



Bigbank

**Interim condensed consolidated
financial statements for the period
ended 31 December 2018**

Bigbank AS

Interim condensed consolidated financial statements for the period ended 31 December 2018

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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Financial year	1 January 2018 – 31 December 2018
Reporting period	1 January 2018 – 31 December 2018
Chairman of the management board	Sven Raba
Core business line	Provision of consumer loans and acceptance of deposits
Auditor	Ernst & Young Baltic AS
Reporting currency	The reporting currency is the euro and numerical financial data is presented in thousands of euros.

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

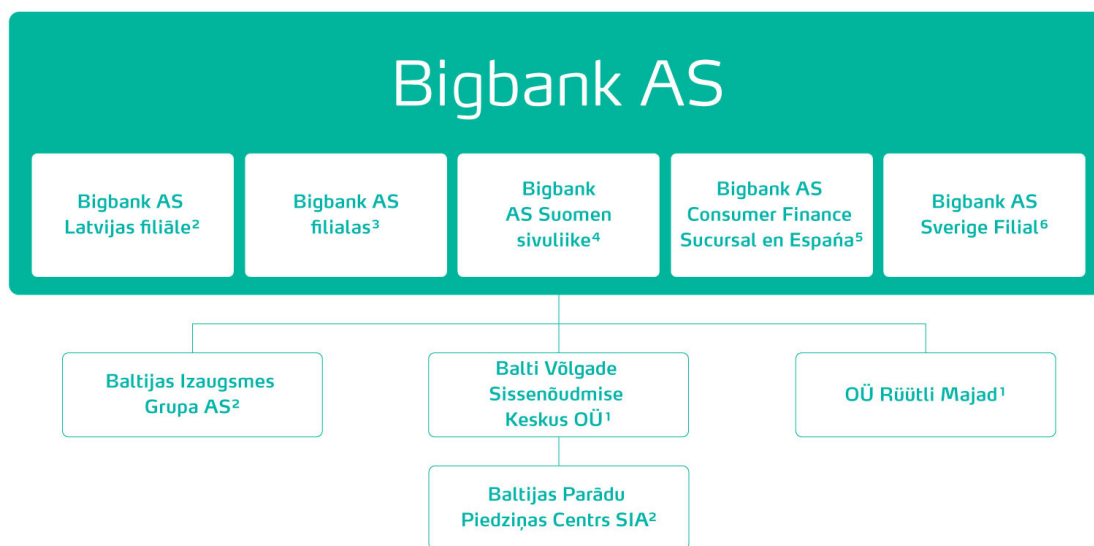
Contents

BIGBANK GROUP STRUCTURE	4
REVIEW OF OPERATIONS	5
Significant economic events	5
Key performance indicators and ratios	6
Financial review	7
Capital ratios	8
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS.....	10
Consolidated statement of financial position	10
Consolidated statement of comprehensive income	11
Consolidated statement of cash flows	12
Consolidated statement of changes in equity	13
Notes to the condensed consolidated interim financial statements	14
Note 1. Basis of preparation and changes to the Group's accounting policies	14
Note 2. Cash and bank balances and cash equivalents	17
Note 3. Debt instruments at fair value through other comprehensive income	17
Note 4. Loans to customers.....	17
Note 5. Loan receivables from customers by due dates.....	18
Note 6. Ageing analysis on loan receivables	18
Note 7. Loan receivables from customers by contractual currency	19
Note 8. Loss allowances for loan receivables from customers	19
Note 9. Other receivables	20
Note 10. Prepayments.....	20
Note 11. Tangible assets.....	20
Note 12. Intangible assets	22
Note 13. Deposits from customers	22
Note 14. Other reserves	23
Note 15. Net currency positions	23
Note 16. Fair values of financial assets and financial liabilities	23
Note 17. Contingent liabilities and assets pledged as collateral	25
Note 18. Interest income	25
Note 19. Interest expense	25
Note 20. Other income	25
Note 21. Other operating expenses.....	26
Note 22. Other expenses	26
Note 23. Related parties.....	26
STATEMENT BY THE MANAGEMENT BOARD	27

Bigbank Group structure

Bigbank AS was founded on 22 September 1992. A licence for operating as a credit institution was issued to Bigbank AS on 27 September 2005. Bigbank is specialised on consumer loans and term deposits.

The Group's structure at the reporting date:



¹ registered in the Republic of Estonia

² registered in the Republic of Latvia

³ registered in the Republic of Lithuania

⁴ registered in the Republic of Finland

⁵ registered in the Kingdom of Spain

⁶ registered in the Kingdom of Sweden

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

The core business of OÜ Rүүtli Majad is managing the real estate. OÜ Balti Völgade Sissenõudmise Keskus and its subsidiary support the parent and its branches in debt collection.

Review of operations

Significant economic events

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

Results of the fourth quarter of 2018 were on satisfactory level for Bigbank. Growing performing loan portfolio as following the main strategic goal has been successful. In the fourth quarter performing loan portfolio increased by 18.0 million euros i.e. 4.4%, during 12 months of 2018 performing loan portfolio increased by 62.0 million euros i.e. 16.8%. Swedish branch showed the biggest performing loan portfolio growth rate.

The Group’s net profit for the fourth quarter of 2018 amounted to 2.6 million euros. The corresponding figure for the fourth quarter of 2017 was 4.5 million euros. Group’s first 12 months net profit amounted to 17.5 million euros which is 0.3 million euros i.e. 1.9% more than in the same period of last year. Above all, profitability has improved thanks to successful implementation of the strategy. Shifting the focus on customers with a lower credit risk has not only helped to increase the performing loan portfolio but also to reduce credit losses. Although this has caused a gradual decline in interest rates, which affects interest income, the drop in provisions for credit losses has been considerably larger.

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

The supervisory board of Bigbank AS has five members – the chairman of the supervisory board Parvel Pruunsild and the members Vahur Voll, Juhani Jaeger, Raul Eamets and Andres Koern. The management board of the bank has four members - the chairman of the management board Sven Raba and the members Pāvels Gilodo, Martin Lānts and Mart Veskimägi. From 1 March 2019, the management board continues with three members: Sven Raba, Martin Lānts and Mart Veskimägi.

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

Bigbank had 436 employees at the end of the fourth quarter of 2018: 235 in Estonia, 86 in Latvia, 77 in Lithuania, 18 in Finland, 11 in Spain and 9 in Sweden.

Key performance indicators and ratios

Financial position indicators (in thousands of euros)	31 Dec 2018	31 Dec 2017	Change
Total assets	528,517	459,336	15.1%
Loans to customers	427,964	377,458	13.4%
of which loan portfolio	445,679	396,138	12.5%
of which interest receivable	6,122	10,291	-40.5%
of which loss allowances	-23,837	-28,971	-17.7%
Deposits from customers	393,020	334,819	17.4%
Equity	121,174	113,246	7.0%

Financial performance indicators (in thousands of euros)	Q4 2018	Q4 2017	Change	12M 2018	12M 2017	Change
Interest income	16,486	17,392	-5.2%	66,386	69,725	-4.8%
Interest expense	1,627	1,425	14.2%	6,099	5,776	5.6%
Net loss allowances on loans and financial investments	3,613	4,214	-14.3%	11,355	17,581	-35.4%
Income from debt collection proceedings	324	559	-42.0%	1,647	2,401	-31.4%
Profit before impairment loss	6,167	8,679	-28.9%	28,881	34,787	-17.0%
Net profit	2,554	4,465	-42.8%	17,526	17,206	1.9%

Ratios	Q4 2018	Q4 2017	12M 2018	12M 2017
Return on equity (ROE)	8.5%	16.1%	15.0%	16.1%
Equity multiplier (EM)	4.3	4.1	4.2	4.0
Profit margin (PM)	14.3%	23.7%	24.3%	22.8%
Asset utilization ratio (AU)	13.7%	16.7%	14.6%	17.7%
Return on assets (ROA)	2.0%	4.0%	3.5%	4.0%
Price difference (SPREAD)	11.4%	13.7%	12.7%	15.1%
Cost to income ratio (CIR)	57.6%	43.9%	50.6%	45.3%

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

Explanations of ratios:

Return on equity (ROE) – net profit to equity

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

Equity multiplier (EM) – total assets to total equity

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

Profit margin (PM) – net profit to total income

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

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

Financial review

Financial position

As at 31 December 2018, the consolidated assets of Bigbank AS Group totalled 528.5 million euros, having increased by 16.1 million euros (3.2%) during the fourth quarter.

As at 31 December 2018, loans to customers accounted for 81.0% of total assets, the proportion of liquid assets (amounts due from banks and financial debt instruments) was 15.0%. At the end of the fourth quarter, liquid assets totalled 79.4 million euros. Part of bank's liquidity buffer has been placed in a portfolio of debt securities, which are highly liquid, hold investment grade credit ratings, and can be sold at any moment. Debt instruments totalled 13.5 million euros as at 31 December 2018.

At the end of the fourth quarter, the Group had 125 thousand loan agreements, 44 thousand of them in Latvia, 31 thousand in Estonia, 27 thousand in Lithuania, 10 thousand in Finland, 10 thousand in Sweden and 3 thousand in Spain.

Geographical distribution of loans to customers:

- 28.6% Lithuania,
- 22.9% Latvia,
- 18.3% Estonia,
- 16.1% Finland,
- 11.8% Sweden,
- 2.3% Spain.

At 31 December 2018, loans to customers totalled 428.0 million euros, comprising of:

- the loan portfolio of 445.7 million euros. Loans to individuals accounted for 93.5% of the total;
- interest receivable on loans of 6.1 million euros;
- loss allowances for loans and interest receivables of 23.8 million euros (consisting of an loss allowance for

loans of 21.8 million euros and an loss allowance for interest receivables of 2.0 million euros).

Bigbank's loan portfolio is diversified – at the reporting date the average loan was 3,563 euros and as at 31 December 2018, 40 largest loans accounted for 5.9% of the loan portfolio.

Bigbank AS focuses on the provision of consumer loans. In line with the corporate strategy, as at 31 December 2018 loans against income accounted for 91.2%, loans against surety for 0.4% and loans secured with real estate for 8.4% of the total loan portfolio.

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

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

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

At the end of the fourth quarter of 2018, the Group's liabilities totalled 407.3 million euros. Most of the debt raised by the Group, i.e. 393.0 million euros (96.5%) consisted of term deposits.

As at the end of the fourth quarter of 2018, the Group's equity was 121.2 million euros. The equity to assets ratio amounted to 22.9%.

Financial performance

Interest income for the fourth quarter reached 16.5 million euros, decreasing by 0.9 million euros (-5.2%) compared to the same period in 2017.

The period's ratio of interest income (annualised) to average interest-earning assets was 13.1% and (annualised) return on the loan portfolio accounted for 14.8% of the average loan portfolio.

Interest expense for the fourth quarter of 2018 was 1.6 million euros, increasing by 0.2 million euros (14.2%) compared to the corresponding figure of the same period in 2017.

The ratio of interest expense to interest income was 9.9%. The ratio of interest expense to average interest-bearing liabilities (annualised) was 1.7%.

Other operating expenses for the fourth quarter were 4.2 million euros, increasing by 1.6 million euros compared to the corresponding figure of the same period in 2017.

Salaries and associated charges for the fourth quarter of 2018 amounted to 3.9 million euros, including remuneration of 3.3 million euros. As at the end of the period, the Group had 436 employees.

In the fourth quarter, impairment losses were 3.6 million euros, consisting of:

- impairment losses on loan receivables of 2.3 million euros;
- impairment losses on interest receivables of 1.2 million euros; and
- impairment losses on other receivables of 0.1 million euros.

Other income for the fourth quarter of 2018 was 0.5 million euros, the largest proportion of which resulted from debt collection income. In the same period of 2017, other income was 0.6 million euros, as well.

Other expenses for the fourth quarter reached 0.7 million euros. In the same period of 2017, other expenses were 0.8 million euros.

The Group's net profit for the fourth quarter of 2018 amounted to 2.6 million euros. In comparison to the fourth quarter of 2017, net profit has decreased by million euros.

Capital ratios

Own funds

As at	31 Dec 2018	31 Dec 2017
Paid up capital instruments	8,000	8,000
Other reserves	800	800
Previous years retained earnings	94,042	86,565
Other accumulated comprehensive income	997	674
Other intangible assets	-12,381	-7,471
Profit eligible	9,970	7,298
Adjustments to CET1 due to prudential filters	-191	-
Common equity Tier 1 capital	101,237	95,866
Tier 1 capital	101,237	95,866
Tier 2 capital	5,000	5,000
Deductions	-	-
Total own funds	106,237	100,866

Total risk exposure amount

	31 Dec 2018	31 Dec 2017
Risk weighted exposure amounts for credit and counterparty credit (standardized approach)		
Central governments or central banks	1,246	483
Institutions	12,141	4,966
Corporates	40,210	33,651
Retail	286,451	244,071
Secured by mortgages on immovable property	3,215	4,959
Exposures in default	11,418	16,552
Other items	8,735	9,014
Total risk weighted exposure amounts for credit and counterparty credit (standardized approach)	363,416	313,696
Total risk exposure amount for foreign exchange risk (standardized approach)	-	-
Total risk exposure amount for operational risk (standardized approach)	104,953	100,928
Total risk exposure amount for credit valuation adjustment (standardized approach)	-	-
Total risk exposure amount	468,369	414,624

Capital ratios

	31 Dec 2018	31 Dec 2017
CET1 Capital ratio	21.6%	23.1%
T1 Capital ratio	21.6%	23.1%
Total capital ratio	22.7%	24.3%
Leverage ratio	19.3%	21.0%

Own funds as of 31 December 2018 include nine months eligible profits.

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

Condensed consolidated interim financial statements

Consolidated statement of financial position

As at	Note	31 Dec 2018	31 Dec 2017
Assets			
Cash balances at central banks	2	29,691	36,235
Cash balances at banks	2	36,261	17,947
Debt instruments at fair value through other comprehensive income	3	13,484	-
Financial assets held for trading	3	-	11,210
Loans to customers	4,5,6,7,8	427,964	377,458
Other receivables	9	1,484	2,775
Prepayments	10	1,732	915
Property and equipment	11	3,625	3,446
Investment property		1,866	1,878
Intangible assets	12	12,381	7,472
Assets classified as held for sale		29	-
Total assets		528,517	459,336
Liabilities			
Deposits from customers	13	393,020	334,819
Subordinated notes		4,960	4,977
Provisions		1,884	667
Other liabilities		5,197	4,398
Deferred income and tax liabilities		2,282	1,229
Total liabilities		407,343	346,090
Equity			
Share capital		8,000	8,000
Capital reserve		800	800
Other reserves	14	806	675
Retained earnings		111,568	103,771
Total equity		121,174	113,246
Total liabilities and equity		528,517	459,336

Consolidated statement of comprehensive income

	Note	Q4 2018	Q4 2017	12M 2018	12M 2017
Interest income	18	16,486	17,392	66,386	69,725
Interest expense	19	-1,627	-1,425	-6,099	-5,776
Net interest income		14,859	15,967	60,287	63,949
Fee and commission income		949	818	3,573	3,031
Fee and commission expense		-84	-83	-312	-346
Net fee and commission income		865	735	3,261	2,685
Net profit/loss on exchange differences		29	-194	-315	-365
Net profit/loss on derecognition of non-financial assets		-5	28	-274	28
Other income	20	451	647	2,075	2,678
Total income		16,199	17,183	65,034	68,975
Salaries and associated charges		-3,861	-3,663	-15,089	-16,362
Other operating expenses	21	-4,231	-2,676	-13,023	-10,431
Depreciation and amortisation expense		-567	-408	-2,063	-1,382
Provision expenses		-371	-535	-1,261	-535
Impairment losses on loans and financial investments		-3,613	-4,214	-11,355	-17,581
Losses resulting from changes in the fair value of investment properties		-	-1	-61	-1
Other expenses	22	-676	-789	-2,755	-3,045
Profit/loss from assets classified as held for sale		2	-	-256	-
Total expenses		-13,317	-12,286	-45,863	-49,337
Profit before income tax		2,882	4,897	19,171	19,638
Income tax expense		-328	-432	-1,645	-2,432
Profit for the period		2,554	4,465	17,526	17,206
Other comprehensive income/expense					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translation of foreign operations		-34	137	322	204
Changes in the fair value of debt instruments at FVOCI		-32	-	-191	-
Net other comprehensive income to be reclassified to profit or loss		-66	137	131	204
Other comprehensive income for the period		-66	137	131	204
Total comprehensive income for the period		2,488	4,602	17,657	17,410
Basic earnings per share (EUR)		32	56	219	215
Diluted earnings per share (EUR)		32	56	219	215

Consolidated statement of cash flows

	Note	12M 2018	12M 2017
Cash flows from operating activities			
Interest received		60,381	60,198
Interest paid		-5,019	-6,373
Salary and other operating expenses paid		-31,008	-28,380
Other income and fees received		8,290	6,634
Other expenses and fees paid		-5,197	-4,952
Recoveries of receivables previously written off and received for sold portfolios		36,422	20,358
Received for other assets		-	116
Paid for other assets		-	-95
Loans provided		-276,236	-252,226
Repayment of loans provided		180,760	179,776
Change in mandatory reserves with central banks		-269	-419
Proceeds from customer deposits		136,519	119,367
Paid on redemption of deposits		-75,146	-69,870
Net acquisition and disposal of debt instruments		-	3,858
Income tax paid/received		-2,153	-3,492
Effect of movements in exchange rates		-186	-117
Net cash from operating activities		27,158	24,383
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets		-7,426	-5,537
Proceeds from sale of property and equipment		29	96
Proceeds from sale of investment properties		38	115
Acquisition of financial instruments		-3,025	-
Proceeds from redemption of financial instruments		133	-
Net cash used in investing activities		-10,251	-5,326
Cash flows from financing activities			
Received from issue of notes		-	5,000
Paid on redemption of bonds		-164	-
Dividends paid		-5,000	-5,000
Net cash used in financing activities		-5,164	-
Effect of exchange rate fluctuations		-243	-227
Increase in cash and cash equivalents		11,500	18,830
Cash and cash equivalents at beginning of period		53,121	34,291
Cash and cash equivalents at end of period	2	64,621	53,121

Consolidated statement of changes in equity

	Attributable to equity holders of the parent				Total
	Share capital	Statutory capital reserve	Other reserves	Retained earnings	
Balance at 1 January 2017	8,000	800	1,369	90,667	100,836
Profit for the period	-	-	-	17,206	17,206
Other comprehensive income					
Exchange differences on translation of foreign operations	-	-	204	-	204
Revaluation of land and buildings	-	-	-898	898	-
Total other comprehensive income	-	-	-694	898	204
Total comprehensive income for the period	-	-	-694	18,104	17,410
Dividend distribution	-	-	-	-5,000	-5,000
Total transactions with owners	-	-	-	-5,000	-5,000
Balance at 31 December 2017	8,000	800	675	103,771	113,246
Balance at 1 January 2018	8,000	800	675	103,771	113,246
Changes on initial adoption of IFRS 9 (see note 1)	-	-	-	-4,729	-4,729
Restated balance at 1 January 2018	8,000	800	675	99,042	108,517
Profit for the period	-	-	-	17,526	17,526
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	322	-	322
Net change in fair value of debt instrument at FVOCI	-	-	-191	-	-191
Total other comprehensive income	-	-	131	-	131
Total comprehensive income for the period	-	-	131	17,526	17,657
Dividend distribution	-	-	-	-5,000	-5,000
Total transactions with owners	-	-	-	-5,000	-5,000
Balance at 31 December 2018	8,000	800	806	111,568	121,174

Notes to the condensed consolidated interim financial statements

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

Basis of preparation

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

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

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

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

Changes in accounting policies

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

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

Classification and measurement implementation

Except for certain trade receivables, under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value

through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

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

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

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

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

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

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

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt

instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

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

Impairment implementation

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

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

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

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

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

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

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

Impairment methodology

The Group has developed new impairment methodologies and models taking into account the relative size, quality and complexity of the portfolios. IFRS 9 considers the calculation of ECL by multiplying the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The actual calculation method of each of the factors needed to calculate ECL might differ between credit products due to different information systems, differences in available information and different characteristics of the products.

The IFRS 9 impairment model uses a three-stage approach depending on whether the claim is performing or not and if the claim is performing, whether there any signs for special attention. This approach is summarized as follows:

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

Stage 2 – applies to claims, which have sign(s) of a material increase in credit risk, special attention claims and doubtful claims. This requires the computation of ECL based on lifetime PD that represents the probability of default occurring over the remaining estimated life of the financial asset. Allowances for credit losses are higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3 – defaulted and uncollectible claims are included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses.

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

Significant increase in credit risk

Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgement are:

- Signs of a significant increase in credit risk
 - (i) Signs of a material increase in risk may include, but are not limited to: (a) a repayment delay of 30 or more days; (b) active debt management proceedings relating to the contract; (c) refinancing of the claim into a new contract, which would not have occurred, if there had not been a solvency problem of the transaction party; (d) changes in contract conditions, which would not have been implemented, if there had not been a solvency problem of the transaction party.

A settlement delay of 30 or more days and active debt management are assessed based on their actual occurrence. The rest of the signs of increased risk and their impact are analysed case by case and the change in

a customer's risk level is made based on management's judgement. This assessment is symmetrical in nature, allowing the credit risk of financial assets to move back to Stage 1 if the increase in credit risk has decreased since origination and is no longer deemed to be significant.

- Definition of default and write-off

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

- Improbability of receiving payments. The contract is a performing contract, but on the basis of objective evidence, it may be presumed that the client will be unable to settle all of the financial obligations and the situation cannot be solved satisfactorily.
- Payment delay in fulfilling a material financial obligation. The contract is deemed to be non-performing if the client is no longer able or willing to fulfil payment obligations, e.g. upon any of the following events: (a) material payments are past due for more than 90 days; (b) a letter of contract termination, including a demand for payment, has been sent to the client; (c) the contract has expired, but all debts have not been settled; (d) the client is bankrupt or deceased or bankruptcy, liquidation or debt restructuring proceedings have been initiated

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

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

Modification of loans

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

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

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

	IAS 39		Remeasurement	IFRS 9	
	Measurement category	Carrying amount	ECL	Measurement category	Carrying amount
Financial assets					
Debt instruments at fair value through other comprehensive income	FVPL	11,210	-	FVOCI	11,210
Loans to customers	L&R	377,458	-4,729	AC	372,729
Total financial assets		388,668			383,939

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

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

The adjustment of 4,730 thousand euros was recorded to the opening retained earnings, to reflect the transition from the prior period's closing loss allowance measured in accordance with the IAS 39 incurred loss model to the new loss allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Adjustment to retained earnings from adoption of IFRS 9

	Effect on retained earnings
Opening retained earnings - IAS 39 as at 1 January 2018	103,771
Reclassify financial assets held for trading from FVPL to FVOCI	-
Loss allowance for loans and receivables	-4,729
Opening retained earnings - IFRS 9	99,042

Note 2. Cash and bank balances and cash equivalents

As at	31 Dec 2018	31 Dec 2017
Demand and overnight deposits with credit institutions*	19,733	17,447
Term deposits with credit institutions with maturity of less than 1 year*	16,527	500
Surplus on mandatory reserves with central banks*	28,361	35,174
Mandatory reserves	1,330	1,061
Interest receivable from central banks	1	-
Total cash and balances at banks	65,952	54,182
of which cash and cash equivalents	64,621	53,121

* Cash equivalents

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

As at	31 Dec 2018	31 Dec 2017
Debt instruments	13,484	11,210
Debt instruments by issuer		
General government bonds	4,701	3,358
Bonds issued by credit institutions	3,145	2,718
Other financial corporations' bonds	511	522
Non-financial corporations' bonds	5,127	4,612
Debt instruments by currency		
EUR (euro)	11,633	9,907
SEK (Swedish krona)	1,851	1,303
Debt instruments by rating		
Aaa-Aa3	4,299	3,802
A1-A3	3,141	3,843
Baa1-Baa3	6,044	3,565

Note 4. Loans to customers**Loans to customers as at 31 December 2018**

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	Total
Loan receivables from customers	80,796	102,390	123,706	73,784	11,661	53,342	445,679
Loss allowances for loans	-3,097	-6,307	-1,857	-5,611	-1,905	-3,094	-21,871
Interest receivable from customers	1,712	2,443	535	913	184	335	6,122
Loss allowances for interest receivables	-999	-805	-18	-93	-24	-27	-1,966
Total loans to customers, incl. interest and allowances	78,412	97,721	122,366	68,993	9,916	50,556	427,964
Share of region	18.3%	22.9%	28.6%	16.1%	2.3%	11.8%	100.0%

Loans to customers as at 31 December 2017

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	Total
Loan receivables from customers	66,003	96,958	104,065	70,877	20,107	38,128	396,138
Loss allowances for loans	-2,546	-8,095	-2,902	-1,742	-122	-454	-15,861
Interest receivable from customers	2,160	5,170	754	1,590	362	255	10,291
Loss allowances for interest receivables	-1,184	-2,291	-116	-246	-13	-25	-3,875
Statistical loss allowance	-603	-199	-1,033	-4,012	-1,687	-1,701	-9,235
Total loans to customers, incl. interest and allowances	63,830	91,543	100,768	66,467	18,647	36,203	377,458
Share of region	16.9%	24.3%	26.7%	17.6%	4.9%	9.6%	100.0%

Note 5. Loan receivables from customers by due dates

As at	31 Dec 2018	31 Dec 2017
Past due	18,459	23,831
Less than 1 month	8,374	10,245
1-12 months	100,547	98,927
1-2 years	94,354	82,761
2-5 years	172,344	150,649
More than 5 years	51,601	29,725
Total	445,679	396,138

Note 6. Ageing analysis on loan receivables

Ageing analysis as at 31 December 2018

	Not past due	30 days or less	31-60 days	61-90 days	Over 90 days	Total
Loans against income						
Loan portfolio	343,898	35,752	8,726	4,717	13,477	406,570
Loss allowance	-8,934	-2,014	-2,092	-1,589	-6,853	-21,482
Surety loans						
Loan portfolio	1,226	82	20	3	311	1,642
Loss allowance	-56	-12	-2	-1	-216	-287
Loans secured with real estate						
Loan portfolio	27,801	8,327	374	125	814	37,441
Loss allowance	-5	-6	-	-	-90	-101
Loans against other collaterals						
Loan portfolio	23	2	-	-	1	26
Loss allowance	-	-	-	-	-1	-1
Total loan portfolio	372,948	44,163	9,120	4,845	14,603	445,679
Total loss allowance	-8,995	-2,032	-2,094	-1,590	-7,160	-21,871

Ageing analysis as at 31 December 2017

	Not past due	30 days or less	31-60 days	61-90 days	Over 90 days	Total
Loans against income						
Loan portfolio	290,825	28,064	8,191	5,249	24,770	357,099
Loss allowance	-9,133	-1,235	-607	-480	-12,452	-23,907
Surety loans						
Loan portfolio	2,241	161	36	38	567	3,043
Loss allowance	-229	-31	-8	-20	-413	-701
Loans secured with real estate						
Loan portfolio	31,614	2,272	227	86	1,755	35,954
Loss allowance	-338	-23	-2	-1	-121	-485
Loans against other collaterals						
Loan portfolio	34	4	-	-	4	42
Loss allowance	-	-	-	-	-3	-3
Total loan portfolio	324,714	30,501	8,454	5,373	27,096	396,138
Total loss allowance	-9,700	-1,289	-617	-501	-12,989	-25,096

Note 7. Loan receivables from customers by contractual currency

As at	31 Dec 2018	31 Dec 2017
EUR (euro)	392,337	358,010
SEK (Swedish krona)	53,342	38,128
Total loan receivables from customers	445,679	396,138

Note 8. Loss allowances for loan receivables from customers

Loss allowances under IFRS 9 as at 31 December 2018

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

Development of allowances for 12 months 2018

	Opening balance as at 1 Jan 2018	Increases due to origination	Decrease due to derecognition repayments and disposals	Changes due to change in credit risk (net)	Decrease in allowance account due to write-offs	Closing balance
Stage 1	-11,020	-5,377	2,955	4,588	340	-8,514
Stage 2	-2,951	-1,916	550	-2,106	784	-5,639
Stage 3	-19,727	-842	5,582	-1,784	7,087	-9,684
Total	-33,698	-8,135	3,689	-1,859	7,418	-23,837

Loss allowances under IAS 39 as at 31 December 2017

	Loan receivables	Loss allowance for loans	Interest receivables	Loss allowance for loan interest	Total loss allowances
Collectively assessed items	363,421	-11,957	8,068	-2,178	-14,135
Individually assessed items	32,717	-3,904	2,223	-1,697	-5,601
Statistical loss allowance	-	-9,235	-	-	-9,235
Total	396,138	-25,096	10,291	-3,875	-28,971

Change in impairment of loans and related interest receivables in 2017

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

Note 9. Other receivables

As at	31 Dec 2018	31 Dec 2017
Collection, recovery and other charges receivable	261	444
Miscellaneous receivables	1,345	2,559
Loss allowance for other receivables	-122	-228

Note 10. Prepayments

As at	31 Dec 2018	31 Dec 2017
Tax receivables	1,179	426
Prepaid other taxes	23	2
Other prepayments	530	487
Total	1,732	915

Note 11. Tangible assets

	Land and buildings	Other items	Total
Cost			
Balance at 1 January 2017	3,014	3,458	6,472
Purchases	-	1,513	1,513
Sales	-	-226	-226
Write-off	-	-1,228	-1,228
Transfer	-1,500	5	-1,495
Balance at 31 December 2017	1,514	3,522	5,036

	Land and buildings	Other items	Total
Balance at 1 January 2018	1,514	3,522	5,036
Purchases	-	1,334	1,334
Sales	-	-99	-99
Write-off	-	-330	-330
Effect of movements in exchange rates	-	-1	-1
Balance at 31 December 2018	1,514	4,426	5,940
Depreciation			
Balance at 1 January 2017	-	-2,173	-2,173
Depreciation charge for the year	-58	-723	-781
Sales	-	165	165
Write-off	-	1,203	1,203
Transfer	-	-5	-5
Effect of movements in exchange rates	-	1	1
Balance at 31 December 2017	-58	-1,532	-1,590
Balance at 1 January 2018	-58	-1,532	-1,590
Depreciation charge for the year	-59	-1,053	-1,112
Sales	-	73	73
Write-off	-	313	313
Effect of movements in exchange rates	-	1	1
Balance at 31 December 2018	-117	-2,198	-2,315
Carrying amount			
Balance at 1 January 2017	3,014	1,285	4,299
Balance at 31 December 2017	1,456	1,990	3,446
Balance at 31 December 2018	1,397	2,228	3,625

Note 12. Intangible assets

	31 Dec 2018	31 Dec 2017
Cost at beginning of year	9,203	5,701
Purchases	6,148	4,036
Of which purchased intangible assets	3,275	3,166
Of which capitalised payroll	2,873	870
Write-off	-348	-529
Reclassification	-1	-5
Cost at end of period	15,002	9,203
Amortisation at beginning of year	-1,731	-1,664
Amortisation charge for the period	-951	-601
Write-off	61	529
Reclassification	-	5
Amortisation at end of period	-2,621	-1,731
Carrying amount at beginning of year	7,472	4,037
Carrying amount at end of period	12,381	7,472

Note 13. Deposits from customers

As at	31 Dec 2018	31 Dec 2017
Term deposits	393,020	334,819
Term deposits by customer type		
Individuals	379,843	322,754
Legal persons	13,177	12,065
Term deposits by currency		
EUR (euro)	337,040	284,606
SEK (Swedish krona)	55,980	50,213
Term deposits by maturity		
Maturing within 6 months	86,394	83,963
Maturing between 6 and 12 months	111,408	89,863
Maturing between 12 and 18 months	34,716	35,499
Maturing between 18 and 24 months	50,735	45,283
Maturing between 24 and 36 months	57,803	15,862
Maturing between 36 and 48 months	21,016	34,504
Maturing in over 48 months	30,948	29,845
Average deposit amount	24	23
Weighted average interest rate	1.6%	1.7%
Weighted average duration until maturity (months)	21	20
Weighted average total contract term (months)	36	36

Note 14. Other reserves

As at	31 Dec 2018	Change	31 Dec 2017
Exchange differences on translation of foreign operations	693	322	371
Asset revaluation reserve	304	-	304
Fair value changes of debt instruments measured at FVOCI	-191	-191	-
Total other reserves	806	131	675

Note 15. Net currency positions**Net currency positions as at 31 December 2018**

	Position in the statement of financial position		Position off the statement of financial position		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR (euro)	459,361	349,764	-	18,430	91,167
SEK (Swedish krona)	56,769	57,579	-	-	-810
GBP (British pound)	6	-	-	-	6

Net currency positions as at 31 December 2017

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

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

Note 16. Fair values of financial assets and financial liabilities

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

The fair values of the assets and liabilities reported in the consolidated statement of financial position as at 31 December 2018 do not differ significantly from their carrying amounts.

The different levels have been defined as follows:

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

Fair value hierarchy as at 31 December 2018

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Debt instruments at fair value through other comprehensive income (note 3)	13,484	-	-	13,484
Land and buildings (note 11)	-	-	1,397	1,397
Investment properties	-	-	1,866	1,866
Assets for which fair values are disclosed				
Loans to customers (note 4-8)	-	-	427,964	427,964
Other financial receivables (note 9)	-	-	1,484	1,484
Total assets	13,484	-	432,711	446,195
Liabilities for which fair values are disclosed				
Deposits from customers (note 13)	-	-	393,020	393,020
Subordinated notes	-	-	4,960	4,960
Other financial liabilities	-	-	5,197	5,197
Total liabilities	-	-	403,177	403,177

Fair value hierarchy as at 31 December 2017

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

There have been no transfers between Level 1 and Level 2 during 2018 and 2017.

The Level 3 *loans to customers* that amounts to 427,964 thousand euros is measured at amortised cost using the effective interest rate method less any impairment losses as the management believes that it most effectively demonstrates the fair value of these financial assets. Management estimates that the selected accounting policy on loans reflects the fair value of loans to customers.

The Level 3 *land and buildings* that amounts to 1,397 thousand euros consists of real estate used by the Group in Tallinn.

The properties in Tallinn are revalued using the income approach and market approach. The market approach

means that valuations performed by the valuer are based on active market prices, significantly adjusted for differences in the nature, location or condition of the specific property. For valuation of property in Tallinn, for prior year the valuer has taken as basis the prices per square metre of residential space in Tallinn city that were in the range of 2,319 – 2,516 euros.

Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The estimated rental value per square meter per month is 11 euros, the rent

growth 2%, long-term vacancy rate 5%, and vacancy rate for the first year 25% and discount rate 9% for commercial property in Tallinn.

Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Management has assessed that the fair value has not changed in year 2018.

The Level 3 *investment properties* that amount to 1,866 thousand euros consist of real estate used by the Group in Tartu and also plots, houses and apartments originally pledged by customers as loan collateral and later bought by the Group through auctions are measured at the fair value in the financial statements and valuations are performed by the management using market approach.

The investment property in Tartu is valued using the cost model (residual value method) based on the highest and best use of the property. The residual value method takes into account the profit that can be achieved on a development if the existing property would be developed and sold as private flats. Following inputs were used for prior year valuation of the properties in Tartu: price per square metre of flats in Tartu old town 2,200 euros and development costs per square metre 698 euros.

Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Management has assessed that the fair value has not changed in year 2018.

Note 17. Contingent liabilities and assets pledged as collateral

As at	31 Dec 2018	31 Dec 2017
Irrevocable transactions, of which	18,430	8,493
Issued bank guarantees	-	90
Credit lines and overdrafts	18,430	8,403
Assets pledged and encumbered with usufruct*	601	2,449

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

Note 18. Interest income

	Q4 2018	Q4 2017	12M 2018	12M 2017
Interest income on loans to customers	16,389	17,308	66,112	69,363
Interest income on debt instruments	68	80	239	350
Interest income on deposits	6	1	6	1
Other assets	23	3	29	11
Total interest income	16,486	17,392	66,386	69,725

Note 19. Interest expense

	Q4 2018	Q4 2017	12M 2018	12M 2017
Interest expense on deposits	1,543	1,422	5,765	5,773
Interest expense on bonds	84	3	334	3
Total interest expense	1,627	1,425	6,099	5,776

Note 20. Other income

	Q4 2018	Q4 2017	12M 2018	12M 2017
Income from debt recovery proceedings	324	559	1,647	2,401
Miscellaneous income	127	88	428	277
Total other income	451	647	2,075	2,678

Note 21. Other operating expenses

	Q4 2018	Q4 2017	12M 2018	12M 2017
Marketing expenses	2,066	1,377	6,668	5,297
Office, rental and similar expenses	388	357	1,496	1,588
Miscellaneous operating expenses	1,777	942	4,859	3,546
Total other operating expenses	4,231	2,676	13,023	10,431

Note 22. Other expenses

	Q4 2018	Q4 2017	12M 2018	12M 2017
Expenses related to registry inquires	374	422	1,294	1,225
Expenses related to enforcement proceedings	84	189	440	1,030
Legal regulation charges	96	79	588	492
Expenses from investment properties	12	25	52	34
Miscellaneous expenses	110	74	381	264
Total other expenses	676	789	2,755	3,045

Note 23. Related parties

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

- shareholders of Bigbank AS;
- members of Group companies' management and supervisory boards;
- close family members of the above;

- companies connected with the above persons, except where the persons cannot exert significant influence on the company's business decisions.

As at 31 December 2018, the Group had a claim to related parties of 37 thousand euros (*Loans to customer*), the interest income on that claim amounted to 2 thousand euros in 2018. As at 31 December 2017, the Group had no claims nor liabilities to related parties.

Statement by the Management Board

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

- the figures and additional information presented in the condensed consolidated interim report for the twelve months of 2018 are true and complete; and
- the condensed consolidated financial statements provide a true and fair view of the Group's financial position, financial performance and cash flows.
- The condensed consolidated interim report as at 31 December 2018 has been prepared in accordance with the international financial reporting standard IAS 34 *Interim Financial Reporting* as adopted by the European Union and with the information disclosure requirements established by the Bank of Estonia.
- Financial statements have been prepared on a going concern basis.

Sven Raba

Chairman
of the Management Board
26 February 2019

[digitally signed]

Pāvels Gilodo

Member
of the Management Board
26 February 2019

[digitally signed]

Martin Lānts

Member
of the Management Board
26 February 2019

[digitally signed]

Mart Veskimägi

Member
of the Management Board
26 February 2019

[digitally signed]