or exceeds 10% of the Group's Tier 1 capital. At 31 December 2021, the Group had such exposures to 4 customer groups with a total amount of 82.7 million euros (31 December 2020: none). For information about the Group's own funds, see the section *Own funds and capital*.

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

- In its business operations, the Group focuses on serving individuals and small and medium-sized enterprises.
- Companies' ultimate beneficial owners and relationships with other companies are identified by determining relationships of ownership and control.
- The Group monitors its credit risk concentration in respect of any single factor and, where necessary, restricts exposure to any customer group that is related to or impacted by that factor.
- When approving higher loan limits for a single counterparty or related counterparties, the Group makes sure that the loans can be serviced independently of the financed projects, or that the loans are secured with low-risk assets (e.g. forest or agricultural land).

Country risk

The Group's strategy is to have a well-balanced portfolio across the countries of operation. Over-concentration on one particular country is avoided by setting limits to single country exposures, new sales per country and the credit quality of single country portfolios. At the reporting date, the limit for a maximum share of a country was 40% of the total loan portfolio.

Collateral risk

Collateral risk arises mainly from a potential fall in the market value of collateral but also from changes in legislation or in collateral realisation procedures. The Group consciously limits its collateral risk and selects its credit policy and volumes in a manner which ensures that credit risk is mitigated more effectively than simply by the collection of collateral and associated cash flows. The Group monitors the effects of fluctuations in the market value of collateral.

Collateral risk is managed in line with the following principles:

- Requirements for collateral depend on the type of the loan. As rule, real estate and corporate loans must be secured by physical collateral (real estate collateral under the law of property such as a mortgage of immovable property). Home loans must be fully collateralised by real estate and in some cases by state guarantees. Smaller business loans may be secured by surety granted by private individuals. As a rule, no collateral is required for consumer loans. In making financing decisions, the Group does not rely only on collateral but primarily on the counterparty's ability to service their loan with their cash flows or income.
- 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 in respect of which there is a written valuation report issued by an appropriately qualified real estate company and expert. In addition to valuation reports prepared by real estate companies, collateral risk is assessed based on the Group's subjective estimates.
- To issue loans secured with real estate, the Group has established maximum limits to the ratio of the loan amount and the market value of the collateral (loan-to-value ratio). The limits have been established taking into account the condition and location of the real estate.
- Acceptable real estate collateral predominantly includes 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.
- Real estate collateral 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 has set a cap to unsecured exposures.

The Group pledges its assets only if it is required by the terms of financing contracts.

Credit risk policy and management

The Group's risk policy, including its risk appetite, credit risk limits and key risk indicators are approved by the bank's supervisory board and country-specific limits and indicators are approved by the bank's management board. The Group measures risk appetite based on the Expected Credit Loss model. In determining its risk appetite, the Group considers its strategic return on equity target.

The Group manages its credit risk in accordance with the provisions of the Credit Institutions Act, the regulations issued by the governor of the central bank of Estonia, the

Financial Supervision and Resolution Authority and other regulatory bodies in Estonia and other countries where the Group operates, and its own credit policy.

The Group calculates its capital requirement for credit risk using the standardised approach.

The Group's credit risk strategy is managed at Group level, using inputs and knowledge of the local market obtained from country level.

The credit risk associated with consumer loans is assessed based on statistical models. Models are updated twice a year or whenever needed. The Group's aim is to fully automate the adoption of as many credit decisions as possible. When granting real estate and corporate loans, the bank considers the applicant's solvency, which is analysed and assessed separately for each loan applicant. The loan analysis uses both the information provided by the customer and the data obtained from public databases and registers. The loan analysis, solvency and collateral assessment, and the decision-making powers of credit committees are specified in the procedures approved by the bank's supervisory board or management board. The credit policy and relevant loan analysis and issuance procedures are regularly reviewed and updated to take into account changes in the economic environment, the Group's credit risk appetite and counterparty payment discipline. Credit decisions are made jointly either by credit committees or duly authorised employees, observing the limits established by the Group's supervisory board and management board.

The Group has put in place procedures that regulate the types of collateral accepted, the maximum collateral values allowed and other requirements for collateral. The Group assigns collateral value only to those assets for which there is a real secondary market and the collateral can be realised within a reasonable time without significant costs. The main types of collateral are residential and commercial real estate, including buildings under construction, as well as forest and agricultural land. Lease financing is secured by leased assets. In addition, the Group accepts surety granted by private individuals and guarantees provided by legal persons, but no collateral value is assigned to them. To a small extent, share pledges of companies have been accepted as additional collateral, provided they have real market value which can be measured.

Each branch and business unit is fully responsible for performing loan analyses and evaluating the credit risk of each transaction even if the final decision is taken at a higher level. Credit committees, employees with personal decision-making authority, sales staff who are involved in making credit decisions and heads of branches are the first line of defence in managing credit risk. The Group's credit risk unit is the second line of defence in managing the credit risk of the loan portfolio. Proper adherence to internal processes and decision-making authorities is regularly monitored by the internal credit controller.

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

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

- Loans are mostly provided to individuals. At 31 December 2021, loans to individuals accounted for 74.8% of the loan portfolio. The solvency of individuals is by nature more stable than that of companies and less influenced by the stress scenarios of the economic environment than that of companies.
- 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 Bulgarian legislation or legal practice that might have a significant additional negative impact on the recovery of loan receivables.

- The Group uses proactive and flexible debt management and results-oriented recovery procedures and sells exposures to third parties if it is economically reasonable.
- Risks are controlled by maintaining a highly diversified loan portfolio. At 31 December 2021, the average loan balance was 7,683 euros. 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.

In its lending operations, the Group focuses on consumer loans and hire-purchase services which are income-based. In addition, in Estonia, Latvia and Lithuania, the Group provides loans to small and medium-sized enterprises. At 31 December 2021, loans to companies accounted for 25.2% of the Group's loan portfolio.

In Estonia, Latvia and Lithuania, the maximum limit for a single customer is 10 million euros and for a group of customers 30 million euros. Corporate loans may not exceed 40% of the total loan portfolio in Estonia and 30% of the total loan portfolio in Latvia and Lithuania.

The Group has managed its past due portfolio by actively selling past due items. At 31 December 2021, the Group had standing sales agreements in Estonia, Latvia, Finland and Sweden under which past due items of 4.3 million euros were sold in 2021. Additionally, items of 15.1 million euros were sold through one-off transactions in 2021.

Credit risk limits

The desired level of credit risk limits and key risk indicators has been set at a level that is expected to ensure the achievement of the Group's strategic equity target. The red levels are set at a level whereby the Group does not achieve the strategic equity target to a significant extent, but which do not exceed the Group's risk capacity.

The Group has established the following credit risk limits:

- expected credit losses by business line;
- concentration risk limits for a single counterparty and related counterparties, countries and credit products;
- share of the past due portfolio of the total portfolio;
- a cap on the unsecured portion of a loan;
- minimum share of expected credit loss allowances for consumer loans.

All branches and subsidiaries must comply with the policies, credit risk limits and key risk indicators established at Group level. A breach of a limit must be immediately reported to the management board, with an action plan for bringing the risk exposure to the desired level. Breaches of limits set at Group level must be reported to the Bank's supervisory board.

Measurement and classification of credit risk

To obtain an overview of exposures at the level of the Group's total loan portfolio, the credit risk area monitors the development of the loan portfolio, customers' payment behaviour and credit risk.

Loan customers' credit risk is measured using the Group's internal scoring models (at the moment of credit origination) and rating models (during the lifetime of the credit). A customer's credit rating is embedded in the Group's risk management system and it is used to assess the customer's payment ability and the probability of default, create loss allowances, assign credit limits, measure receivables and determine 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 a rating depends on the features of the group of loans and the loan class. The ratings of companies are updated at least once a year or whenever there is reason to believe that the borrower's credit risk has changed; in the case of non-performing loans the rating is reviewed once a quarter. The ratings of retail customers are updated whenever there is a significant change in the borrower's credit risk.

The main parameters the Group uses in assessing credit risk are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). The probability of default reflects how high is the probability that the loan customer will experience a settlement default of more than 90 days within the next 12 months 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 at default is equal to the carrying amount of the receivable. Credit risk is assessed using the expected credit loss (ECL) formula where

ECL = PD * LGD * EAD.

LGD and PD estimates are updated at least once per year. The estimates for PD and LGD were revised in the ECL model. Through the revisions, the expected credit loss allowance decreased by 2.5 million euros. In 2021, the model was updated in both the first and third quarters. Updates to the model are submitted for approval to the Group's management board and communicated to the managements of the branches.

To better evaluate credit risk, the Group divides receivables into five major classes using an internal rating system to determine 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.
- Satisfactory. 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.
- Weak. The customer has clearly identifiable economic weaknesses. The customer is making payments but there may occur up to 90-day defaults, which is why the receivable may need to be restructured. The customer's credit risk is above average.
- Inadequate. The customer is more than 90 days in default with a contractual payment exceeding 10 euros or there has been a restructuring of the loan without which the customer would be in default. Settlement of the entire receivable is unlikely if the situation does not change.

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

Loan portfolio by internal rating classes

At 31 December	2021	2020
Very good	562.4	400.1
Satisfactory	240.2	130.2
Weak	80.6	38.6
Inadequate	23.0	22.2
Irrecoverable	0.5	0.5
Total	**906.7**	**591.6**

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, interest and contract fee) in full and the situation cannot be resolved in a satisfactory manner. Collection of payments is considered unlikely if a) a notice of contract termination has been sent to the customer, including a demand for payment; b) the customer is, or recently was, in financial difficulties and is now being restructured; c) the customer is bankrupt or deceased, or bankruptcy, liquidation or debt restructuring proceedings have been initiated against the customer; d) there has been an identity theft, i.e. there is evidence to prove that the borrower's identity has been misused.
- Default on meeting a significant financial obligation. A loan is classified as non-performing based on default when a) the customer is over 90 days in default on the obligation to make a principal or interest payment of more than 10 euros; or b) a retail customer is over 90 consecutive days in default on the obligation to make a principal and/or interest payment of more than 100 euros (500 euros in the case of corporate loans) and the debt accounts for more than 1% of the total amount of the underlying loan. A failure to make a timely payment due to technical reasons is not treated as default.

Loans whose principal or interest payments are past due break down as follows.

Loss allowances by past due status at 31 December 2021

	Loan receivable	Loss allowance	Risk exposure
Loan portfolio not past due	847.9	-9.9	838.0
Loan portfolio past due	58.8	-15.1	43.7
Total	**906.7**	**-25.0**	**881.7**
Past due portfolio according to days past due:			
Up to 30 days	30.0	-2.3	27.7
31–60 days	7.3	-2.4	4.9
61–90 days	3.6	-1.4	2.2
Over 90 days	17.8	-9.0	8.8
Total past due portfolio	**58.7**	**-15.1**	**43.6**

Loss allowances by past due status at 31 December 2020

	Loan receivable	Loss allowance	Risk exposure
Loan portfolio not past due	534.1	-11.2	522.9
Loan portfolio past due	57.5	-14.4	43.1
Total	**591.6**	**-25.6**	**566.0**
Past due portfolio according to days past due:			
Up to 30 days	28.9	-1.7	27.2
31–60 days	6.3	-1.9	4.4
61–90 days	3.4	-1.3	2.1
Over 90 days	18.9	-9.5	9.4
Total past due portfolio	**57.5**	**-14.4**	**43.1**

POLICY FOR RECOGNITION OF LOSS ALLOWANCES

The methodology for creating loss allowances is described in more detail in note 1.

The Group recognises loss allowances to mitigate the risk of a decline in the value (impairment) of its loan receivables. To mitigate the risks associated with customers' payment behaviour and to cover credit losses, the Group has created loss allowances, which at 31 December 2021 totalled 25.0 million euros, accounting for 2.8% of the total loan portfolio (31 December 2020: 25.6 million euros, i.e. 4.3%). The Group's loans to customers grew most significantly in the corporate loan and home loan segments. As these exposures are collateralised by real estate, the increase in loss allowances remained below the growth in the total loan portfolio. The lower level of loss allowances also reflects the improved quality of the loan portfolio. Further information on loss allowances is presented in note 8.

Macroeconomic scenarios used to adjust the assessments of probability of default

The Group's impairment methodology includes a forward-looking component, which takes into account macroeconomic scenarios. The macroeconomic projections of the European Central Bank and European Commission have been used. To ensure an impartial estimation of expected credit losses, three scenarios are used: the baseline scenario, the adverse scenario and the mild scenario. The baseline scenario reflects the most probable outcome.

Probability of realisation of macro scenarios

	2021	2020
Baseline scenario	65-70%	75%
Adverse scenario	20-30%	25%
Mild scenario	5-10%	-

Macro scenarios are renewed at least once a year. The key macroeconomic indicators, which are used in the calculation of the forward-looking component are GDP growth, inflation and the unemployment rate. Different macroeconomic indicators are used for different countries. The indicators to be used are determined based on statistical analysis and expert opinions.

	2020	2021	2022	2023
Estonia – Unemployment rate				
Baseline scenario	6.8%	6.1%	4.9%	4.6%
Adverse scenario	6.8%	7.3%	6.7%	6.9%
Mild scenario	6.8%	4.7%	4.1%	3.9%
Latvia – Unemployment rate				
Baseline scenario	8.1%	8.3%	7.3%	7.0%
Adverse scenario	8.1%	8.9%	8.3%	8.0%
Mild scenario	8.1%	7.9%	6.8%	6.3%
Lithuania – Unemployment rate				
Baseline scenario	8.5%	7.1%	6.6%	6.3%
Adverse scenario	8.5%	9.1%	9.2%	8.5%
Mild scenario	8.5%	5.6%	5.6%	6.1%
Finland - Inflation rate				
Baseline scenario	7.7%	7.7%	6.9%	6.7%
Adverse scenario	7.7%	8.3%	7.9%	7.6%

	2020	2021	2022	2023
Mild scenario	7.7%	7.4%	6.4%	6.1%
Sweden - Inflation rate				
Baseline scenario	0.7%	1.8%	1.1%	1.3%
Adverse scenario	0.7%	1.2%	0.7%	0.8%
Mild scenario	0.7%	2.4%	1.8%	2.4%

For the Bulgarian portfolio, macroeconomic scenarios are not provided as it does not have a significant effect on the total portfolio.

Sensitivity analysis of macroeconomic indicators

When macroeconomic indicators deteriorate, that is in the case of the adverse scenario, expected credit loss allowances increase. In the case of the baseline or mild scenario, expected credit loss allowances decrease.

The sensitivity analysis has been performed on the assumption that each scenario is weighted in full (100%). On the realisation of the baseline scenario, expected credit loss allowances at 31 December 2021 would decrease by -0.9%. On the realisation of the adverse scenario, expected credit loss allowances at 31 December 2021 would increase by +4.5% and on the realisation of the mild scenario, expected credit loss allowances would decrease by -4.3%.

	ECL allowances resulting from 100% scenario	Difference from weighted ECL allowances, %
Baseline scenario	24.8	-0.9%
Adverse scenario	26.1	4.5%
Mild scenario	23.9	-4.3%

Credit risk stress testing

Credit risk stress testing is part of the risk management framework and capital adequacy assessment process of the Group, which allows the potential impact of relevant business and strategic decisions to be assessed. The Group performs stress tests on a regular basis to assess the impact of various possible but unlikely events on its financial performance and capital. Events used in the stress testing of the loan portfolio include, but are not limited to, possible increases in payment defaults due to changes in the macroeconomic environment, decreases in property prices and changes in the dynamics of loan defaults. Stress tests cover the entire loan portfolio: consumer loans, corporate loans and home loans. The Monte Carlo simulation method is used for stress testing the consumer loan portfolio. The simulation generates thousands of sets of macro indicators which, when inserted into a macro model, allow to evaluate PD levels at different confidence levels. As the portfolios of corporate loans and home loans are smaller and have a shorter history, external data sources and expert assessments are used in the evaluation of their PD and LGD. The PD and LGD stress levels are evaluated on the basis of the previous economic crisis, where real estate prices fell broadly and the shares of banks' non-performing portfolios increased. Credit risk stress tests are performed at least annually and the results are reported to the management board and supervisory board.

Impacts of COVID-19

The Group estimates that the COVID-19 pandemic did not impact the quality of the loan portfolio in 2021. The quality of the loan portfolio improved, as evidenced by both the declining share of the non-performing portfolio and the improved payment behaviour of customers. In connection with this, the Group

reviewed the credit rules introduced in 2020 to prevent and mitigate credit risk. The conditions for issuing consumer loans were changed and the measures implemented during 2020 were withdrawn. PD and LGD estimates were changed in the ECL model.

The uncertainty and risks caused by the COVID-19 pandemic have, however, not disappeared and the Group monitors closely the escalation of potential risks and is ready to take immediate preventive measures to mitigate credit risk.

Cash and bank balances by the banks' credit ratings

According to management's assessment, the exposure of cash and cash equivalents held at central banks and other banks has low credit risk. All loans to and receivables from central banks and credit institutions have been serviced and settled on time. In depositing liquid funds, the Group's risk management policy prefers credit institutions that have larger equity and a high credit rating.

Credit institutions without a rating are local credit institutions which do not have an external credit rating. Based on available market information, the Group assesses that the credit quality of those credit institutions is good.

At 31 December 2021 and 2020, the Group's receivables from central banks and credit institutions were not past due. The receivables were either due on demand or had a maturity of less than 3 months. Taking this into account, the expected credit loss on receivables from central banks and credit institutions is immaterial and therefore no allowances for them have been recognised in the statement of financial position

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

Cash balances at banks, including central banks, based on Moody's Investors Service ratings or their equivalents, are as follows:

At 31 December	2021	2020
P-1	106.9	61.7
P-2	8.9	9.7
Without a rating	0.1	4.0
Total	**115.9**	**75.4**

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

Cash balances with the central banks, including mandatory reserve deposits in the amount of 78.7 million euros have low credit risk and therefore they have been assigned the rating P-1.

Debt instruments at fair value through other comprehensive income by ratings

Debt instruments at fair value through other comprehensive income (see note 6), based on Moody's Investors Service ratings or their equivalents, are as follows:

At 31 December	2021	2020
Aaa–Aa3	6.8	7.6
A1–A3	25.6	23.7
Baa1–Baa3	12.9	10.5
Ba1–Ba3	-	4.0
Total	**45.3**	**41.8**

Exposure to counterparty credit risk

Counterparty risk arises in cases where a counterparty in a FX, interest, equity, credit or commodity derivative transaction defaults and fails to meet its financial obligations and the collateral that has been received is insufficient to cover the exposure. The financial loss in this case is the replacement cost, that is, the cost of replacing an existing transaction by a new transaction with similar characteristics but at current market prices. The Group had no exposure to counterparty credit risks at 31 December 2021 and 2020.

MARKET RISK

Market risk is the risk of loss resulting from unfavourable changes, correlations or volatility in market prices and rates (including changes in interest rates, credit spreads, equity prices, foreign exchange rates and commodity prices). Within market risk the Group has identified foreign currency risk (FX risk), interest rate risk and real estate risk. The Group does not accept commodity risk. The Group did not have any risk exposures from equity instruments at 31 December 2021 and 2020.

Foreign currency risk is the risk of loss due to changes in spot or forward prices and the volatility of foreign exchange rates.

Interest rate risk is the risk that the value of the Group's assets and liabilities could be negatively affected by changes in interest rates.

Interest rate risk of the banking book (IRRBB) is the current or prospective risk to both the earnings and the economic value of the Group arising from adverse movements in interest rates that affect interest rate sensitive instruments, including gap risk and option risk.

Real estate risk arises from adverse movements in the prices of real estate.

Market risk arises from the Group's activity in the financial markets and from the majority of the Group's products (loans, deposits) as well as the Group's investment properties, acquired in the course of the Group's operating activity.

Market risk policy and management

The market risk management strategy and risk appetite are set out in the market risk policy approved by the supervisory board. In line with the target risk profile, the Group's market risk strategy is conservative and the Group's overall market risk appetite is moderate. The Group avoids market risk concentration.

According to the target risk profile, the risk appetite for currency risk is low. Currency risk management is based on the principle that net open currency positions must not exceed 2% of net own funds and the Group should avoid taking speculative positions.

Market risk appetite for the interest rate risk from the bond portfolio is moderate. Bond positions and market risk stemming from it is related to the objective to maintain a strong liquidity position. The secondary purpose of the bond portfolio is to support the Group's profitability, but profit expectations must not override liquidity requirements. The Group does not take speculative trading positions or provide securities trading services to customers.

Interest rate risk arising from the banking book (IRRBB) is a significant risk for the Group. The main sources of structural IRRBB are adverse changes in loan and/or deposits interest rates.

IRRBB risk appetite is moderate. The risk versus profit considerations apply. The basis of the Group's IRRBB strategy is a balanced position in the short term (next 12-24 months)

perspective and a controlled open risk position in the longer-term perspective. This is achieved by active management of the structure and maturities of interest sensitive assets and liabilities.

Real estate risk arises from adverse movements in real estate prices. The main objective of holding investment properties is to support the Group's core business. The risk versus profit considerations apply. The Group's real estate risk appetite is moderate.

The treasury and reporting unit in the finance area is responsible for the day-to-day management of market risk. As the second line of defence, the financial risk control unit is responsible for risk control, measurement and reporting. The finance area is responsible for managing and monitoring real estate risk. The management board approves more detailed rules describing the processes related to market risk management.

The Group uses the standardised approach in determining the minimum regulatory capital requirement for market risk.

Market risk limits

The market risk profile is conservative and must be kept within the limits approved by the management board. The management board approves the levels of limits and key risk indicators in accordance with the current risk appetite, and these levels are constantly monitored. The levels of risk limits are reviewed at least once a year, taking into account the market situation and business strategy, and adjusted as required. Any breaches of limits are escalated in accordance with the requirements established in the market risk policy.

The Group has set the following market risk limits:

- Net open currency position;
- Interest rate sensitivity of economic value of equity (200 bps);
- Interest rate sensitivity of net interest income (200 bps);
- Interest rate sensitivity of bond portfolio.

Risk measurement and reporting

The requirements for measuring and reporting market risk (recipients, content and frequency of reports) are set out in the market risk policy. Market risks are measured and reported to the management board and supervisory board at least quarterly.

The Group's foreign currency position in the Swedish krona arises from services provided to customers at the Swedish branch, the currency position in the Bulgarian lev results from the operations of the Bulgarian branch. Foreign currency risk is measured at the levels of single and aggregate currency positions.

Net currency positions* at 31 December 2021

	Assets bearing currency risk	Liabilities bearing currency risk	Net position
EUR (euro)	1,047.5	970.3	77.2
SEK (Swedish krona)	82.7	82.9	-0.2
BGN (Bulgarian lev)	1.9	0.2	1.7

Net currency positions* at 31 December 2020

	Assets bearing currency risk	Liabilities bearing currency risk	Net position
EUR (euro)	673.3	530.2	143.1
SEK (Swedish krona)	72.0	71.4	0.6

* The net currency positions have been calculated at the level of the supervisory reporting group.

Foreign currency risk is measured additionally by using sensitivity analysis. The following

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

Effect of a potential exchange rate change on profit and equity at 31 December 2021

	Exposure	Monetary impact	% of equity
SEK (Swedish krona)	-0.2	-	0.0%
BGN (Bulgarian lev)	1.7	-0.2	0.0%

Effect of a potential exchange rate change on profit and equity at 31 December 2020

	Exposure	Monetary impact	% of equity
SEK (Swedish krona)	0.6	-0.1	0.0%

Interest rate risk stemming from the bond portfolio is measured by using stress tests and sensitivity analyses which are performed at least on a quarterly basis. The Group tests its bond portfolio by applying historical scenarios (extreme movements in market factors which have been observed in the past) and also hypothetical scenarios (extreme movements that could potentially happen in the future).

During the assessment of IRRBB, as a first step all sources of risk arising from interest-rate-sensitive positions are identified. At least on a quarterly basis the Group measures interest rate risk which may arise from:

- the timing mismatch in the maturity and repricing of assets and liabilities and off-the statement of financial position short and long-term positions (repricing risk);
- changes in the slope and shape of the yield curve (yield curve risk);
- options, including embedded options, e.g. consumers redeeming fixed-rate products when market rates change (option risk).

The Group measures its IRRBB exposure in terms of both potential changes in the economic value of equity (EVE) and changes in the expected 12-month net interest income (NII). Due to the reason that consumer loans are frequently repaid before contractual maturity, the Group uses behavioural cash flows instead of contractual cash flows when calculating and analysing interest rate risk. Repricing maturities are assigned to non-maturity deposits. The average repricing maturity of those was 19.2 months and the longest repricing maturity was between 4 and 5 years at 31 December 2021.

The Group uses different sensitivity analyses and scenarios to assess the interest rate risk arising from the banking book, i.e. the supervisory shock scenario as well as other scenarios taking into account changes in the yield curve and individual risk profile. At 31 December 2021, the impact of the supervisory shock scenario (200 bps parallel increase) on 12-month net interest income (NII) was -0.3 million euros (31 December 2020: -0.3 million euros). The sensitivity of the economic value of equity (EVE) to the interest rate increase by 200 bps has decreased and was 0.7 million euros (31 December 2020: -7 million euros).

The Group did not use hedging instruments to hedge market risk at 31 December 2021.

LIQUIDITY RISK

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

Liquidity risk policy and management

Liquidity risk management strategy and liquidity risk appetite are described in the risk policy approved by the supervisory board. In line with the target risk profile, the Group applies a conservative strategy to liquidity risk and the overall liquidity risk appetite is low.

The liquidity risk framework covers liquidity management both in standard conditions and in the event of a liquidity crisis. The Group's liquidity risk strategy is to maintain a conservative liquidity risk profile and sufficient liquidity reserves. Maintaining a strong liquidity position is one of the Group's main priorities. At all times, the Group must ensure its ability to meet its obligations on time and in full both in normal conditions and in a crisis situation for as long as possible.

The structure and maturities of the bank's assets must match the funding structure and not rely on very short-term funding resources. Maintaining a balance and avoiding concentrations are the main requirements for funding and liquidity management. The Group's funding from external sources must be balanced with equity. The targeted equity to assets ratio is 15–30%.

The main objective of the Group's funding strategy is to ensure sufficient and stable funding of the core activities using the Group's own and debt capital. The second important objective of funding management is to optimise the costs and the amount and composition of external resources raised, but cost savings may not override sufficient, stable and conservative funding requirements.

The Group's funding is primarily based on retail deposits, which are term deposits and saving deposits. Saving deposits are offered to customers in cross-border markets in Germany, Austria and the Netherlands. Since 2019, the Group has been taking part in the ECB's targeted long term refinancing operations (TLTRO-III).

Diversification is a key part of the Group's overall funding and liquidity management strategy. Funding strategy is closely related to the management of asset quality and structure. The structure and maturities of assets must match the funding structure and assets must not be based on very short-term funding resources. The Group avoids concentrations in funding.

The Group's risk management structure is based on the three lines of defence model. The supervisory board approves the liquidity risk policy, which sets out the Group's liquidity risk strategy and risk appetite. The management board approves the liquidity risk limits and detailed procedures for liquidity risk management. Liquidity risk management is the responsibility of the treasury and reporting unit, which is part of the finance area. The risk reporting and financial risk control unit as a second line of defence is responsible for risk control, measurement and reporting. The third line of defence is the internal audit function, which provides independent assurance. Management of the Group's liquidity risk is centralised. Funding to the subsidiaries and branches is provided at Group level. The Bank regularly assesses that there are no material restrictions and hindrances to intragroup transfer of liquidity.

Liquidity risk limits

The liquidity risk profile is conservative and it must be maintained within the limits set by the management board. The management board has established a set of key risk indicators and limits to identify the emergence of increased risks or vulnerabilities in the bank's liquidity position or potential funding needs.

Any breaches of limits and the thresholds of key risk indicators are escalated to the management board and/or supervisory board according to the requirements set out in the policy.

Liquidity risk ratios*

At 31 December	2021	2020
Liquidity coverage ratio (LCR)	258%	659%
Survival period (in months)	5.4	3.4
Net stable funding ratio (NSFR)	127%	130%
Loan to deposit ratio	100%	106%
Liquidity reserve to assets ratio	10%	10%
Long term (over 1 year) funding to total funding ratio	39%	48%

* Liquidity risk ratios have been calculated at the level of the supervisory reporting group.

Liquidity risk measurement and reporting

Requirements for liquidity risk measurement and reporting (recipients, content of reports, frequency) and measurement are established in the liquidity risk policy. Liquidity risk reports are submitted to the management board and supervisory board at least on a quarterly basis and the risk level is monitored on a daily basis.

Liquidity risk is measured at Group level using different methods and ratios, under both normal market conditions and in a liquidity crisis. One of the main objectives of liquidity risk measurement is to identify a possible liquidity deficit across different maturity buckets. The regulatory measure LCR (liquidity coverage ratio) indicates whether the Group has sufficient liquid assets to cover short-term liabilities that correspond to net cash flow during 30 days under stress. The Group also measures liquidity risk on the basis of the survival period which is the time period under stress conditions during which the Group is able to continue its ordinary business activities and fulfil its obligations without raising additional resources or changing its action plans. Regulatory NSFR (net stable funding ratio) is defined as the amount of available stable funding relative to the amount of required stable funding.

The Group conducts regular liquidity risk stress tests (at least semi-annually) as a part of its overall stress testing programme, to understand the impact of adverse events on its risk exposure and on the quantitative and qualitative adequacy of its liquid assets, and to determine whether the Group's liquidity buffer is sufficient to react or cover risks that may crystallise during different types of stress scenarios. Stress tests are conducted using at least three different scenarios – idiosyncratic, market-wide and combined scenario.

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

COVID-19 did not have a negative impact on funding and in 2021 the volume of deposits grew according to plan.

Liquidity risk mitigation

The Group has a contingency plan in place which defines the actions to be taken should the Group encounter a liquidity shortfall in a stressed emergency situation. The plan describes the strategy, policy and activity plan for coping with liquidity crises of different magnitude and stipulates a clear chain of command and escalation procedures. The contingency plan is tested regularly. The Group constantly monitors the situation in financial markets and opportunities of raising alternative funding. In order to mitigate liquidity risk the Group may consider various measures, such as partial sale of the loan portfolio, participation in the loan programs of the European Central Bank, or raising deposits or credit lines from other credit institutions.

Remaining maturities of financial assets and liabilities at 31 December 2021

	Past due	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets							
Cash and bank balances	-	115.9	-	-	-	-	115.9
Loans to customers	22.7	10.8	22	122	504	215	896.3
Of which loan portfolio	8.1	10.8	22.0	121.7	503.7	215.4	881.7
Of which interest receivables	14.6	-	-	-	-	-	14.6
Debt instruments at FVOCI	-	-	2.0	8.6	30.7	3.9	45.2
Other receivables	0.5	1.4	0.1	0.1	-	-	2.1
Total financial assets	**23.2**	**128.1**	**24.1**	**130.4**	**534.4**	**219.3**	**1,059.5**
Financial liabilities							
Loans from central banks	-	-	-	-	36.5	-	36.5
Deposits from customers	-	362.8	39.7	174.7	278.4	42.7	898.3
Subordinated notes	-	-	-	-	-	15.0	15.0
Lease liabilities	-	0.1	0.1	0.5	1.1	-	1.8
Total financial liabilities	**-**	**362.9**	**39.8**	**175.2**	**316.0**	**57.7**	**951.6**
Maturity gap of financial assets and liabilities	**23.1**	**-234.7**	**-15.7**	**-44.8**	**218.4**	**161.6**	**107.9**

Remaining maturities of financial assets and liabilities at 31 December 2020

	Past due	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets							
Cash and bank balances	-	71.4	4.0	-	-	-	75.4
Loans to customers	19.9	9.2	25.0	94.0	326.4	103.2	577.7
Of which loan portfolio	8.2	9.2	25.0	94.0	326.4	103.2	566.0
Of which interest receivables	11.7	-	-	-	-	-	11.7
Debt instruments at fair value through other comprehensive income	-	0.7	-	4.0	37.9	3.3	45.9
Other receivables	0.3	0.7	-	0.1	-	-	1.1
Total financial assets	**20.2**	**82.0**	**29.0**	**98.1**	**364.3**	**106.5**	**700.1**
Financial liabilities							
Loans from central banks	-	-	-	-	36.5	-	36.5
Deposits from customers	-	84.7	31.0	173.4	217.8	40.6	547.5
Subordinated notes	-	-	-	-	-	5.0	5.0
Lease liabilities	-	0.1	0.1	0.5	1.1	0.3	2.1
Total financial liabilities	**-**	**84.8**	**31.1**	**173.9**	**255.4**	**45.9**	**591.1**
Maturity gap of financial assets and liabilities	**20.2**	**-2.8**	**-2.1**	**-75.8**	**108.9**	**60.6**	**109.0**

The assets and liabilities in the table are presented by their contractual maturities and the amounts reflect contractual cash flows. The negative mismatch between assets and liabilities with maturities of up to 12 months has increased, i.e. the amount of maturing deposits exceeds the amount of the short-term loan portfolio. Although savings deposits are included in the *Less than 1 month category*, their actual term (based on behaviour) exceeds 12 months. The Group monitors on an ongoing basis that there is a sufficient amount of liquid assets to cover net cash outflows from deposits.

Expected contractual undiscounted future cash flows of the roup's financial liabilities at 31 December 2021

	Carrying amount	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Payables to suppliers (note 18)	**1.8**	1.7	0.1	-	-	-	1.8
Loans from central banks (note 14)	**36.5**	-	-	-	36.5	-	36.5
Deposits from customers (note 15)	**898.3**	363.5	42.2	180.3	290.5	45.9	922.4
Subordinated notes	**15.0**	-	-	1.0	4.0	18.6	23.6
Lease liabilities	**1.8**	0.1	0.1	0.5	1.2	-	1.9
Loan commitments (note 28)	**93.8**	4.6	9.3	46.4	33.5	-	93.8
Total liabilities	**1,047.2**	**369.9**	**51.7**	**228.2**	**365.7**	**64.5**	**1,080.0**

Expected contractual undiscounted future cash flows of the Group's financial liabilities at 31 December 2020

	Carrying amount	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Payables to suppliers (note 18)	**0.4**	0.4	-	-	-	-	0.4
Loans from central banks (note 14)	**36.5**	-	-	-	36.5	-	36.5
Deposits from customers (note 15)	**547.5**	85.0	31.5	176.5	226.1	43.0	562.1
Subordinated notes	**5.0**	-	-	0.3	1.3	5.7	7.3
Lease liabilities	**2.1**	0.1	0.1	0.5	1.2	0.3	2.2
Loan commitments (note 28)	**44.7**	1.8	0.2	6.5	39.2	-	47.7
Total liabilities	**636.2**	**87.3**	**31.8**	**183.8**	**304.3**	**49.0**	**656.2**

OPERATIONAL RISK

Operational risk is the risk of loss caused by inadequate or failed internal processes or systems, people or external events.

The sub-risks of operational risk are legal risk, compliance risk (including money laundering and terrorist financing risk), information security risk and information and communication technology risk. The definition of operational risk excludes strategic and reputational risk.

The sub-risks of operational risk are defined as follows:

- Legal risk is the risk that the Group is not in compliance with or misinterprets the requirements of laws and regulations, contracts, agreements, best practice and ethical standards. Legal risk may accompany any of the aforementioned risks, as the Group may become subject to claims or proceedings due to its contractual or other legal obligations.
- Compliance risk is the risk that failure to fully meet the requirements of laws, regulations and internal rules as well as obligations to customers, employees and other stakeholders may damage the Group's business model, reputation and financial position.
- Money laundering and terrorist financing risk, which is part of compliance risk, is the risk that the Group is used for money laundering or terrorist financing due to weaknesses or non-compliances in its internal processes.
- Information and communication technology risk is the risk of losses arising from inadequate technical infrastructure, including hardware and software failures, which may compromise the availability, integrity, accessibility and security of the technical infrastructure or the data collected.
- Information security risk is risk of losses arising from the loss of confidentiality, integrity or availability of data.

Operational risk policy and management

Operational risk management strategy and risk appetite are described in the operational risk policy, which is approved by the supervisory board. The Group's strategy is to maintain operational risk at a level which is as low as reasonably possible and to minimise operational risks and potential losses to the extent this is possible in view of the Group's strategic objectives and the principle of economic efficiency. The Group takes appropriate measures to address internal and external fraud and other irregularities (breaches of internal rules, limits, etc). In the Group's target risk profile, the Group's appetite for operational risk is set to low.

Overall operational risk management is carried out at Group level: all branches and subsidiaries must comply with the principles, rules and limits which are established at Group level. However, every branch or country manager is responsible for operational risk management at the level of the branch or country. The Group makes sure that its subsidiaries, country units and branches take steps to ensure that their operations comply with local laws and regulations.

Operational risk management is also based on the three lines of defence model. The first line of defence is the risk-taker, the second line of defence is the control units, and the third line of defence is the internal audit unit. The main task of the second line of defence is to independently assess whether the control mechanism of the first line of defence is properly functioning on the basis of risk assessment, and the third line of defence exercises independent control over the first and second lines of defence.

The regulatory minimum own funds requirement for operational risk is defined using the standardised approach.

Identification and assessment of operational risk

Identification and assessment of operational risks allows for a better understanding of the risk profile and a more efficient use of risk management tools. Operational risks are identified through the incident and loss

event handling process established at Group level. The Group has adopted a uniform methodology and developed a supporting information system to make sure that all structural units report and handle incidents and loss events in the same way. Incidents and loss events which have above average impact (level 3 and 4 on a scale of 1 to 4) are escalated to the Group's management board, the management of the branch and/or the country-level executive board. Incidents and loss events which have a high impact (level 4 on a scale of 1 to 4) are immediately escalated to the Group's supervisory board. Detailed information about incidents and loss events with an above-average or high impact (levels 3 or 4 on a scale of 1 to 4) is presented to the Group's management board on a quarterly basis.

All structural units are involved in the annual risk and control self-assessment process to identify and assess risks and controls, and to implement adequate risk mitigation measures where relevant.

The risks arising from change (e.g. the launch of new products or services, the opening of new business lines, outsourcing, etc.) are managed based on a specific quantitative risk analysis method.

The purpose of the key risk indicators and limits of operational risk is to ensure that the level of the operational risk profile is assessed and thus to provide a proactive indication of potential problems.

Operational risk limits are set for the annual amount of operational risk losses and potential losses. Key risk indicators have been established for all major risk categories and their limits have been approved by management. Key indicators and their limits are calibrated at least once a year. An operational risk report, which includes, among other things, the levels of key risk indicators and limits, is submitted to the managements of branches, the management board and supervisory board on a quarterly basis. Breaches of the limits and key risk indicators are reported to the management board and/or supervisory board in accordance with the requirements established in the policy.

Control and mitigation of operational risk

Operational risk is mitigated by implementing various controls. Control procedures and the development of internal rules must ensure compliance with the requirements set out in the risk policy. Raising the awareness of employees, which is ensured through training, also helps to mitigate the risk. Training activities include both annual training for all employees and specific needs-based training for key persons. Training events are organised by operational risk control, compliance, fraud and money laundering prevention as well as other units. All employees are required to complete mandatory training before starting work.

The Group has established a business continuity management framework to ensure the continuity or recovery of its operations, including the provision of services to customers in the event of a significant service interruption, and to manage incidents of low probability but high impacts (IT system failures, natural disasters, pandemics, etc.).

A further risk mitigation measure is risk transfer through property and liability insurance.

Impact of COVID-19

In 2021, the crisis related to the COVID-19 pandemic continued and brought along a constantly changing situation and the need to keep up with these changes. As in 2020, the Group's employees could choose between working from home or in the office according to the situation and the restrictions in force in the country involved. No COVID-19 outbreaks occurred during the year among the Group's employees. The level of staff vaccination was 90% at the end of the year. Continued operation of the Group was ensured and results were not affected by the pandemic.

OTHER MATERIAL RISKS

Other material risks include reputational risk, business and strategic risks.

Reputational risk is the current or prospective risk to the Group's earnings, own funds or

liquidity arising from damage to the Group's reputation.

Business risk is the risk that inadequate business decisions or inadequate implementation of decisions or changes in customer expectations or inadequate implementation of new technologies will result in loss or significantly reduced revenues.

Strategic risk is the risk resulting from an inadequate strategy or inadequate implementation of the strategy.

Reputational risk and business and strategic risk management

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

The Group's risk appetite for reputational risk in the target risk profile is at a low level while the target risk profile for business and strategic risk is at a moderate level.

Strategic risk is managed by implementing a suitable strategy, which corresponds to the current economic environment and is based on a comprehensive planning process, and by responding adequately and in a timely manner to changes. The Group's strategy for reputational risk management is to avoid situations that could potentially have a negative impact on its reputation and cause a decrease in revenue or loss of trust.

Reputation building begins with customer experience management and controlled creation of public opinion. Business and control units identify, manage, and assess internal and external factors that could impede achievement of strategic objectives or may have a negative impact on reputation on an ongoing basis. The management board is responsible for managing reputational risk and strategic risk. The risks are monitored regularly and risk levels are reported to the management board and the supervisory board.

OWN FUNDS AND CAPITAL

Bigbank's ability to take risk depends on its risk-bearing capacity. A key factor which determines risk-bearing capacity is stable earnings. These allow to build a strong capital base which can be used to absorb potential risks and (unexpected) losses. The Group holds at all times capital adequate for covering all of its material risks and regulatory requirements.

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

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

- **Common Equity Tier 1 Capital (CET1)** including:
  - **Paid-in share capital**. The Group's paid-in share capital amounts to 8.0 million euros.
  - **Capital reserve** (other reserves according to Article 4 (117) of EU Regulation 575/2013). In line with the requirements of the Commercial Code, the Group has set up a statutory capital reserve which at the reporting date amounted to 0.8 million euros.
  - **Prior years retained earnings**. Profits retained in previous years have been audited by an independent external auditor. The figure has been determined by taking into account all relevant taxes and dividend distributions. At the reporting date, the Group's prior period retained earnings totalled 140.4 million euros.
  - **Other accumulated comprehensive income.** The Group's other accumulated comprehensive income at 31 December

2021 amounted to 1.1 million euros.

- **Profit eligible.** Net profit for the first nine months of the financial year of 17.0 million euros, which has been verified by an independent external auditor, from which foreseeable dividends have been deducted and which has been approved by the Financial Supervision and Resolution Authority.

- **Tier 2 Capital**, including:
  - **Subordinated bonds.** At the reporting date, the Group had issued subordinated bonds of 15.0 million euros with a maturity of 10 years.

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

In 2017, the Group issued 5.0 million euros worth of 10-year subordinated bonds, and in 2021, 10.0 million euros worth of 10-year subordinated bonds which are treated as Tier 2 capital. There are no other Tier 2 capital instruments outstanding.

At the reporting date, the Group's total own funds amounted to 164.4 million euros.

Total own funds and total risk exposure are calculated at the supervisory reporting group level (i.e. not using the definition of a consolidated group as used for the purposes of preparing financial statements).

At 31 December	2021	2020
Paid-in share capital	8.0	8.0
Capital reserve	0.8	0.8
Prior years retained earnings	140.4	125.0
Other accumulated comprehensive income	1.0	1.1
Other intangible assets	-17.5	-12.5
Profit eligible	17.0	9.8
Adjustments to CET1	-0.3	-
Common equity Tier 1 capital	**149.4**	**132.2**
Tier 1 capital	**149.4**	**132.2**
Tier 2 capital	**15.0**	**5.0**
Deductions	**-**	**-**
Total own funds	**164.4**	**137.2**

Total risk exposure

The methods used by the Group for calculating the total risk exposure and single risk positions are stipulated in CRR. The Group uses the standardised approach in calculating capital requirements for credit risk, market risk and operational risk.

At 31 December	2021	2020
Risk weighted exposure amounts for credit and counterparty credit risks (standardised approach)		
Receivables from central governments and central banks	0.6	-
Receivables from credit institutions and investment firms	14.6	12.9
Receivables from corporates	207.8	53.0
Retail	444.3	375.8
Secured by mortgages on immovable property	46.4	17.5
Exposures in default	13.3	12.8
Claims on institutions and corporates with a short-term credit assessment	0.7	2.5
Equity	4.8	-
Other items	62.1	46.3
Total risk weighted exposure amounts for credit and counterparty credit risks (standardised approach)	**794.6**	**520.8**
Total risk exposure amount for position, foreign exchange and commodities risks	**-**	**-**
Total risk exposure amount for operational risk (standardised approach)	**103.7**	**104.4**
Total risk exposure amount for credit valuation adjustment (standardised approach)	**-**	**-**
Total risk exposure amount	**898.3**	**625.2**

Capital ratios

At 31 December	2021	2020
CET1 Capital ratio	16.6%	21.1%
T1 Capital ratio	16.6%	21.1%
Total capital ratio	18.3%	21.9%
Leverage ratio	12.7%	17.2%
Minimum requirement for own funds and eligible liabilities (MREL)	18.3%	18.7%

The total capital ratio has been calculated for Bigbank AS supervisory reporting group. At 31 December 2021, total capital ratio at the level of the parent company was 17.6% (31 December 2020: 21.3%). The composition of the Group's own funds, their treatment and the calculation of capital ratios are in accordance with the CRR.

With its decision of 13 December 2021, the Estonian Financial Supervision and Resolution Authority set the Group's minimum requirement for own funds and eligible liabilities (MREL) at the level of 11.4% of the total risk exposure amount and at 3.0% of the total exposure measure. The calculation of MREL changed after the revised Financial Crisis Prevention and Resolution Act took effect. The minimum requirement is calculated as the sum of own funds and eligible liabilities, expressed as a percentage of 1) total risk exposure amount and 2) total exposure measure. At the reporting date, the ratio of the sum of the Group's own funds and eligible liabilities to the total risk exposure amount was 18.3% and the ratio to the total exposure measure was 14.0%.

Capital management

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

The main tools for capital management

are continuous internal capital adequacy assessment process (ICAAP), regular capital planning and capital allocation.

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

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

Internal capital adequacy assessment process

Internal capital adequacy assessment is an ongoing process aimed at assessing the risk profile of the Group and the corresponding capital requirement. The output of the process is a quantitative assessment of the Group's risks and the adequacy of capital needed to cover them. The ICAAP capital requirement is defined as the sum of own funds needed to cover risks or risk elements not covered by Pillar 1.

The outcome of yearly ICAAP is approved by the Group's management board and submitted to the Financial Supervision and Resolution Authority, which reviews and assesses the capital requirement determined by the internal capital adequacy assessment in the course of the supervisory review and evaluation process (SREP). As a result of a SREP assessment the authorities determine the capital requirements level the Group is required to hold over the regulatory capital requirement until otherwise directed.

The additional Pillar 2 capital requirement according to SREP assessment, as determined by the Financial Supervision and Resolution Authority (valid at 31 December 2021) was 3.4% of the total risk position, of which at least 1.4% should be covered by CET1 and 1.9% by Tier 1 capital.

Minimum regulatory capital requirement at 31 December 2021

	Common equity Tier 1 capital ratio	Tier 1 capital ratio	Total capital ratio
Base capital requirement	4.5%	6.0%	8.0%
Pillar 2 capital charge	1.4%	1.9%	3.4%
Total SREP capital requirement (TSCR)	5.9%	7.9%	11.4%
Capital conservation buffer	2.5%	2.5%	2.5%
Systemic risk buffer	0.0%	0.0%	0.0%
Countercyclical risk buffer	0.0%	0.0%	0.0%
Overall capital requirement (OCR)	**8.4%**	**10.4%**	**13.9%**

Due to economic losses related to the spread and containment of the COVID-19 pandemic and increased uncertainty, in 2020 the central bank of Estonia decided to reduce the buffer requirements for commercial banks. The countercyclical buffer requirement for credit risk exposures in Estonia and the systemic risk buffer requirement for all exposures in Estonia were 0% at the reporting date.

The Group's target was to maintain the total capital ratio at 31 December 2021 at or above 13.9% plus the internal capital buffer ratio at 1%.

The Group's total capital ratio at the reporting date was 18.3%, which exceeds the regulatory requirement. The Group's CET1 capital ratio and Tier 1 capital ratio were 16.6%. At the reporting date, the Group was in compliance with the overall regulatory capital requirement.

NOTE 4. FAIR VALUES OF ASSETS AND LIABILITIES

According to management's estimates the fair values of the assets and liabilities reported in the statement of financial position at 31 December 2021 and 2020 do not differ significantly from their carrying amounts.

	Carrying amount		Fair value	
Financial assets at 31 December	**2021**	**2020**	**2021**	**2020**
Cash and balances at central banks (note 5)	78.7	48.3	78.7	48.3
Cash and balances at banks (note 5)	37.2	27.1	37.2	27.1
Debt securities at FVOCI (note 6)	45.3	45.8	45.3	45.8
Loans to customers (note 7, 8)	896.2	577.7	896.2	577.7
Other financial receivables (note 9)	2.7	1.2	2.7	1.2
Total financial assets	**1,060.1**	**700.1**	**1,060.1**	**700.1**

	Carrying amount		Fair value	
Financial liabilities at 31 December	**2021**	**2020**	**2021**	**2020**
Loans from central banks (note 14)	36.5	36.5	36.5	36.5
Deposits from customers (note 15)	898.3	547.5	898.3	547.5
Subordinated notes	15.0	5.0	15.0	5.0
Other financial liabilities (note 18)	11.2	7.9	11.2	7.9
Total	**924.5**	**560.4**	**924.5**	**560.4**

The table below shows financial instruments carried at fair value, by valuation method. The three levels have been defined based on the observability of significant inputs to the measurement, as follows:

- *Level 1*: Quoted prices (unadjusted) in active markets for identical instruments.
- *Level 2*: Inputs other than quoted prices included within level 1 that are observable for instruments, either directly (that is, as prices) or indirectly (that is, derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- *Level 3*: Inputs that are not based on observable market data (that is, unobservable inputs). This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair value hierarchy at 31 December 2021

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Debt instruments at fair value through other comprehensive income (note 6)	45.3	-	-	45.3
Land and buildings (note 11)	-	-	17.7	17.7
- Office premises	-	-	*6.0*	*6.0*
- Other buildings	-	-	*1.7*	*1.7*
- Agricultural land	-	-	*9.0*	*9.0*
- Biological assets	-	-	*1.0*	*1.0*
Investment properties (note 12)	-	-	41.6	41.6
- Buildings	-	-	*23.0*	*23.0*
- Agricultural land	-	-	*18.6*	*18.6*
Biological assets	-	-	1.0	1.0
Assets for which fair values are disclosed				
Loans to customers (note 7, 8)	-	-	896.2	896.2
Other financial receivables (note 9)	-	-	1.9	1.9
Total assets	**45.3**	**-**	**957.4**	**1,002.7**
Liabilities measured at fair value				
Liabilities for which fair values are disclosed				
Loans from central banks (note 14)	-	-	36.5	36.5
Deposits from customers (note 15)	-	-	898.3	898.3
Subordinated notes	-	-	15.0	15.0
Lease liabilities (note 16)	-	-	1.8	1.8
Other financial liabilities (note 18)	-	-	11.2	11.2
Total liabilities	**-**	**-**	**962.8**	**962.8**

Fair value hierarchy at 31 December 2020

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Debt instruments at fair value through other comprehensive income (note 6)	45.8	-	-	45.8
Land and buildings (note 11)	-	-	1.6	1.6
- Office premises	-	-	*1.6*	*1.6*
Investment properties (note 12)	-	-	27.2	27.2
- Office buildings	-	-	*12.0*	*12.0*
- Agricultural land	-	-	*15.2*	*15.2*
Assets for which fair values are disclosed				
Loans to customers (note 7, 8)	-	-	577.7	577.7
Other financial receivables (note 9)	-	-	1.1	1.1
Total assets	**45.8**	**-**	**607.6**	**653.4**

	Level 1	Level 2	Level 3	Total
Liabilities measured at fair value				
Liabilities for which fair values are disclosed				
Loans from central banks (note 14)	-	-	36.5	36.5
Deposits from customers (note 15)	-	-	547.5	547.5
Subordinated notes	-	-	5.0	5.0
Lease liabilities (note 16)	-	-	2.1	2.1
Other financial liabilities (note 18)	-	-	7.9	7.9
Total liabilities	**-**	**-**	**599.0**	**599.0**

There were no transfers between level 1 and level 2 in 2021 or 2020.

Fair value measurement

The Group's finance department performs valuations of financial items for financial reporting purposes, including level 3 fair values, in consultation with independent appraisers for complex valuations. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. Valuations are performed with sufficient frequency to ensure that the fair value of an asset does not differ materially from its carrying amount (see note 1, the sections *Property, plant and equipment, Investment properties* and *Fair value measurement,* and note 2).

Level 1 fair value measurements

Debt instruments at fair value through other comprehensive income comprise bonds whose fair values have been estimated by reference to quoted bid prices in active markets at the reporting date. Bloomberg has been used as the price source. All bonds are actively traded and have quoted prices in an active market. The fair value of bonds nominated in currencies other than the euro also reflects the current spot rate of the respective currencies at the reporting date.

Level 3 fair value measurements

Investment properties, land and buildings do not have quoted prices and their fair values have been determined based on professional appraisals that qualify as level 3 measurements in the fair value hierarchy. The following approaches have been used in estimating their fair value:

- The market comparison approach – under this approach the valuation performed by the valuer is based on the prices for recent market transactions with similar properties, adjusted for differences in the nature, location, condition or current use of the specific property.
- The income approach (i.e. the discounted cash flow method) – under this approach fair value is estimated using assumptions about the benefits and liabilities of ownership over the asset's life, including assumptions about the exit or terminal value. This method involves projecting a series of cash flows on a real property interest and applying a market-derived discount rate to the projected cash flow series to establish the present value of the income stream associated with the asset.
- The residual method – this method is used when no comparable market prices are available, for example in the valuation of land or a property with a building in need of renovation or with a building under construction. The residual approach involves deducing the post-development value of a property based on similar projects and deducting the development or reconstruction costs and the developer's profit to arrive at the residual value of the property (the value of a property with development potential after its development minus the development costs and the developer's profit).

Land, buildings and biological assets

The class of *Land and buildings* within *Property, plant and equipment* consists of real estate in the amount of 6.0 million euros used by the Group as office premises in Tallinn, other buildings (agricultural production and storage buildings) in the amount of 1.6 million euros, agricultural land in the amount of 9.0 million euros and biological assets in the amount of 1.0 million euros (see note 11). The biological assets include livestock – dairy cattle and young stock –, planted perennial grasslands and growing winter crops.

The office premises in Tallinn were valued using the income approach and the following inputs: the estimated rental income per square metre per month for commercial space in Tallinn is 11 euros, the rental growth rate is 1.5%, the long-term vacancy rate is 5% and the discount rate is 8.5%. Part of the office premises have been rebuilt from residential space and they were valued using the market comparison approach, whereby the valuation was based on the prices per square metre of residential space in Tallinn city centre of 3,497 – 3,675 euros less the costs of transforming the office space back into apartments.

The agricultural land acquired upon the acquisition of the business of Abja Farmid (see note 32) in September 2021 was recognised at fair value as determined in the purchase price allocation. The fair value found in the purchase price allocation is based on a valuer's appraisal according to which the average price per hectare of agricultural land at the date of valuation was close to 7,000 euros. The fair values of agricultural production and storage buildings were also determined during the purchase price allocation using a valuer's appraisal.

Biological assets are measured at fair value less costs to sell. The value of livestock is based on local Estonian market prices for livestock of similar age, breed and genetic merit, with adjustments, where necessary, to reflect the differences. Management determined the fair values of heifers transferred to dairy cattle based on the animal's pregnancy status and the month of first calving, setting the values of the animals in the range of 1,000 and 1,500 euros. At the values determined this way, the animals are carried in the statement of financial position until the end of the first lactation, after which the value of the animal begins to decrease with each lactation (the value is 900 euros during the second lactation, 500 euros during the third lactation and 200 euros during further lactations). The fair value of newborn calves and young animals is determined by reference to the increase in weight – the value of each kilogram of live weight is approximately 2 euros.

Unlike other biological assets, perennial grasslands and growing (winter) crops have been measured at cost (see note 1, the section *Biological assets)*. The deemed cost is based on the cost of high-quality grassland in public sources of 300 euros per hectare.

Investment properties

Investment properties of 41.5 million euros consist of office buildings in Tallinn, Tartu and Pärnu and agricultural land leased to farmers (see note 12). Investment properties are measured at their fair value in the statement of financial position.

The office building in Tartu was valued using the residual method based on the highest and best use of the property. The residual method takes into account the profit that could be earned if the existing property were developed and sold as an apartment building. The following inputs were used in the valuation of the property: the sales price per square metre for flats in Tartu old town of 3,500 euros and development costs per square metre of 1,588 euros.

The fair values of other office buildings in Tallinn and Pärnu were estimated using the income approach based on rental prices of 11-13 euros per square metre in Tallinn and 4-12 euros per square metre in Pärnu.

Agricultural land was valued using the market comparison approach. Based on valuation reports, the best use of the land is the existing use for agricultural purposes. According to the valuation reports, the average price per hectare of agricultural land was 5,600 euros.

Valuations

The Group engaged independent valuation experts to assess the fair values of its investment properties and land and buildings at 31 December 2021, and as the valuation showed that the fair values of office buildings, premises and agricultural land had changed, a revaluation was performed.

Management decided that investment properties acquired recently (up to 1 month before the reporting date) did not require revaluation, assuming that the carrying amounts of those properties corresponded to their fair values because the assets were exchanged in arm's length transactions between independent parties and that the time between the date of acquisition and the reporting date was very short.

Valuation inputs and relationship with fair value

The following table summarises quantitative information about the significant unobservable inputs used in repeated level 3 fair value measurements (for information about valuation techniques, see above):

Land, buildings and biological assets

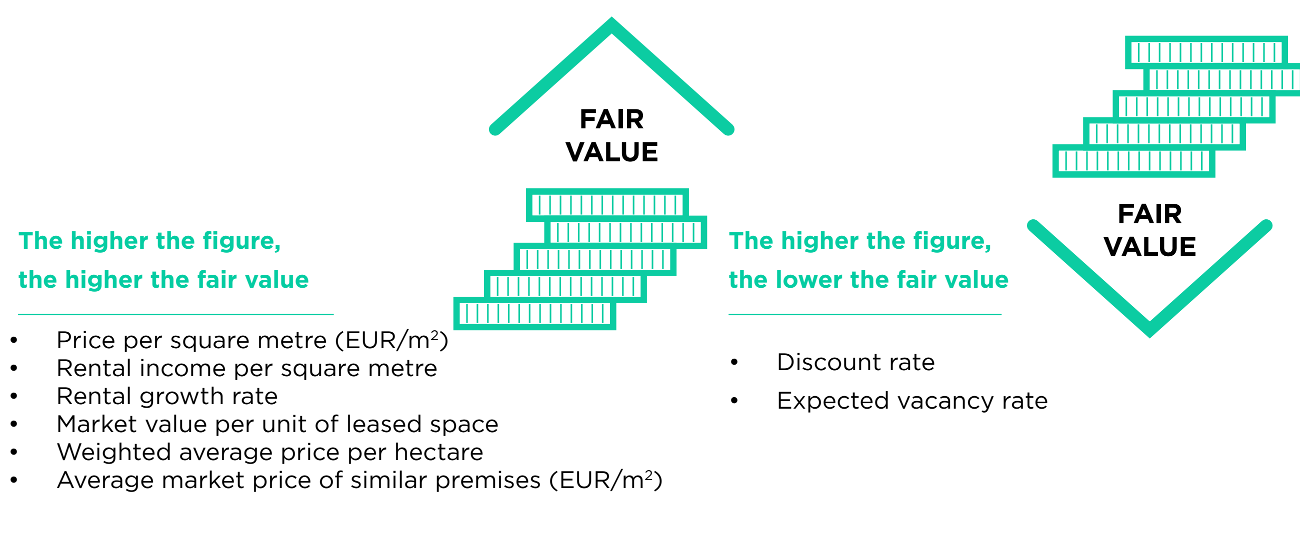
	Fair values at 31 Dec					
Asset	**2021**	**2020**	**Valuation technique**	**Assumptions used**	**2021**	**2020**
Office premises	**6.0**	1.6	Comparison approach	Price per square meter	3,497-3,675	2,995-3,147
			Income approach	Rental income per square meter	11	11
				Rental growth rate	1.5%	1.0%
				Expected vacancy rate	5.0%	5.0%
				Discount rate	8.5%	8.0%
				Market value per unit of leased space	1,629	1,614
Other buildings	**1.7**	-	Income approach	Rental income per square meter	0.5-2	-
Agricultural land	**9.0**	-	Comparison approach	Weighted average price per hectare	5,200-7,600	-
Biological assets	**1.0**	-	Market price	See above		

Investment property

	Fair values at 31 Dec					
Asset	**2021**	**2020**	**Valuation technique**	**Assumptions used**	**2021**	**2020**
Buildings	**23.0**	12.0	Residual method	Average market price of similar premises (EUR/m²)	3,500	2,750
			Income approach	Ratio of the asset value* to closed net area (EUR/m²)	1,178	1,127
				Rental income per square meter	4-13	
				Rental growth rate	1.5%-3%	
				Expected vacancy rate	5.0%	
				Discount rate	8.5%-11.0%	
				Market value per unit of leased space	958-1,419	
Agricultural land	**18.6**	15.2	Comparison approach	Weighted average price per hectare	3,200-6,700	3,015-4,555

* The value of the asset to be reconstructed (post-development value less development costs and developer's profit) per closed net internal area (m²).

The following table sets out the relationship between key unobservable inputs and fair value measurement:



Financial instruments not measured at fair value

Loans to customers (level 3), which amount to 896.2 million euros, are measured at amortised cost using the effective interest method. For measuring fair value, estimated cash flows were discounted at the prevailing market interest rates. The result was not materially different from that recognised under the amortised cost method using the effective interest rate.

The Group's accounting policies for loans to customers are discussed in notes 1 (the section *Financial assets)* and 3. Management estimates that the accounting policies selected for loans ensure that the carrying amount of loans to customers approximates their fair value.

The fair value of loans from banks and customer deposits is estimated using discounted cash flow techniques, applying interest rates offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

NOTE 5. CASH AND BANK BALANCES

Cash and balances at banks at 31 December 2021

	Estonia	Latvia	Lithuania	Finland	Sweden	Bulgaria	Total
Cash and balances at central banks	**76.7**	**-**	**-**	**0.9**	**-**	**1.1**	**78.7**
Of which mandatory reserve deposits*	3.9	-	-	0.1	-	0.1	4.1
Of which surplus on mandatory reserves	72.8	-	-	0.8	-	1.0	74.6
Due from other banks	**14.4**	**3.9**	**2.3**	**6.6**	**9.9**	**0.1**	**37.2**
Total	**91.1**	**3.9**	**2.3**	**7.5**	**9.9**	**1.2**	**115.9**
of which cash and cash equivalents	**87.2**	**3.9**	**2.3**	**7.4**	**9.9**	**1.1**	**111.8**

Cash and balances at banks at 31 December 2020

	Estonia	Latvia	Lithuania	Finland	Sweden	Total
Cash and balances at central banks	**43.6**	**-**	**-**	**4.7**	**-**	**48.3**
Of which mandatory reserve deposits*	1.6	-	-	0.1	-	1.7
Of which surplus on mandatory reserves	42.0	-	-	4.6	-	46.6
Due from banks	**10.5**	**3.0**	**2.8**	**1.5**	**9.3**	**27.1**
Of which cash balances at banks	6.5	3.0	2.8	1.5	9.3	23.1
Of which term deposits at banks	4.0	-	-	-	-	4.0
Total	**54.1**	**3.0**	**2.8**	**6.2**	**9.3**	**75.4**
of which cash and cash equivalents	**52.5**	**3.0**	**2.8**	**6.1**	**9.3**	**73.7**

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

Cash and cash equivalents

At 31 December	2021	2020
Demand and overnight deposits with credit institutions	37.2	23.1
Term deposits with credit institutions with maturity of less than 3 months	-	4.0
Surplus on the mandatory reserves with central banks	74.6	46.6
Total cash and cash equivalents	**111.8**	**73.7**

LISA 6. DEBT INSTRUMENTS

At 31 December	2021	2020
Debt instruments by issuer		
General governments' bonds	3.4	4.2
Credit institutions' bonds	14.4	16.4
Other financial corporations' bonds	2.0	2.1
Non-financial corporations' bonds	25.5	23.1
Total debt instruments	**45.3**	**45.8**
Debt instruments by currency		
EUR (euro)	42.7	43.2
SEK (Swedish krona)	2.6	2.6

Debt securities in the amount of 39.5 million euros were pledged as collateral at 31 December 2021 (see note 27).

A reconciliation of changes in the fair value of debt instruments measured at FVOCI is as follows:

	2021	2020
Opening balance	45.8	31.4
Cash flow items:		
Acquisition of new financial instruments	4.6	15.8
Redemption of financial instruments	-5.2	-1.9
Non-cash flow items:		
Changes in fair value	-0.5	-0.2
Accrued interest	0.6	0.6
Foreign exchange differences	-	0.1
Balance at 31 December	**45.3**	**45.8**

NOTE 7. LOANS TO CUSTOMERS

Loans to customers at 31 December 2021

	Estonia	Latvia	Lithuania	Finland	Sweden	Bulgaria	Total
Loan receivables from customers	287.7	152.9	283.0	105.6	75.9	1.6	906.7
Loss allowance for loans	-5.3	-5.6	-3.8	-6.0	-4.3	-	-25.0
Interest receivable from customers	2.2	1.7	11.0	0.8	0.5	-	16.2
Loss allowances for interest receivables	-0.7	-0.5	-0.2	-0.1	-0.2	-	-1.7
Total	**283.9**	**148.5**	**290.0**	**100.3**	**71.9**	**1.6**	**896.2**
Share of region	31.7%	16.6%	32.4%	11.2%	8.0%	0.2%	100.0%

Loans to customers at 31 December 2020

	Estonia	Latvia	Lithuania	Finland	Sweden	Total
Loan receivables from customers	136.0	133.1	179.5	79.9	63.1	591.6
Loss allowance for loans	-6.0	-7.1	-3.7	-5.3	-3.6	-25.7
Interest receivable from customers	2.4	2.0	8.0	0.8	0.3	13.5
Loss allowances for interest receivables	-0.8	-0.6	-0.1	-0.1	-0.1	-1.7
Total	**131.6**	**127.4**	**183.7**	**75.3**	**59.7**	**577.7**
Share of region	22.8%	22.1%	31.8%	13.0%	10.3%	100.0%

Loan receivables from customers* by loan type

At 31 December	2021	2020
Unsecured loan	585.0	515.5
Surety loans	45.5	3.0
Loans secured with real estate	269.8	71.4
Loans against other collaterals	6.4	1.7
Total loan receivables from customers	**906.7**	**591.6**

Loan receivables from customers* by contractual currency

	31.12.2021	31.12.2020
EUR (euro)	829.2	528.5
SEK (Swedish krona)	75.9	63.1
BGN (Bulgarian lev)	1.6	-
Total loan receivables from customers	**906.7**	**591.6**

* Loan receivables from customers comprise loan principal.

Ageing analysis at 31 December 2021*

	Not past due	30 days or less	31-60 days	61-90 days	Over 90 days	Total
Unsecured loans						
Loan portfolio	530.0	27.6	6.9	3.4	17.1	585.0
Loss allowance	-9.7	-2.4	-2.3	-1.4	-8.8	-24.6
Surety loans						
Loan portfolio	45.3	0.1	-	-	0.1	45.5
Loss allowance	-	-	-	-	-0.1	-0.1
Loans secured with real estate						
Loan portfolio	266.8	1.9	0.3	0.2	0.6	269.8
Loss allowance	-0.2	-	-	-	-0.1	-0.3
Loans against other collaterals						
Loan portfolio	6.0	0.4	-	-	-	6.4
Total loan portfolio	**848.1**	**30.0**	**7.2**	**3.6**	**17.8**	**906.7**
Total loss allowance	**-9.9**	**-2.4**	**-2.3**	**-1.4**	**-9.0**	**-25.0**

Ageing analysis at 31 December 2020*

	Not past due	30 days or less	31-60 days	61-90 days	Over 90 days	Total
Unsecured loans						
Loan portfolio	463.5	24.8	6.2	3.3	17.6	515.4
Loss allowance	-10.9	-1.7	-1.9	-1.3	-8.9	-24.7
Surety loans						
Loan portfolio	2.6	0.1	-	-	0.3	3.0
Loss allowance	-0.3	-	-	-	-0.2	-0.5
Loans secured with real estate						
Loan portfolio	66.3	4.0	0.1	0.1	1.0	71.5
Loss allowance	-	-	-	-	-0.4	-0.4
Loans against other collaterals						
Loan portfolio	1.7	-	-	-	-	1.7
Total loan portfolio	**534.1**	**28.9**	**6.3**	**3.4**	**18.9**	**591.6**
Total loss allowance	**-11.2**	**-1.7**	**-1.9**	**-1.3**	**-9.5**	**-25.6**

* Loan principal only, does not include interest receivable.

LISA 8. LOSS ALLOWANCES FOR LOAN RECEIVABLES

Classification of loan receivables into stages at 31 December 2021

Loan receivables by age	Stage 1	Stage 2	Stage 3	Total
Not past due	837.3	9.0	1.6	847.9
Up to 30 days past due	20.7	8.0	1.3	30.0
31–60 days past due	-	5.8	1.5	7.3
61–90 days past due	-	2.3	1.4	3.7
Over 90 days past due	-	-	17.8	17.8
Gross amount of loan receivables	858.1	25.1	23.5	906.7
Loss allowance	-8.5	-5.0	-11.5	-25.0
Carrying amount of loan receivables	**849.6**	**20.1**	**12.0**	**881.7**

Classification of loan receivables into stages at 31 December 2020

Loan receivables by age	Stage 1	Stage 2	Stage 3	Total
Not past due	523.8	9.3	0.9	534.0
Up to 30 days past due	21.4	6.7	0.7	28.8
31–60 days past due	-	5.2	1.0	6.2
61–90 days past due	-	2.4	1.0	3.4
Over 90 days past due	-	-	18.9	18.9
Gross amount of loan receivables	545.3	23.7	22.6	591.6
Loss allowance	-10.4	-4.0	-11.2	-25.6
Carrying amount of loan receivables	**534.9**	**19.7**	**11.4**	**566.0**

Loss allowances at 31 December 2021

	Loan receivables	Interest receivables	Total receivables subject to impairment	Total loss allowances
Stage 1	858.1	12.6	870.6	-8.4
Stage 2	25.1	0.6	25.7	-5.0
Stage 3	23.5	3.0	26.5	-13.2
Total	**906.7**	**16.2**	**922.8**	**-26.6**

Loss allowances at 31 December 2020

	Loan receivables	Interest receivables	Total receivables subject to impairment	Total loss allowances
Stage 1	545.3	9.7	554.9	-10.4
Stage 2	23.7	0.6	24.3	-4.0
Stage 3	22.6	3.2	25.8	-13.0
Total	**591.6**	**13.5**	**605.0**	**-27.4**

Development of allowances in 2021

	Opening balance at 1 Jan 2021	Increases due to origination	Decrease due to derecognition, repayments and disposals	Changes due to change in credit risk (net)	Decrease due to write-offs	Closing balance at 31 Dec 2021
Stage 1	-10.4	-4.3	1.9	4.3	0.2	-8.4
Stage 2	-4.0	-1.7	0.3	-0.5	0.9	-5.0
Stage 3	-13.0	-1.4	1.1	-6.4	6.6	-13.2
Total	**-27.4**	**-7.4**	**3.3**	**-2.6**	**7.7**	**-26.6**

Development of allowances in 2020

	Opening balance at 1 Jan 2020	Increases due to origination	Decrease due to derecognition repayments and disposals	Changes due to change in credit risk (net)	Decrease write-offs	Closing balance at 31 Dec 2020
Stage 1	-7.7	-5.8	1.3	1.6	0.2	-10.4
Stage 2	-5.1	-1.1	0.5	0.3	1.4	-4.0
Stage 3	-11.5	-1.5	0.7	-7.5	6.7	-13.0
Total	**-24.3**	**-8.4**	**2.5**	**-5.6**	**8.3**	**-27.4**

Loss allowances by loan assessment category at 31 December 2021

	Loan receivables	Interest receivables	Total receivables subject to impairment	Total loss allowances
Collectively assessed items	599.3	15.4	614.7	-26.2
Individually assessed items	307.3	0.8	308.2	-0.4
Total	**906.6**	**16.2**	**922.9**	**-26.6**

Loss allowances by loan assessment category at 31 December 2020

	Loan receivables	Interest receivables	Total receivables subject to impairment	Total loss allowances
Collectively assessed items	516.5	12.9	529.4	-26.4
Individually assessed items	75.0	0.6	75.7	-0.9
Total	**591.5**	**13.5**	**605.1**	**-27.3**

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

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

NOTE 9. OTHER RECEIVABLES AND INVENTORIES

At 31 December	2021	2020
Receivables	**1.8**	**1.1**
Customer receivables and other miscellaneous receivables	1.6	0.8
Collection, recovery and other charges receivable	0.4	0.5
Impairment allowance for other receivables	-0.2	-0.2
Inventories	**0.9**	**-**
Total	**2.7**	**1.1**

NOTE 10. PREPAYMENTS

At 31 December	2021	2020
Tax prepayments	0.4	0.4
Prepayments to suppliers and prepaid expenses	1.1	0.8
Total	**1.5**	**1.2**

NOTE 11. PROPERTY, PLANT AND EQUIPMENT

At 31 December	2021	2020
Land	9.0	-
Buildings	7.7	1.6
Right-of-use assets: office premises	1.4	2.1
Right-of-use assets: agricultural equipment and machinery	0.6	-
Other items - computers, office equipment, furniture, other fixtures, fittings	1.2	0.7
Biological assets	1.0	-
Total	**20.9**	**4.4**

Land, buildings, other items and biological assets

	Land	Buildings	Other items	Biological assets	Total
Cost					
Balance at 1 January 2020	-	1.6	4.2	-	5.8
Purchases	-	-	0.1	-	0.1
Write-off	-	-	-0.1	-	-0.1
Balance at 31 December 2020	**-**	**1.6**	**4.2**	**-**	**5.8**
Balance at 1 January 2021	-	1.6	4.2	-	5.8
Purchases	-	-	0.5	-	0.5
Sales	-	-	-0.1	-	-0.1
Revaluation recognised in other comprehensive income	-	0.1	-	-	0.1
Additions from business combinations (note 32)	9.0	1.7	0.9	1.0	12.6
Transfer from investment property (note 12)	-	4.3	-	-	4.3

Balance at 31 December 2021	**9.0**	**7.7**	**5.5**	**1.0**	**23.2**
Depreciation					
Balance at 1 January 2020	-	-	-2.7	-	-2.7
Depreciation charge for the year	-	-0.1	-0.8	-	-0.9
Write-off	-	-	0.1	-	0.1
Transfer**	-	0.1	-	-	0.1
Balance at 31 December 2020	**-**	**-**	**-3.4**	**-**	**-3.4**
Balance at 1 January 2021	-	-	-3.4	-	-3.4
Depreciation charge for the period	-	-0.1	-0.5	-	-0.6
Sales	-	-	0.1	-	0.1
Additions from business combinations (note 32)	-	-0.1	-0.4	-	-0.5
Transfer	-	0.1	-	-	0.1
Balance at 31 December 2021	**-**	**-0.1**	**-4.2**	**-**	**-4.3**
Carrying amount					
Balance at 1 January 2020	-	1.6	1.5	-	3.1
Balance at 31 December 2020	-	1.6	0.8	-	2.4
Balance at 31 December 2021	**9.0**	**7.6**	**1.3**	**1.0**	**18.9**

* Other items of property, plant and equipment comprise computers, office equipment, furniture, other fixtures and fittings.

** Land and buildings are measured using the revaluation model. Accumulated depreciation at the revaluation date was eliminated against the gross carrying amount of the revalued assets, see note 4.

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

At 31 December	2021	2020
Cost	6.2	1.9
Depreciation	-1.3	-1.2
Net carrying amount	**4.9**	**0.7**

Right-of-use assets

At 31 December	2021	2020
Carrying amount at 1 January	2.1	2.1
Adjustment*	-0.3	-
Additions	0.1	0.2
Depreciation charge	-0.6	-0.7
Price adjustment	0.1	0.5
Additions from acquisitions of business combinations	0.6	-
Carrying amount at end of year	**2.0**	**2.1**

* Both right-of-use assets and lease liabilities were reduced by non-recoverable value-added tax charged on rental services.

For lease payments for right-of-use assets, see note 16, and for depreciation and interest expense, see note 26.

NOTE 12. INVESTMENT PROPERTIES

	2021	2020
Opening balance at 1 January	27.2	1.8
Additions	29.3	25.8
Of which agricultural land	27.0	15.6
Of which buildings	2.3	10.2
Sales	-17.0	-0.1
Reclassification as office premises*	-4.3	-
Net gain/loss on fair value adjustments (note 4)	6.4	-0.4
Closing balance at 31 December	**41.6**	**27.1**

* A part of a building initially acquired as investment property was reclassified to property, plant and equipment as the Group is going to use this part of the building as office premises.

In 2021, the Group continued to make investments in investment properties, acquiring both agricultural land and commercial buildings.

The Group's rental income from investment properties was 1.8 million euros in 2021 (2020: 0.4 million euros). Property management expenses were 1.4 million euros (2020: 0.2 million euros) (see notes 22, 23 and 26).

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

NOTE 13. INTANGIBLE ASSETS

	2021	2020
Cost at beginning of year	**29.9**	**23.3**
Purchased and developed software*	5.0	6.9
Of which purchases	2.2	3.8
Of which capitalised payroll costs	2.8	3.1
Write-off	-	-0.2
Cost at end of year	**34.9**	**30.0**
Amortisation at beginning of year	**-5.7**	**-4.0**
Amortisation charge for the year	-2.2	-1.9
Write-off	-	0.2
Amortisation at end of year	**-7.9**	**-5.7**
Carrying amount at beginning of year	24.2	19.3
Carrying amount at end of year	**27.0**	**24.3**

* The Group's intangible assets comprise various software.

In recent years, the Group has made substantial investments in the information and banking technology solution Nest. Purchased and developed software also includes capitalised payroll costs and associated taxes for employees who were directly involved in the development of Nest, see note 23. The carrying amount of Nest at 31 December 2021 was 26.6 million euros (31 December 2020: 23.7 million euros).

NOTE 14. LOANS FROM CENTRAL BANKS

In 2019 and 2020, the Group obtained from the ECB's third series of targeted longer-term refinancing operations (TLTRO-III) financing in the total value of 36.5 million euros. The initial maturity of the liability was 3 years with an early repayment option starting on 29 September 2021. The basic interest rate on TLTRO-III borrowing has been -0.5%. The interest rate is linked to a reference rate which may change in the future. For banks meeting the ECB's specified lending criteria, which the Group met for the first reference period, the interest rate can be as low as -1.0% and is applicable retrospectively. In the reporting period, the amount of negative interest of 0.5 million euros was recognised within interest income. The ECB's financing is secured by debt securities. At 31 December 2021, loans from central banks amounted to 36.5 million euros.

The targeted longer-term refinancing operations (TLTROs) are Eurosystem operations that provide financing to credit institutions. By offering banks long-term funding on attractive terms they preserve favourable borrowing conditions for banks and stimulate bank lending to the real economy. The third TLTRO programme consists of a series of ten targeted longer-term refinancing operations, each with a maturity of three years, starting in September 2019 at a quarterly frequency.

NOTE 15. DEPOSITS FROM CUSTOMERS

At 31 December	2021	2020
Deposits from customers	**898.3**	**547.6**
Deposits by customer type		
Individuals	881.1	540.6
Legal persons	17.2	7.0
Deposits by currency		
EUR (euro)	815.8	476.8
SEK (Swedish krona)	82.5	70.8
Deposits by maturity		
Savings (on demand) deposits	343.8	68.6
Maturing within 1 month	20.3	16.1
Maturing between 1 and 6 months	102.5	96.1
Maturing between 6 and 12 months	109.4	108.7
Maturing between 12 and 18 months	60.3	54.0
Maturing between 18 and 24 months	64.2	48.7
Maturing between 24 and 36 months	80.1	63.2
Maturing between 36 and 48 months	42.0	27.4
Maturing between 48 and 60 months	32.7	24.2
Maturing in over 60 months	43.0	40.6

Annual interest rates of deposits offered to customers at 31 December 2021

Interest rates of deposits offered to customers depend on the country as well as the deposit term, currency and amount, and interest payment method. The terms of term deposits offered by the Group range from 1 month to 10 years. In addition, the Group offers savings deposits, which the customer can start using at short notice. The respective interest rates range from 0.2% to 2.5% per year (2020: from 0.3% to 2.3%): for term deposits from 0.3% to 2.5% and for savings deposits from 0.2% to 0.5%. Deposits with the shortest term of 1 month are offered in Estonia, Latvia, Finland, Austria and Germany. In Sweden, the shortest term for deposits is 6 months and in the Netherlands 12 months. Savings deposits are offered in Germany, Austria and the Netherlands. The minimum amount for a term deposit is 500 euros or 10,000 Swedish krona. The median amount of customer deposits was 43 thousand euros.

NOTE 16. LEASE LIABILITIES

Set out below are the carrying amounts of lease liabilities and movements during the period:

	2021	2020
Balance at 1 January	2.1	2.1
Adjustment*	-0.3	-
Additions	0.2	0.7
Additions from business combinations	0.4	-
Payments	-0.6	-0.7
Carrying amount at end of year	**1.8**	**2.1**

* Both right-of-use assets and lease liabilities were reduced by non-recoverable value-added tax charged on rental services.

For right-of-use assets related to the lease liabilities, see note 11, and for interest expense on lease liabilities, see note 21.

NOTE 17. DEFERRED INCOME AND TAX LIABILITIES

At 31 December	2021	2020
Income tax payable (note 29)	0.8	0.3
Other taxes payable	0.9	0.7
Prepayments from customers	0.2	-
Total deferred income and tax liabilities	**1.9**	**1.0**

NOTE 18. OTHER LIABILITIES

At 31 December	2021	2020
Received surplus payments	5.5	4.8
Payables to employees	2.5	1.7
Supplier payables	1.8	0.4
Other payables	1.4	1.0
Total other liabilities	**11.2**	**7.9**

Received surplus payments include amounts received from customers that have been paid before the due date and have not yet been matched to particular loan contracts due to the uncertain nature of these payments.

NOTE 19. EQUITY

Share capital

Bigbank AS is a limited company, whose minimum and maximum authorised share capital amount to 5.1 million euros and 12.8 million euros, respectively. Share capital at 31 December 2021 and 2020 consists of 80,000 fully paid in ordinary shares with a par value of 100 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 has been recognised in accordance with the Estonian Commercial Code. Under the latter, the capital reserve is recognised using annual net profit transfers. Each year, the parent company has to transfer at least one twentieth of net profit for the year to the capital reserve until the reserve amounts to one tenth of share capital. The capital reserve may be used for covering losses and increasing share capital. The capital reserve may not be used for making distributions to shareholders.

Other reserves

Other reserves comprise:

- Exchange differences on translating foreign operations. This item comprises foreign currency differences arising from the translation of the financial statements of the Group's foreign operations that use functional currencies other than the Group's functional currency.
- Asset revaluation reserve comprises the increase in the carrying value of land and buildings classified as Property, plant and equipment as a result of revaluation. The revaluation reserve cannot be used to make profit distributions to shareholders.
- Changes in the fair value of debt instruments measured at FVOCI.

At 31 December	2021	Change	2020	Change	2019
Exchange differences on translating foreign operations	0.7	0.1	0.6	-0.3	0.9
Asset revaluation reserve	0.8	0.2	0.6	0.1	0.5
Fair value changes of debt instruments measured at FVOCI	-0.4	-0.3	-0.1	0.1	-0.2
Total other reserves	**1.1**	**0.0**	**1.1**	**-0.1**	**1.2**

Unrestricted equity

At 31 December 2021, the Group's unrestricted equity amounted to 176.2 million euros (31 December 2020: 146.4 million euros).

Dividends

The company has made the following dividend distributions:

- 2021: 75.00 euros per share, i.e. 6.0 million euros in aggregate; and
- 2020: 75.00 euros per share, i.e. 6.0 million euros in aggregate.

NOTE 20. INTEREST INCOME

	2021	2020
Interest income on loans to customers	76.4	69.1
Interest income on debt instruments	0.6	0.6
Interest income on liabilities (note 14)	0.5	-
Total interest income	**77.5**	**69.7**

NOTE 21. INTEREST EXPENSE

	2021	2020
Interest expense on deposits	7.2	6.5
Interest expense on notes	0.3	0.3
Other interest expense	0.3	0.1
Total interest expense	**7.8**	**6.9**

Interest expense on lease liabilities for the reporting year was 22 thousand euros (2020: 26 thousand euros).

NOTE 22. OTHER INCOME

	2021	2020
Income from debt recovery proceedings*	0.5	0.6
Rental income	1.8	0.4
Revenue from sales of agricultural produce	0.9	-
Miscellaneous income	0.3	0.4
Total other income	**3.5**	**1.4**

* Income from debt recovery proceedings and reimbursements of related costs.

NOTE 23. OTHER EXPENSES

	2021	2020
Expenses related to registry inquires	1.1	1.1
Expenses related to enforcement proceedings	0.7	0.6
Legal regulation charges	0.8	0.6
Expenses from investment properties	1.4	0.2
Costs of agricultural produce sold and change in fair value of biological assets	0.6	-
Miscellaneous expenses	0.5	0.4
Total other expenses	**5.1**	**2.9**

NOTE 24. SALARIES AND ASSOCIATED CHARGES

	2021	2020
Salaries	14.0	11.0
Social security costs*	3.6	2.8
Employee health costs and fringe benefits including associated taxes	0.2	0.3
Total salaries and associated charges	**17.8**	**14.1**

* In accordance with the local labour tax legislation, the social security costs of some branches are marginal and are included in salaries.

Salaries and associated charges include capitalised payroll costs and associated taxes related to the development of Nest in the amount of 2.8 million euros (see note 13). The annual average number of full-time employees was 412 (2020: 378).

NOTE 25. ADMINISTRATIVE EXPENSES

	2021	2020
Marketing expenses	9.9	7.3
Short-term leases	0.2	0.1
Office and other similar administrative expenses	0.4	0.4
Other personnel-related expenses	0.8	0.5
Software licensing and other information technology costs	1.4	1.3
Other services	0.5	0.5
Postal supplies and charges	0.2	0.4
Telephone and other communications expenses	0.6	0.4
Miscellaneous operating expenses	0.3	0.2
Total administrative expenses	**14.3**	**11.1**

NOTE 26. LEASES

The Group as a lessee – operating leases

The Group has lease contracts for office premises. Lease terms mostly fall between 3 and 10 years. Leases of office premises can be cancelled by giving one month's to 10 years' notice, fixed-term lease contracts can be extended on market terms. In addition, the Group has agricultural equipment lease contracts with a term of 5 years. The Group also has certain leases of office premises with terms of 12 months or less and leases of office equipment of low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions to these leases.

Expenses on short-term leases included in Administrative expenses totalled 0.2 million euros in 2021 (2020: 0.1 million euros).

The Group recognised depreciation expense on the right-of-use assets of office premises and agricultural equipment of 0.6 million euros (2020: 0.7 million euros) and interest expense on lease liabilities of 22 thousand (2020: 26 thousand euros), see notes 1, 11 and 21. For changes in lease liabilities, see note 16.

The Group as a lessor

The Group leases out commercial premises and agricultural land.

Minimum non-cancellable operating lease rentals receivable in subsequent periods

At 31 December	2021	2020
Up to 1 year	2.9	0.4
1 to 5 years	10.3	-
Over 5 years	2.1	-

For rental income and management expenses, see note 12.

NOTE 27. ASSETS PLEDGED AS COLLATERAL

Assets are encumbered in connection with loans and other financing received against collateral. At 31 December 2021, debt securities of 39.5 million euros (31 December 2020: 39.9 million euros) were pledged as a collateral to obtain targeted longer-term refinancing operations (TLTRO) low cost funding through the Eurosystem's open market operations. For debt instruments, see note 6.

NOTE 28. CONTINGENT LIABILITIES

At 31 December 2021, the unused portions of the credit lines and loans totalled 93.8 million euros (31 December 2020: 44.7 million euros) and guarantees issued totalled 5 thousand euros (31 December 2020: the same).

NOTE 29. INCOME TAX

Income tax expense

	2021	2020
Current income tax expense	3.0	2.4

The current tax expense has been calculated on profit earned in Lithuania, Finland and Sweden and it includes advance payments of income tax that credit institutions are required to make in Estonia. The income tax expense payable on the distribution of profits earned in Latvia would be 8.7 million euros and it is recognised off the statement of financial position.

Dividend distributions to shareholders had no income tax consequences in 2021 and 2020.

Reconciliation of accounting profit and income tax expense

	2021	2020
Consolidated profit before tax	38.8	23.8
The parent company's domestic tax	0.4	0.4
Effect of tax rates in foreign jurisdictions	2.6	2.0
Income tax expense reported in statement of comprehensive income	**3.0**	**2.4**

Contingent income tax liabilities

At 31 December 2021, the Group's retained earnings totalled 176.2 million euros (31 December 2020: 146.4 million euros).

Under the Estonian Income Tax Act, in 2021 profit distributions, including dividend distributions, were subject to income tax calculated as 20/80 of the net distribution. The maximum income tax liability that could arise if all of the undistributed profits were distributed as dividends amounts to 35.2 million euros. Thus, the maximum amount that could be distributed as the net dividend is 141.0 million euros.

The income tax payable on dividends is calculated by reducing the tax base by the profits attributed to foreign permanent establishments (branches) and reducing the tax payable by advance payments of income tax that credit institutions are required to make in Estonia. The Group's actual expected maximum income tax liability that could arise if all of the undistributed profits were distributed

as dividends amounts to 18.2 million euros and the maximum amount that could be distributed as the net dividend is 158.0 million euros. The income tax liability includes the deferred income tax calculated on Latvian distributable profits.

The maximum contingent income tax liability has been calculated on the assumption that the net dividend and the dividend tax expense reported in the statement of comprehensive income for 2021 cannot exceed total distributable profits at 31 December 2021.

NOTE 30. ADDITIONAL CASH FLOW INFORMATION

Changes in liabilities arising from financing activities in 2021

	Subordinated notes	Loans from central banks	Lease liabilities
Opening balance	5.0	36.5	2.1
Cash flow items:			
Receipts	10.0	0.5	-
Payments	-0.3	-	-0.6
Non-cash flow items:			
Movement in accrued interest, revaluation and increase in liabilities	0.3	-0.5	0.6
Adjustment	-	-	-0.3
Balance at 31 December 2021	**15.0**	**36.5**	**1.8**

Changes in liabilities arising from financing activities in 2020

	Subordinated notes	Loans from central banks	Lease liabilities
Opening balance	5.0	23.0	2.1
Cash flow items:			
Receipts	-	13.5	-
Payments	-0.3	-	-0.7
Non-cash flow items:			
Accrued interest, revaluations and increase in liabilities	0.3	-	0.7
Balance at 31 December 2020	**5.0**	**36.5**	**2.1**

NOTE 31. TRANSACTIONS WITH 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 operating 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 operating decisions.

In 2021, the remuneration of the members of the Group companies' management boards and supervisory board including taxes amounted to 1.4 million euros (2020: 1.2 million euros) and 70 thousand euros (2020: the same), respectively. No severance benefits were paid during the financial year.

At 31 December 2021, the Group had a receivable from related parties of 4.3 million euros (*Loans to customers*) (31 December 2020: 39 thousand euros), interest income on the receivable amounted to 0.1 million euros in 2021 (2020: 2 thousand euros). Loans are granted to related parties on market terms.

At 31 December	2021	2020
Loans to customers	4.3	0.1
Of which to members of management and supervisory boards	0.1	0.1
Of which to companies connected with related parties	4.2	-

A plot of land was sold to a company related to the owner at the acquisition price, the sales price was 0.1 million euros.

In 2020, the Group acquired from a shareholder of Bigbank AS a subsidiary, OÜ Rüütli Property, which invests in agricultural land. At the acquisition date the assets and liabilities of OÜ Rüütli Property amounted to 2.0 million euros, net assets were 0 euros. The Group paid the shareholder 3 thousand euros for the acquisition of the subsidiary. As a result of the transaction, both the Group's assets and liabilities increased by 2.0 million euros.

The Group finances subsidiaries and branches with long-term loans. Such loans are eliminated from the consolidated financial statements.

NOTE 32. BUSINESS COMBINATIONS

In 2021, Rüütli Majad OÜ – a subsidiary of Bigbank AS – acquired 100% of the shares in agricultural companies Abja Põld OÜ and Palupera Põllud OÜ, which in turn acquired the business of Abja Farmid OÜ. The total purchase consideration was 7.8 million euros, of which 0.5 million euros is payable after an 18-month closing period. The companies acquired are engaged in grain growing, milk production and dairy farming.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

Purchase consideration

	Business of Abja Farmid	Abja Põld OÜ	Total
Acquisition date	*15 Sept 2021*	*15 Sept 2021*	
Cash paid	6.4	0.9	7.3
Cash to be paid after closing	0.5	-	0.5
Total purchase consideration	**6.9**	**0.9**	**7.8**

The fair value of assets and liabilities recognised as a result of the acquisition are as follows:

	Business of Abja Farmid	Abja Põld OÜ	Total
Cash and cash equivalents	-	0.3	0.3
Property, plant and equipment	10.6	1.2	11.8
Of which land (agricultural land)	9.0	-	9.0
Of which buildings	1.5	0.1	1.6
Of which other items	0.1	0.4	0.5
Biological assets	0.9	0.1	1.0
Inventories and other receivables	0.1	1.1	1.2
Lease liabilities	-	-0.4	-0.4
Borrowings	-	-1.7	-1.7
Other liabilities	-0.1	-0.4	-0.5
Net identifiable assets acquired	**11.5**	**0.2**	**11.7**
Goodwill	-	0.7	0.7
Gain on bargain purchase	-4.6	-	-4.6
Total	**6.9**	**0.9**	**7.8**

Purchase price allocation requires management to make estimates, which in the case of land and buildings were based on valuers' appraisals. According to the valuation report, the average price per hectare of agricultural land at the date of the valuation was approximately 7,000 euros. In the case of buildings, the valuer used the income approach, based on the rental income of 0.5 to 2 euros per square metre. The fair value of biological assets, including inventories, was based on the sales price less costs to sell, for further information see note 4 *Fair values of assets and liabilities*. In determining the fair value of other non-current assets, the management relied on the market value of the assets, their expected useful lives and the ability to generate benefits.

The fair values of lease and loan liabilities are based on contractual obligations, the balances

of other liabilities – current supplier payables and taxes payable – were compared with counterparties and their carrying amounts were considered equal to fair value.

On the acquisition of Palupera Põllud OÜ on 9 July 2021, an amount of 9 thousand euros was paid while the fair value of the assets was estimated at 3 thousand euros.

After the acquisition, goodwill resulting from the acquisitions was tested for impairment and as a result, an impairment loss of 0.7 million euros was recognised in profit or loss. The gain on a bargain purchase of 4.6 million euros was recognised in profit or loss. Acquisition-related costs were recognised in administrative expenses in profit or loss.

From the date of acquisition, the acquired businesses contributed 1.0 million euros to the Group's other income while their contribution to profit for the year (excluding gain on bargain purchases and impairment losses on goodwill) was 0 euros. If the acquisition had occurred on 1 January 2021, the acquired businesses would have contributed an estimated 0.4 million euros of additional loss. This estimate is based on management's assumption that the fair values determined at the date of acquisition would have been the same if the acquisition had occurred on 1 January 2021.

In 2020, the Group acquired the subsidiary OÜ Rüütli Property from a shareholder of Bigbank AS (see note 31). At the acquisition date both the assets and liabilities of OÜ Rüütli Property amounted to 2.0 million euros. The Group paid the shareholder 3 thousand euros for the acquisition of the subsidiary.

NOTE 33. EARNINGS PER SHARE

		2021	2020
Net profit for the year	EUR m	35.9	21.5
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	**EUR**	**449**	**267**

At the end of 2021 and 2020 the Group did not have any potential dilutive ordinary shares. Therefore, diluted earnings per share equal basic earnings per share.

NOTE 34. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Uncertainties are increasing due to the Russian military aggression against Ukraine, which started at the end of February 2022. Depending on the course of the war and the collateral effects of the sanctions imposed against Russia, it may affect the economic confidence of the countries in the region. The Group is facing the changed environment with adequate liquidity and capital buffers.

NOTE 35. PRIMARY FINANCIAL STATEMENTS OF THE PARENT

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

Statement of financial position

At 31 December *(in millions of euros)*	**2021**	**2020**
Assets		
Cash and balances at central banks	78.7	48.3
Cash balances at banks	35.0	25.6
Debt instruments at fair value through other comprehensive income	45.3	45.8
Loans to customers	896.2	577.7
Receivables from subsidiaries	48.8	27.2
Investments in subsidiaries	0.6	0.6
Other receivables	1.3	1.1
Prepayments	1.5	1.2
Property, plant and equipment	2.5	3.3
Investment properties	0.1	0.1
Intangible assets	27.0	24.2
Assets classified as held for sale	-	0.6
Total assets	**1,137.0**	**755.7**
Liabilities		
Loans from central banks	36.5	36.5
Deposits from customers	898.3	547.5
Liabilities to subsidiaries	1.9	1.8
Subordinated notes	15.0	5.0
Lease liabilities	1.4	2.1
Provisions	0.3	1.5
Deferred income and tax liabilities	1.7	1.0
Other liabilities	10.1	7.8
Total liabilities	**965.2**	**603.2**
Equity		
Paid-in share capital	8.0	8.0
Capital reserve	0.8	0.8
Other reserves	0.6	0.8
Retained earnings	162.4	142.9
Total equity	**171.8**	**152.5**
Total liabilities and equity	**1,137.0**	**755.7**

Statement of comprehensive income

(in millions of euros)	2021	2020
Interest income	77.9	69.8
Interest expense	-7.8	-7.0
Net interest income	**70.1**	**62.8**
Net fee and commission income	6.5	4.9
Losses on derecognition of debt instruments at FVOCI	-0.2	-0.2
Net gain (loss) on exchange differences	-0.2	0.3
Other income	0.8	1.0
Other expenses	-3.0	-2.8
Total net operating income	**74.0**	**66.0**
Salaries and associated charges	-17.7	-14.0
Administrative expenses	-14.3	-11.1
Depreciation and amortisation expense	-3.2	-3.4
Provision expenses	1.2	0.6
Net loss allowances on loans and financial investments	-11.5	-14.1
Total expenses	**-45.5**	**-42.0**
Profit before income tax	**28.5**	**24.0**
Income tax	-3.0	-2.4
Profit for the year	**25.5**	**21.6**
Other comprehensive income/expense		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations	0.1	-0.3
Changes in the fair value of debt instruments at FVOCI	-0.3	0.1
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**-0.2**	**-0.2**
Total comprehensive income for the year	**25.3**	**21.4**

Statement of cash flows

(in millions of euros)	**2021**	**2020**
Cash flows from operating activities		
Interest received	73.6	65.7
Interest paid	-6.7	-5.2
Salary, administrative and other expenses paid	-39.4	-31.2
Other income and fees received	8.1	6.8
Recoveries of receivables previously written off	8.7	10.0
Received for other assets	0.8	0.1
Loans granted	-655.4	-391.3
Repayment of loans granted	301.1	231.5
Change in mandatory reserves with central banks and related interest receivables	-2.4	-0.8
Proceeds from customer deposits	710.7	340.4
Paid on redemption of deposits	-359.1	-190.1
Income tax paid	-2.1	-1.7
Effect of movements in exchange rates	-	-0.2
Net cash from operating activities	**37.9**	**34.0**
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	-4.5	-7.2
Proceeds from sale of investment properties	-	0.1
Acquisition of financial instruments	-4.6	-15.8
Proceeds from redemption of financial instruments	5.2	1.9
Net cash used in investing activities	**-3.9**	**-21.0**
Cash flows from financing activities		
Proceeds from issue of notes	10.0	-
Interest paid on subordinated bonds	-0.3	-0.3
Proceeds from loans from central bank	-	13.5
Proceeds from negative interest on loans from central bank	0.5	-
Payment of principal portion of lease liabilities	-0.6	-0.7
Dividends paid	-6.0	-6.0
Net cash from financing activities	**3.6**	**6.5**
Effect of exchange rate fluctuations	-0.2	0.4
Increase in cash and cash equivalents	**37.4**	**19.9**
Cash and cash equivalents at beginning of period	72.1	52.2
Cash and cash equivalents at end of period	**109.5**	**72.1**

Cash and cash equivalents

At 31 December *(in millions of euros)*	**2021**	**2020**
Demand and overnight deposits with banks	34.9	21.5
Term deposits with banks	-	4.0
Surplus on mandatory reserves with central banks	74.6	46.6
Total	**109.5**	**72.1**

Statement of changes in equity

(in millions of euros)	Share capital	Capital reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2020	**8.0**	**0.8**	**1.0**	**127.3**	**137.1**
Profit for the year	-	-	-	21.6	21.6
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	-0.3	-	-0.3
Net change in fair value of debt instruments at FVOCI	-	-	0.1	-	0.1
Total other comprehensive income	**-**	**-**	**-0.2**	**-**	**-0.2**
Total comprehensive income for the year	**-**	**-**	**-0.2**	**21.6**	**21.4**
Dividend distribution	-	-	-	-6.0	-6.0
Total transactions with shareholders	**-**	**-**	**-**	**-6.0**	**-6.0**
Balance at 31 December 2020	**8.0**	**0.8**	**0.8**	**142.9**	**152.5**
Balance at 1 January 2021	**8.0**	**0.8**	**0.8**	**142.9**	**152.5**
Profit for the year	-	-	-	25.5	25.5
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	0.1	-	0.1
Net change in fair value of debt instruments at FVOCI	-	-	-0.3	-	-0.3
Total other comprehensive income	**-**	**-**	**-0.2**	**-**	**-0.2**
Total comprehensive income for the year	**-**	**-**	**-0.2**	**25.5**	**25.3**
Dividend distribution	-	-	-	-6.0	-6.0
Total transactions with shareholders	**-**	**-**	**-**	**-6.0**	**-6.0**
Balance at 31 December 2021	**8.0**	**0.8**	**0.6**	**162.4**	**171.8**

At 31 December	**2021**	**2020**
Unconsolidated equity at end of period	**171.8**	**152.5**
Investments in subsidiaries:		
Carrying value	-0.6	-0.6
Carrying value under the equity method	5.0	4.3
Adjusted unconsolidated equity at end of period	**176.2**	**156.2**

Signatures

The management board has prepared the review of operations and the financial statements of Bigbank AS for the financial year ended on 31 December 2021.

Martin Länts Chairman of the Management Board	28 February 2022	*[signed digitally]*
Sven Raba Member of the Management Board	28 February 2022	*[signed digitally]*
Mart Veskimägi Member of the Management Board	28 February 2022	*[signed digitally]*
Argo Kiltsmann Member of the Management Board	28 February 2022	*[signed digitally]*

KPMG

Independent auditors' report

To the Shareholders of AS Bigbank

(Translation of the Estonian original)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of **AS Bigbank** and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (Estonia) (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matter described below to be the key audit matter to be communicated in our report.

<table>
<tr><td colspan="2">Impairment of loans to customers</td></tr>
<tr><td colspan="2">Refer to Note 1 “General information and significant accounting policies”, Note 2 “Significant accounting estimates and assumptions”, Note 3 “Risk and capital management”, Note 7 “Loans to customers” and Note 8 “Loss allowances for loan receivables”.</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>As at 31 December 2021, loans and advances to customers amounted to EUR 907 million and related impairment loss allowance to EUR 25 million.

Impairment of loans is a subjective area due to the level of judgement applied by the management in determining the extent of credit losses which is dependent on the credit risk related to such loans and receivables. Significant management judgement is applied in determining the economic scenarios used and the probability weightings applied to them.

The use of different modelling techniques and assumptions around the calculation of the expected credit losses (ECL) could produce significantly different estimates of loss allowance. These models require the significant judgment of management regarding appropriate segmentation, the identification of significant changes in credit risk, the inclusion of forward-looking elements to reflect on circumstances beyond the modelling capabilities.

The Group is applying the expected credit loss model as required by IFRS 9. The Group’s impairment allowance policy is presented in the accounting policies section in Note 1 subsection Financial assets impairment to the consolidated financial statements. Critical accounting estimates and judgments are set out in Note 2 Significant accounting estimates and assumptions to the consolidated financial statements.

Given the complexity and judgements related particularly to the calculation of expected credit losses, the impairment allowance for loans to customers is considered a key audit matter.</td><td>In this area, we conducted, among others, the following audit procedures:

We assessed the Group’s accounting policies and methodology applied for the calculation of impairment of loans and advances to customers in relation to the requirements set under IFRS 9. We involved KPMG IFRS 9 specialists to assess the compliance with the requirements of IFRS 9;

We gained an understanding of loan issuance, recording and impairment provisioning process, identifying the related controls. We tested the key controls and performed analytical procedures. We also tested the compliance of the loan agreements and the information reflected in the system to ensure the correctness of the inputs used in the credit loss models;

We have performed test of details over the following:

• the completeness and accuracy of data used in the ECL calculation system;
• the compliance of key inputs used in the ECL calculation system with IFRS 9 methodology;
• the accuracy and compliance of 12-month and lifetime ECL calculations with IFRS 9 methodology;
• the correctness of discounting in ECL model;
• the accuracy and completeness of data used for staging of loans;
• the correctness of applying the criteria to determine significant increase in credit risk;
• the internal assignment of credit ratings for corporate loan customers, which serve as inputs into the corporate loan ECL model;
• the correctness of information on collaterals and their values in the loan systems, which serve as an input into the ECL model.

We have assessed the reasonableness of key assumptions made by the management, which serve as critical inputs in the ECL model, such as weights of different scenarios, loan portfolio point in time PD estimates, criteria to determine significant increase in credit risk, key forecasts of macroeconomic information used for different scenarios.

We have assessed appropriateness of disclosures in the consolidated financial statements.</td></tr>
</table>

Other Information

Management is responsible for the other information. The other information comprises the information included in the management report consisting of review of operations, social responsibility and sustainability report and corporate governance report but does not include the consolidated financial statements and our auditors' report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, our responsibility is to state whether the information presented in the management report has been prepared in accordance with the applicable legal and regulatory requirements.

If, based on the work we have performed, we conclude that there is a material misstatement in management report we are required to report that fact. We have nothing to report in this regard and we state that the information presented in the management report is materially consistent with the consolidated financial statements and in accordance with the applicable legal and regulatory requirements.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions,

misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors’ report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other Requirements of the Auditors' Report in Accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council

We were appointed by those charged with governance on 3 June 2020 to audit the consolidated financial statements of AS Bigbank for the year ended 31 December 2021. Our total uninterrupted period of engagement is two years, covering the periods ended 31 December 2020 to 31 December 2021.

We confirm that:

– our audit opinion is consistent with the additional report presented to the Audit Committee of the Group;

– we have not provided to the Group the prohibited non-audit services (NASs) referred to in Article 5(1) of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

Tallinn, 28 February 2022

(signed digitally)

Eero Kaup

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Risk and capital management report (Pillar 3)

The report provides additional information on Bigbank Group's (the Group) risk and capital management according to the disclosure requirements as provided in Part Eight of the Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation) and Directive (EU) 2013/36 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (Capital Requirements Directive), as amended by subsequent Regulations and Directives. The Group is subject to the disclosure requirements laid down in Article 433c of the Capital Requirements Regulation.

The report is based on the Group consolidated in the prudential scope of consolidation, which consists of the Estonian parent company, its foreign branches and subsidiaries in Estonia and Latvia. Palupera Põllud OÜ and Abja Põld OÜ do not provide ancillary services and are therefore consolidated using the equity method according to the scope of prudential consolidation, i.e. not applying full consolidation according to IFRS accounting treatment. The companies consolidated under IFRS comprise all the companies controlled by the ultimate parent company.

Detailed information on the risk management strategies and processes is presented in this Annual Report 2021. The information provided in the risk and capital management report (Pillar 3) complements the information presented in the Annual Report 2021 and it is unaudited.

The information is presented as at the reporting date, which is 31 December 2021.

RISK REPORT

Bigbank AS is a specialised bank with a limited range of lending and deposit products. Historically the Bank has focused on non-collateralised consumer lending. In recent years, the focus has expanded to include housing loans and corporate loans. The Bank mainly operates through digital channels. Bigbank has branches in Latvia, Lithuania, Finland, Sweden and Bulgaria, which all offer similar consumer lending services. The Bulgarian branch started operations in 2021. In addition, Estonian, Latvian, Finnish and Swedish branches offer deposit services. Corporate loans are available in Estonia, Latvia and Lithuania and corporate deposits are available in Estonia. Bigbank also provides cross-border deposit services in Germany, the Netherlands and Austria from Estonia. The Bank has two business lines: retail and corporate banking. The majority of the customers are private individuals – 74.8% of customers as at 31 December 2021. A detailed description of the Group and its operations is given in other sections of this Annual Report.

Effective risk and capital management is an essential component of the Group's management. It has a crucial impact on the long-term results and sustainability of the business model. Based on its business model, the Group has established risk appetite and target risk profiles for all identified material risks together with processes and measures for assessing and managing the actual risk profile in relation to risk appetite. The risk appetite is the level of aggregated risks that the Group is willing to take according to its business model and within risk tolerance limits, in order to achieve its strategic goals. The target risk profile is based on the defined risk appetite. Bigbank carries out ongoing monitoring and reporting of its risk exposures against the risk limits to ensure that its risk-taking activities remain within the risk appetite. The actual risk profile is reviewed by the Management Board at least quarterly. An overview of all material risks is presented in the following table:

RISK TYPE	RISK APPETITE	RISK STRATEGY IN BRIEF
Credit Risk	Moderate	The Group accepts knowingly higher credit risk in loan portfolio by giving out uncollateralised consumer loans. In the housing loan segment, the Group accepts only customers whose payment capacity is acceptable based on thorough loan analysis and whose loan is fully secured by real-estate collateral. In the business loan segment, the Group accepts customers with moderate credit risk, and loans are mostly secured by real-estate collaterals. Risks are controlled by maintaining a highly diversified loan portfolio.
Liquidity and Funding Risk	Moderate	The Group maintains a conservative liquidity risk profile and sufficient liquidity reserves. Maintaining strong liquidity position is one of the main priorities for the Group. The Group´s funding strategy is to ensure sufficient and stable funding of the Group's activities by the Group´s own capital and external financing. Diversification is a key part of the Group's overall funding and liquidity management strategy and concentration of funding should be avoided. The Group's liquidity risk appetite is on low and funding risk appetite is moderate. Safe solutions, reactivity and moderate risk levels are preferred.
Market Risk	Moderate	The Group avoids significant market risks and maintains rather conservative market risk profile. The Group does not take any speculative trading positions nor does provide customer-focused trading activities.
Operational Risk	Low	Group keeps a minimal reasonable operational risk level, taking into account its strategic objectives and the principle of economic efficiency. The Group's operations are compliant with respective laws and regulations.
Strategic Risk	Moderate	The Group controls and reduces risk by implementing an adequate and suitable strategy, thet corresponds to the current economic environment and is based on a comprehensive planning process. The Group responds to changes in an adequate and timely manner.
Reputational Risk	Low	The Group avoids reputational risks and situations that could potentially lead to a negative impact on the reputation and an accompanying drop in revenue, or loss of confidence. Reputation is an important asset.

A more detailed description of the risk management framework and material risks is given in note 3 *Risk and capital management*.

In accordance with its business model, the Group's risk profile is dominated by credit risk arising from the loan portfolio, which is the most significant driver of the amount of risk weighted assets. 88,5% of the Group's total risk-weighted exposure amount is related to credit risk. The loan portfolio credit risk appetite is moderate and corresponds to the target and actual risk profile as of 31 December 2021. In the consumer lending segment, the Group accepts knowingly higher credit risk by granting unsecured loans. In the housing loan segment, the Group accepts only customers whose payment capacity is acceptable based on thorough loan analysis and whose loan is fully secured by real-estate collateral. In the business loan segment, the Group accepts customers with moderate credit risk, and loans are mostly secured by real-estate collaterals. The credit risk appetite statement is defined in terms of credit risk concentration (limits for specific client groups, maximum loan size and geographical location), credit quality (expected credit loss) and the ratio of non-performing loans, in line with regulatory definitions and applicable limits. As of 31 December 2021, the Group was within the established credit risk limits.

Operational risk is present across all the Group's activities. The operational risk exposure represents 11.6% of the Group's total risk weighted exposure amount. During 2021, total actual losses due to operational risk amounted to 140 thousand euros, while the capital requirement amount attributable to operational risk was 8.3 million euros as at 31 December 2021. Most of the operational risk losses were connected to external fraud. The COVID-19 related crisis did not lead to increased operational risk losses in 2021. The Group's

strategy is to keep a minimal reasonable operational risk level and to minimise the level of potential losses, taking into account strategic objectives and the principle of economic efficiency. Risk tolerance is expressed in terms of total actual and potential losses resulting from the operational risk events. The Group's compliance risk strategy is to ensure that its operations are compliant with the respective laws and regulations. The Group's operational risk appetite is low and corresponds to the actual risk profile as at 31 December 2021. The actual compliance risk profile and money laundering and terrorist financing risk profile were assessed separately. The target risk level of those risks is low and the actual risk levels corresponded to the target levels at 31 December 2021. Money laundering and terrorism financing risks of the Group are limited due to a limited and low risk product portfolio and the fact that services are mainly offered to customers, who are residents of the country of the respective business units.

Market risks predominantly arise from the Group's core business activities and taking market risk is not the Group's main activity. The Group does not take speculative trading positions nor provide customer-focused trading activities. The market risk strategy is to avoid significant market risks and maintain a rather conservative market risk profile. The overall market risk appetite is moderate, but the actual risk profile was assessed as low at 31 December 2021. The Group treats separately foreign currency risk, interest rate risk arising from the bond portfolio, interest rate risk in the banking book (IRRBB) and real-estate price risk. Market risk contributes 0% to the Group's total risk-weighted exposure amount. Risks related to IRRBB and real-estate price are covered separately with Pillar 2 capital requirements which are calculated within the ICAAP. Market risk is controlled by setting limits on bond portfolio risk exposures, net open foreign currency risk exposures, interest rate sensitivity of economic value of equity and net interest income.

The primary risk not mitigated with capital and hence not measured in total risk-weighted exposure terms is liquidity risk. Liquidity risk is a material risk for the Group. The liquidity risk appetite is low, and accordingly the Group maintains a conservative liquidity risk profile and sufficient liquidity reserves. Maintaining a strong liquidity position is one of the main priorities of the Group. Liquidity risk management is based on conservative assumptions. The actual liquidity level corresponded to the target level at 31 December 2021. Liquidity risk limits and key risk indicators are set to ensure that the liquidity risk profile of the Group remains within the liquidity risk appetite. Separate limits are established for the liquidity coverage ratio (LCR), the survival period, the loan to deposits ratio, the liquidity buffer to total assets ratio, and the net stable funding ratio (NFSR). At 31 December 2021, the Group had a liquidity buffer in size of 10.2% from the total assets. The Group assesses funding risk separately, avoids significant funding risk levels and maintains a well-balanced funding risk profile. The funding risk appetite is moderate and the actual risk profile was assessed on the same level.

Other material risks for Bigbank are reputational, business and strategic risks. These risks are an essential part of the business model and addressed as part of the strategic and operational planning. The Group's strategy on reputational risk management is to avoid reputational risks and to avoid situations that could potentially lead to a negative impact on reputation and to an accompanying drop in revenue or loss of confidence. The Group's reputational risk appetite is low and the actual risk profile was also low as of 31 December 2021. The Group's strategy on business and strategic risk management is to control and reduce risk by implementing an adequate and suitable strategy, corresponding to the current economic environment and based on comprehensive planning process, as well as to respond to changes in an adequate and timely manner. The Group's strategic and business risk appetite is moderate and the actual level was assessed as moderate at 31 December 2021. Reputational, business and strategic risks are covered with Pillar 2 capital requirements which are calculated within the ICAAP.

Information on intra-Group transactions and transactions with related parties, which may have a material impact on the risk profile of the Group are disclosed in note 31 *Transactions with related parties*.

The key metrics and ratios as well as the related input components are disclosed in the following table according to the requirements of the Capital Requirements Regulation. These metrics form part of holistic risk management across individual risk types in addition to Bigbank's internally used risk metrics.

EU KM1. The key metrics

(in millions of euros)		a 31 Dec 2021	e 31 Dec 2020
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	149.4	132.2
2	Tier 1 capital	149.4	132.2
3	Total capital	164.4	137.2
	Risk-weighted exposure amounts		
4	Total risk exposure amount	898.3	625.2
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	16.6%	21.1%
6	Tier 1 ratio (%)	16.6%	21.1%
7	Total capital ratio (%)	18.3%	21.9%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)		
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	3.4%	3.4%
EU 7b	of which: to be made up of CET1 capital (percentage points)	143	143
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	192	192
EU 7d	Total SREP own funds requirements (%)	11.4%	11.4%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.5%	2.5%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0%	0%
9	Institution specific countercyclical capital buffer (%)	0%	0%
EU 9a	Systemic risk buffer (%)	0%	0%
10	Global Systemically Important Institution buffer (%)	0%	0%
EU 10a	Other Systemically Important Institution buffer (%)	0%	0%
11	Combined buffer requirement (%)	2.5%	2.5%
EU 11a	Overall capital requirements (%)	13.9%	13.9%
12	CET1 available after meeting the total SREP own funds requirements (%)	5.2%	9.7%
	Leverage ratio		
13	Total exposure measure	1177.0	766.7
14	Leverage ratio (%)	12.7%	17,2%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)		
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0%	0%
EU 14b	of which: to be made up of CET1 capital (percentage points)	0%	0%

EU 14c	Total SREP leverage ratio requirements (%)	3.0%	0%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)		
EU 14d	Leverage ratio buffer requirement (%)	0%	0%
EU 14e	Overall leverage ratio requirement (%)	3.0%	0%
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	67.2	37.7
EU 16a	Cash outflows - Total weighted value	59.4	23.4
EU 16b	Cash inflows - Total weighted value	42.9	41.9
16	Total net cash outflows (adjusted value)	19.5	5.9
17	Liquidity coverage ratio (%)	404.0%	629.6%
	Net Stable Funding Ratio		
18	Total available stable funding	1,055.4	685.2
19	Total required stable funding	830.8	525.5
20	NSFR ratio (%)	127.0%	130.4%

Common Equity Tier 1 (CET1) ratio decreased from 21.1% at the end of 2020 to 16.63% at end of 2021, exceeding the internal target and theregulatory requirements. The total risk exposure amount (TREA) increased from 625.2 million euros at the end of 2020 to 898.3 million euros at the end of 2021. The overall capital requirements did not change during the year. The leverage ratio fell to 12.69% at the end of 2021 from 17.24% at the end of 2020. The fall was driven primarily by an increase in assets, which raised the leverage ratio exposure. The long-term liquidity risk ratio NSFR stayed on a stable level throughout 2021. During 2021 the average LCR decreased in comparison to the year 2020. The decrease was mainly driven by an increase in the volume of non-maturity deposits.

Bigbank AS has disclosed this information in accordance with the requirements under Part Eight of the Capital Requirements Regulation. The internal procedure “Principles of Disclosing Information Related to Risk Management (Pillar 3)” establishes the key internal control elements to ensure compliance with the disclosure requirements. The process, including the related principles, roles and responsibilities is documented, reviewed and regularly updated. Internal controls are implemented in the regulatory reporting process. The Pillar 3 report is signed off by the members of the Management Board.

The Management Board of Bigbank AS approves the adequacy of the risk management arrangements and risk management systems put in place with regard to the Group’s profile and strategy.

Martin Länts

Chairman of the Management Board	28 February 2022	*[signed digitally]*

Sven Raba

Member of the Management Board	28 February 2022	*[signed digitally]*

Mart Veskimägi

Member of the Management Board	28 February 2022	*[signed digitally]*

Argo Kiltsmann

Member of the Management Board	28 February 2022	*[signed digitally]*

DISCLOSURE OF OWN FUNDS

The information regarding own funds is disclosed according to Article 437 of the Capital Requirements Regulation.

EU CC1. Composition of regulatory own funds

		(a)	(b)
(in millions of euros)		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	8.0	(e)
	of which: share capital	8.0	(e)
2	Retained earnings	140.4	(i)
3	Accumulated other comprehensive income (and other reserves)	1.9	(f). (g)
EU-3a	Funds for general banking risk	0.0	
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	-	
5	Minority interests (amount allowed in consolidated CET1)	-	
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	17.1	(h)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	167.3	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-0.0	(a)
8	Intangible assets (net of related tax liability) (negative amount)	-17.5	(c)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-	
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	-	
12	Negative amounts resulting from the calculation of expected loss amounts	-0.3	(b)
13	Any increase in equity that results from securitised assets (negative amount)	-	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	
15	Defined-benefit pension fund assets (negative amount)	-	
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	-	
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
EU-20a	Exposure amount of the following items which qualify for a RW of 1 250 %, where the institution opts for the deduction alternative	-	
EU-20b	of which: qualifying holdings outside the financial sector (negative amount)	-	

EU-20c	of which: securitisation positions (negative amount)	-	
EU-20d	of which: free deliveries (negative amount)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-	
22	Amount exceeding the 17,65% threshold (negative amount)	-	
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	
25	of which: deferred tax assets arising from temporary differences	-	
EU-25a	Losses for the current financial year (negative amount)	-	
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	-	
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	-	
27a	Other regulatory adjustments	-	
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-17.9	
29	Common Equity Tier 1 (CET1) capital	149.4	
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1	-	
EU-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	-	
EU-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1	-	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	Additional Tier 1 (AT1) capital before regulatory adjustments	-	
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	-	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	-	
42a	Other regulatory adjustments to AT1 capital	-	
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	
44	Additional Tier 1 (AT1) capital	-	
45	Tier 1 capital (T1 = CET1 + AT1)	149.4	
Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	15.0	(d)
47	Amount of qualifying items referred to in Article 484(5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR	-	

EU-47a	Amount of qualifying items referred to in Article 494a(2) CRR subject to phase out from T2	-
EU-47b	Amount of qualifying items referred to in Article 494b(2) CRR subject to phase out from T2	-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-
49	of which: instruments issued by subsidiaries subject to phase out	-
50	Credit risk adjustments	-
51	Tier 2 (T2) capital before regulatory adjustments	15.0
Tier 2 (T2) capital: regulatory adjustments		
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	-
EU-56b	Other regulatory adjustments to T2 capital	-
57	Total regulatory adjustments to Tier 2 (T2) capital	-
58	Tier 2 (T2) capital	15.0
59	Total capital (TC = T1 + T2)	164.4
60	Total Risk exposure amount	898.3
Capital ratios and requirements including buffers		
61	Common Equity Tier 1 capital	16.6%
62	Tier 1 capital	16.6%
63	Total capital	164.4
64	Institution CET1 overall capital requirements	8.4%
65	of which: capital conservation buffer requirement	2.5%
66	of which: countercyclical capital buffer requirement	0%
67	of which: systemic risk buffer requirement	0%
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement	-
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	1.4%
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	10.7%
Amounts below the thresholds for deduction (before risk weighting)		
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	-
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	-

Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

Own funds are calculated in accordance with the Capital Requirements Regulation. Row 2 (Retained earnings) includes undistributed profit from the previous years. Row EU-5a (Independently reviewed interim profits net of any foreseeable charge or dividend) includes the audited net profit of 9 months less dividends in the amount of 6 million euros. Profit for the reporting period may only be included in Common Equity Tier 1 capital after permission from the financial supervisory authority. In Template EU CC2, profit of the current year includes profit of the full year with no dividends deducted.

EU CC2. Reconciliation of regulatory own funds to balance sheet in the audited financial statements

		a	b	c
		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference to EU CC1
(in millions of euros)		31 Dec 2021	31 Dec 2021	
1	Cash balances at central banks	78.7	78.7	
2	Due from other banks	37.2	36.9	
3	Debt instruments at fair value through other comprehensive income	45.3	45.3	(a)
4	Loans to customers	896.2	904.6	(b)
5	Investments in associates	0.0	4.8	
6	Other receivables and inventories	2.7	1.3	
7	Prepayments	1.5	1.5	
8	Property and equipment	20.9	8.1	
9	Investment properties	41.6	41.6	
10	Intangible assets	27.0	27.0	(c)
11	Assets classified as held for sale	0.0	0.0	
	Total assets	**1151.1**	**1149.9**	
1	Loans from central banks	36.5	36,5	
2	Deposits from customers	898.3	898.3	
3	Subordinated notes	15.0	15.0	(d)
4	Lease liability	1.8	1.4	
5	Provisions	0.3	0.3	
6	Deferred income and tax liabilities	1.9	1.8	
7	Other liabilities	11.2	10.4	
	Total liabilities	**965.0**	**963.8**	
1	Paid-in share capital	8.0	8.0	(e)
2	Capital reserve	0.8	0.8	(f)
3	Other reserves	1.1	1.1	(g)
	incl exchange rate reserve	0.7	0.7	
	incl asset revaluation reserve	0.8	0.8	
	incl changes in the fair value of debt instruments measured at fair value through other comrehensive income	-0.4	-0.4	
4	Retained earnings	176.2	140.4	
	incl profit of the current year	35.9	35.9	(h)
	incl profit from the previous years	140.4	140.4	(i)
	Total shareholders’ equity	186.1	186.1	

DISCLOSURE OF OWN FUNDS REQUIREMENTS AND RISK-WEIGHTED EXPOSURE AMOUNTS

The information regarding own funds requirements and risk-weighted exposure amounts is disclosed according to Article 438 of the Capital Requirements Regulation.

EU OV1. Overview of total risk exposure amounts

		Total risk exposure amounts (TREA)		Total own funds requirements
		a	b	c
(in millions of euros)		31 Dec 2021	31 Dec 2020	31 Dec 2021
1	**Credit risk (excluding CCR)**	**794.6**	**520.8**	**63.6**
2	Of which the standardised approach	794.6	520.8	63.6
3	Of which the Foundation IRB (F-IRB) approach	0.0	0.0	0.0
4	Of which slotting approach	0.0	0.0	0.0
EU 4a	Of which equities under the simple riskweighted approach	0.0	0.0	0.0
5	Of which the Advanced IRB (A-IRB) approach	0.0	0.0	0.0
6	**Counterparty credit risk - CCR**	**0.0**	**0.0**	**0.0**
7	Of which the standardised approach	0.0	0.0	0.0
8	Of which internal model method (IMM)	0.0	0.0	0.0
EU 8a	Of which exposures to a CCP	0.0	0.0	0.0
EU 8b	Of which credit valuation adjustment - CVA	0.0	0.0	0.0
9	Of which other CCR	0.0	0.0	0.0
15	**Settlement risk**	**0.0**	**0.0**	**0.0**
16	**Securitisation exposures in the non-trading book (after the cap)**	**0.0**	**0.0**	**0.0**
17	Of which SEC-IRBA approach	0.0	0.0	0.0
18	Of which SEC-ERBA (including IAA)	0.0	0.0	0.0
19	Of which SEC-SA approach	0.0	0.0	0.0
EU 19a	Of which 1 250 % / deduction	0.0	0.0	0.0
20	**Position. foreign exchange and commodities risks (Market risk)**	**0.0**	**0.0**	**0.0**
21	Of which the standardised approach	0.0	0.0	0.0
22	Of which IMA	0.0	0.0	0.0
EU 22a	**Large exposures**	**0.0**	**0.0**	**0.0**
23	**Operational risk**	**103.7**	**104.4**	**8.3**
EU 23a	Of which basic indicator approach	0.0	0.0	0.0
EU 23b	Of which standardised approach	103.7	104.4	8.3
EU 23c	Of which advanced measurement approach	0.0	0.0	0.0
24	**Amounts below the thresholds for deduction (subject to 250 % risk weight)**	**0.0**	**0.0**	**0.0**
29	**Total**	**898.3**	**625.2**	**71.9**

Bigbank's total risk exposure amount (TREA) was 898.3 million euros at the end of 2021, in comparison to 625.2 million euros at the end of 2020. The increase in TREA was driven by an increase in the credit risk exposure amount due to increased lending volumes (by 273.8 million euros during 2021). Bigbank uses the standardised approach for calculating own funds requirements for credit, market and operational risks.

DISCLOSURE OF EXPOSURES TO INTEREST RATE RISK ON POSITIONS NOT HELD IN THE TRADING BOOK

Information on the interest rate risks of non-trading book activities (IRRBB) according to Article 448 of the Capital Requirements Regulation and the Implementing Technical Standards on disclosure of information on exposures to interest rate risk on positions not held in the trading book (EBA/ITS/2021/07) is disclosed in note 3 Risk and capital management of the Annual Report. Template EU IRRBB1 complements the information disclosed in the Annual Report 2021.

EU IRRBB1. Interest rate risks of non-trading book activities

		a	b	c	d
		Changes of the economic value of equity		Changes of the net interest income	
Supervisory shock scenarios *(in millions of euros)*		31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
1	Parallel up	0.7	-7.0	-0.3	-0.3
2	Parallel down	-0.7	0.3	0.2	0.3
3	Steepener	0.9	0.1		
4	Flattener	-3.5	-2.1		
5	Short rates up	-2.8	-4.2		
6	Short rates down	-0.4	0.3		

The interest rate risk of non-trading book activities (IRRBB) decreased during the year due to the shortening of loan revaluation maturities, which is due to the increasing volume of floating rate loans and longer revaluation maturities of funding. In December 2021, the Group issued 10-year subordinated bonds in the amount of 10 million euros and extended the term of the European Central Bank's targeted longer-term refinancing operation (TLTRO-III) by repaying the funds used so far and raising the same amount of funding in the 10th operation of TLTRO-III.

DISCLOSURE OF REMUNERATION

Information on remuneration principles according to Article 450 of the Capital Requirements Regulation is disclosed in the Annual Report 2021.

Template EU REM1 amends the information according to the disclosure requirements. Template EU REM5 gives the breakdown of the remuneration of other identified staff by business areas. The MB Management function includes members of the management board of Bigbank AS and the MB Supervisory function includes members of the supervisory board of Bigbank AS.

Template EU REM2 (Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)) is not published as there were no special payments meeting the criteria at the reporting date). Template EU REM3 (Deferred remuneration) is not published as the deferral of remuneration is not implemented in the Group. Template EU REM4 (Remuneration of 1 million euros or more per year) is not published, as in 2021 there were no employees in the Group whose remuneration would meet the criteria.

EU REM1. Remuneration awarded for the financial year

			a	b	c	d
(in millions of euros)			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	**Fixed remuneration**	**Number of identified staff**	**5**	**4**	**-**	**16**
2		**Total fixed remuneration**	**0.1**	**0.7**	**-**	**1.6**
3		Of which: cash-based	0.1	0.7	-	1.6
EU-4a		Of which: shares or equivalent ownership interests	-	-	-	-
5		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-5x		Of which: other instruments	-	-	-	-
7		Of which: other forms	-	-	-	-
9	**Variable remuneration**	**Number of identified staff**	**-**	**4**	**-**	**15**
10		**Total variable remuneration**	**-**	**0.5**	**-**	**0.2**
11		Of which: cash-based	-	0.5		0.2
12		Of which: deferred	-	-	-	-
EU-13a		Of which: shares or equivalent ownership interests	-	-	-	-
EU-14a		Of which: deferred	-	-	-	-
EU-13b		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-14b		Of which: deferred	-	-	-	-
EU-14x		Of which: other instruments	-	-	-	-
EU-14y		Of which: deferred	-	-	-	-
15		Of which: other forms	-	-	-	-
16		Of which: deferred	-	-	-	-
17	**Total remuneration (2 + 10)**		**0.1**	**1.2**	**-**	**1.8**

The amounts of remuneration provided are gross numbers, including contributions to social security, fixed salaries, variable remuneration and vacation pay.

EU REM5. Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						
	(in millions of euros)	MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1	**Total number of identified staff**	**5**	**4**	**9**	**-**	**7**	**-**	**-**	**4**	**5**	**25**
2	Of which: members of the MB	5	4	9	-	-	-	-	-	-	**9**
3	Of which: other senior management	-	-	-	-	-	-	-	-	-	**-**
4	Of which: other identified staff	-	-	-	-	7	-	-	4	5	**16**
5	**Total remuneration of identified staff**	**0.1**	**1.2**	**1.3**	**-**	**0.9**	**-**	**-**	**0.4**	**0.5**	**3.1**
6	Of which: variable remuneration	0.0	0.5	0.5	-	0.1	-	-	0.1	0.0	**0.7**
7	Of which: fixed remuneration	0.1	0.7	0.8	-	0.8	-	-	0.3	0.5	**2.4**

Profit allocation proposal

Total consolidated retained earnings of Bigbank AS at 31 December 2021 comprise:

Earnings retained in prior years at 31 December 2021	140.3m	euros
Net profit for 2021	35.9m	euros
Total retained earnings at 31 December 2021	**176.2m**	**euros**

The management board of Bigbank AS proposes that the general meeting distribute the profit for the year ended 31 December 2021 as follows:

1.	Dividend distribution (75.00 euros per share)	6.0m	euros
2.	Transfer to retained earnings	29.9m	euros
	Balance of retained earnings after allocations	**170.2m**	**euros.**

Martin Länts Chairman of the Management Board	28 February 2022	*[signed digitally]*
Sven Raba Member of the Management Board	28 February 2022	*[signed digitally]*
Mart Veskimägi Member of the Management Board	28 February 2022	*[signed digitally]*
Argo Kiltsmann Member of the Management Board	28 February 2022	*[signed digitally]*

Bigbank