Bigbank

Bigbank AS
Annual Report
2023

Bigbank AS Annual Report 2023

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 2023 – 31 December 2023
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 CEO, 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 190 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.

On the front cover:
Kristiina Pedanik
Head of HR and Office

Our mission is to enable people to improve their lives through seamless financial services.

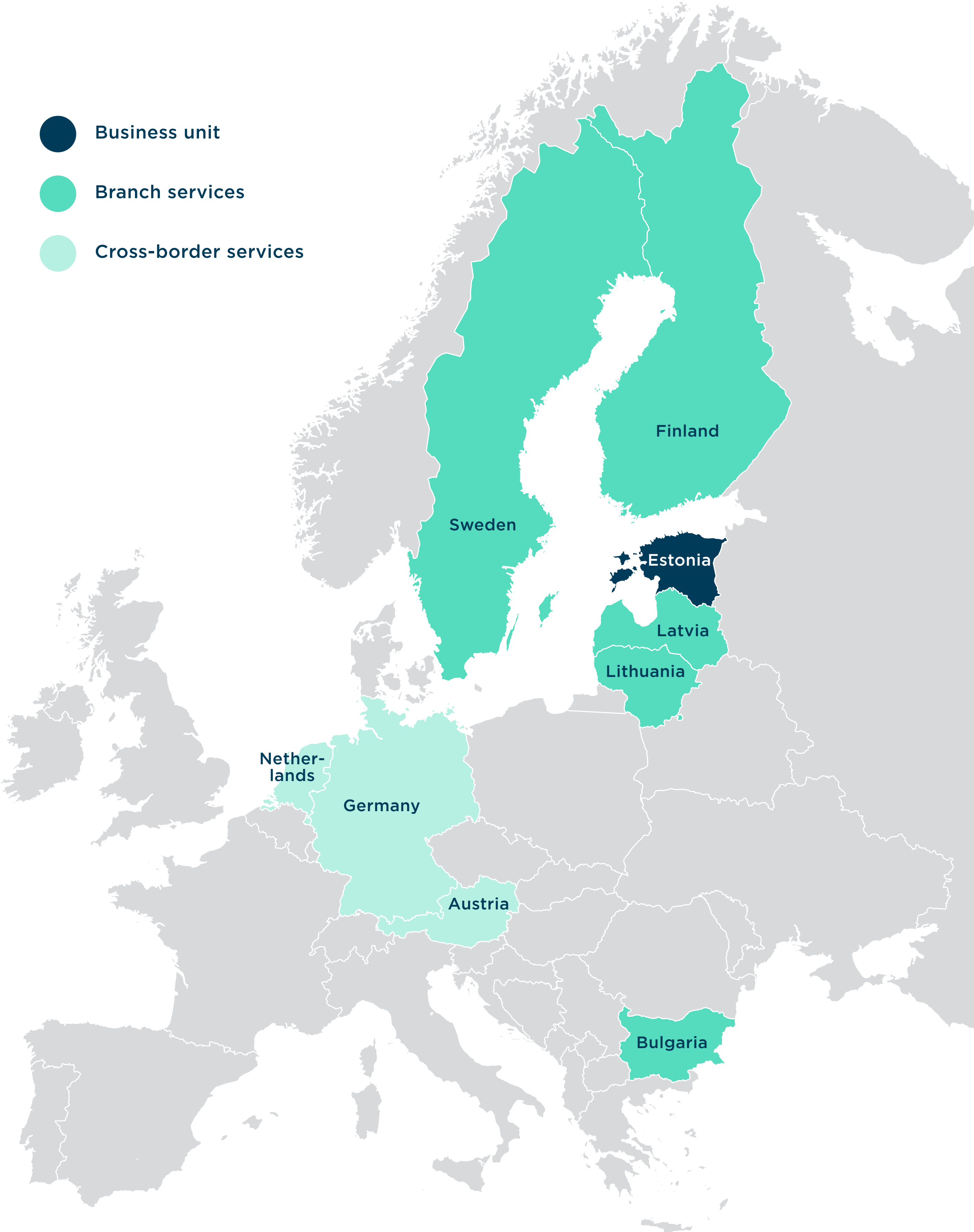
Contents

Our vision is to be the most recommended digital financial service provider in the countries where we operate.

Company's consolidated financial statements in pdf-format without European Single Electronic Format (ESEF) markups. The original document is submitted in machine-readable .xhtml format to the Nasdaq Tallinn Stock Exchange and digitally signed (Link: https://nasdaqbaltic.com/)

Bigbank Group at a glance

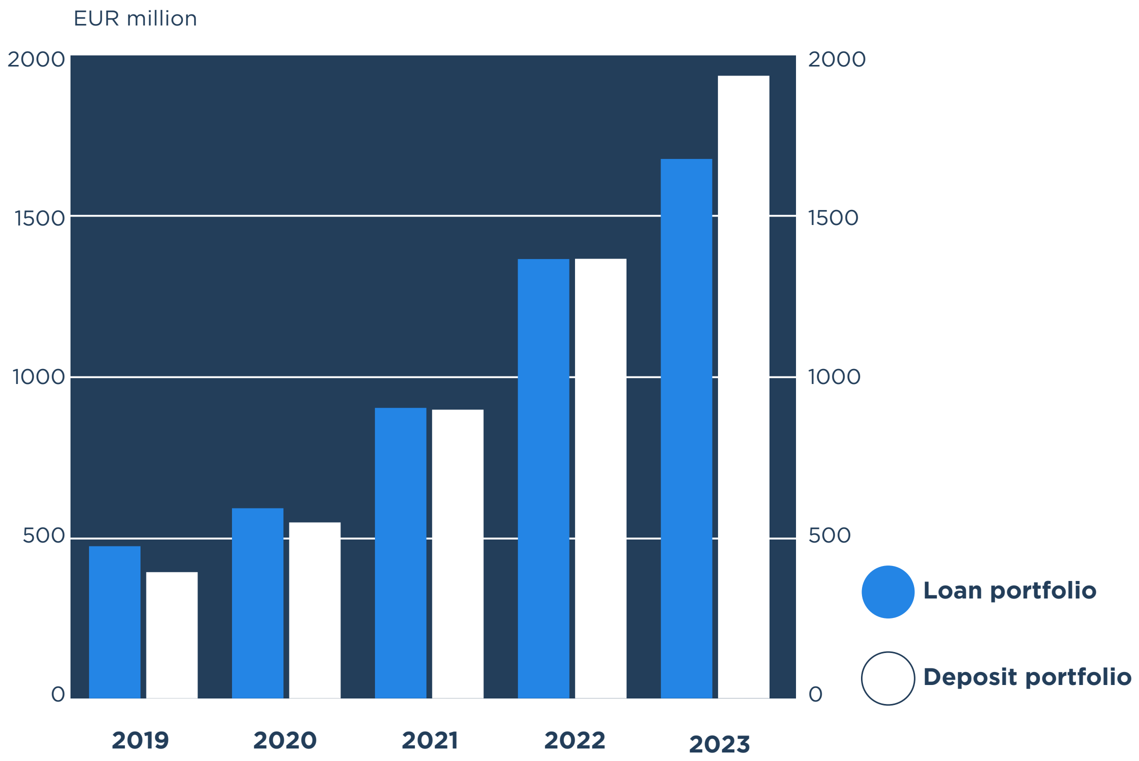
Bigbank values


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

Countries of operation

	Estonia	Latvia	Lithuania	Finland	Sweden	Bulgaria	Total
Start of operations		1996	2007	2009	2012	2021	
Loan portfolio, EUR million*	709.5	250.4	559.1	115.6	38.5	5.4	**1,678.5**
Number of loan contracts, thousands*	30	33	42	16	6	1	**128**
Deposit portfolio, EUR million*	1,734.0	27.0	0.8	131.0	40.1	4.5	**1,937.4**
Number of deposit contracts, thousands*	69	1	0.1	4	1	0.2	**75**
Number of employees*	299	76	87	19	6	7	**494**

* At 31 December 2023



Letter from the CEO

Martin Länts
Chairman of the Management Board

Strong commitment to strategy

Looking back to 2023, I am pleased to report that, despite the difficult economic conditions, we were able to maintain stable growth and continue to provide banking services to our customers on favourable terms. As a result of a well thought-out strategy, we were able to increase our loan portfolios in both retail and corporate banking. The changed interest rate environment allowed us to offer our customers more attractive terms for growing their money, which increased both our term and savings deposit portfolios.

In 2023, we reached a historic milestone: the Group's total assets exceeded 2 billion euros for the first time, growing by 39% year on year to 2.3 billion euros. The rapid growth was mainly driven by a significant increase in the housing and corporate loan portfolios. At the year end, Bigbank's gross loan portfolio stood at 1.7 billion euros, 23% higher than a year earlier. In addition, Bigbank's net income grew strongly during the year, reaching 112 million euros, an increase of 25% over the previous year.

Bigbank's vision is to be the most recommended digital financial service provider in the countries where it operates. This demonstrates our commitment to putting the customer first in all aspects of our operations. In addition to our strong financial performance, I am proud of the significant progress we have made in improving our customer service. In 2023, our NPS (Net Promoter Score) rose from 52 points to a record 58 points.

I would like to express my sincere gratitude to the entire Bigbank team for their dedication, determination and hard work. I also thank our customers, investors and partners for their trust and unwavering support.

Significant increase in the deposit portfolio

Bigbank's deposit portfolio reached an impressive 1.9 billion euros by the end of 2023, growing by 42% year on year. The growth was particularly impressive for the savings deposit portfolio, which crossed the 1-billion-euro line by the end of the year, increasing by 63% over the year. This outstanding result was largely due to the continued trust of our customers in the cross-border markets in Germany, Austria and the Netherlands, as well as the launch of savings deposits in Estonia and Finland. The term deposit portfolio reached 916 million euros at the end of 2023, up 24% year on year.

Our housing loans continue to be popular

Despite the downturn in the Baltic real estate markets, our housing loans remain popular. Our retail customers' loan portfolio reached 1.1 billion euros by the end of 2023, growing by 23% year on year. The housing loan portfolio grew at a particularly fast pace (56% year on year), reaching 352.2 million euros by the year end. I am pleased to state that many of our housing loan offerings have been the best on the market, which is why many customers have chosen Bigbank to help them finance their home purchase or improvement.

Steady growth in corporate banking

Sales of new corporate loans in the Baltic countries exceeded 334 million euros in 2023. Long-term investment loans, development loans and corporate leasing accounted for the largest share of loans issued. By the year end, the corporate loan portfolio reached a new high, growing by 22% year on year to 578 million euros. It is good to see that our corporate loan portfolio has diversified and that our vehicle and equipment leasing offerings are gaining in popularity. Bigbank's corporate leasing portfolio grew by 52% over the year.

Investor confidence and listed company status

Bigbank's strategy is to increase its loan portfolio mainly through growth in housing and corporate loans issued. In order to implement the strategy, we need to raise additional capital. In autumn 2022, we announced an offering of Tier 2 unsecured subordinated bonds in Estonia, Latvia and Lithuania as part of a 35-million-euro bond programme. The first series, with a base amount of 10 million euros, was more than twice oversubscribed and the bonds were listed on the Nasdaq Tallinn Baltic bond list to ensure free tradability.

At the beginning of 2023, we continued to raise additional capital, successfully completing the 2022 bond programme and launching a new 30-million-euro-bond programme in autumn 2023. The first series of the new programme was again oversubscribed, this time sevenfold, which was a particularly impressive result. In 2023, we also arranged three private placements of Additional Tier 1 (AT1) bonds, all of which were successful. In total, nearly 4,000 investors have invested in Bigbank's bonds to date, which is quite remarkable. I would like to take this opportunity to thank all investors who believe in Bigbank's long-term success and business model.

The success of our credit card paves the way to everyday banking

One of the key objectives of Bigbank's 2022–2026 strategy is to enter the everyday banking market. We took the first big step towards this goal more than a year ago, when we launched the personal credit card in Estonia. I am pleased to report that our credit card has been warmly received by our customers, with close to 5,000 holders to date. In 2023, we made preparations for the next important steps in everyday banking.

Staff development and customer focus

Training opportunities and continuous personal growth and development are integral parts of Bigbank's value proposition for employees. Our human resource team and management consistently improve the competence model for managers and the related development programme. We attract and retain talent by offering high management quality and supporting personal growth.

We apply LEAN principles and technology to create processes that ensure a great customer and employee experience that helps us achieve our goals for all product lines. The chosen strategy has proven successful – the annual employee engagement survey, conducted at the end of 2023, reflected that our people appreciate the professional development opportunities offered by Bigbank.

I am delighted that Bigbank's employees have a very high level of customer orientation, as this strongly supports our vision to be the most recommended digital financial service provider. According to the latest survey, the average customer orientation of employees in the financial sector is 68 points, while Bigbank employees score an average of 83 points. This shows that we are on the right track.

Bigbank's outlook for 2024

In line with Bigbank's business strategy, we will continue to focus on growing our corporate and housing loan portfolios. In addition, we will offer our customers consumer loans and car hire purchase on favourable terms. Our aim is to provide our customers with attractive saving opportunities through term and savings deposits in all the countries where we operate, and to take steps to expand our everyday banking activities.

I wish all our employees, customers, investors and partners a successful 2024.

Martin Länts
Chairman of the Management Board

Development

We develop ourselves to deliver better value tomorrow than today.

Rasmus Keskküla
Group Head of
Operational Risk Control

Review of operations

Economic environment

Global outlook

The year 2023 was challenging for the global economy. As the year began, many were hoping that 2023 would bring peace in Ukraine, but the war dragged on throughout the year. Ukraine's major counter-offensive in the summer did not meet expectations, and towards the end of the year Russian troops resumed their offensive with renewed vigour. A new geopolitical crisis, the Israel-Hamas war, has diverted the world's attention from the war in Ukraine and, at times, divided Ukraine's allies.

Global hikes in food prices, caused by restrictions on rice exports from India, the war in Ukraine and climate change, have forced third-world countries in particular to make tough choices.

The widespread adoption of ChatGPT and similar AI tools may significantly impact the labour market. While so far the effects of automation have mainly been associated with routine jobs that require medium-level skills, the new AI tools are also expected to automate creative work tasks, reducing the need for human labour.

What were the three factors that had the strongest impact on the world economy in 2023?

Energy security. In early 2023, it was unclear to what extent Russian gas could be replaced by new supplies and alternative energy sources. Today we can say that the relatively warm winter and new supply channels have helped solve the problem quite successfully. However, energy prices have remained much higher than pre-war levels, contributing significantly to inflation.

High interest rates. Inflation has slowed globally as a result, but most forecasters still do not believe that the 2% target rate will be reached in 2024. High interest rates have held back economic recovery, curbed the production of credit-financed durable goods and affected the real estate market and housing construction.

High energy prices. Energy (mainly gas and oil) exporters gained the most, while countries with a large industrial sector were hit the hardest by surging prices, as industry is generally more energy-intensive than services. For instance, Germany's economy shrank in 2023.

Amid the economic slowdown, global labour markets have shown resilience as unemployment rates have remained relatively low and wages have even risen.

The global economy will be gradually emerging from the crisis in 2024, but the recovery will be slower than initially expected. India and China are likely to fare best, followed by the US. The outlook for the EU economy is the most uncertain.

Table 1. Economic growth forecasts for 2024, %

	IMF Oct 2023	European Commission Nov 2023	OECD Nov 2023
World	**2.90**	**-**	**2.7**
USA	1.5	1.4	1.5
Euro area	1.2	1.2	0.9
France	1.3	1.2	0.8
Germany	0.9	0.8	0.6
Italy	0.7	0.9	0.7
China	4.2	4.6	4.7
India	6.3	-	6.1

Source: IMF, OECD, European Commission.

In January 2024 it was already clear that national central banks had revised their year-end growth projections downwards. At the end of the year, the German central bank forecast growth of 0.4%, the French central bank 0.9% and the Italian central bank 0.6%.

At the start of 2024, Europe is facing a choice between cutting interest rates at the beginning of the year or leaving it until the second half. The European Central Bank's (ECB) main argument against cutting interest rates early in the year is the relatively high inflation rate. However, if the growth figures for the fourth quarter of 2023, to be published in March or April, are worse than expected, inflation is expected to slow. Another argument in favour of lowering interest rates is the member states' high level of debt. Servicing existing debt has already become a significant burden on national budgets, and taking out new debt to support economic recovery is expensive. However, as inflation in the euro area is currently not expected to reach its target in 2024, there is no reason for the ECB to rush with cutting the base rates.

Interest rate movements have a direct impact on exchange rates. If the US Federal Reserve cuts interest rates in early 2024, but the ECB postpones it until late 2024 or early 2025, economic logic suggests that the euro will strengthen against the US dollar. This, in turn, will negatively impact the economic performance of the EU's major exporters, notably Germany. Problems in the German economy will adversely affect the Scandinavian economies, which will have a ripple effect on the Baltic economies.

In conclusion, geopolitical uncertainties persist and inflationary pressures are negatively affecting investment activity. In addition, the rise in protectionism and decline in exports make it difficult to identify a significant growth driver in the global economy in 2024. In Europe at least, we are more likely to see zero growth, or stagnation.

Estonia, Latvia and Lithuania

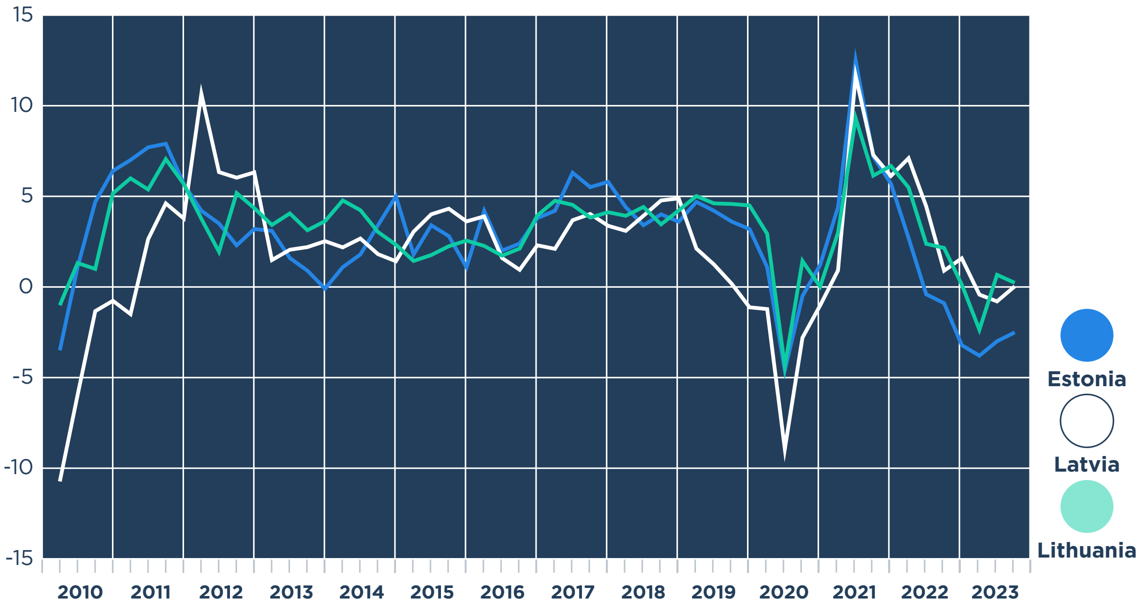
The Baltic economies did not fare well in 2023. These are small and open economies, which means that growth is heavily reliant on export markets in addition to domestic consumption. The weakening of trading partners' economies had a negative impact on the macroeconomic performance of the Baltic countries, particularly in the second half of the year.

Estonia experienced the worst recession among the three Baltic countries in 2023. According to the December forecast of Estonia's central bank, there will be a contraction of -3.5% for 2023, with both investment and consumption on the decline. Latvia's and Lithuania's economies contracted by -0.4% and -0.2%, respectively, in the third quarter.

The fall in private investment was partially offset by an increase in public investment towards the end of 2023. Lithuania in particular stands out in this respect, having increased its uptake of EU funds by 25% in the second half of the year, compared to the same period in 2022. Lithuania has been successfully implementing the funds of the EU Recovery and Resilience Facility, and Latvia anticipates an additional financial boost to its economy in 2024 with the construction of Rail Baltic, financed through the Connecting Europe Facility. Estonia lags behind its neighbours in the utilisation of these two EU funding schemes.

At the time of writing this review, the full-year statistics are not yet available, but the monthly data show a fairly significant drop in exports as well as in imports and retail sales. Manufacturing, construction and tourism have also declined. In Lithuania, the decline in manufacturing came to a halt at the end of the year, while Estonia has seen the steepest fall. As high interest rates have made it harder for companies to raise money

Figure 1. GDP dynamics of the Baltic countries, %



Source: Eurostat.

on the market, start-ups were also hit hard in 2023, with several companies announcing redundancies. The situation is further exacerbated by the flow of negative news. Both consumers and businesses are pessimistic about the future.

Table 2. Economic growth, change in private consumption and unemployment rate in the Baltic countries, %

	2022	2023	2024	2025	2026
Lithuania					
GDP growth	2.5	-0.2	1.8	3.1	3.3
Change in consumption	2	-1.7	2.4	3.5	3.6
Unemployment rate	5.9	6.7	6.5	6.4	6.3
Latvia					
GDP growth	2.8	-0.4	2	3.6	3.8
Change in consumption	9.9	-1.8	2.8	4.3	3.6
Unemployment rate	6.9	6.4	6.3	6.2	6.1
Eesti					
GDP growth	-0.5	-3.5	-0.4	3.2	3.2
Change in consumption	2.1	-1.9	0.1	3.3	2.5
Unemployment rate	5.6	6.8	9.0	8.1	7.8

Source: Forecasts by the central banks of Estonia, Latvia and Lithuania (December 2023).

Table 2 shows a positive outlook for both Latvia and Lithuania, while Estonia's central bank forecasts a slight recession for Estonia. Private consumption is in line with economic growth. In Lithuania, moderate growth is projected for next year, supported by rising domestic demand, which should offset the loss of export markets. Real wages are increasing in all three countries. Lithuania and Latvia do not anticipate any problems in their labour markets this year, as employment is expected to remain high and unemployment rates are not expected to rise. This will result in a rapid increase in the average wage, which, in turn, will increase households' purchasing power. Thus consumption will not fall significantly. This trend may, however, be influenced by the interest rate environment. If interest rates remain high until the end of 2024, the favourable savings conditions and investment schemes for small investors will reduce the amount of money spent on consumption. Estonia is likely to see a rapid rise in unemployment in 2024, which will restrain the growth in nominal wages.

Table 3. Wage growth and inflation in the Baltic countries, %

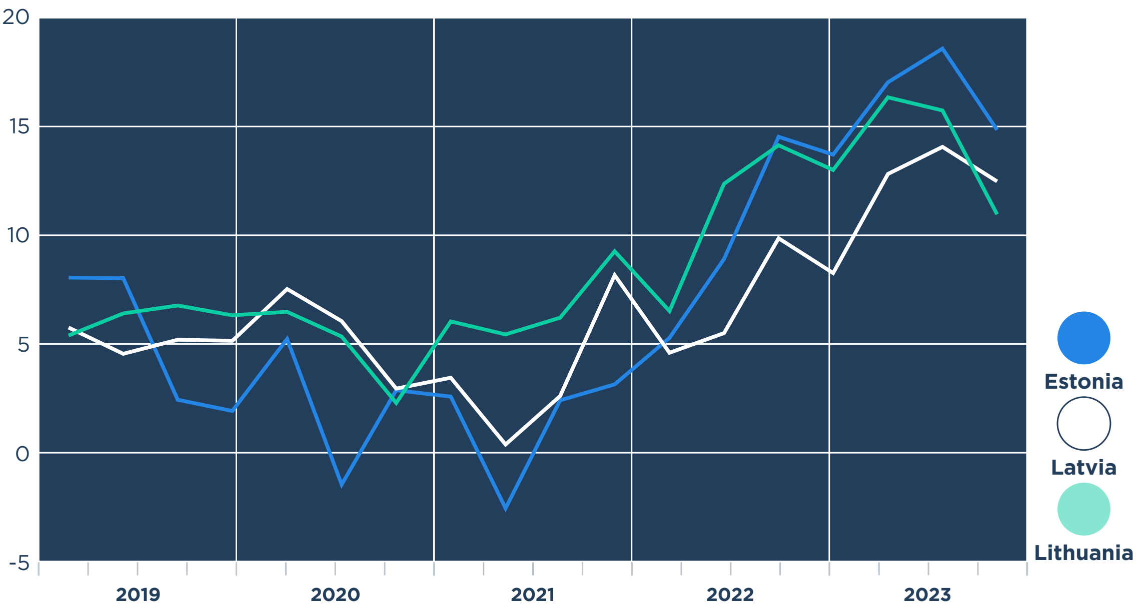
	2022	2023	2024	2025	2026
Lithuania					
Nominal wage growth	13.3	12.2	9.4	8.7	8.3
Inflation*	18.9	8.8	2.5	2.5	2.4
Latvia					
Nominal wage growth	7.5	12	8	7.9	7.6
Inflation*	17.3	9	2	2.3	1.8
Estonia					
Nominal wage growth	11.7	11.1	6.6	4.5	5.2
Inflation*	19.4	9.2	3.4	2.4	2.2

Sources: Data of national central banks.

* Annual inflation based on harmonised index of consumer prices.

On the positive side, inflation has moderated and labour market indicators remain strong. According to the Labour Force Survey (LFS) of the third quarter of 2023, Estonia had a very high employment rate (69.1%) and an unemployment rate of 7.3%, which is fairly low, considering the situation. Since 2023, the LFS has included Ukrainian refugees, which has had a two-way effect on employment. On the one hand, the labour force has increased by an estimated 30,000, which, in turn, has lowered the unemployment rate, as the denominator in the formula is higher. The unemployment rate is calculated by dividing the number of unemployed individuals by the total labour force, which includes both the unemployed and the employed. On the other hand, the surge in redundancies that started towards the end of the year has disproportionately affected refugees, many

Figure 2. Unit labour cost dynamics in the Baltic countries, %



Source: Eurostat.

of whom have found their first jobs in Estonia in low-skilled positions that do not require a high level of Estonian language skills.

In the Lithuanian labour market, employment has stayed relatively high and the unemployment rate low at around 6%. Unemployment is not expected to pick up rapidly next year, while employment is not projected to increase either. At the same time, though, Lithuania, like all three Baltic countries, suffers from a loss of competitiveness due to rising unit labour costs (ULC) . Unit labour costs in Lithuania and Estonia have been increasing at around 15% per year for the past two years. The increase in unit labour costs has been driven by real wage growth, which has outpaced productivity growth.

In 2023, the annual price growth remained high at around 9% in all three countries. At the end of the year, however, the pace of inflation slowed down. According to Eurostat's estimates, the year-on-year price growth was 4.1% in Estonia, 2.3% in Lithuania and as low as 1.1% in Latvia in November 2023. Inflation is projected to slow down significantly in 2024 (see Table 3).

Compared to previous crises, the current downturn is slower but it will last longer, and the recovery is expected to take more time, as the economies of external trading partners need to show signs of improvement first.

Sweden and Finland

The Finnish economy is in recession. Finland's central bank forecasts a -0.5% contraction in 2023 and a -0.2% contraction in 2024. Finland's finance ministry is more optimistic, forecasting a growth of 0.7%. Finland's problems are similar to those of the Baltic countries. Consumption has declined due to higher interest rates that make saving more attractive and uncertainty about the future. Private sector investment has also fallen, including a significant drop in households' housing investment. In 2023, private sector investment in residential construction fell by -12% and is forecast to fall by -4% in 2024.

At a seminar organised by the central bank of Estonia, a representative of Finland's central bank gave a presentation on the country's economy, highlighting serious structural problems in the medium and long term. In manufacturing, the shares of the former flagship industries – the forest (wood processing) and the electronics industry (Nokia) – have shrunk almost by half compared to 20 years ago, with lower value-added industries taking their place. Finland's trade surplus is mainly due to exporting raw materials and outsourced services. The decline in the quality of human capital is a cause for concern, as younger generations are entering the labour market with a lower level of education than those who are leaving.

Table 4. Key economic indicators for Finland, %

	Finland's central bank (January 2024)			Finland's finance ministry (December 2023)		
	2023	2024	2025	2023	2024	2025
GDP	-0.5	-0.2	1.5	-0.5	0.7	2.0
CPI	4.4	1.0	1.4	6.3	2.0	1.4
Wage growth	4.2	1.5	2.8	4.2	3.5	3.3
Unemployment rate	7.2	7.8	7.5	7.2	7.5	7.1
Consumption	-0.8	0.5	1.3	-0.8	0.7	2.0

The Swedish economy is struggling with similar problems as high interest rates and relatively high inflation have led to a significant drop in both consumption and investment. The real estate sector has been seriously affected, both in terms of housing construction and the number of transactions. Unemployment has been on the rise since autumn 2023 and is expected to reach 8.5% by the end of 2024, according to the Swedish National Institute of Economic Research (NIER). Inflation has slowed, but the overall price level has increased by 15% compared to two years ago.

Sweden's central bank's forecast for 2024, published at the end of November 2023, is significantly more pessimistic, projecting a -0.1% contraction for 2024, compared with 1% growth projected in the NIER's December forecast. There are also considerable differences in inflation projections, forecast at 2.9% by the NIER and at 4.6% by the central bank.

Table 5. Key economic indicators for Sweden, %

	Statistics Sweden and NIER (December 2023)			Sweden's central bank (November 2023)		
	2023	2024	2025	2023	2024	2025
GDP	0	1.0	2.8	-0.6	-0.1	2.1
CPI	8.6	2.9	1.2	8.6	4.6	2.4
Wage growth	3.8	3.7	3.5	3.2	4.0	3.4
Unemployment rate	7.7	8.4	8.3	7.4	8.3	8.3
Consumption	-2.4	1.2	3.8	-2.0	0.8	1.9

Inflation indicators are moving downwards and the market expects a decrease in interest rates. Derivative contracts indicate that interest rate cuts are expected from June 2024. Sweden's central bank, however, predicts that interest rates will only begin to fall in early 2025.

Bulgaria

Bulgaria's economy is expected to grow in 2023 albeit at a slower rate than in 2022. Both the central bank and the European Commission still expect growth of around 2%. Consumption remains high and savings are relatively low due to negative real interest rates. Unemployment stays at a low level, and upward wage pressures remain strong. Table 8 shows Bulgaria's central bank's projections of the main macroeconomic indicators. The European Commission forecasts a slightly higher inflation rate (8.8% in 2023 and 4.0% in 2024) and is more cautious in its growth projection for 2024 (1.85%). It should be noted that the central bank's forecast is based on assumptions made before the outbreak of the Israel-Hamas war.

Table 6. Key economic indicators for Bulgaria, %

	2023	2024	2025
GDP	1.9	2.7	3.6
CPI	6.1	3.1	3.1
Wage growth	13.9	8.3	9.1
Unemployment rate	4.2	3.8	3.4

Source: Bulgaria's central bank, November 2023.

Rapid wage growth is driven by the rise in the minimum wage. The national minimum wage was increased by 10% in 2023 and will rise by 20% in 2024.

Interest rates are expected to rise in 2024, which means that the household saving rate will also increase. Deposits are forecast to grow by around 9% in 2023.

The projected fall in the inflation rate in 2024 may be held back by fiscal measures: the planned increase in excise duties on tobacco, the removal of VAT exemptions for certain food products, the discontinuation of electricity compensation for companies and the withdrawal of tax incentives for the catering sector.

Germany, Austria and the Netherlands

Germany's economy is facing problems similar to those of the Nordic countries: weak external demand in manufacturing, low consumption and falling investment due to a restrictive monetary policy and high interest rates. On the positive side, inflation indicators have been falling rapidly. The labour market is in relatively good shape, leading to strong upward wage pressures. Households' real incomes have increased, which, however, has not been matched by a comparable rise in consumption. People prefer saving to spending because the overall economic outlook is negative. According to the Munich-based Ifo Institute, businesses' expectations in October and November 2023 were more pessimistic than in previous quarters. In addition to weak external demand, the manufacturing sector has been hit by high energy prices: while no longer rising, they have levelled out on a high plateau. Private sector investment is held back by high interest rates and elevated uncertainty about the central government's policy measures, especially in the context of the green transition. Residential construction has not yet shown signs of contraction, but if high interest rates persist, setbacks are expected in 2024.

Germany's central bank has lowered its growth forecast for 2024 from 1.2% to 0.4%. Economic recovery may also be affected by the exchange rate: if the euro were to strengthen as a result of diverging interest rate policies between the US and the EU, this would have a negative impact on Germany's export sector, which, in turn, would dampen the growth outlook.

Table 7. Key economic indicators for Germany, %

	2023	2024	2025
GDP	-0.1	0.4	1.2
CPI	6.1	2.7	2.5
Wage growth	5.9	5.3	3.6
Unemployment rate	5.7	5.8	5.5

Source: Germany's central bank, December 2023.

In the Netherlands, the labour market remains robust. With very low unemployment and rapid wage growth, real incomes are on the rise. At the same time, consumption has been falling steadily since the end of 2022, reflecting consumers' uncertainty about the future. The economy is expected to experience growth in 2024. According to the European Commission's projections, inflation is still relatively high, but this forecast was made in November. For example, the forecast published by ING Bank in December reduced growth and inflation projections while increasing the unemployment rate projection. The changes are not significant, but follow the same trends as in Germany. The more recent the forecast, the more negative the outlook.

Austria's economic trends and challenges are identical to Germany and the Netherlands.

Table 8. Key economic indicators for the Netherlands, %

	2023	2024	2025
GDP	0.6	1.1	1.7
CPI	4.6	3.7	2.0
Wage growth	6.2	5.5	3.9
Unemployment rate	3.6	3.9	3.9

Source: European Commission, November 2023.

Table 9. Key economic indicators for Austria, %

	2023	2024	2025
GDP	-0.7	0.6	1.7
CPI	7.7	4.0	3.0
Wage growth	7.6	7.6	4.2
Unemployment rate	5.3	5.5	5.3

Source: Austria's central bank, December 2023.

Conclusion

The global economic development is expected to follow a soft-landing scenario: there will be no major crashes, but resuming a positive trajectory may take longer than expected.

The keyword that best describes the current outlook is uncertainty. There are too many risks linked to geopolitical tensions, shifts in supply chains and the fragmentation of the global economy. These risks may be exacerbated by the outcome of the US presidential election.

Given the uncertain future, households' **saving rates are likely to increase.** As inflation may not be falling at the desired pace, **interest rates could remain relatively high** in 2024. Strong labour markets with high employment and moderate unemployment rates will lead to **sustained wage growth** (at least in some sectors), which will outpace the price increase, and the increase in real incomes may **boost consumption.** In major economies, growth will be driven by **domestic demand** rather than exports.

Overview of performance in 2023

For Bigbank AS (Bigbank, the Group), 2023 was the second year of the new strategy period 2022–2026. According to our current strategy, Bigbank is a growth-oriented, customer-centric bank, which aims for a 20% return on equity (ROE). To achieve this goal, we direct our efforts at the following focus areas:

- **growing the loan portfolio, primarily through housing and corporate loans,** which enables us to increase interest income and efficiency in the long term;
- **maintaining high quality of the loan portfolio,** which enables us to take an internal ratings based (IRB) approach to capital requirements for credit risk;
- **making property investments,** which supports the increase of capital and creates synergy;
- **entering everyday banking, which increases customer loyalty,** improves marketing efficiency and ensures financing on more favourable terms.

Despite the turbulent external environment, Bigbank successfully delivered on its strategic objectives in 2023. The gross loan portfolio grew by 306 million euros (+23%), to a record-high 1.67 billion euros at the year-end. The lion's share of the growth came from housing and corporate loans, which are the Group's focus products. The housing loan portfolio grew by 56%, rising from 225 million euros at the end of 2022 to 351 million euros. The corporate loan portfolio increased by 22%, rising from 473 million euros at the end of 2022 to 578 million euros.

In addition to the focus products, the Group continued to successfully issue consumer loans, although the results for this product category varied from country to country. Overall, the Group's consumer loan portfolio grew by 11% over the year to 736 million euros.

In terms of countries, the strongest growth in the loan portfolio was recorded in Estonia and Lithuania with 150 million euros (+28%) and 120 million euros (+27%) respectively, followed by Latvia with 42 million euros (+20%) and Finland with 11 million euros (+11%).

Our Swedish and Bulgarian branches did not issue new loans in 2023, but continued to provide services to existing loan customers. The loan portfolios decreased by 16 million euros (-30%) in Sweden and by 2 million euros (-23%) in Bulgaria.

At the year-end, Estonia contributed the largest share to the overall loan portfolio (including all loan products) with 691 million euros (42%), followed by Lithuania with 564 million euros (34%) and Latvia with 252 million euros (15%).

The main source of funding for the loan portfolio is the deposit portfolio. During the year, customer interest in Bigbank's deposit products was high in all markets where they are offered. This was mainly due to the general rise in interest rates and the fact that Bigbank offers near-peak deposit rates. Bigbank continues to offer two types of deposit products: term deposits and savings deposits, and in 2023 the number of markets where Bigbank's savings deposits are offered increased significantly. While we previously offered savings deposits on a cross-border basis in the Netherlands, Germany and Austria, in 2023 we also started offering them in Finland, Estonia and Lithuania.

A savings deposit is a deposit into which the customer may make deposits at any time and from which the customer may withdraw funds, in whole or in part, within a maximum of three business days after giving notice.

Taking into account the flexibility of the product and the increase in interest rates during the year, it was the savings side of the deposit portfolio that grew the most. Savings deposits grew by 398 million euros (+64%) during the year, exceeding 1 billion euros at the end of the year. Term deposits grew by 172 million euros (+23%) to 916 million euros. The total deposit portfolio amounted to 1.94 billion euros at the end of the year, up 570 million euros (+42%) compared to the previous year. By market, the Netherlands accounted for the largest share (52%) of the deposit portfolio, followed by Germany (32%), Finland (7%) and Austria (4%).

The Group's net profit for 2023 was 40.8 million euros, which is 8.1 million euros (+25%) higher than the restated result for 2022. Net profit development was strongly influenced by changes in interest income and interest expense. The increase in interest income was driven by the high Euribor level, which affected the interest-generating capacity of the focus products, namely housing and corporate loans, and significant growth of the loan portfolio. In total, interest income grew by 45.3 million euros (+47%) to 140.9 million euros in 2023.

There was also a significant increase in interest expenses, which were also affected by the general rise in interest rates and the strong growth of the deposit portfolio. Interest expenses increased by 29.7 million euros (+225%) to 42.9 million euros in 2023. Compared to the previous year, however, net interest income showed a solid improvement, increasing by 15.6 million euros (+19%) over the year.

While there were no signs of deterioration in the quality of the loan portfolio during the first three quarters of 2023, there was a slight deterioration in the last quarter of the year. The weak external environment has started to have some negative impact on loan customers, leading to an increase in both the share of past due loans and the related loss allowances. The past due loan portfolio was also adversely affected by the fact that the sale of past due loans declined significantly in the course of the year, which in turn can be explained by the fact that the purchase market for past due loans became much thinner during the year due to rising interest rates.

Expenses on loss allowances for loans grew by 5.4 million euros (+35%). The share of stage 3 (non-performing) loans grew by 21.1 million euros year on year and accounted for 2.8% of the total loan portfolio at the end of 2023 (+1.0 percentage points).

Salary expenses increased by 2.7 million euros over the year to 24.0 million euros (+13%). The increase is fully justified given the strong growth in the portfolio, the launch of savings deposits in several countries and the continuation of other strategic focus activities.

A significant part of the Group's profit is also generated by investment properties. In 2023, there were no significant transactions with the Group's investment property portfolio, but due to the change in their fair value, the Group's existing investment properties still generated a gain of 3.4 million euros, compared to 4.5 million euros (restated figure) in 2022.

Substantial loan portfolio growth in 2023 also meant pressure on capital. As a result, a record five bond issues took place during the year, raising a total of 36.2 million euros in capital instruments. Of the five issues, two were public unsecured subordinated bond offerings (T2 bonds) for a total amount of 20 million euros and three were private placements of Additional Tier 1 capital (AT1 bonds) for a total amount of 16.2 million euros. It was also encouraging to see increased investor interest in all issues.

By the end of the year, Bigbank's equity had increased to 248 million euros, an all-time high. Return on equity (ROE) was 17.7%. Compared to the restated figure for 2022, ROE increased by 1.2 percentage points, approaching the strategic ROE target of 20%.

Overall, Bigbank's 2023 financial results were strong. Despite the weak external economic environment, the Group ended the year with record loan and deposit portfolios and the highest net profit ever.

Outlook for 2024

2024 promises to be at least as challenging as 2023, both globally and for Bigbank's home markets. Geopolitical conflicts show no signs of abating and are more likely to escalate or erupt in new trouble spots. The measures taken by major central banks to curb inflation have produced results and inflation indicators have moved down from record levels, but are not yet at the 2% level expected in the euro area. This in turn means that the European Central Bank is unlikely to start lowering its high interest rates in the next quarter or two.

The economic situation in Bigbank's markets is therefore likely to remain difficult. High interest rates are preventing the economy from recovering and are placing an additional financial burden on businesses and end consumers alike. As a result, consumer demand will be subdued, creating difficulties for companies both in their domestic markets and, in particular, when exporting. It is thus inevitable that some companies will be unable to cope and will be forced to close, which is likely to increase unemployment.

In this likely scenario, high interest rates will help keep net interest income high, which is positive for Bigbank, but the quality of the loan portfolio will certainly become more important. There is no reason to expect an improvement in the quality of the loan portfolio, but rather an increase in the share of problem customers in 2024. However, as previous crises have shown, Bigbank has an important edge – the ability to find appropriate solutions and work with customers to help them overcome difficult situations. Accordingly, a key activity in 2024 will be the development and implementation of more appropriate solutions for customers in payment difficulties.

From a strategic perspective, Bigbank will continue to grow, particularly in the areas of housing and corporate loans. Both product lines are supported by high interest rates and economies of scale. The larger the loan portfolios, the more efficiently the Group can operate them. In addition, the expected credit losses for these products are below Bigbank's average level of credit losses. As regards consumer loans, the Group's management board has decided to resume lending at the Bulgarian branch. This decision is based on the conviction that the provision of new consumer loans in Bulgaria will be sufficiently profitable.

In 2024, Bigbank also plans to make significant progress in another strategic focus area – the entry into everyday banking. The Group believes it is important to start offering a full range of solutions, including current accounts and payments, so that, in addition to competitive loan and deposit products, Bigbank could offer payments on favourable terms. This in turn would enable the Group to raise funds more cheaply.

The Group expects a stable cash flow and profitability from its investment properties in 2024, although no major additions to the properties held. The existing investment property portfolio will help the Group create synergies, as it will allow Bigbank to be well-informed of developments in the property market.

The Group will continue to invest in its people. There are significant growth plans for 2024. This will require continued commitment from employees, which the Group intends to reward with competitive salaries and other benefits, including development opportunities and the provision of excellent management service.

Key performance indicators

Financial position indicators (in millions of euros)	31 Dec 2023	31 Dec 2022*
Total assets	2,291.1	1,645.0
Loans to customers	1,665.7	1,359.4
Of which loan portfolio	1,678.5	1,367.0
Of which interest receivable	24.7	19.4
Of which loss allowances	-37.5	-27.0
Deposits from customers	1,937.4	1,367.8
Equity	248.0	212.0
Financial performance indicators	**2023**	**2022**
Interest income	140.9	95.6
Interest expense	-42.9	-13.2
Total income (gross)	163.2	110.2
Net operating income	111.8	89.8
Operating expenses	-45.6	-41.9
Of which salaries and associated charges	-24.0	-21.3
Of which administrative expenses	-15.2	-17.0
Of which depreciation, amortisation and impairment	-6.4	-3.6
Net loss allowances for loans and financial investments	-20.9	-15.5
Profit for the year	40.8	32.7
Indicators for the year	**2023**	**2022**
Average equity	230.0	197.9
Average assets	1,968.0	1,396.9
Average interest-earning assets	1,832.3	1,287.4
Average interest-bearing liabilities	1,706.4	1,174.4
Ratios	**2023**	**2022**
Common equity Tier 1 capital ratio	14.0%	13.6%
Tier 1 capital ratio	15.1%	13.6%
Total capital ratio	19.1%	16.7%
Leverage ratio	9.7%	10.5%
Minimum requirement for own funds and eligible liabilities (MREL)	19.1%	16.7%
Liquidity coverage ratio (LCR)	349.8%	217.6%
Net stable funding ratio (NSFR)	156.6%	134.0%
Return on assets (ROA)	2.1%	2.3%
Return on equity (ROE)	17.7%	16.5%
Profit margin (PM)	25.0%	29.7%
Return on loans	8.6%	8.3%
Asset utilisation ratio (AU)	8.3%	7.9%
Price difference (SPREAD)	5.2%	6.3%
Cost to income ratio (CIR)	40.8%	46.7%
Equity multiplier (EM)	8.6	7.1
Earnings per share (EPS), euros	510	409
Yield on interest-earning assets	7.7%	7.4%
Cost of interest-bearing liabilities	2.5%	1.1%

* Some prior period figures have been restated. For further information, please refer to the notes to the consolidated financial statements.

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 operating income + net gain or loss on financial assets at fair value through profit or loss

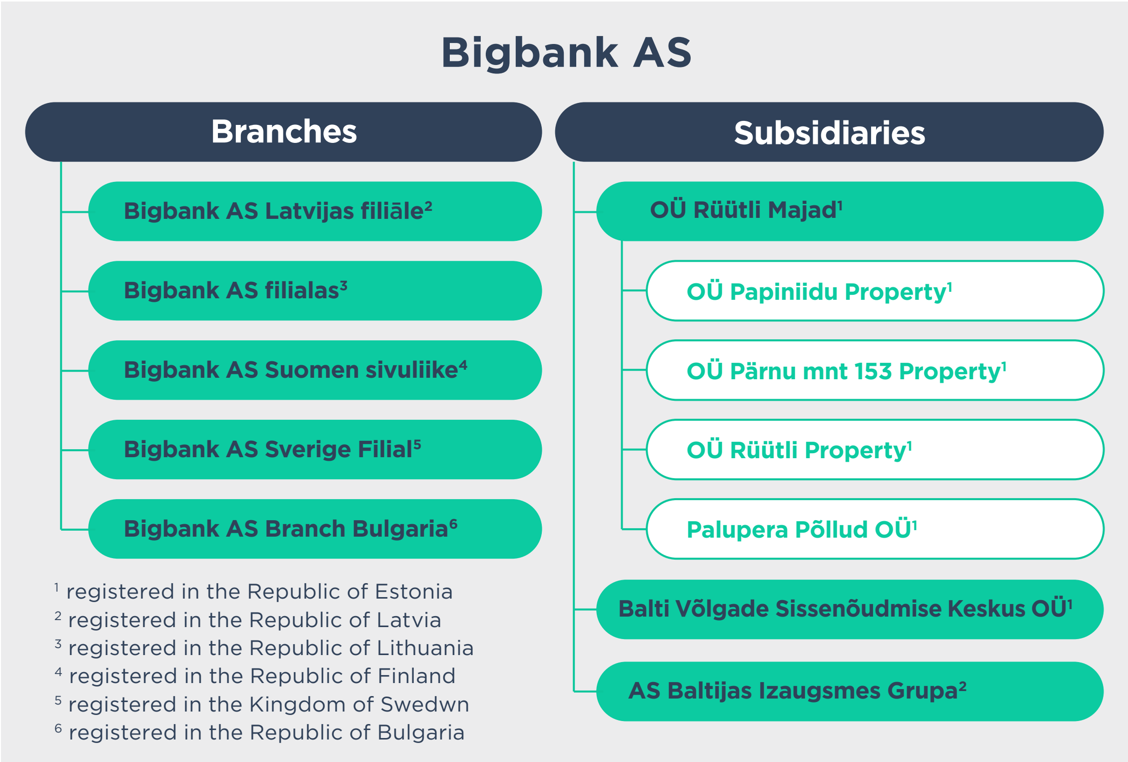
Yield on interest-earning assets = interest income / average interest-earning assets

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

The Swedish branch has not been issuing new loans since 2022 and continues to serve the existing loan customers.

The core business of OÜ Rüütli Majad and its subsidiaries OÜ Papiniidu Property and OÜ Pärnu mnt 153 Property is property management, and the subsidiaries OÜ Rüütli Property and Baltijas Izaugsmes Grupa AS are involved in agricultural land management. Balti Võlgade Sissenõudmise Keskus OÜ is not engaged in active operations. At the reporting date, the agricultural company Palupera Põllud OÜ was discontinuing its operations.

The subsidiary SIA Baltijas Parādu Piedziņas Centrs was liquidated in 2023. The company was dormant and therefore the liquidation did not have a material impact on the results of Bigbank. The purpose of the liquidation was structural streamlining.

The subsidiary Abja Põld OÜ was sold in 2023. The sale was aligned the Group's long-term strategic plan, which does not foresee involvement in agricultural production.

Shareholders

At 31 December 2023, 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

The Group was not involved in any significant litigation at 31 December 2023.

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 around 500 employees.

Employee profile by country at 31 December 2023

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	299	134	165	45%	55%	57 months	37 years
Finland	19	10	9	53%	47%	52 months	37 years
Latvia	76	12	64	16%	84%	84 months	36 years
Lithuania	87	29	58	33%	67%	60 months	34 years
Sweden	6	2	4	33%	67%	50 months	35 years
Bulgaria	7	5	2	71%	29%	27 months	37 years
Total	**494**	**192**	**302**	**39%**	**61%**	**61 months**	**36 years**

At the reporting date, the Group had 494 employees compared with 485 at the end of 2022.

Human resource strategy focus areas:

- We recruit and develop excellent leaders.
- We apply LEAN and 4DX methodologies in performance management.
- We attract people who are right for us.

The main results of 2023 by focus areas were as follows:

Focus 1. We recruit and develop excellent leaders.

In 2023, the Group's HR team and management board continued to work on the managers' competence model and a related development programme.

Top-level management service

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

By facilitating cooperation, your manager helps you achieve your 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 knowledge and experience, your manager helps you **develop** your career and become top talent.

Management as part of Bigbank's value proposition

We improve management quality with various initiatives at all levels of management.

- Our managers' management competences are assessed annually.
- In 2023, we invited several external mentors to support our top managers in their most challenging employee and leadership matters.
- Managers participate in external training events consistent with their development goals.
- We support the development of managers of all levels through an internal Leadership Programme, which consists of five two-day modules over a six-month period. The modules are based on the five competences of Bigbank's managers. The new programme has a stronger emphasis on leading change, people management and self-management.
- We have set up a Talent Programme to map critical roles and identify potential future leaders, and provide them with development programmes tailored to their individual strengths and weaknesses.
- The international community of Bigbank's managers discusses the most important issues related to management and the development of managers at monthly

meetings. We have also created special communication channels to help managers share their experiences and give mutual support.

- We organise quarterly seminars for top management, where financial performance and matters related to customer and employee experience are reviewed. In improving management competences, the main focus 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. In addition, satisfaction has increased in one significant aspect – the way management decisions are justified and communicated. Improving leadership skills will also remain a priority in our action plans for 2024.

Focus 2. We apply LEAN and 4DX methodologies in performance management.

At Bigbank, LEAN and 4DX have been used for years, but we brought them back into focus to apply them even more effectively.

- We have redefined the required levels of LEAN based on employees' roles.
- The Group's management has identified focus areas that LEAN project teams are working on to further increase customer satisfaction and implement high-impact IT projects more effectively.
- Two groups of new managers completed 4DX focus management training. The new knowledge will help the new managers align with the methods already in use in the Group.

Focus 3. We attract people who are right for us.

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

The qualities we expect from all our current employees have been outlined in our Human Resource Strategy. This enables us to design the recruitment process and identify the best candidates more effectively and efficiently.

Managers' role in the recruitment process has further increased.

Vacancies are filled by recruiting first from within the Group. We are proud that a lot of candidates come recommended by our employees and that we have a strong positive trend of Bigbank alumni coming back to us.

During the period, we reached out to prospective employees, introducing Bigbank's corporate culture and experience. We continued to share employee success and experience stories across all major social media channels to recognise our employees and illustrate our value proposition through real-life experiences. Our official web pages (such as Lifeatbigbank on Instagram) had visuals and stories about what makes us who

Employee engagement index

we are today, and our staff shared their #bigbankwow experiences through photos and stories in different channels.

Work-life balance has become a greater priority. We offer flexibility in working conditions and a hybrid solution, whereby managers and their teams agree the rules for remote and office work.

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 every year. Our employees have become more confident that their opinions count and the number of respondents increased showed record growth for the second consecutive year, reaching 91%.

Bigbank has developed a comprehensive onboarding programme, the content of which is tailored to each employee, based on his or her responsibilities and background. In 2023, we continued to optimise the programme. Many training courses, which previously were conducted face to face by trainers, were transferred to a self-study or hybrid format, which provides more flexible and playful learning options. We made a considerable effort to provide mandatory training required by law through online learning programmes that employees could pass independently. In comparing our onboarding programme to that of their previous employers, new staff positively highlighted the employee-centric, well-planned and excellently executed nature of our approach. Our training programme for customer service staff was also redesigned and conducted in a new format.

For more effective employee training, we have created a group of in-house trainers who meet monthly to improve their expertise. For example, they have learned to better use Bigbank's equipment and facilities and to create summary training reports that help streamline and improve the effectiveness of the processes.

Caring

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

Ksenija Niitmäe
Chief Legal Officer

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 the 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 seven years, we have been working systematically to improve customer experience. Our customers' positive feedback reflects their increasing trust and loyalty: customers continue to 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 focuses on sustainable growth, which assumes, among other things, consistent improvement of customer experience. In 2023, we focused on the following:

- Based on feedback provided by home loan customers, we continued to improve our work processes across the Baltics and the Net Promoter Score for the loan application process rose by 32%. Customers praised our staff and processes and rated highly their experience with our bank.

- We improved customer experience at several touchpoints: signing the contract (the Net Promoter Score rose by 6% in 2023), communicating a negative loan decision (8%), one year after signing a contract (+5%), debt handling (+3%), customer service (+18%), expiry of the contract (+15%) and online banking (+13%).

- We continued to analyse how many customers are referred to us by friends or acquaintances. In the Baltic countries where Bigbank is already well-known the figure increased by 11% compared to 2022 and overall by 12%.

- 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 improved the functionality of our online banking channel: in 2023 we made savings deposits available to our customers in Finland and Lithuania, and improved

Sari Turkki

Ričards Majors

the design and functionality of our online bank to offer a better user experience in all markets. Our corporate customers in Estonia can now also use the online bank.

- In the framework of the new training logic, we harmonised the job titles of our customer service staff across all markets, mapped the training and training needs of home loan managers, standardised mandatory training courses across the Baltics, provided additional and on-the-job training, and used the training registration platform created in 2022 to ensure a clear and transparent overview of the training received. Customer service staff praise our new systematic training logic because new knowledge is regularly and properly consolidated. We call the new system the Friday Academy. At the same time we continue to focus on improving quality and applying LEAN work methods.

- We again organised a bank-wide Customer Service Superstar competition to thank and recognise colleagues who provide exceptional customer experiences on a daily basis. In tight competition, the winners in providing services to retail customers at the business unit level were Samanta Leontjeva in Estonia, Līga Bistrova in Latvia, Vilija Čiurylienė in Lithuania, Sari Turkki in Finland, Judy Le in Sweden and Pauline Fiomena Springer in Germany. In providing services to corporate customers, the winners were Mantas Lukošiūnas in Lithuania, Marko Pille in Estonia and Ričards Majors in Latvia. The overall winners of the 2023 competition were Sari Turkki (retail customers) and Ričards Majors (corporate customers).

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.

Customer experience is measured by:

- regularly requesting feedback on different customer experience touchpoints through the Net Promoter Score and the First Contact Resolution Index (as in 2022, there were over 3,000 respondents per month in 2023);
- measuring the effectiveness of customer communication by analysing call centre statistics and assessing our employees' communication quality;
- studying Bigbank's general brand positioning and image in all markets where we operate through annual brand perception surveys and comparing the results with those of our competitors (based on a representative sample of around 1,000 respondents in each country);
- analysing 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 worked hard to offer better customer experience and increase customer loyalty. We maintained a customer-centric approach in 2023 and our customers' loyalty and trust again reached new highs.

We collect regular feedback on our products and services. As in previous years, the keywords that most frequently appeared in customer feedback were: 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 2023 was 12% higher than in 2022. In terms of countries, the Netherlands (+39%), Estonia (+16%) and Lithuania (+10%) 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 2023 reflects that we have again taken a 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 is to have a good reputation both as a company and an employer and to develop it both internally and externally.

Respecting human rights is very important to Bigbank, and our efforts in this area are supported by our values, Code of Ethics and whistleblowing hotline.

- Values: one of our values is caring – we listen, understand and support each other.
- Whistleblowing hotline: it is part of Bigbank's administrative culture and designed to support Bigbank's commitment to values and agreed rules of conduct, and to promote openness and respect for employees.
- Code of Ethics: in addition to the above, the Code of Ethics covers the company's social responsibility, the role of Bigbank as a responsible company that observes laws and regulations in all countries where it operates, and the obligation of employees to treat all colleagues and customers equally and not to discriminate against anyone 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 a mandatory part of the induction programme for all new employees.

Besides the Code of Ethics, the rights of employees are regulated by their employment contracts as well as our internal rules for work, remuneration policy and remuneration principles.

- Internal rules for 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. The remuneration policy includes 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.

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. We assess the suitability of a candidate for a new job based on the criteria set out in our internal regulations, which include the candidate's education, skills and previous work experience.

We increased the diversity of our team by balancing, among other things, the proportions of different age groups in 2023. To improve our employees' work-life balance, we offer, where necessary, flexible options to work at the home office and/or attend meetings via videoconferencing. We have updated our rules of procedure to reflect the new arrangements, with a view to increasing clarity and avoiding uncertainty for our employees.

The UN 2030 Agenda requires ensuring occupational safety for all employees. In 2023, we once again paid more attention to raising our employees' health awareness. With the help of Peaasi.ee, we carried out a mental health test in the organisation, providing the participants with immediate feedback on the state of their mental health and advice on how to move forward. The company received an anonymous summary of the current mental health of the entire staff, along with guidance on how to improve it. We also extended free psychological counselling, already available in Estonia, to our employees in Finland, Latvia and Lithuania.

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 2023, Bigbank had 494 employees: 299 in Estonia, 76 in Latvia, 87 in Lithuania, 19 in Finland, 6 in Sweden and 7 in Bulgaria. The annual average number of full-time employees was 479.

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 as well as 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 consistent with laws, regulations and best practice. To implement those values in Bigbank's everyday operations, we have developed policies and internal rules of procedure that govern the daily work of the organisation and the adoption of management decisions.

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. For example, it has become customary for our leading experts to participate in the Financial Awareness Day by visiting schools to speak about financial education, financial literacy, and responsible borrowing. Every year we offer internships to students, enabling them to participate in our daily work, thus contributing to the quality of finance education at universities. 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.

Another customer service priority is 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 an international credit institution based on Estonian capital, whose mission is to continuously improve people's lives by providing them with seamless financial services. We strive to do this with a modern, automated and competitive product portfolio that has grown year by year and will continue to grow in the future.

Bigbank's strategic goal is to be a growth-oriented, customer-focused bank with a return on equity (ROE) of 20%.

The second year of the current five-year strategy period (2022-2026) was a step forward for the Group compared to 2022. Return on equity reached 17.7%. While this is below the strategic target of 20%, it is two percentage points above the previous year's result. Both the loan and deposit portfolios broke records at the end of 2023, and the net profit of 40.8 million euros is also Bigbank's best result ever.

In terms of new products, Bigbank launched savings deposits in Finland, Estonia and Lithuania, which attracted considerable customer interest in the first few months already and have helped fund the Group's lending activities.

The volume of bonds issued by Bigbank also broke a record. In 2023, Bigbank issued bonds for a total of 36.2 million euros in five issues, which helped to strengthen the Group's capital position. All issues were oversubscribed, demonstrating strong investor interest and confidence in Bigbank. The strong increase in public interest is very encouraging for Bigbank, and will drive us to even better results in the future.

Bigbank's new era as a listed company, which began in 2022, also continues, which means more public interest and sharing of important information in our stock exchange announcements. Bigbank has always been committed to transparency and proper reporting, but now that the company is listed, every bond investor can keep an eye on our activities. When preparing public reports, we always follow the principle that the reader should receive clear, sufficient and useful information.

In 2023, the Group also took important steps towards the implementation of the Internal Ratings Based (IRB) methodology and the entry into everyday banking, both of which are our strategic priorities. Relevant teams were strengthened, action plans drawn up and implementation started.

All this has been achieved with the help of the strong Bigbank team. Retaining and developing our people has been, and will be, a key focus area.

According to the Group's dividend policy, the payment of dividends is subject to compliance with all regulatory requirements. Each calendar year, the Group may distribute 25% of the audited net profit as a dividend, up to a maximum of 8 million euros. For 2022, the Group paid a dividend of 6 million euros and for 2023 a dividend of 8 million euros is expected.

Environmental activities

We make a continuous effort to mitigate 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 in the next five years the Group will take steps towards carbon neutrality and will continue to promote sustainability through its operations and product portfolio.

To build the right attitudes, we start by changing the way our own employees think and then move on to cultivating the right attitudes more widely. In 2022, Bigbank joined the Green Tiger Project to raise the employees' awareness of environmental sustainability. Project participants met regularly in 2023 to find ways to make their activities more environmentally friendly and agree on follow-up actions.

In addition to the initiatives of the Green Tiger Project, our green mindset is reflected in the following:

- We offer fruit in our office kitchens in quantities that are carefully calculated in order to avoid waste. If any fruit is left over by Friday evening, we suggest employees take it home.
- We provide staff with reusable food boxes to prevent the generation of plastic waste from single use boxes purchased from food stores.
- We raise our people's awareness of the need to dispose of batteries responsibly. We offer the opportunity to bring used batteries to the office where we will take care of the disposal.
- We are working to ensure that our new office in Tallinn is more environmentally friendly.
- All our offices have dishwashers to prevent excessive water consumption.
- We sort waste at all our offices.
- We encourage our people to use public transport and bicycles. Our offices in Estonia have a secure room where staff can leave their bicycles during the workday.
- We use our hardware as long as possible 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. Computers that become old for the company's purposes are offered to employees or disposed of with the assistance of partners that give old computers a new life.
- Our teams participate in the clean-up activities of the Let's Do It project.

In our daily business, we are guided by the goal of minimising our carbon footprint. As a digital bank, we use increasingly less paper. It is important for us to issue paperless loans, which is why we use electronic channels up to the signature of the contract. We use video identification in Estonia and Bulgaria and our administrators have video meetings with both retail and corporate customers.

We provide loans for the purchase of solar panels at more favourable interest rates to promote wider implementation of solar energy.

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.

In 2023, we also adopted an ESG policy, with the main focus on affordable and clean energy, decent work and economic growth, and responsible consumption and production.

- Affordable and clean energy. We support investment in green assets and renewable energy projects with our financial products.
- Decent work and economic growth. We support creativity and innovation and create better access to financial instruments for small businesses. We support the inclusion of young people through various job shadowing and internship programmes. We provide equal opportunities for everyone and ensure a safe working environment.
- Responsible consumption and production. We focus on green offices, waste sorting and responsible consumption.

Responsible taxpayer

As a member of the Estonian Taxpayers' Association (EML), we have been protecting 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 for the designated purpose.

Bigbank operates through branches in five European countries, where it is registered as a local taxpayer. We pay all applicable taxes in all the 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 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.

We understand and recognise the role of a bank in the community and seek to fulfil it to the best of our ability. We value healthy lifestyles, culture, education and the sustainability of the community. Accordingly, we have been supporting various charity and sponsorship projects for many years, with a focus on sport, young people and large families.

Sponsorship and charitable activities

Bigbank's most significant and outstanding support activities in 2023 were the following.

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 of 500,000 euros.

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

In 2023, the Bigbank Tartu team managed to become the Baltic champion again and secured the first place in the Aadu Lukas Cup for the third year in a row. The team finished second in the Estonian Championship.

The Tartu Ülikool/Bigbank women's team came second in the Estonian Championship and fifth in the Baltic Championship against very strong competition.

Bigbank's Large Family Day.
Since 2005, Bigbank has partnered with the Estonian Association of Large Families to offer families with four or more children the opportunity to enjoy a special day full of fun activities. In addition, every year we honour an active large family that has made a positive impact on the community with the title of Large Family of the Year and a prize of 10,000 euros.

In 2023, the winner of the Large Family of the Year award was the Kalam family from Vasula, Tartu county, who have four children. The winner was announced at the Large Family Day event at Tallinn Zoo, which was attended by over 1,000 people from across Estonia.

According to Jonna Pechter, Head of Bigbank Estonia, the bank supports the Estonian Association of Large Families and the Large Family of the Year competition as a cornerstone of Estonian life. "The mother and father of this year's Large Family of the Year value academic education and, in addition to their family, have made a great contribution to teaching mathematics and science to Estonian children and young people," she said. Aage Õunap, President of the Estonian Association of Large Families, added: "Large families are the strongest foundation of any country or nation. The contribution of these good mothers and fathers to society is particularly important to recognise and highlight in these difficult times".

Every contribution matters.
A few months ago, an events committee was set up at Bigbank's Lithuanian branch. The committee not only organises events for employees, but also shares and implements ideas on how Bigbank can contribute to social and charitable activities. Some colleagues have already visited the Crisis Centre, which provides social services for children and families dealing with issues such as inadequate childcare, alcohol or drug use, domestic violence, etc. Our staff have donated much needed goods and furniture to the families on behalf of Bigbank. The events committee also arranged a donation to the Tautmilės globa animal shelter. For several weeks, there was a box in the office where all employees could donate items according to the list provided. In January, volunteers had the opportunity to visit the shelter to hand over the collected support and to help out by walking puppies or volunteering in the cat rooms.

Woman to woman.
A donation of 3,500 euros was made to the Women's Helpline foundation in Lithuania. The main aim of the helpline is to provide emotional support during difficult times by helping individuals overcome psychological crises or informing them of other support available.

Creating opportunities for disadvantaged children.
This year, Bigbank's Lithuanian branch once again donated 5,000 euros to the Help Street Children foundation. The foundation supports the children from single-parent, large and vulnerable families, children in foster care, and refugee children from Ukraine. The children are invited to participate in football activities, competitions and camps under the supervision of specially trained coaches. The aim of the programme is to encourage children to spend active quality time with their parents or guardians, play sports with friends, learn to do teamwork, develop their social skills, and build and maintain quality social relationships in the community.

Christmas gifts that add value.
Instead of sending traditional Christmas gifts to business partners, the Lithuanian branch's marketing team donated the money to the Red Cross Lithuania foundation. The same was done by the Finnish branch, which donated the corporate Christmas gifts to Hope, a charity that helps Finnish families in need. The Lithuanian branch's marketing team together with the HR team also sponsored Pirmas Blynas, an organisation that aims to increase the independence of people with disabilities, enabling them to live in the community.

Animal shelter campaign.
For the ninth consecutive year we organised the social media campaign #laiBigbankziedo (#letBigbankDonate) in Latvia. The purpose of the project is to raise public awareness of animal welfare and to support the Labās Mājas animal shelter. We invited Facebook and Instagram users to post pictures of themselves with their pets using the hashtag #laiBigbankziedo. For every picture posted, we donated one euro to the shelter. We raised 5,000 euros in 2023, which was donated to cover the heating costs of the shelter's nearly 1,000 square metre premises during the winter season.

Donation to animal shelters in Tartu and Tallinn.
In October all Bigbank's employees had the opportunity to take part in a donation project for animal shelters in Tartu and Tallinn. For two weeks, Bigbank employees filled donation boxes with food and other much needed products for the shelters. The Tartu animal shelter was established in 2006 and the Tallinn animal shelter in 2007. The aim of the shelters is to provide animals with a clean and healthy environment, as well as the opportunity to find a good home. Since opening, the shelters have helped more than 30,000 animals find homes.

Volunteering for Salvation Army fundraiser.
The Christmas Cauldron is an annual fundraiser organised by the Salvation Army in Finland to help families in need. Cauldron-shaped containers placed on streets have been a symbol of help throughout the nearly 130-year history of the Salvation Army and have become an important part of the Finnish Christmas tradition. Donations are collected all over Finland. In addition to money, people can donate clothes and toys. The staff of our Finnish branch contributed to the fundraiser by helping collect donations before Christmas.

Membership in organisations

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

Bigbank is a long-standing member of the Estonian Chamber of Commerce and Industry and FinanceEstonia. Bigbank is also a member of the Estonian Banking Association and actively participates in its working groups. The Group is also a member of the Estonian Association of Information Technology and Telecommunications, the Estonian Leasing Association and the Estonian Taxpayers' 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 T2 (the Trans-European Automated Real-time Gross Settlement Express Transfer system). Bigbank is an indirect member of the SEPA (Single Euro Payments Area) Credit Transfer and Instant Credit Transfer scheme.

Simplicity

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

Helis Evart
Money Laundering
Reporting Officer

Corporate governance report

Bigbank complies with the Corporate Governance Recommendations (CGR) promulgated by the Estonian Financial Supervision and Resolution Authority in accordance 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 supervision by 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 the Group's management, governance and reporting requirements. The Group's governing bodies are the general meeting, the supervisory board and the management board.

The following sections provide an overview of the governance of Bigbank AS and the guidance of the CGR that is currently not complied with together with the relevant explanations. Most of the explanations relate to the shareholder structure of Bigbank AS and the 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 recorded in the share register. Notice of a general meeting may also be given by post, electronically or by fax, provided that the letter or electronic or fax message contains a notice requiring immediate acknowledgment of receipt. The shareholders of Bigbank AS have the right to adopt decisions without calling a general meeting.

The shareholders held one annual general meeting and two extraordinary general meetings in 2023. Twelve decisions were adopted without calling a general meeting.

Bigbank AS does not comply with the article of the CGR that requires the notice of a general meeting to include the address to which shareholders may send questions regarding the agenda items (article 1.1.1). Bigbank AS also does not 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) together with the reasons for calling the general meeting and explanations of agenda items relating to significant changes (article 1.2.2), essential information relating to the agenda should be published on the corporate website (article 1.2.3), and the proposals of the supervisory board and shareholders relating to the agenda 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, one of whom is also a member of the supervisory board and is therefore kept informed of 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 it possible to follow a general meeting by means of communication equipment (article 1.3.3.), as all shareholders can vote electronically on items on the agenda.

Management board

The responsibilities of the management board are regulated by the articles of association of Bigbank AS, the Estonian Commercial Code and the Estonian Credit Institutions Act. The management board makes day-to-day management decisions, taking into account the best interests of the bank and the shareholders, and ensures that the company develops in a sustainable manner and in accordance with the goals and 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 on the basis of Bigbank AS's internal rules. When appointing 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 may be reappointed. The management board prepares the strategy and budget of Bigbank AS, which are submitted to the supervisory board for approval.

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

- **Martin Länts** – chairman of the management board
- **Mart Veskimägi** – member of the management board
- **Argo Kiltsmann** – member of the management board
- **Ingo Põder** – member of the management board
- **Ken Kanarik** – member of the management board

The members of the management board submit a declaration of economic interests on an annual basis. At 31 December 2023, 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 section *Principles of remuneration for members of the management board and employees* in this report. In 2023, 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 summary information on the remuneration of the members of the Group's management board in its annual report, and transactions with related parties are disclosed in note 36.

Supervisory board

The activities of the supervisory board of Bigbank AS are regulated by the articles of association of Bigbank AS, the Estonian Commercial Code and the Estonian Credit Institutions Act, 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 monitoring the activities of the management board of Bigbank AS. The supervisory board gives instructions to the management board regarding the organisation of the management of Bigbank AS and participates in the adoption of important decisions relating to the operation of Bigbank AS. The supervisory board, in cooperation with the management board, ensures the 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 their number.

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):

- **Sven Raba** – 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
- **Jaan Liitmäe** – member of the supervisory board

The supervisory board held six scheduled meetings in 2023 and on 15 occasions decisions were adopted electronically. All members of the supervisory board attended at least half of the meetings held in 2023.

The general meeting decides on the remuneration of the supervisory board. The remuneration of the members of the supervisory board consists of fixed basic remuneration. Bigbank AS does not consider 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, as 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 36.

One of the five members of the supervisory board of Bigbank AS is a shareholder, holding 50% of the shares. Bigbank believes 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 assured. Other members of the supervisory board are independent in accordance with article 3.2.2 of the CGR.

Audit committee

The audit committee is a functional body set up by the supervisory board to advise the supervisory board in matters relating 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. From 1 January 2023 to 30 July 2023, the members of the audit committee were Parvel Pruunsild and Raul Eamets. Since 1 August 2023, the audit committee has consisted of Vahur Voll as chairman and Sven Raba as member. The members of the audit committee are not remunerated.

The audit committee held six meetings in 2023.

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). Given 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 protect the interests of Bigbank AS in the best possible way. Their co-operation is based primarily on an open exchange of opinions between and on 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. In addition, the members of the management board are generally invited to other meetings of the supervisory board to discuss matters relating 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 informs the supervisory board of significant events relating to Bigbank AS's management and activities outside of meetings to ensure that the supervisory board receives all necessary and relevant information without delay. The management board provides the information that 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 follows 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 2023, because in selecting both managers and employees Bigbank is guided by the best interests of the Group. In selecting 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 takes into account, among other things, the candidate's education, qualifications and previous professional experience. The candidate's reputation, experience, competences and skills, management experience, other management-related criteria and other relevant known factors are also taken into account 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, primarily by e-mail. Bigbank AS makes its reports available on the corporate website. The Group's annual reports and interim reports are published in Estonian and English in accordance with the statutory deadlines.

In 2023, Bigbank published its financial calendar on the investors page of its website, listing the dates on which it publishes its annual and interim reports (CGR article 5.2.). In 2023, Bigbank AS did not publish on its website the answers to analysts' and shareholders' questions (CGR article 5.5.) or the dates of meetings with analysts and the press (CGR article 5.6.), as this is not necessary given the nature of the economic activities of Bigbank AS, the small number of the shareholders and the fact that the shareholders are well informed and that this does not restrict the shareholders' access to relevant information and the above events. Bigbank discloses information on meetings organised for investors (webinars) in its stock exchange announcements (CGR article 5.6.).

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 an annual report that has been signed by the members of the management board to the general meeting. 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.). The auditor of Bigbank AS does not attend the approval of the annual report (CGR article 6.1.1.) either.

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. KPMG Baltics OÜ (registry code 10096082) was appointed as the auditor of the Group based on the shareholders' resolution of 3 June 2020 to audit the Group's annual reports for the years 2020–2022. Based on the shareholders' resolution of 27 December 2022, the contract with KPMG Baltics OÜ was extended for the audit of the Group's annual report for 2023. 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 risk management and internal control system.

The Group's internal control system must ensure effective and efficient operations, prudent conduct of business, adequate identification, measurement and mitigation of risks, the reliability of financial and non-financial information reported both internally and externally, sound administrative and accounting procedures, compliance with laws, regulations, supervisory requirements and the Group's internal policies, processes, rules and decisions. The internal control system covers all consolidated entities, geographical locations and activities, and ensures that any breaches of policies, procedures or restrictions and the application of exemptions are reported in a timely manner to the appropriate level of management.

The primary objective of risk management is to protect the Group's financial strength. The Group controls risks to limit the impact of potential adverse events on the Group's capital, liquidity and financial results. The management board reports to the supervisory board on developments in the Group's risk exposure on a regular (at least quarterly) basis.

The Group uses the three lines of defence model, where the first line of defence is the business units and branches who are responsible for risk-taking and day-to-day risk management within their scope of responsibilities by establishing and implementing adequate procedures and controls and ensuring their effectiveness. Managers of all levels are responsible for the effectiveness of risk management and controls in their units, branches and areas. The second line of defence comprises the functions and units responsible for overseeing the Group's risk management to ensure that the first line of defence and controls have been properly developed and function as intended and that risks are managed and reported in accordance with requirements. The second line of defence includes the functions and units responsible for compliance, risk management and credit risk. The Group's internal audit unit provides independent assurance regarding the organisation as a whole and is the third line of defence.

The compliance function is responsible for overseeing that the Group would comply 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 function applies preventive measures (notifies, advises, checks, follows up) and reports directly to the management board, providing it with regular overviews of the Group's compliance risk.

The credit risk unit is part of the risk management function, which is responsible for managing credit risk throughout the lending process. It serves as a second line of defence in credit risk taking to ensure correct implementation of credit decisions, observance of decision-making powers, and the compliance of credit risk with the Group's risk appetite. The head of the credit risk unit reports regularly to the management board on the Group's credit risk profile and changes in risk levels.

The risk management function is responsible for developing and implementing the Group's risk management framework; assisting risk owners and management in developing processes and controls to manage and assess risks; facilitating and monitoring the implementation of risk management practices by risk owners; conducting independent risk identification, assessment, monitoring and reporting; providing guidance and training on risk management processes for raising risk awareness; and identifying risk-related issues. The risk management function provides the management board with regular quarterly overviews of the Group's risk profile in terms of material risks and changes in risk levels.

The Group's management board has set up a risk committee to support the management board in fulfilling its risk management responsibilities and to provide a forum to discuss, coordinate and agree on strategic issues related to operational risks, including information security and compliance risks. The committee comprises the representatives of the first and the second lines of defence to ensure proper representation and risk-related coordination and information exchange within the Group. The members of the risk committee are appointed and its rules of procedure are approved by the management board.

The objectives and principles of risk management are described in more detail in note 5.

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.

Credit committee

The credit committee is a functional body set up by the supervisory board to ensure that credit decisions are made in accordance with the Group's internal procedures and that the Group's lending activities are consistent with the Group's credit risk policy, credit risk limits, key risk indicators, risk appetite and credit strategy.

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, procedures regulating internal work arrangement, violations 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 employees' 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 the trends in the economic environment.

The remuneration provided by the Group consists of two parts:

- Fixed remuneration including:
    - the 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;
    - the 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, childbirth benefits etc.;
    - the benefits arising from local legislation or collective agreements.
- Variable remuneration including:
    - the 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;
    - the 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;

- the severance benefits paid upon the termination of the employment contract. Amounts exceeding the ones provided for by applicable local legislation must be proportionate 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 benefits, the appropriateness of the amount awarded and the criteria used to determine the amount, including that it is linked to the results achieved over time and that it does not reward failure or misconduct.

To ensure that the 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 function, the performance related pay is based on the achievement of the goals of their control activities 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 has not been considered 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.

The Group's remuneration policy includes 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, which relate 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 2023, the list included 29 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 the total annual remuneration may not exceed 100% of the annual fixed remuneration, which ensures carefully calculated risk-taking. If the variable remuneration exceeds 100% of the earned annual fixed remuneration, the requirements of the Estonian Credit Institutions Act will apply. The Group may decide not to pay all or part of the performance related pay, to reduce the performance related pay, or to demand full or partial repayment of the performance related pay, when the Group's results do not meet the target. The amount of the performance related pay depends on the Group's overall results and the achievement of the employee's personal goals for the year.

In 2023, the remuneration (excluding social security charges) provided to the material risk takers of the Group and its subsidiaries totalled 3.1 million euros, the figure consisting of fixed basic remuneration of 2.3 million euros and performance related pay of 0.8 million euros. Severance benefits were paid to one risk taker in the amount of 33 thousand euros during the financial year. Performance related pay allocated for performance in 2023 will be paid in cash and determined at the end of the first quarter of the following financial year. According to management's estimates the amount of relevant provisions made at 31 December 2023 is sufficient. At the year-end, there was no performance related pay awarded but not paid for performance in 2023.

Result-oriented

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

Targo Raus
Head of Business
Development Area

Consolidated financial statements

Consolidated statement of financial position

At 31 December (in millions of euros)	Note	2023	2022 restated*
Assets			
Cash balances at central banks	7	495.1	151.1
Due from other banks	7	23.6	22.3
Debt securities at FVOCI	8	15.4	19.2
Loans to customers	9, 10	1,665.7	1,359.4
Property, plant and equipment	11	9.4	18.3
Investment properties	12	49.1	35.5
Intangible assets	13	29.2	30.0
Current tax assets	31	0.4	0.4
Other assets	14	2.9	4.9
Assets held for sale	15	0.3	3.9
Total assets		**2,291.1**	**1,645.0**
Liabilities			
Loans from banks	16	8.9	9.2
Deposits from customers	17	1,937.4	1,367.8
Subordinated bonds	18	76.1	40.1
Current tax liabilities	31	3.0	0.4
Other liabilities	19	17.7	14.5
Liabilities related to assets held for sale	15	-	1.0
Total liabilities		**2,043.1**	**1,433.0**
Equity	21		
Paid-in share capital		8.0	8.0
Capital reserve		0.8	0.8
Other reserves		1.8	3.4
Retained earnings		237.4	199.8
Total equity		248.0	212.0
Total liabilities and equity		**2,291.1**	**1,645.0**

* Some prior period figures have been restated in connection with the correction of an error. For further information, please refer to note 4 to the consolidated financial statements.

The notes on pages 68 to 181 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

(in millions of euros)	Note	2023	2022 restated*
Continuing operations			
Interest income	24	140.9	95.6
Interest expense	25	-42.9	-13.2
Net interest income		**98.0**	**82.4**
Fee and commission income		8.5	7.7
Fee and commission expense		-0.3	-0.3
Net fee and commission income		**8.2**	**7.4**
Loss on sale of debt instruments at FVOCI		-0.1	-1.3
Net gain on financial assets at FVTPL		9.2	2.5
Net gain/loss on foreign exchange differences		0.1	-0.4
Net income on financial assets		**9.2**	**0.8**
Net loss on derecognition of non-financial assets		-1.4	-0.1
Other operating income	26	4.6	4.4
Other operating expenses	27	-6.8	-5.1
Total net operating income		**111.8**	**89.8**
Salaries and associated charges	28	-24.0	-21.3
Administrative expenses	29	-15.2	-17.0
Depreciation, amortisation and impairment	11, 13	-6.4	-3.6
Total operating expenses		**-45.6**	**-41.9**
Provision expenses		0.4	-0.1
Gain on change in the fair value of investment properties	12	3.4	4.5
Profit before loss allowances		**70.0**	**52.3**
Net loss allowances for loans and financial investments	10	-20.9	-15.5
Profit before income tax		**49.1**	**36.8**
Income tax	31	-7.7	-3.5
Profit for the year from continuing operations		**41.4**	**33.3**
Loss from discontinued operations	15	-0.6	-0.6
Profit for the year		**40.8**	**32.7**

The notes on pages 68 to 181 are an integral part of these consolidated financial statements.

(in millions of euros)	Note	2023	2022 restated*
Other comprehensive income	21	**1.2**	2.3
Other comprehensive income that may be reclassified subsequently to profit or loss:		0.5	-0.5
Exchange differences on translating foreign operations		-0.1	0.4
Changes in the fair value of debt instruments at FVOCI		0.6	-0.9
Other comprehensive income that will not be subsequently reclassified to profit or loss:		0.7	2.8
Revaluation of land and buildings		0.7	2.8
Total comprehensive income for the year		**42.0**	**35.0**
Basic earnings per share (EUR)	30	510	409
Diluted earnings per share (EUR)	30	510	409

* Some prior period figures have been restated due to the correction of errors (see note 4).

The notes on pages 68 to 181 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

(in millions of euros)	Note	2023	2022
Cash flows from operating activities			
Interest received		134.0	89.4
Interest paid		-11.2	-7.8
Salary, administrative and other expenses paid		-54.3	-52.0
Other income and fees received		15.7	20.4
Recoveries of receivables previously written off and proceeds from the sale of portfolio items		10.1	8.0
Received for other assets		1.1	0.3
Loans provided		-786.6	-857.0
Repayments of loans provided		472.0	384.2
Change in mandatory reserves with central banks and related interest receivables	7	-6.6	-4.4
Proceeds from customer deposits		1,677.2	1,155.9
Paid on redemption of deposits		-1,133.2	-684.2
Income tax paid		-4.8	-4.6
Effect of movements in exchange rates		-0.2	-
Net cash from operating activities		313.2	48.2
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets	11, 13	-4.0	-6.0
Proceeds from sale of assets held for sale		1.4	-
Acquisition of investment properties	13	-	-3.4
Proceeds from sale of investment properties		-	1.0
Change in term deposits		-	-0.1
Paid in connection with business combinations		-0.5	-
Acquisition of financial instruments	8	-	-7.7
Proceeds from redemption of financial instruments	8	4.4	31.9
Net cash from investing activities		1.3	15.7
Cash flows from financing activities			
Proceeds from issue of bonds	18	36.2	25.0
Interest paid on bonds	35	-5.3	-1.2
Loan repayments to a central bank		-	-36.3
Proceeds from loans from credit institutions	16	-	9.3
Repayments of loans from credit institutions	16	-0.3	-0.2
Payments of principal portion of lease liabilities	20, 35	-0.6	-0.8
Dividends paid	21, 30	-6.0	-6.0
Net cash from / used in financing activities		**24.0**	**-10.2**
Effect of movements in foreign exchange rates		0.1	-0.8
Increase in cash and cash equivalents		**338.6**	**52.9**
Cash and cash equivalents at beginning of year	7	164.7	111.8
Cash and cash equivalents at end of year	**7**	**503.3**	**164.7**

The notes on pages 68 to 181 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

(in millions of euros)	Attributable to equity holders of the parent				
	Share capital	Capital reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2022	8.0	0.8	1.1	173.5	183.4
Correction of an error (note 4)	-	-	-	-0.4	-0.4
Restated balance at 1 January 2022	8.0	0.8	1.1	173.1	183.0
Profit for the year, restated	**-**	**-**	**-**	**32.7**	**32.7**
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	0.4	-	0.4
Changes in the fair value of debt instruments at FVOCI	-	-	-0.9	-	-0.9
Revaluation of land and buildings	-	-	2.8	-	2.8
Total other comprehensive income	**-**	**-**	**2.3**	**-**	**2.3**
Total comprehensive income for the year	**-**	**-**	**2.3**	**32.7**	**35.0**
Dividend distribution	-	-	-	-6.0	-6.0
Total transactions with shareholders	**-**	**-**	**-**	**-6.0**	**-6.0**
Restated balance at 31 December 2022	**8.0**	**0.8**	**3.4**	**199.8**	**212.0**

Balance at 1 January 2023	**8.0**	**0.8**	**3.4**	**199.8**	**212.0**
Profit for the year	**-**	**-**	**-**	**40.8**	**40.8**
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	-0.1	-	-0.1
Changes in the fair value of debt instruments at FVOCI	-	-	0.6	-	0.6
Revaluation of land and buildings	-	-	-2.1	2.8	0.7
Total other comprehensive income	**-**	**-**	**-1.6**	**2.8**	**1.2**
Total comprehensive income for the year	**-**	**-**	**-1.6**	**43.6**	**42.0**
Dividend distribution	-	-	-	-6.0	-6.0
Total transactions with shareholders	**-**	**-**	**-**	**-6.0**	**-6.0**
Balance at 31 December 2023	**8.0**	**0.8**	**1.8**	**237.4**	**248.0**

For further information, please refer to note 21.

The notes on pages 68 to 181 are an integral part of these consolidated financial statements.

Courage

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

Mart Veskimägi
Head of Risk Area,
Member of the
Management Board

Notes to the consolidated financial statements

Contents of notes to the consolidated financial statements

Basis of preparation

Risk review and fair value

Assets

Liabilities and equity

Group composition

Performance for the year

Income tax

Other information

Accounting policies

Note 1. Reporting entity

Bigbank AS is a credit institution incorporated and domiciled in Estonia. The company's registered address is Riia 2, Tartu, Estonia. The consolidated financial statements comprise Bigbank AS (also referred to as the 'parent company'), its Latvian, Lithuanian, Finnish, Swedish and Bulgarian branches, and its Estonian and Latvian subsidiaries AS Baltijas Izaugsmes Grupa, OÜ Rüütli Majad and the subsidiaries of OÜ Rüütli Majad – OÜ Rüütli Property, OÜ Papiniidu Property, OÜ Pärnu mnt 153 Property, Palupera Põllud OÜ and Balti Võlgade Sissenõudmise Keskus OÜ (together referred to as the 'Group').

The Group's core business is providing loans and offering deposit services. The subsidiaries are involved in the management of real estate and agricultural land.

Note 2. Basis of preparation and statement of compliance

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 required to be presented under International Financial Reporting Standards as adopted by the European Union, the consolidated financial statements include the primary financial statements of the parent company (see note 40), which have to be presented in accordance with the Estonian Accounting Act, and capital ratios for regulatory purposes (see note 5), 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 AS Baltijas Izaugsmes Grupa, OÜ Rüütli Property, OÜ Papiniidu Property, OÜ Pärnu mnt 153 Property and Palupera Põllud 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. The parent company's primary financial statements are not separate financial statements as defined in IAS 27.

The management board of Bigbank AS prepared these consolidated financial statements and authorised them for issue on 28 February 2024. 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 (debt instruments at fair value through other comprehensive income (FVOCI), investment property, loans to customers measured at fair value through profit or loss (FVTPL), i.e. loans to customers with the features of a hybrid instrument, and transactions for the acquisition of agricultural land that grant the seller a repurchase option) are measured at fair value;
- land and buildings are measured using the revaluation model at fair value less any subsequent deprecation and impairment losses; and
- assets held for sale are measured at fair value less costs to sell.

Group entities apply uniform accounting policies. Material accounting policies applied in the preparation of these consolidated financial statements are set out in note 38.

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 40 *Primary financial statements of the parent.* The parent company's primary financial statements are prepared using the same accounting policies and measurement bases as those applied in the preparation of the consolidated financial statements except that in the parent company's primary financial statements investments in subsidiaries and associates are measured at cost.

Note 3. Significant accounting estimates and assumptions

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

Expected credit loss allowances

Management's estimates have the most significant effect on loss allowances for loans and interest receivables. The measurement of expected credit loss (ECL) allowances for financial assets measured at amortised cost and fair value through other comprehensive income (FVOCI) requires making significant estimates that involves determination of methodology, models and data inputs. Details of the ECL measurement methodology are disclosed in note 38 (see the section *Financial assets*) and note 5 (see the section

Credit risk), the sensitivity analysis is disclosed in note 5 (see the section *Sensitivity analysis of macroeconomic indicators*) and the loss allowances are disclosed in notes 9 and 10. The following factors have a major impact on expected credit loss allowances: definition of default, criteria for a significant increase in credit risk, probability of default (PD), exposure at default (EAD), loss given default (LGD), grouping of similar financial assets for the purpose of measuring ECL, and models of macroeconomic scenarios. The Group regularly reviews and validates the models and inputs to the models to reduce the differences between expected credit loss estimates and actual credit loss experience. The Group uses supportable forward looking information to measure ECL, primarily the outcomes of its own macroeconomic forecasting model.

Loans to customers at fair value through profit or loss

The Group classifies loans to customers with the features of a hybrid instrument and transactions for the acquisition of agricultural land that grant the seller a repurchase option as instruments measured at fair value through profit or loss (FVTPL). Loans with the features of a hybrid instrument include the host (non-derivative) component and the component of the underlying asset. The objective of a hybrid instrument is to collect cash flows consisting of principal and interest payments as well as potential additional cash flows from the gain on the sale of the underlying asset at the end of the contract term. Transactions for the acquisition of agricultural land are financial instruments whose contractual cash flows are inconsistent with the criteria for basic lending arrangements and which include options: instead of repaying the loan the seller may decide to waive the rights to the property put up as collateral in which case the Group will lose the rights to the contractual cash flows of the instrument and will acquire the property. Due to their business model and cash flows, loans with the features of a hybrid instrument and transactions for the acquisition of agricultural land that grant the seller a repurchase option do not meet the 'solely payments of principal and interest' (SPPI) requirement and do not qualify as instruments held for sale. Accordingly, they are not measured at amortised cost or at FVOCI, and management classifies them as financial assets at FVTPL (see notes 6, 9 and 38).

The fair value of loan receivables (loans to customers) measured at FVTPL is influenced by the market interest rate applied in discounting, which is found using a model that uses as inputs both market data on instruments with similar currency, maturity, interest rate, credit risk and other characteristics and the Group's internal data (see note 6). The differences (day 1 gains or losses), which may arise at initial recognition between the fair value of an instrument and the amount determined using a valuation technique, also depend on the market interest rate applied. The differences are deferred and recognised in profit or loss on a straight-line basis over the terms of the contracts. The deferred day 1 net gain as at the reporting date was 4.6 million euros (31 December 2022: 7.3 million euros). At the reporting date, the market interest rate applied in the valuation technique was 5.55% (31 December 2022: 4.14%). If the market interest rate changed by +/- 1 percentage points, the resulting effect of the change in fair value would be -/+ 1.5 million euros (2022: -1.9 million/+2.0 million euros).

A factor that also affects the fair value of loans with the features of a hybrid instrument is the value of the underlying asset. The fair value of underlying assets is measured annually by real estate experts. An increase in the value of an underlying asset is taken into account in determining the instrument's future cash flows, which are discounted to present value using the market interest rate. If the market value of the underlying assets had been 10% higher or lower, the change in the value of the assets during the reporting period would have been approximately +3.8/-3.5 million euros (2022: +3.4 million/-2.6 million euros), respectively.

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 38). 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 6).

The fair values of land and buildings (see notes 6 and 38) are based on a valuation report issued by a real estate appraiser.

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 38 and notes 6 and 12).

Intangible assets

The carrying amounts of intangible assets are identified by applying internally established amortisation rates. The amortisation rate is determined by reference to the estimated useful life of intangible assets (see the section *Intangible assets* in note 38), which is five 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 the 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, the discount rates to be applied and the expected period of benefits. Previously, management estimated that the period during which Nest is expected to generate economic benefits (useful life) is 15 years. In 2023, management reviewed the period of expected benefits and concluded that it is five years similar to other software. The estimate takes into account market practice, rapid development of information technology, and the fact that in the first years of Nest's development the core system was created. In subsequent periods, the share of the core system in the overall development activities has decreased while the share of specialised and more quickly changing business software developments has increased. Accordingly, management came to the conclusion that the useful life of all current and future developments is five years and changed the amortisation rates prospectively.

If the asset's period of benefits were still 15 years, the carrying amount of intangible assets at the reporting date would be 31.3 million euros (7% higher) and amortisation expense for 2023 would be 2.8 million euros (43% smaller).

Tax treatments

Since the Group operates in a complex multinational environment, management considered whether the Group 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) will 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.

Material accounting policies

The Group started to disclose its accounting policy information in accordance with amendments to IAS 1 and IFRS Practice Statement 2 as from 1 January 2023. Although this did not result in any changes in accounting policies, it affected the Group's accounting policy disclosures.

The amendments require the disclosure of material accounting policies instead of the previously required significant accounting policies. The amendments also provide guidance on the application of the concept of materiality in the disclosure of accounting policies, enabling companies to provide useful and entity-specific accounting policy information, which, together with other information presented in the financial statements, would be understandable for the primary users of the financial statements.

Management reviewed the accounting policy information and updated some of the information disclosed in note 38 in accordance with the amendments.

Note 4. Correction of errors

In 2023, management analysed the contracts related to the acquisition of agricultural land and concluded that contracts with repurchase rights have to be classified as loans to customers (loan receivables), not as investment properties. The items constitute financial instruments to be classified as financial assets at FVTPL (measured at fair value through profit or loss) because their contractual cash flows do not pass the SPPI (solely payments of principal and interest) test: a) the contractual cash flows of the instruments are inconsistent with the criteria for basic lending arrangements – for example, their interest does not reflect the usual market interest rate because it includes more than the consideration for the time value of money, credit risk, other basic lending risks and a profit margin; and b) the instruments include options: instead of repaying the loan the seller may decide to waive the rights to the property put up as collateral in which case the Group will lose the rights to the contractual cash flows of the instrument and will acquire the property.

In addition, management reviewed the accounting policies for loans to customers (loan receivables) measured at FVTPL and the valuation technique used to measure their fair value. Fair value is measured using a valuation technique, whereby the present value of an instrument is found by discounting all expected future cash flows at prevailing market interest rates, calculated using a model, which uses as inputs both market data on instruments with similar currency, maturity, interest rate, credit risk and other characteristics and the Group's internal data. In connection with the changes made to the valuation technique that was used to measure fair value, the Group retrospectively adjusted its consolidated financial statements for the prior period for the day 1 gain or loss arising at the initial recognition of financial instruments and for the effect of the market interest rates at the reporting dates.

As a result of the corrections, in the closing balances as at 31 December 2022 investment properties were reduced by 11.0 million euros, loans to customers were increased by 9.6 million euros and the effect on retained earnings was -1.4 million euros. In addition, one loan receivable of 0.8 million euros that was measured at amortised cost was reclassified to the category of measured at FVTPL. In the opening balances at 1 January 2022, investment properties were reduced by 5.9 million euros, loans to customers were increased by 5.5 million euros and the effect on retained earnings was 0.4 million euros. Overall, profit for 2022 decreased by 1.0 million euros (see the table containing the consolidated statement of comprehensive income in this note) and profit for 2021 decreased by 0.4 million euros.

The effect of the corrections on prior periods was estimated to be immaterial. Therefore, the Group has not presented the restated opening balances for the prior period in its consolidated statement of financial position.

(in millions of euros)

The errors were corrected by restating line items in the consolidated financial statements as follows:

Consolidated statement of financial position at 31 December 2022

	Previously reported	Correction	Restated
Assets			
Loans to customers	1,349.8	9.6	1,359.4
Of which measured at amortised cost	1,310.4	-0.8	1,309.6
Of which measured at FVTPL	39.4	10.4	49.8
Investment properties	46.5	-11.0	35.5
Total assets	**1,646.4**	**-1.4**	**1,645.0**
Equity			
Retained earnings	201.2	-1.4	199.8
Total equity	**213.4**	**-1.4**	**212.0**
Total liabilities and equity	**1,646.4**	**-1.4**	**1,645.0**

Consolidated statement of financial position at 1 January 2022

	Previously reported	Correction	Restated
Assets			
Loans to customers	893.5	5.5	899.0
Of which measured at amortised cost	893.5	-	893.5
Of which measured at FVTPL	-	5.5	5.5
Investment properties	41.6	-5.9	35.7
Total assets	**1,148.4**	**-0.4**	**1,148.0**
Equity			
Retained earnings	173.5	-0.4	173.1
Total equity	**183.3**	**-0.4**	**182.9**
Total liabilities and equity	**1,148.4**	**-0.4**	**1,148.0**

(in millions of euros)

Consolidated statement of comprehensive income

	Previously reported	Correction	2022 Restated
Interest income	96.5	-0.9	95.6
Net gain on financial assets at FVTPL	0.9	1.6	2.5
Gain on change in the fair value of investment properties	6.2	-1.7	4.5
Profit for the year	**33.7**	**-1.0**	**32.7**
Total comprehensive income for the year	**36.0**	**-1.0**	**35.0**
Basic earnings per share (EUR)	422	-13	409
Diluted earnings per share (EUR)	422	-13	409

Note 5. 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 strategy for risk and capital management is based on the following principles:

- **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 the Group's overall risk exposure, 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 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 risks 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. The Group avoids risk profiles which increase such risks.
- **Reliable structure of the statement of financial position and the level of leverage.** The Group is required to maintain a structure of the statement of financial position which supports a strong liquidity position and adequate capitalisation and helps avoid excessive leverage. The Group assesses carefully any change in risk appetite that may have a material impact on the structure of the statement of financial position or the level of leverage.
- **Financial strength and stability.** The main objective of risk management is to safeguard the financial strength of the Group. The Group controls risks to limit the impact of potential adverse events on the Group's capital, liquidity and financial results.

The Group's risk management principles 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 and risk management supports business activities and decision making, ensuring that the is as clear information as possible about the risk and reward ratio of different choices. Risk management is an integral part of the process of making strategic and daily business decisions. The goal of risk management is 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 the 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 adequacy 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 Group's 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.

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 strong 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 tolerance.

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. The 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 aware that they will be held accountable for their actions in relation to the Group's risk-taking behaviour.

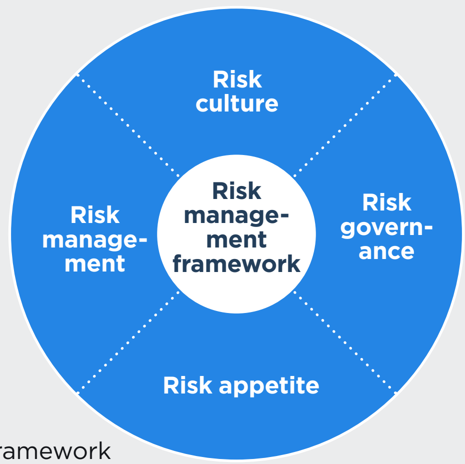


Figure. Risk management framework

- **Effective communication and challenge –** a sound risk culture helps promote an environment of open communication 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 Group.
- **Incentives –** appropriate incentives play a key role in aligning risk-taking behaviour with the Group's risk profile and its long-term interests.

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.

The 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 an 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.

Figure. The three lines of defence model

The 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 and functioning as intended and risks are properly managed.

The third line of defence is the internal audit unit, which provides independent assurance, reviews 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's risk management decisions are made at three main levels:

1) the supervisory board;

2) the management board;

3) credit committees.

Based on decisions made at these levels and the authorities granted, operational decisions are made by risk owners and operational units. The Group keeps the 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 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 and its sub-committees (country-level credit committees). In addition, smaller loans are issued by applying simplified decision-making powers and automated decision-making models. The Group's credit committee is a body that makes decisions at the highest level, oversees sub-committees and adopts lending decisions on credit limits exceeding 3 million euros. The members of the Group's credit committee are appointed by the supervisory board, and the members of sub-committees are appointed by the Group's credit committee.

The purpose of the operational, ICT and information security risk committee, which is established at the management board level, is to support the management board in managing operational risk (including information security and compliance risk): the committee discusses strategic issues specific to those 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.

At the level of the supervisory board, the role of the risk committee is fulfilled by the audit committee.

Risk appetite

Risk appetite expresses the level of aggregated risks that the Group is willing to take according to its business model and within its risk tolerance in order to achieve strategic 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 it is reviewed regularly.

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 inherently related to 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.

Figure. Elements of risk appetite

- **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 without breaching regulatory constraints and its obligations to stakeholders.

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

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

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

Risk measurement. The risk management function 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 the 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 assess the impact of various factors on the risk profile and respective capital needs. Stress testing is integrated into 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 annually or more frequently and results are reported to the management board and supervisory board.

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 regulation. The Group has a system of risk indicators (including escalation levels) in place, addressing all identified material risk categories and regular monitoring of key financial and non-financial risk indicators to identify changes in the Group's financial conditions and risk profile.

Risk control. A significant part of risk management is risk control – the framework of internal procedures, processes and limits. Internal rules and regulations are required for proper risk management and meeting the minimum regulatory requirements. All identified material risks and related processes are covered with internal rules, limits and the control system. All internal regulations are consistent with 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 function, branch and subsidiary is fully responsible for compliance with local regulations in their area of responsibility or country of operation. 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 annually.

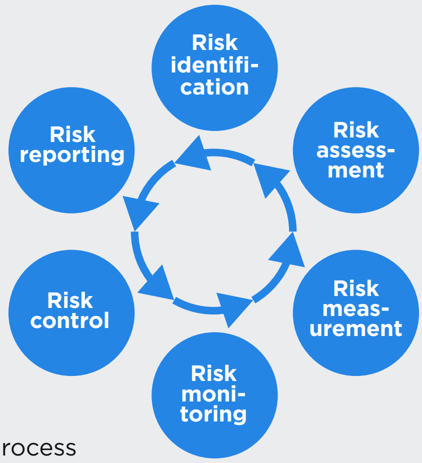


Figure. Risk management process

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

Risk appetite and Target risk profile

The target risk profile (the risk profile the Group wishes to maintain) is based on the risk appetite and provides an overview of 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 target risk profile describes the nature and level of each material risk identified. Determining 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 risk appetite (1)** – Focuses on capital and liquidity preservation and stability. Prefers conservative strategies with minimal risk exposure, emphasising rigorous risk management, compliance and stability to minimise exposure to potential losses over high returns.
- **Moderate risk appetite (2)** – Aims for balanced returns with moderate risk. Adopts a cautious approach, balancing safety with some growth opportunities, and maintains flexibility in risk management. Manages risks through well-established but adaptable frameworks. Strategically, the focus is on steady and somewhat competitive markets, with an inclination towards reliable and tested approaches.
- **Above average risk appetite (3)** – Prioritises capital growth, accepting higher risks for greater returns. Open to innovative strategies and exploring opportunities to enter rapidly developing markets, balancing risk with potential growth. Welcomes challenges associated with uncharted territories or new business models. Strategically, the emphasis is on dynamic markets and proactive growth strategies, willing to venture into less predictable but potentially more rewarding areas.
- **High risk appetite (4)** – Targets maximum returns, embracing substantial risks. Engages in bold strategies and ventures into speculative markets, prioritising high rewards despite high risk levels. Strategic decisions are often bold and ambitious, targeting highly speculative areas or rapid market shifts, where the potential for high rewards justifies the substantial risks.

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 will not be able or willing to discharge its contractual obligations and the bank will incur a credit loss. 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. The ECL estimates are divided into four groups: low, moderate, above average and high risk. While the Group's overall credit risk appetite is moderate (with ECL between 0.5% and 2.0%), its risk appetite in the sub-profiles of the loan portfolio may be low to high, depending on the Group's strategic objectives.

The Group has identified the following sub-risks of credit risk of the loan portfolio:

- **Default risk** – the risk that a borrower fails to meet its financial obligations to the Group.
- **Exposure risk** – the risk of potential losses under worst-case scenario what the Group might incur if a borrower defaults on its financial obligations to the Group.
- **Concentration risk** – the risk resulting from a large risk exposure to a counterparty or related counterparties or risk exposures where risk is affected by a common risk factor or when there is a strong positive correlation between risks.
- **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).
- **Recovery and collateral risk** – the risk that actual recovery after a borrower's default is lower than expected at the loan origination.

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 from payment solutions supporting the Group's main activities.

The risk is managed through 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. Finance units are the first line of defence in managing money market credit risk. The second line of defence is the risk management function.

The credit risk of the bond portfolio arises from the Group's 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 units are the first line of defence in managing the credit risk of the bond portfolio. The second line of defence is the risk management function.

Default risk

The Group measures default risk using the 12-month probability of default. For customer segments for which sufficient statistical data are available, the probability of default is estimated using statistical models. Models are updated as necessary, but at least once a year. For customer segments where sufficient statistical data are not available, the probability of default is estimated using models based on estimates of experts. The Group has set a probability of default cap, which cannot be exceeded in the issuance of loans. In addition to loan applicants, the Group has set probability of default caps for loan portfolios financed through cooperation partners.

In providing credit, the Group focuses only on creditworthy individuals and companies whose solvency can be adequately assessed. The Group observes responsible lending principles making sure that the borrower's income is sufficient to meet their financial obligations before issuing a loan. When granting corporate loans, the Group considers the applicant's solvency, which is analysed and assessed separately for each loan applicant. In the case of related customers, the Group also considers the consolidated solvency of the group of companies in addition to the solvency of the borrower. The loan analysis uses both the information provided by the customer and the data obtained from public databases and registers.

The Group makes sure that its operations do not breach good banking practice or ethical, environmental and legal standards and principles. The Group does not enter into transactions with counterparties that have questionable integrity or are involved in unethical business activities.

Exposure risk

Exposure at default (EAD) is the counterparty's expected loan amount, together with interest and other receivables, at the time of default. In consumer lending, the Group focuses on a well-diversified portfolio, avoiding a significant amount of unsecured lending to a single customer. In the case of consumer and home loans, the exposure at default risk is mostly limited to the obligations set out in the repayment schedule, but in the case of credit cards, the Group accounts for an increase in the amount of credit used after the default. Regarding corporate customers, the Group is prepared to lend larger amounts to a single customer or a group of customers if the loan is secured by real estate. In the case of lending larger amounts, the Group ensures that the loan is linked to several separate projects with independent sources of repayment. The Group does not extend irrevocable credit facilities to corporate customers. Before each additional loan disbursement, the Group verifies the borrower's compliance with the contractual terms and conditions, and no additional loans are issued to borrowers in financial difficulty.

Concentration risk

The Group monitors the concentration of exposures in terms of counterparties, related counterparties, credit products, industries and countries of operation. The Group's strategy for mitigating the concentration risk of the loan portfolio is to avoid a significant impact of the default of any single counterparty or a group of related counterparties by maintaining a well-diversified loan portfolio.

High concentration of risk is defined as exposure to a single customer or a group of related customers that equals or exceeds 10% of the Group's Tier 1 capital. At 31 December 2023, the Group had such exposures to 10 customer groups in the total amount of 258.2 million euros (31 December 2022: 10 customer groups and 242.4 million euros). For information about the Group's own funds, please refer to the section *Own funds and capital.* In addition, the Group monitors concentration risk through the application of risk limits as described in the section *Credit risk limits.*

Country risk

The Group's strategy is to have a well-balanced portfolio across the countries of operation. The Group focuses in its lending activities on countries where it has in-depth economic and legal knowledge as well as long-term experience and sufficient local competence. At 31 December 2023, the maximum share of any such single country was capped at 55% of the total loan portfolio. A lower cap was set for countries where local expertise or experience was not yet sufficient to extend loans in a larger volume.

Recovery and collateral risk

The Group issues unsecured consumer loans whose recovery risk is measured by reference to loss given default (LGD). LGD values are derived on a country basis from the historical loss data and forward-flow prices. Housing loans and the majority of corporate loans are issued against real estate collateral, where the collateral risk is measured as the ratio of the loan to the market value of the collateral (loan to value, LTV). The Group accepts residential and commercial real estate as well as agricultural and forest land as collateral. Housing loans are partly collateralised also by state guarantees. The leasing portfolio is backed by the leased assets, mainly vehicles, forestry machinery and agricultural equipment. 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 collateral risk and selects the type and amount of credit so that credit risk hedging is not limited to the claim for the collateral and the cash flow resulting from its realisation. The Group monitors the impact of fluctuations in the market value of collateral.

Collateral risk is managed by applying the following risk mitigation methods.

- The Group considers mortgage of the first ranking entered in the land register as acceptable real estate collateral. The 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 value of the property.

(in millions of euros)

- The sufficiency and value of acceptable real estate or other collateral are determined based on its present 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 a written valuation report has been 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. Agricultural and forest land is valued by the Group, if necessary, using internal valuation methods. The market values of collateral assets are revalued at least once a year.
- Larger corporate loans are subject to contractual covenants related to the customer's financial position and the collateral.
- In making financing decisions, the Group does not rely only on collateral but primarily on the counterparty's ability to service the loan with their cash flows or income. Limits have been established for the maximum amounts and loan-to-value ratios of loans secured by real estate. The limits take into account the condition and location of the property.
- The Group does not delay the realisation of collateral merely because the Group has a strong collateral position. Appropriate recovery measures are initiated immediately when it becomes likely that the borrower will be unable or unwilling to repay the loan in full under the agreed terms.

The table provides an overview of over- and under-collateralised loans by type of collateral. Consumer loans are generally issued without collateral.

Loans and loan collateral at 31 December 2023

	Over-collateralised loans		Under-collateralised loans		Total	
	Carrying amount	Fair value of collateral	Carrying amount	Fair value of collateral	Carrying amount	Fair value of collateral
Unsecured loans	-	-	641.8	-	641.8	-
Loans secured by real estate	918.2	1,570.3	2.0	1.5	920.2	1,571.8
Loans against other collateral	58.0	98.3	58.5	39.8	116.5	138.1
Total					**1,678.5**	**1,709.9**

(in millions of euros)

Loans and loan collateral at 31 December 2022, restated

	Over-collateralised loans		Under-collateralised loans		Total	
	Carrying amount	Fair value of collateral	Carrying amount	Fair value of collateral	Carrying amount	Fair value of collateral
Unsecured loans	-	-	609.0	-	609.0	-
Loans secured by real estate	673.4	1,212.4	17.6	10.5	691.0	1,222.9
Loans against other collateral	39.7	87.0	27.3	18.9	67.0	105.9
Total					**1,367.0**	**1,328.8**

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. When setting risk limits and thresholds for key risk indicators, the Group considers not only its strategic objectives but also the expected quality of the loan portfolio and the results of stress tests.

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 the country level. The quality of the loan portfolio in each country is monitored by the country-level credit risk manager who arranges for precautionary measures to be taken as appropriate.

The loan analysis, solvency and collateral assessment, and the decision-making powers of credit committees are specified in the procedures approved by the Group'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 consistent with the limits established by the Group's supervisory board and management board. The Group takes environmental, social and governance factors into account in its lending and decision-making policies.

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 plots of 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 the loan analysis 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. Proper adherence to internal processes and the decision-making authorities by the employees is regularly monitored by the internal credit controller.

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

- 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 by low-risk assets (e.g. forest or agricultural land).
- Credit risk is managed centrally at Group level. In setting appropriate credit limits and indicators, the Group relies on the expertise of the branches and local credit risk managers but the branches do not have authority to set country-level limits or indicators.
- Risk appetite for individual products is clearly defined on a country-by-country basis. The compliance of the actual results with the established risk limits and indicators is regularly monitored and reported to the Group's management board and supervisory board.

- The Group has set a probability of default cap which cannot be exceeded in the issuance of loans.
- The Group's objective is to diversify the credit portfolio so that in the case of adverse events no part of the credit portfolio would jeopardise the sustainability of the entire Group.
- Credit limits above 500,000 euros are considered material and are subject to increased monitoring.

The Group manages its past due portfolio by selling past due items to third parties both under forward-flow agreements and through one-off transactions. The past due portfolio is sold only if the sale is economically beneficial to the Group. In 2023, there was no improvement in the terms of sale compared with 2022 and the volume of the sold past due portfolio was 15.3 million euros (2022: 16.7 million euros). The unsold past due portfolio is managed in-house by the Group, with the necessary processes and team in place in each country where loans are issued. The Group is consistently developing its debt management processes and IT systems.

Credit risk limits

The green (target) level of credit risk limits and key risk indicators is expected to ensure the achievement of the Group's strategic equity target. If the level is red, the Group will not achieve its strategic equity target in material respects but the level does not exceed the Group's risk capacity. The yellow level provides sufficient time to bring the indicators back to the target level before the red level is reached.

The Group has established the following credit risk limits and key risk indicators:

- the 12-month probability of default, loss given default (LGD) and credit loss for unsecured consumer loans;
- the maximum loan-to-value (LTV) ratio for loans secured by real estate both by new loans issued over a period of one month and by portfolio;
- realised default rate by business line;
- concentration risk limits for a single counterparty, a group of related counterparties and a country;
- Herfindahl-Hirschman Index to determine exposure to a counterparty and sector;
- the share of the past due portfolio in the total loan portfolio and in the unsecured consumer loan portfolio;
- net increase in the past due unsecured consumer loan portfolio in euros;
- total portfolio credit loss;
- the maximum unsecured portion of a loan;
- the maximum loan term and amount by credit product;
- the 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. Breaches of credit risk limits and key risk indicators at country level must be immediately reported to the country-level credit committee, which will approve the actions for bringing the risk exposure to the target level. Breaches of credit risk limits and key risk indicators at Group level must be immediately reported to the management board together with an action plan for bringing the risk exposure to the target 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 the exposures of the Group's total loan portfolio, the credit risk function 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 and rating models. A customer's credit rating is embedded in the Group's risk management system and 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, which 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, considering 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 annually or whenever there is reason to believe that the borrower's credit risk has changed. The ratings of receivables are updated whenever there is a significant change in the borrower's credit risk.

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.

(in millions of euros)

- **Weak.** The customer has clearly identifiable economic weaknesses. The customer is making payments but there may be defaults of up to 90 days, which is why the receivable may need to be restructured. The customer's credit risk is above average.
- **Inadequate.** Non-performing loans, which are more than 90 days past due or have undergone restructuring without which the customer would have defaulted, or the contract has been terminated. 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; the customer has been declared bankrupt.

Loan portfolio by internal rating classes

At 31 December	2023	2022 restated
Loans at amortised cost		
Very good	944.5	786.3
Satisfactory	457.0	376.6
Weak	174.5	130.9
Inadequate	43.3	22.8
Irrecoverable	1.3	0.6
Total	**1,620.6**	**1,317.2**
Loans at FVTPL		
Very good	9.6	12.0
Satisfactory	15.5	13.6
Weak	32.8	24.2
Total	57.9	49.8
Total loans to customers	**1,678.5**	**1,367.0**

Breakdown of loss allowances

The methodology for the recognition of loss allowances is described in more detail in note 38.

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 recognised loss allowances, which at 31 December 2023 totalled 34.9 million euros and accounted for 2.2% of the total loan portfolio (31 December 2022: 25.6 million euros, i.e. 1.9%). The Group's loans to customers grew the most in the corporate loan and housing loan segments. As these exposures are collateralised by real estate, the increase in loss allowances was small compared to the growth in outstanding loans. Further information on loss allowances is provided in note 10.

(in millions of euros)

Loans whose interest and/or principal receivable exceeds 100 euros for retail loans and 500 euros for other loans and which are past due for more than 90 days break down as follows:

Loss allowances by past due status at 31 December 2023

Loans at amortised cost

	Loan receivable	Loss allowance	Risk exposure
Loan portfolio not past due	1,513.8	-12.0	1,501.8
Loan portfolio past due	106.8	-22.9	83.9
Total	**1,620.6**	**-34.9**	**1,585.7**
Past due portfolio according to days past due:			
Up to 30 days	54.4	-3.0	51.4
31–60 days	15.7	-3.4	12.3
61–90 days	6.2	-2.1	4.1
Over 90 days	30.5	-14.4	16.1
Total past due portfolio	**106.8**	**-22.9**	**83.9**

Loans at FVTPL

	Loan receivable	Risk exposure
Loan portfolio not past due	57.9	57.9
Total	**57.9**	**57.9**

Loss allowances by past due status at 31 December 2022, restated

Loans at amortised cost

	Loan receivable	Loss allowance	Risk exposure
Loan portfolio not past due	1,253.9	-10.1	1,243.8
Loan portfolio past due	63.3	-15.5	47.8
Total	**1,317.2**	**-25.6**	**1,291.6**
Past due portfolio according to days past due:			
Up to 30 days	33.9	-2.7	31.2
31–60 days	9.3	-3.1	6.2
61–90 days	5.5	-2.3	3.2
Over 90 days	14.6	-7.4	7.2
Total past due portfolio	**63.3**	**-15.5**	**47.8**

(in millions of euros)

Loans at FVTPL

	Loan receivable	Risk exposure
Loan portfolio not past due	49.8	49.8
Total	**49.8**	**49.8**

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. For each country, the Group uses macroeconomic projections of the respective national central bank. 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 macroeconomic scenarios

	2023	2022
Baseline scenario	70%	70%
Adverse scenario	15%	20%
Mild scenario	15%	10%

Macroeconomic scenarios are renewed at least annually. The key macroeconomic indicators which are used in the calculation of the forward-looking component are GDP growth, inflation and the unemployment rate and the same indicators with a lag. The models in use at 31 December 2023 included the 6-month lagged GDP growth indicator, GDP growth and the unemployment rate, determined by reference to statistical analyses and the estimates of experts. Compared to 2022, the unemployment rates in the scenarios for Estonia, Finland and Sweden have been replaced by the GDP change because the correlation between the GDP change and the default rate is higher than that between the unemployment rate and the default rate.

Forecast macroeconomic indicators at 31 December 2023

	2023	2024	2025
Estonia – GDP change with a 6 month lag			
Baseline scenario	1.4%	-0.4%	2.7%
Adverse scenario	0.9%	-1.7%	0.5%
Mild scenario	1.6%	1.3%	5.6%
Latvia – Unemployment rate			
Baseline scenario	6.4%	6.2%	6.2%
Adverse scenario	6.8%	7.4%	7.4%
Mild scenario	6.0%	5.0%	5.0%

(in millions of euros)

	2023	2024	2025
Lithuania – Unemployment rate			
Baseline scenario	6.7%	6.5%	6.9%
Adverse scenario	7.2%	7.8%	8.3%
Mild scenario	6.2%	5.2%	5.5%
Finland – GDP change			
Baseline scenario	-0.4%	0.9%	1.5%
Adverse scenario	-1.3%	-0.9%	-1.2%
Mild scenario	0.1%	3.8%	4.4%
Sweden – GDP change			
Baseline scenario	-0.6%	-0.1%	2.1%
Adverse scenario	-1.5%	-1.9%	-0.6%
Mild scenario	-0.1%	2.8%	5.0%

Forecast macroeconomic indicators at 31 December 2022

	2022	2023	2024
Estonia – Unemployment rate			
Baseline scenario	5.3%	6.8%	6.8%
Adverse scenario	5.6%	8.3%	8.7%
Mild scenario	5.1%	5.3%	4.9%
Latvia – Unemployment rate			
Baseline scenario	7.2%	7.2%	6.6%
Adverse scenario	7.5%	8.8%	8.4%
Mild scenario	6.9%	5.6%	4.7%
Lithuania – Unemployment rate			
Baseline scenario	7.2%	7.3%	7.0%
Adverse scenario	7.5%	8.9%	9.0%
Mild scenario	6.9%	5.7%	5.0%
Finland - Unemployment rate			
Baseline scenario	6.4%	6.6%	6.7%
Adverse scenario	6.7%	8.1%	8.6%
Mild scenario	6.1%	5.1%	4.8%
Sweden - Unemployment rate			
Baseline scenario	7.7%	7.1%	7.2%
Adverse scenario	8.0%	8.7%	9.2%
Mild scenario	7.3%	5.5%	5.2%

The macroeconomic scenarios for Bulgaria have not been presented as the Bulgarian portfolio is not material.

(in millions of euros)

Sensitivity analysis of macroeconomic indicators

When macroeconomic indicators deteriorate, i.e. in the case of the adverse scenario, expected credit loss allowances increase. In the case of the baseline scenario and 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 2023 would decrease by 0.03%. On the realisation of the adverse scenario, expected credit loss allowances at 31 December 2023 would increase by 2.4% and on the realisation of the mild scenario, expected credit loss allowances would decrease by 2.3%.

	2003		2002	
	ECL allowances resulting from 100% scenario	Difference from weighted ECL allowances, %	ECL allowances resulting from 100% scenario	Difference from weighted ECL allowances, %
Baseline scenario	37.8	0.0%	25.2	-1.8%
Adverse scenario	38.7	2.4%	28.2	10.0%
Mild scenario	36.9	-2.3%	23.3	-9.2%

Credit risk stress testing

Credit risk stress testing is part of the Group's risk management framework and capital adequacy assessment process, which allows assessing the potential impact of relevant business and strategic decisions. 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 housing loans. The Monte Carlo simulation method is used to stress test 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 housing 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. The results are approved by the management board and reported to the supervisory board.

Effects of Russia's war against Ukraine

Russia's war against Ukraine, which started in February 2022, has had no direct impact on the quality of the Group's loan portfolio as the Group has not financed private individuals or companies that are residents of Russia, Belarus or Ukraine. The Group's corporate customers do not include companies that are dependent on the export or import of products or services to and from those countries. The Group monitors closely the escalation of potential risks (e.g. rising energy and commodity prices) and is ready to take immediate preventive measures to mitigate credit risk.

(in millions of euros)

Cash and bank balances by the banks' credit ratings

According to management's assessment, the exposures of cash and cash equivalents held at central banks and other banks have 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 with 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 2023 and 2022, 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 three months or less. 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 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	2023	2022
P-1	505.4	164.4
P-2	13.1	8.8
Without a rating	0.2	0.2
Total	**518.7**	**173.4**

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

Cash balances with the central banks in the amount of 495.1 million euros, including mandatory reserve deposits, have low credit risk and have therefore been assigned the rating P-1.

(in millions of euros)

Debt instruments at FVOCI by ratings

Debt instruments at FVOCI (see note 8), based on Moody's Investors Service ratings or their equivalents, are as follows:

At 31 December	2023	2022
Aaa–Aa3	5.4	5.2
A1–A3	8.7	11.1
Baa1–Baa3	1.3	2.9
Total	**15.4**	**19.2**

Exposure to counterparty credit risk

Counterparty risk arises in the cases where a counterparty in a foreign exchange, 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, i.e. 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 risk at 31 December 2023 and 2022.

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 currency risk (foreign exchange risk) IRRBB (interest rate risk arising from the banking book, i.e. interest rate risk arising from non-trading book activities) 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 2023 and 2022.

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

IRRBB is the current and prospective risk of a negative impact on the Group's economic value of equity, or on the Group's net interest income due to adverse movements in interest rates affecting interest rate sensitive instruments, including gap risk, basis risk and option risk. In managing the risk, the Group considers, where necessary, the changes in market value.

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 and 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 overall market risk appetite is moderate. The Group avoids market risk concentration.

According to the target risk profile, the Group's appetite for currency risk is low. The strategy for currency risk management is conservative. The objective of currency risk management is to keep net open currency positions to a minimum so that movements in foreign exchange rates would not have an adverse effect on the Group's capital. The Group avoids taking speculative positions.

IRRBB is a significant risk for the Group. The main sources of structural IRRBB are adverse changes in loan and/or deposit interest rates. The Group's IRRBB risk appetite is moderate. The risk versus profit considerations apply. The primary objective is to manage and mitigate the impact of changes in interest rates on the Group's net interest income (NII) and economic value (EV), ensuring stability and supporting the Group's long-term profitability and strategic growth objectives. This includes diversifying both asset and liability maturity profiles and repricing terms to minimise risk. The Group accepts in its business model the funding of assets with a relatively long repricing period by liabilities with a relatively short repricing period, where the risk of an inverted yield curve is covered by the higher interest income earned on such assets (e.g. the funding of fixed-rate consumer loans by short-term deposits). For longer-term loan products with lower commercial margins (corporate and housing loans), floating interest rates are used to mitigate risk.

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 risk appetite for real estate risk is moderate.

The treasury and reporting unit in the finance function is responsible for the day-to-day management of market risk. As the second line of defence, the risk reporting and financial risk control unit is responsible for risk control, measurement and reporting. The finance function 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 to determine 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 annually, 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.

(in millions of euros)

The Group has set market risk limits for:

- the net open currency position;
- the sensitivity of the economic value of equity to changes in interest rates (based on the six supervisory shock scenarios treated in the guideline EBA/RTS/2022/10);
- the sensitivity of net interest income to changes in interest rates (based on the six supervisory shock scenarios treated in the guideline EBA/RTS/2022/10).

Risk measurement and reporting

The requirements for measuring and reporting market risk (the recipients, content and frequency of the reports) are set out in the market risk policy. Market risks are measured at least monthly 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 2023

	Assets bearing currency risk	Liabilities bearing currency risk	Net exposure
EUR (euro)	2,208.9	2,041.6	167.3
SEK (Swedish krona)	41.5	40.6	0.9
BGN (Bulgarian lev)	9.6	4.6	5.0

Net currency positions* at 31 December 2022

	Assets bearing currency risk	Liabilities bearing currency risk	Net exposure
EUR (euro)	1,544.3	1,468.8	75.5
SEK (Swedish krona)	62.0	63.1	-1.1
BGN (Bulgarian lev)	7.0	1.4	5.6

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

Foreign currency risk is additionally measured using the 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.

(in millions of euros)

Effect of a potential exchange rate change on profit and equity at 31 December 2023

	Exposure	Monetary impact	% of equity
SEK (Swedish krona)	0.9	-0.1	0.0%
BGN (Bulgarian lev)	5.0	-0.5	0.2%

Effect of a potential exchange rate change on profit and equity at 31 December 2022

	Exposure	Monetary impact	% of equity
SEK (Swedish krona)	-1.1	0.1	0.1%
BGN (Bulgarian lev)	5.6	-0.6	0.3%

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

- the timing mismatch in the maturities and repricing of assets, liabilities, and short and long-term positions accounted for off the statement of financial position (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. Non-maturity deposits with no specific repricing date are recognised as deposits with a maturity of one day. Cash flow modelling takes into account the risk of early repayment of loans. A run-off balance sheet assumption is used for calculating the sensitivity of EVE and a constant balance sheet assumption is used to determine the sensitivity of NII.

To assess IRRBB, the Group uses various sensitivity analyses and scenarios, including the six supervisory scenarios (in accordance with the guidelines EBA/GL/2022/14), as well as other scenarios that take into account changes in the yield curve and individual risk profile. At 31 December 2023, the impact of the supervisory scenario (200 bps parallel increase) on 12-month net interest income (NII) was -1.0 million euros (31 December 2022: 1.7 million euros). The sensitivity of EVE to the interest rate increase by 200 bps was -12.2 million euros (31 December 2022: 3.9 million euros). If interest rates declined by 200 bps, the impact on NII would be 0.7 million euros (31 December 2022:

-2.6 million euros) and the impact on EVE would be 3.0 million euros (31 December 2022: 11.7 million euros).

Real estate risk is measured by applying a stress scenario to the Group's real estate. The Group determines the levels of price decline for each asset type based on historical data and the estimates of experts and calculates the total amount of loss that would result from the level of stress. Real estate stress tests are carried out at least annually and the results are reported to the management board.

At 31 December 2023, the Group did not use hedging instruments to hedge market risk.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will be 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

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 function. 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.

In line with the target risk profile, the Group applies a conservative strategy to liquidity risk and the overall liquidity risk appetite is low (1). The liquidity risk management framework covers liquidity management both in standard conditions and in the event of a liquidity crisis. The Group must at all times ensure its ability to meet its obligations on time and in full for a period as long as possible. Maintaining a strong liquidity position is one of the Group's main priorities.

The Group avoids significant liquidity risks, maintains a conservative liquidity risk profile and adequate liquidity reserves. The Group always maintains a sufficient liquidity reserve to ensure its ability to meet its obligations in the event of a liquidity crisis. The size and composition of the liquidity reserve take into account the results of liquidity risk stress tests. One of the main objectives of liquidity management is to maximise profitability and support the Group's core business through proactive and well-functioning asset and liability management, ensuring adequate liquidity reserves, maintaining access to funding and holding liquid assets. Liquidity management contributes to the Group's profitability, but a clear distinction must be made between liquidity needs and profit targets.

Liquidity risk is managed centrally and the subsidiaries and branches are funded at Group level. The Group regularly assesses the circumstances that could hinder intragroup transfer of liquidity.

The Group avoids significant funding risk and maintains a balanced funding risk profile. The main objective of the Group's funding strategy is to ensure sufficient and stable funding of the core activity through the Group's own and debt capital. The second important objective of funding management is to optimise costs and the amount and composition of debt capital raised, but cost savings may not override sufficient, stable and conservative funding requirements. Strategic management and limiting the structure of assets and liabilities form an integral part of strategic planning. The Group's strategic plans must be consistent with the actual funding structure and economic forecasts. A funding plan is developed as part of the annual budgeting process. The quality of the assets and its forecast are taken into account when planning funding. The funding of the (net) loan portfolio must not rely excessively on short-term wholesale funding. The Group's funding from external resources is balanced with equity. Diversification is an important part of the Group's overall funding and liquidity management strategy and concentration of funding and counterparties is avoided. The Group's sources of funding are in the European Union countries. The Group must have a contingency plan, which defines the measures to be taken in the event of a liquidity shortfall under a stress scenario. The Group's funding risk appetite is moderate (2).

The Group's operations are mainly funded with retail deposits raised from customers, which comprise term and savings deposits. Savings deposits are offered to customers in Germany, Austria, the Netherlands, Lithuania, Finland and Estonia. In addition to deposit-based funding, the Group has issued subordinated bonds. In February 2023, the Group issued subordinated bonds for 15 million euros, which were listed on the Nasdaq Tallinn stock exchange. In addition, perpetual bonds qualifying as Additional Tier 1 capital were issued for 7.7 million euros in March, for 3.4 million euros in May and for 5.1 million euros in August. In November, the Group issued subordinated bonds for 5 million euros, which were listed on the Nasdaq Tallinn stock exchange. At 31 December 2023, the total amount of the Group's subordinated bonds was 76.1 million euros.

The international rating agency Moody's updated its credit analysis of Bigbank AS: the ratings remained unchanged. The Baa3 long-term (outlook stable) and Prime-3 short-term foreign and local currency bank deposit ratings provide assurance to depositors regarding Bigbank's business model and portfolio quality.

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 limits and key risk indicators 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.

(in millions of euros)

Liquidity risk ratios*

At 31 December	2023	2022
Liquidity coverage ratio (LCR)	350%	218%
Survival period (in days)	340.0	122.0
Net stable funding ratio (NSFR)	157%	134%
Loan to deposit ratio	87%	98%
Liquidity reserve to assets ratio	23%	11%
Long term (over 1 year) funding to total funding ratio	21%	28%

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

Liquidity risk measurement and reporting

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

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) 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 to or cover risks that may crystallise during different types of stress scenarios. Stress tests are conducted using at least three different scenarios – the idiosyncratic, the market-wide and the 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.

Russia's war against Ukraine did not have a negative impact on funding and the volume of deposits continued to grow as planned in 2023.

(in millions of euros)

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 the 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 2023

	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	-	518.5	-	-	0.2	-	518.7
Loans to customers	37.3	22.8	43.5	196.0	859.5	506.6	1,665.7
Of which loan portfolio	34.7	15.7	43.5	196.0	859.5	506.6	1,656.0
Of which interest receivables	2.6	7.1	-	-	-	-	9.7
Debt instruments at FVOCI	-	-	1.8	3.7	9.9	-	15.4
Other receivables	0.8	0.6	-	-	-	-	1.4
Total financial assets	**38.1**	**541.9**	**45.3**	**199.7**	**869.6**	**506.6**	**2,201.2**
Financial liabilities							
Deposits from customers	-	1,098.8	85.0	419.5	296.2	37.9	1,937.4
Loans from banks	-	-	0.1	0.2	8.6	-	8.9
Subordinated bonds	-	-	-	-	5.0	71.1	76.1
Other liabilities: lease liabilities	-	-	0.1	0.4	1.1	0.2	1.8
Total financial liabilities	**-**	**1,098.8**	**85.2**	**420.1**	**310.9**	**109.2**	**2,024.2**
Maturity gap of financial assets and liabilities	**38.1**	**-556.9**	**-39.9**	**-220.4**	**558.7**	**397.4**	**177.0**

(in millions of euros)

Remaining maturities of financial assets and liabilities at 31 December 2022, restated

	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	-	173.2	-	-	0.2	-	173.4
Loans to customers	8.7	36.9	35.1	144.5	751.1	383.1	1,359.4
Of which loan portfolio	7.5	18.5	35.1	144.5	751.1	383.1	1,339.8
Of which interest receivables	1.2	18.4	-	-	-	-	19.6
Debt instruments at FVOCI	-	-	0.7	3.5	13.9	1.1	19.2
Other receivables	0.5	1.4	0.1	0.1	-	-	2.1
Total financial assets	**9.2**	**211.5**	**35.9**	**148.1**	**765.2**	**384.2**	**1,554.1**
Financial liabilities							
Deposits from customers	-	666.0	53.9	291.3	317.1	39.5	1,367.8
Loans from banks	-	-	0.1	0.2	8.9	-	9.2
Subordinated bonds	-	-	-	0.1	5.0	35.0	40.1
Other liabilities: lease liabilities	-	0.1	0.1	0.3	0.7	-	1.2
Total financial liabilities	**-**	**666.1**	**54.1**	**291.9**	**331.7**	**74.5**	**1,418.3**
Maturity gap of financial assets and liabilities	**9.2**	**-454.6**	**-18.2**	**-143.8**	**433.5**	**309.7**	**135.8**

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.

(in millions of euros)

Expected contractual undiscounted future cash flows of the Group's financial liabilities at 31 December 2023

	Carrying amount	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Payables to suppliers (note 19)	1.3	1.3	-	-	-	-	1.3
Deposits from customers (note 17)	1,937.4	1,101.4	88.1	436.5	314.0	41.3	1,981.3
Loans from banks (note 16)	8.9	0.1	0.1	0.6	10.0	-	10.8
Subordinated bonds (note 18)	76.1	-	1.3	5.1	30.2	94.9	131.5
Lease liabilities (note 20)	1.8	0.1	0.1	0.4	1.1	0.2	1.9
Loan commitments (note 34)	134.9	13.8	8.3	68.2	44.6	-	134.9
Total liabilities	**2,160.4**	**1,116.7**	**97.9**	**510.8**	**399.9**	**136.4**	**2,261.7**

Expected contractual undiscounted future cash flows of the Group's financial liabilities at 31 December 2022

	Carrying amount	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Payables to suppliers (note 19)	0.7	0.7	0.1	-	-	-	0.8
Deposits from customers (note 17)	1,367.8	666.9	55.0	299.7	330.5	42.4	1,394.5
Loans from banks (note 16)	9.2	0.1	0.1	0.6	10.4	-	11.2
Subordinated bonds (note 18)	40.1	-	0.8	2.6	16.5	47.3	67.2
Lease liabilities (note 20)	1.2	0.1	0.1	0.3	0.7	-	1.2
Loan commitments (note 34)	113.6	2.6	6.5	39.1	65.4	-	113.6
Total liabilities	**1,532.6**	**670.4**	**62.6**	**342.3**	**423.5**	**89.7**	**1,588.5**

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

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

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

- Legal risk - the risk of an entitled party not being able to exercise its rights or expect the performance of obligations because of the failure of the obligated party to perform the obligations assumed by it.

- Compliance risk - the risk of impairment to the Group's business model, reputation and financial conditions, resulting from failure to fully meet laws, regulations, internal rules and obligations to customers, employees and other stakeholders.
- Money laundering and terrorist financing (ML/TF) risk (including international or national sanctions risk) as part of compliance risk - the risk of the Group being used for ML/TF due to weaknesses and non-compliances in internal processes.
- Information and communication technology (ICT) and security risk – the risk of loss due to breach of confidentiality, failure of integrity of systems or data, inappropriateness or unavailability of systems or data, or inability to change information technology (IT) within a reasonable time and with reasonable costs when the environment or business requirements change. This includes security risks resulting from inadequate or failed internal processes or external events, including cyber-attacks or inadequate physical security.

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 a minimum reasonable level of operational risk and to minimise the level of potential losses, taking into account strategic objectives. The Group's operational risk appetite is low, but the principle of economic efficiency is applied.

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

Operational risk management is 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 to understand 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 with an above-average impact (levels 3 and 4 on a scale of 1 to 4) are reported to the member of the management board in charge of the area and the manager of the relevant function and/or branch/country. Incidents and loss events with a high impact (level 4 on a scale of 1 to 4) are reported, in addition to the above, to all members of the Group's management board and supervisory board. An overview of all incidents and loss events with an above-average or high impact (level 3 or 4 on a scale of 1 to 4) is presented to the Group's management board quarterly.

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.

Control and mitigation of operational risk

Mitigation of operational risk is the process of developing and implementing control mechanisms such as standards, policies, procedures and guidelines to prevent or reduce operational risks. Raising the awareness of employees, which is ensured through training, also helps mitigate risk. Training activities include both annual training for all employees and specific needs-based training for key personnel. 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.

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

Monitoring and reporting of operational risk

The purpose of the key risk indicators and limits for operational risk is to ensure that the actual level of operational risk is assessed and to provide indication of potential problems in a proactive manner. The actual level of operational risk is assessed using monitoring thresholds set on the basis annual aggregated operational risk losses and of the values of key risk indicators.

Operational risk limits have been set for the annual amount of operational risk losses and the amount of potential losses. Key risk indicators have been established for all major risk categories and their monitoring thresholds have been approved by management. Key risk indicators and their monitoring thresholds are calibrated at least annually.

An operational risk report, which includes, among other things, an overview of the actual levels of key risk indicators and limits, is submitted to the managements of branches and the Group's management board and supervisory board quarterly. Breaches of the limits and key risk indicators are reported to the Group's management board and/or supervisory board in accordance with the requirements established in the policy.

REPUTATIONAL RISK

Reputational risk is the current or prospective risk to the Group earnings, own funds or liquidity arising from damage to the Group's reputation.

Reputational risk management

Reputational risk is an essential part of the business model, which is analysed as part of strategic and operational planning. According to the target risk profile, the Group's risk appetite for reputational risk is low.

The Group's strategy for reputational risk management is to avoid situations that could damage the Group's reputation and cause a decrease in revenue or loss of confidence. Reputation development begins with customer experience management and controlled shaping of public opinion. Business and control units identify, manage, and assess the internal and external factors that may have a negative impact on the Group's reputation on an ongoing basis. The management board is responsible for managing reputational risk. The risk is monitored regularly and risk levels are reported to the management board and supervisory board.

BUSINESS AND STRATEGIC RISKS

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 reduce revenues.

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

Business and strategic risk management

Business and strategic risks are essential parts of the business model and analysed as part of strategic and operational planning. The Group's risk appetite for business and strategic risks is moderate.

The Group manages strategic risk by implementing an appropriate strategy, which is appropriate in the current economic environment and based on a comprehensive planning process, and by responding to changes adequately and in a timely manner. The management board is responsible for managing business and strategic risks. Business and control units identify, manage, and assess the internal and external factors that could impede achievement of strategic objectives on an ongoing basis. The risk is monitored regularly and risk levels are reported to the management board and supervisory board.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ECG) RISK

ESG risk is the risk of losses resulting from current or prospective material negative impacts arising from adverse environmental, social and/or governance factors.

ESG risk is not considered as a standalone risk by the Group, since it materialises through the traditional categories of financial and non-financial risks (e.g. credit risk, market risk, operational and reputational risks, liquidity and funding risks). Where appropriate, the ESG perspective is included in the aspects of the risk management framework, which directly address the specific material risk category, and it is addressed in respective risk policies. Therefore, risk appetite for the ESG risk is not defined, but its effect must be considered as a risk driver when establishing and addressing risk appetite for material risks. The management board is responsible for ensuring the incorporation of ESG risks into the overall business strategy, business processes and risk management processes, relevant risk reporting and compliance with regulatory requirements. All heads of functions and heads of branches/subsidiaries are responsible for considering ESG risks in their area of responsibility/country.

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:

- **Tier 1 Capital** including:
- **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 retained earnings from prior periods totalled 196.6 million euros.
  - **Other accumulated comprehensive income.** The Group's other accumulated comprehensive income at 31 December 2023 amounted to 1.8 million euros.
  - **Profit eligible.** Net profit for the first nine months of the financial year of 22.0 million euros, which has been verified by an independent external auditor, from

(in millions of euros)

which foreseeable dividends have been deducted and which has been approved by the Financial Supervision and Resolution Authority;

- **Additional Tier 1 Capital (AT1),** including:
  - **Bonds.** At the reporting date, the Group had issued bonds belonging to Additional Tier 1 capital in the amount of 16.2 million euros.
- **Tier 2 Capital,** including:
  - **Subordinated bonds.** At the reporting date, the Group had issued subordinated bonds with different maturities in the amount of 59.9 million euros.

In 2023, the Group issued perpetual bonds belonging to Additional Tier 1 capital (AT1) for 16.2 million euros by way of private placements. In February and November, unsecured subordinated bonds were issued for 20.0 million euros in public offerings and listed on the Nasdaq Tallinn stock exchange. The unsecured subordinated bonds were issued with a nominal value of 1,000 euros each, a fixed interest rate of 8% per year and a maturity term of 10 years. The subordinated bonds are treated as Tier 2 capital. There are no other Tier 2 capital instruments outstanding.

The Group deducts from Common Equity Tier 1 Capital (CET1) provisions which have not been verified by an independent external auditor in the review of financial information (line item *Adjustments to CET1* in the report) and other intangible assets. At the reporting date, the Group's total own funds amounted to 282.1 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	2023	2022
Paid-in share capital	8.0	8.0
Capital reserve	0.8	0.8
Prior years retained earnings	196.6	167.5
Other accumulated comprehensive income	1.8	3.4
Other intangible assets	-21.7	-22.4
Profit eligible	22.0	15.9
Adjustments to CET1	-0.5	-0.3
Common equity Tier 1 capital	**207.0**	**172.9**
Tier 1 capital	**223.2**	**172.9**
Tier 2 capital	**58.9**	**40.0**
Total own funds	**282.1**	**212.9**

(in millions of euros)

Total risk exposure

The methods used by the Group to calculate the total risk exposure and single risk exposures 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	2023	2022
Risk weighted exposure amounts for credit and counterparty credit risks (standardised approach)		
Receivables from central governments and central banks	3.1	0.8
Receivables from credit institutions and investment firms	3.6	4.2
Receivables from corporates	33.3	33.0
Retail	527.8	480.8
Secured by mortgages on immovable property	434.5	273.9
Exposures in default	30.0	14.1
Items associated with particular high risk	259.2	302.8
Claims on credit institutions and investment firms with a short-term credit assessment	0.3	1.1
Equity	20.5	20.2
Other items	29.7	29.8
Total risk weighted exposure amounts for credit and counterparty credit risks (standardised approach)	**1,342.0**	**1,160.7**
Total risk exposure amount for position, foreign exchange and commodities risks	**5.9**	**5.1**
Total risk exposure amount for operational risk (standardised approach)	**126.3**	**110.1**
Total risk exposure amount	**1,474.2**	**1,275.9**

Capital ratios

At 31 December	2023	2022
CET1 Capital ratio	14.0%	13.6%
T1 Capital ratio	15.1%	13.6%
Total capital ratio	19.1%	16.7%
Leverage ratio	9.7%	10.5%
Own funds and eligible liabilities to total risk exposure amount (TREA)	19.1%	16.7%
Own funds and eligible liabilities to total leverage ratio exposure (LRE)	12.3%	12.9%

The total capital ratio has been calculated for Bigbank AS supervisory reporting group. At 31 December 2023, total capital ratio at the level of the parent company was 19.9% (31 December 2022: 16.6%). The composition of the Group's own funds, their treatment and the calculation of capital ratios are in accordance with the CRR.

The Estonian Financial Supervision and Resolution Authority has set the Group's minimum requirement for own funds and eligible liabilities (MREL) at the level of 12.49% of the total risk exposure amount and at 3.0% of the total exposure measure. At the reporting date, the Group's ratio of own funds and eligible liabilities to the total risk exposure amount was 19.1% and the ratio of own funds and eligible liabilities to the total leverage ratio exposure was 12.3%.

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 needed to cover 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) to ensure 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.

(in millions of euros)

The outcome of yearly ICAAP is approved by the Group's supervisory 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.

At 31 December 2023, the additional Pillar 2 capital requirement established as a result of the 2022 SREP assessment by the Financial Supervision and Resolution Authority stood at 4.49% of the total risk exposure, of which at least 2.52% must be covered by CET1 capital and 3.37% by Tier 1 capital. The additional guidance on own funds (Pillar 2 Guidance, P2G) assigned to the Group by the Financial Supervision and Resolution Authority was 1.5% at the end of 2023.

Minimum regulatory capital requirement at 31 December 2023

	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	2.5%	3.4%	4.5%
Total SREP capital requirement (TSCR)	7.0%	9.4%	12.5%
Capital conservation buffer	2.5%	2.5%	2.5%
Systemic risk buffer	0.0%	0.0%	0.0%
Countercyclical risk buffer	1.0%	1.0%	1.0%
Overall capital requirement (OCR)	**10.5%**	**12.9%**	**16.0%**
Pillar 2 Guidance (P2G)	**1.5%**	**1.5%**	**1.5%**
Total of Overall capital requirement and Pillar 2 Guidance	**12.0%**	**14.4%**	**17.5%**

At 31 December 2022, the Group was subject to capital buffer requirements at the rates applicable in the countries of location of the risk exposures. The countercyclical buffer rate was 1.5% for credit exposures in Estonia, 2% for credit exposures in Sweden and Bulgaria, 2.5% for credit exposures in Norway and Denmark, 1% for credit exposures in Lithuania and 0.5% for credit exposures in Luxembourg. The systemic risk buffer rate for retail exposures secured by residential real estate to residents of Lithuania was 2%.

The Group's target was to maintain the total capital ratio at 31 December 2023 at or above 17.5% plus the internal capital buffer ratio at 0.75%.

The Group's total capital ratio at the reporting date was 19.1%, which exceeds the regulatory requirement. The Group's CET1 capital ratio and Tier 1 capital ratio were 15.1%. At the reporting date, the Group was in compliance with the overall regulatory capital requirement.

(in millions of euros)

In December 2023, the Financial Supervision and Resolution Authority established new capital requirements for the Group as a result of the annual supervisory review and evaluation process (SREP). The new capital requirements apply from 1 January 2024.

In accordance with the decision of the Financial Supervision and Resolution Authority, the Group is subject to an additional own funds requirement (P2R) on a consolidated basis at a rate of 3.2% of the total risk exposure amount (TREA), of which at least 2.4% must be covered by CET1 capital and at least 1.8% by Tier 1 capital. The Pillar 2 capital requirement was reduced by 1.29 percentage points compared with the level established for the Group as a result of the previous SREP. Consequently, the total SREP capital requirement (TSCR) for the Group is 11.2%. This is the sum of the Pillar 1 and Pillar 2 requirements, which are 8% and 3.2%, respectively.

In addition, the Financial Supervision and Resolution Authority decided to keep the Pillar 2 Guidance (P2G) applicable to the Group on a consolidated basis at 1.5% of TREA.

Note 6. 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 2023 and 2022 do not differ significantly from their carrying amounts.

	Carrying amount		Fair value	
Financial assets at 31 December	**2023**	**2022**	**2023**	**2022**
Cash and balances at central banks (note 7)	495.1	151.1	495.1	151.1
Cash and balances at banks (note 7)	23.6	22.3	23.6	22.3
Debt securities at FVOCI (note 8)	15.4	19.2	15.4	19.2
Loans to customers (notes 9 and 10)	1,665.7	1,359.4	1,665.7	1,359.4
Other financial receivables (note 14)	1.4	2.4	1.4	2.4
Total financial assets	**2,201.2**	**1,554.4**	**2,201.2**	**1,554.4**

	Carrying amount		Fair value	
Financial liabilities at 31 December	**2023**	**2022**	**2023**	**2022**
Loans from central banks (note 16)	8.9	9.2	8.9	9.2
Deposits from customers (note 17)	1,937.4	1,367.8	1,919.9	1,345.8
Subordinated bonds (note 18)	76.1	40.1	87.4	45.1
Other financial liabilities (note 19)	11.5	8.9	11.5	8.9
Total	**2,025.0**	**1,416.8**	**2,023.7**	**1,405.2**

(in millions of euros)

The table below shows the 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 also 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 2023

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Debt instruments at FVOCI (note 8)	15.4	-	-	15.4
Loans to customers at FVTPL (notes 9 and 10)	-	-	57.9	57.9
Land and buildings (note 11)	-	-	6.3	6.3
- Office premises	-	-	6.3	6.3
Investment properties (note 12)	-	-	49.1	49.1
- Commercial buildings	-	-	24.4	24.4
- Agricultural land	-	-	24.7	24.7
Assets for which fair values are disclosed				
Loans to customers at amortised cost (notes 9 and 10)	-	-	1,607.8	1,607.8
Other financial receivables (note 14)	-	-	1.4	1.4
Total assets	**15.4**	**-**	**1,722.5**	**1,737.9**
Liabilities for which fair values are disclosed				
Loans from banks (note 16)	-	-	8.9	8.9
Deposits from customers (note 17)	-	-	1,937.4	1,937.4
Subordinated bonds (note 18)	-	34.9	41.2	76.1
Lease liabilities (note 20)	-	-	1.8	1.8
Other financial liabilities (note 19)	-	-	9.7	9.7
Total liabilities	**-**	**20.1**	1,999.0	**2,033.9**

(in millions of euros)

Fair value hierarchy at 31 December 2022, restated

	Tase 1	Tase 2	Tase 3	Kokku
Assets measured at fair value				
Debt instruments at FVOCI (note 8)	19.2	-	-	19.2
Loans to customers at FVTPL (notes 9 and 10)	-	-	49.8	49.8
Land and buildings (note 11)	-	-	15.8	15.8
- Office premises	-	-	6.2	6.2
- Agricultural land	-	-	9.6	9.6
Investment properties (note 12)	-	-	35.5	35.5
- Commercial buildings	-	-	23.0	23.0
- Agricultural land	-	-	12.5	12.5
Assets for which fair values are disclosed				
Loans to customers at amortised cost (notes 9 and 10)	-	-	1,309.6	1,309.6
Other financial receivables (note 14)	-	-	2.4	2.4
Total assets	**19.2**	**-**	**1,413.1**	**1,432.3**
Liabilities for which fair values are disclosed				
Loans from banks (note 16)	-	-	9.2	9.2
Deposits from customers (note 17)	-	-	1,367.8	1,367.8
Subordinated bonds (note 18)	-	20.1	20.0	40.1
Lease liabilities (note 20)	-	-	1.2	1.2
Other financial liabilities (note 19)	-	-	7.7	7.7
Total liabilities	**-**	**20.1**	**1,405.9**	**1,426.0**

Fair value measurement

The Group's finance department performs valuations of financial items, including level 3 instruments, for financial reporting purposes and 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 38, the sections *Property, plant and equipment, Investment properties* and *Fair value measurement,* and note 3).

Level 1 fair value measurements

Debt instruments at FVOCI comprise bonds whose fair values have been measured 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 2 fair value measurements

Subordinated bonds publicly traded on the Nasdaq Tallinn stock exchange, which are accounted for as level 2 instruments, are measured at market value at the reporting date, i.e. at the value of the last transaction of the trading 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. Level 3 of the fair value hierarchy also includes loans to customers measured at FVTPL. For further information on their fair value measurement, see the section *Loans to customers at FVTPL*.

For investment property, land and buildings, the following approaches have been used to estimate their fair value.

- **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.
- **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.
- **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 and buildings

The class of *Land and buildings* within *Property, plant and equipment* comprises real estate in the amount of 6.3 million euros used by the Group as office premises in Tallinn (see note 11).

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 12 euros, the rental growth rate is 2.0%, the long-term vacancy rate is 5% and the discount rate is 9.5%. 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 4,001–4,446 euros less the costs of transforming the office space back into apartments.

Investment properties

Investment properties of 49.1 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 4,200 euros and development costs per square metre of 1,734 euros.

The fair values of other office buildings in Tallinn and Pärnu were estimated using the income approach based on rental prices of 10–14 euros per square metre in Tallinn and 4–12 euros per square metre in Pärnu.

Agricultural land was valued using mainly the market comparison approach. Based on the opinion of a valuation expert, the best use of the land is the existing use for agricultural purposes and the average price per hectare of agricultural land is 8,000 euros.

Valuations

The Group engaged independent valuation experts to assess the fair values of its investment properties and land and buildings at 31 December 2023, and as the valuation showed that the fair values of office buildings, premises and agricultural land had changed, revaluations were performed.

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):

(in millions of euros)

Land and buildings

Fair values at 31 Dec

Asset	2023	2022	Valuation technique	Used estimates	2023	2022
Office premises	**6.3**	6.0	Comparison approach	Price per square meter	4,001-4,446	3,962-4,402
			Income approach	Rental income per square meter	12	11
				Rental growth rate	2.0%	1.5%
				Expected vacancy rate	5%	5%
				Discount rate	9.5%	9.0%
				Market value per unit of leased space	1,600-1,656	1,629
Agricultural land	**-**	9.0	Comparison approach	Weighted average price per hectare	-	5,826-9,100

Investment property

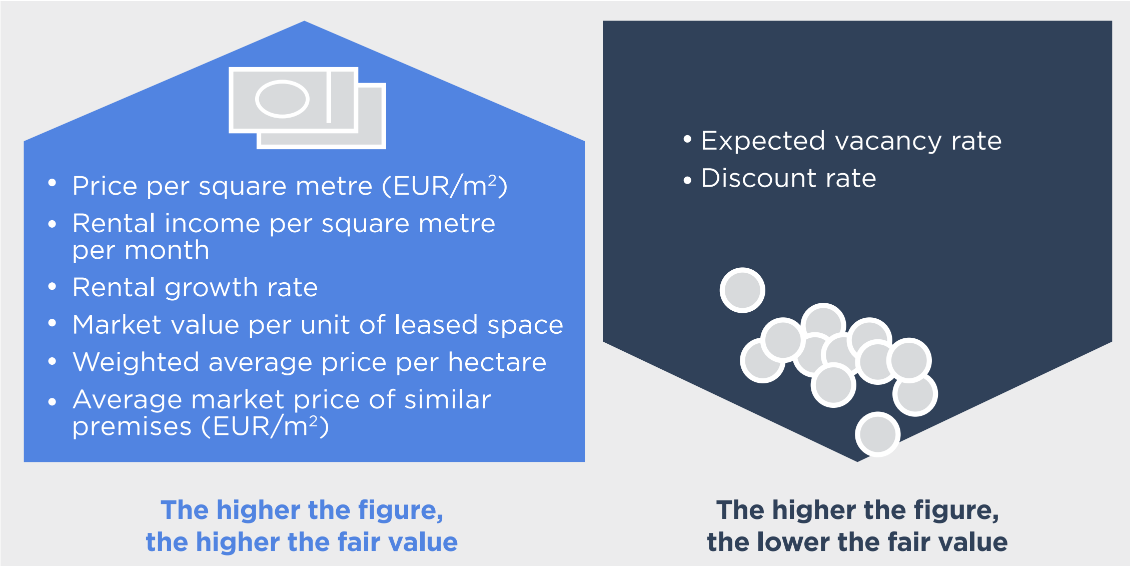
Fair values at 31 Dec

Asset	2023	2022	Valuation technique	Used estimates	2023	2022
Commercial buildings	**24.4**	23.0	Residual method	Average market price of similar premises (EUR/m²)	4,200	4,000
				Ratio of the asset value* and closed net area (EUR/m²)	1,220	1,200
			Income approach	Rental income per square meter	4-14	4-14
				Rental growth rate	2%	1.5%-3%
				Expected vacancy rate	5%	5%
				Discount rate	9.5%-10.5%	9.5%-11.0%
				Market value per unit of leased space	966-1,600	989-1,435
Agricultural land*	**24.7**	12.5	Comparison approach	Weighted average price per hectare	3,700-9,900	3,700-7,700

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

(in millions of euros)

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



Loans to customers at FVTPL

As described in notes 3 and 38, the Group measures the fair value of loans to customers measured at FVTPL using a valuation technique, whereby the present value of an instrument is calculated by discounting all expected future cash flows at prevailing market interest rates. The interest rates are determined based on a model that uses as inputs both market data on instruments with similar currency, maturity, interest rate, credit risk and other characteristics and the Group's internal data.

Loans to customers at FVTPL

	2023	2022
Balance at beginning of year	49.8	5.5
New transactions (provision of loans or modification of loan terms)	-	49.6
Day 1 gain at initial recognition	-	-7.8
Interest received	-1.1	-
Amounts recognised in profit or loss for the period	9.2	2.5
Balance at end of year	**57.9**	**49.8**

In line with IFRS 13 and IFRS 9, the fair value of an instrument at initial recognition normally equals the transaction price. For new transactions, where the valuation technique used for fair value measurement requires significant inputs that are not based on observable market data, the financial instrument is initially recognised at the transaction price. If the transaction price differs from the fair value obtained using the valuation technique, the difference is recognised in the statement of financial position within *Loans to customers* (see note 9, loans to customers at FVTPL) as deferred day 1 gain or loss, which is subsequently amortised through profit or loss on a straight-line basis over the term of the contract. The table below summarises the movements in the balance of deferred day 1 gain in the periods presented.

(in millions of euros)

	2023	2022
Balance of deferred day 1 gain at beginning of year	7.3	-
Effect of retrospective adjustment of instruments measured at amortised cost and investment properties	-	0.5
Gain deferred on new transactions	-	7.8
Amounts recognised in profit or loss for the period	-2.7	-1.0
Balance of deferred day 1 gain at end of year	**4.6**	**7.3**

Loans with the features of a hybrid instrument comprise the principal and interest receivables of the host contract and a growth component (increase in fair value) resulting from the revaluation of the underlying asset. At the reporting date, the market interest rate applied in the valuation technique was 5.55% (31 December 2022: 4.14%). Gains on the revaluation of the underlying assets are included in the future cash flows of the instrument. The market comparison method was used for the valuation of the underlying assets, similarly to the valuation of agricultural land.

The change in the revaluation of loans to customers (value adjustments due to changes in factors, including time, gains from the revaluation of loans with investment risk) is recognised as a gain or loss on financial assets at FVTPL.

These are assets that are required to be categorised as measured at FVTPL.

For the reconciliation of the opening and closing balances of the remaining level 3 financial instruments measured at fair value at the reporting date, see notes 11 and 12. There were no movements between levels 1 and 2 in 2023 and 2022.

Financial instruments not measured at fair value

Loans to customers (level 3), which amount to 1,607.8 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 38 (the section *Financial assets*) and 5. 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 the discounted cash flow method by 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.

(in millions of euros)

Subordinated bonds

Subordinated bonds which are not publicly traded are classified as level 3 instruments and measured in the statement of financial position at amortised cost using the effective interest method. Their fair value is determined using a valuation technique whereby the present value of an instrument is found by discounting all expected future cash flows by applying the current market interest rate, which at the reporting date was 5.55% (31 December 2022: 4.14%).

Note 7. Cash and bank balances

Cash and balances at banks at 31 December 2023

	Estonia	Latvia	Lithuania	Finland	Sweden	Bulgaria	Total
Cash and balances at central banks	**488.4**	**-**	**-**	**0.6**	**-**	**6.1**	**495.1**
Of which mandatory reserve deposits*	13.2	-	-	0.5	-	1.5	15.2
Of which surplus on mandatory reserves	-	-	-	0.1	-	4.6	4.7
Of which overnight deposits	475.2	-	-	-	-	-	475.2
Due from other banks	**16.8**	**1.5**	**1.3**	**1.4**	**2.4**	**0.2**	**23.6**
Of which demand deposits	16.6	1.5	1.3	1.4	2.4	0.2	23.4
Of which term deposits	0.2	-	-	-	-	-	0.2
Total	**505.2**	**1.5**	**1.3**	**2.0**	**2.4**	**6.3**	**518.7**
of which cash and cash equivalents	**491.8**	**1.5**	**1.3**	**1.5**	**2.4**	**4.8**	**503.3**

(in millions of euros)

Cash and balances at banks at 31 December 2022

	Estonia	Latvia	Lithuania	Finland	Sweden	Bulgaria	Total
Cash and balances at central banks	**149.4**	**-**	**-**	**0.2**	**-**	**1.5**	**151.1**
Of which mandatory reserve deposits*	7.9	-	-	0.2	-	0.5	8.6
Of which surplus on mandatory reserves	-	-	-	-	-	1.0	1.0
Of which overnight deposits	141.5	-	-	-	-	-	141.5
Due from other banks	**9.1**	**2.5**	**4.4**	**0.9**	**5.3**	**0.1**	**22.3**
Of which demand deposits	9.0	2.5	4.4	0.9	5.3	0.1	22.2
Of which term deposits	0.1	-	-	-	-	-	0.1
Total	**158.5**	**2.5**	**4.4**	**1.1**	**5.3**	**1.6**	**173.4**
of which cash and cash equivalents	**150.5**	**2.5**	**4.4**	**0.9**	**5.3**	**1.1**	**164.7**

* The mandatory reserve requirement is fulfilled in accordance with 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 in the euro area is 1% of deposits and loans with maturities up to two years, after allowed deductions, filled as the average of the period set by the European Central Bank, by depositing the appropriate amount of euros in an account with the local central bank. The central bank of Bulgaria has imposed a mandatory reserve requirement of 5–10% of liabilities. The reserve is held with the central bank of Bulgaria. Sweden has not established a mandatory reserve requirement.

Cash and cash equivalents

At 31 December	2023	2022
Demand and overnight deposits with credit institutions	23.4	22.2
Demand and overnight deposits with central banks	475.2	141.5
Surplus on the mandatory reserves with central banks	4.7	1.0
Total cash and cash equivalents	**503.3**	**164.7**

Note 8. Debt instruments

At 31 December	2023	2022
Debt instruments by issuer		
Government bonds	9.9	9.6
Credit institutions' bonds	-	1.5
Non-financial corporations' bonds	5.5	8.1
Total debt instruments	**15.4**	**19.2**
Debt instruments by currency		
EUR (euro)	12.0	16.0
SEK (Swedish krona)	3.4	3.2

(in millions of euros)

Changes in the fair value of debt instruments measured at FVOCI:

	2023	2022
Opening balance	19.2	45.3
Cash flow items:		
Acquisition of new financial instruments	-	7.7
Redemption of financial instruments	-4.4	-31.9
Non-cash flow items:		
Changes in fair value	0.4	-2.1
Accrued interest	0.2	0.5
Foreign exchange adjustments	-	-0.3
Balance at 31 December	**15.4**	**19.2**

Note 9. Loans to customers

Loans to customers are measured at amortised cost with the exception of loans with the features of a hybrid instrument and transactions for the acquisition of agricultural land that grant the seller a repurchase option, which are measured at FVTPL.

Based on their business model and cash flow characteristics, loans to customers were categorised at the reporting date as follows:

At 31 December	2023	2022 restated
Loans to customers measured at amortised cost	1,607.8	1,309.6
Loans to customers measured at FVTPL	57.9	49.8
Loans to customers	**1,665.7**	**1,359.4**

For loans to customers at fair value through profit or loss, see note 3, subsection *Loans to customers at FVTPL.*

(in millions of euros)

Loans to customers at 31 December 2023

	Estonia	Lithuania	Latvia	Finland	Sweden	Bulgaria	Total
Loans at amortised cost							
Loan receivables from customers	651.6	559.1	250.4	115.6	38.5	5.4	1,620.6
Loss allowance for loan receivables	-9.9	-6.0	-7.1	-5.6	-5.0	-1.3	-34.9
Interest receivable from customers	4.9	15.9	2.1	0.8	0.7	0.3	24.7
Loss allowances for interest receivables	-0.9	-0.6	-0.5	-0.1	-0.3	-0.2	-2.6
Total	**645.7**	**568.4**	**244.9**	**110.7**	**33.9**	**4.2**	**1,607.8**
Loans at FVTPL							
Loan receivables from customers	57.9						57.9
Total	**57.9**						**57.9**
Total loans to customers	**703.6**	**568.4**	**244.9**	**110.7**	**33.9**	**4.2**	**1,665.7**
Share of region	42.2%	34.1%	14.7%	6.7%	2.0%	0.3%	100.0%

Loans to customers at 31 December 2022, restated

	Estonia	Lithuania	Latvia	Finland	Sweden	Bulgaria	Total
Loans at amortised cost							
Loan receivables from customers	501.7	441.0	208.5	103.9	55.1	7.0	1,317.2
Loss allowance for loan receivables	-5.8	-4.3	-4.8	-5.8	-3.9	-1.0	-25.6
Interest receivable from customers	2.8	13.9	1.4	0.8	0.3	0.2	19.4
Loss allowances for interest receivables	-0.6	-0.3	-0.3	-0.1	-	-0.1	-1.4
Total	**498.1**	**450.3**	**204.8**	**98.8**	**51.5**	**6.1**	**1,309.6**
Loans at FVTPL							
Loan receivables from customers	49.8						49.8
Total	**49.8**						**49.8**
Total loans to customers	**547.9**	**450.3**	**204.8**	**98.8**	**51.5**	**6.1**	**1,359.4**
Share of region	40.3%	33.1%	15.1%	7.3%	3.8%	0.4%	100.0%

(in millions of euros)

Loan receivables from customers* by loan type

At 31 December	2023	2022 restated
Loans at amortised cost*		
Unsecured loan	641.8	609.0
Loans secured by real estate	862.3	641.2
Loans against other collateral	116.5	67.0
Loans at FVTPL		
Loans secured by real estate	57.9	49.8
Total loan receivables from customers	**1,678.5**	**1,367.0**

* Loan receivables from customers comprise loan principal.

Loan receivables from customers by contractual currency

At 31 December	2023	2022 restated
Loans at amortised cost*		
EUR (euro)	1,576.7	1,255.1
SEK (Swedish krona)	38.5	55.1
BGN (Bulgarian lev)	5.4	7.0
Loans at FVTPL		
EUR (euro)	57.9	49.8
Total loan receivables from customers	**1,678.5**	**1,367.0**

* Loan receivables from customers comprise loan principal.

Ageing analysis at 31 December 2023

	Not past due	30 days or less	31-60 days	61-90 days	Over 90 days	Total
Loans at amortised cost*						
Unsecured loans						
Loan portfolio	572.4	28.1	8.4	4.5	28.4	641.8
Loss allowance	-11.3	-2.9	-3.2	-2.0	-14.2	-33.6
Loans secured by real estate						
Loan portfolio	837.7	18.1	4.9	1.0	0.6	862.3
Loss allowance	-0.3	-	-	-	-	-0.3

(in millions of euros)

	Not past due	30 days or less	31-60 days	61-90 days	Over 90 days	Total
Loans against other collateral						
Loan portfolio	103.7	8.2	2.4	0.7	1.5	116.5
Loss allowance	-0.4	-0.1	-0.2	-0.1	-0.2	-1.0
Loans at FVTPL						
Loan portfolio	57.9					57.9
Total loan portfolio	**1,571.7**	**54.4**	**15.7**	**6.2**	**30.5**	**1,678.5**
Total loss allowance	**-12.0**	**-3.0**	**-3.4**	**-2.1**	**-14.4**	**-34.9**

* Loan principal only, does not include interest receivable.

Ageing analysis at 31 December 2022, restated

	Not past due	30 days or less	31-60 days	61-90 days	Over 90 days	Total
Loans at amortised cost*						
Unsecured loans						
Loan portfolio	554.1	27.9	8.0	5.2	13.8	609.0
Loss allowance	-9.7	-2.6	-3.0	-2.3	-7.2	-24.8
Loans secured by real estate						
Loan portfolio	638.1	2.4	0.4	-	0.3	641.2
Loss allowance	-0.1	-	-	-	-	-0.1
Loans against other collateral						
Loan portfolio	61.6	3.6	0.9	0.3	0.6	67.0
Loss allowance	-0.3	-0.1	-0.1	-	-0.2	-0.7
Loans at FVTPL						
Loan portfolio	49.8					49.8
Total loan portfolio	**1,303.6**	**33.9**	**9.3**	**5.5**	**14.7**	**1,367.0**
Total loss allowance	**-10.1**	**-2.7**	**-3.1**	**-2.3**	**-7.4**	**-25.6**

* Loan principal only, does not include interest receivable.

(in millions of euros)

Note 10. Loss allowances for loans

This note provides an overview of loss allowances for loans measured at amortised cost.

Classification of loan receivables into stages at 31 December 2023

Loan receivables by age	Stage 1	Stage 2	Stage 3	Total
Loans at amortised cost				
Not past due	1,492.1	18.0	3.7	1,513.8
Up to 30 days past due	30.9	20.2	3.3	54.4
31–60 days past due	-	12.0	3.7	15.7
61–90 days past due	-	2.8	3.4	6.2
Over 90 days past due	-	-	30.5	30.5
Gross amount of loan receivables	1,523.0	53.0	44.6	1,620.6
Loss allowance	-9.9	-6.0	-19.0	-34.9
Carrying amount	**1,513.1**	**47.0**	**25.6**	**1,585.7**

Classification of loan receivables into stages at 31 December 2022, restated

Loan receivables by age	Stage 1	Stage 2	Stage 3	Total
Loans at amortised cost				
Not past due	1,240.5	12.0	1.3	1,253.8
Up to 30 days past due	22.9	8.7	2.3	33.9
31–60 days past due	-	7.0	2.3	9.3
61–90 days past due	-	2.6	2.9	5.5
Over 90 days past due	-	-	14.7	14.7
Gross amount of loan receivables	1,263.4	30.3	23.5	1,317.2
Loss allowance	-8.5	-6.1	-11.0	-25.6
Carrying amount	**1,254.9**	**24.2**	**12.5**	**1,291.6**

(in millions of euros)

Loss allowances at 31 December 2023

	Loan receivables	Interest receivables	Total receivables subject to impairment	Total loss allowances
Loans at amortised cost				
Stage 1	1,523.0	18.2	1,541.2	-9.9
Stage 2	53.0	1.2	54.2	-6.0
Stage 3	44.6	5.3	49.9	-21.6
Total	**1,620.6**	**24.7**	**1,645.3**	**-37.5**

Loss allowances at 31 December 2022, restated

	Loan receivables	Interest receivables	Total receivables subject to impairment	Total loss allowances
Loans at amortised cost				
Stage 1	1,263.5	15.9	1,279.4	-8.5
Stage 2	30.3	0.8	31.1	-6.1
Stage 3	23.4	2.7	26.1	-12.4
Total	**1,317.2**	**19.4**	**1,336.6**	**-27.0**

Development of allowances in 2023

	Opening balance	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	-8,5	-4,6	1,2	1,9	0,1	-9,9
Stage 2	-6,1	-1,2	0,3	-0,8	1,7	-6,1
Stage 3	-12,4	-2,0	0,7	-12,5	4,7	-21,5
Total	**-27,0**	**-7,8**	**2,2**	**-11,4**	**6,5**	**-37,5**

Development of allowances in 2022

	Opening balance	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	-8,4	-4,4	1,5	2,5	0,3	-8,5
Stage 2	-5,0	-1,4	0,3	-1,7	1,7	-6,1
Stage 3	-13,2	-2,1	0,8	-5,1	7,2	-12,4
Total	**-26,6**	**-7,9**	**2,6**	**-4,3**	**9,2**	**-27,0**

(in millions of euros)

Loss allowances by loan assessment category at 31 December 2023

	Loan receivables	Interest receivables	Total receivables subject to impairment	Total loss allowances
Collectively assessed items	714.6	20.7	735.3	-36.9
Individually assessed items	906.0	4.0	910.0	-0.6
Total	**1,620.6**	**24.7**	**1,645.3**	**-37.5**

Loss allowances by loan assessment category at 31 December 2022, restated

	Loan receivables	Interest receivables	Total receivables subject to impairment	Total loss allowances
Collectively assessed items	647.0	17.4	664.4	-26.6
Individually assessed items	670.2	2.0	672.2	-0.4
Total	**1,317.2**	**19.4**	**1,336.6**	**-27.0**

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.

(in millions of euros)

Note 11. Property, plant and equipment

At 31 December	2023	2022
Land	-	9.6
Buildings	6.3	6.2
Right-of-use assets: office premises	1.7	1.1
Other items	1.4	1.4
Total	**9.4**	**18.3**

Land, buildings and other items

	Land	Buildings	Other items*	Total
Cost				
Balance at 1 January 2022	9.0	7.7	5.5	22.2
Purchases	-	-	1.2	1.2
Sales	-	-	-0.3	-0.3
Derecognition	-	-	-0.4	-0.4
Revaluation recognised in other comprehensive income	2.4	0.2	-	2.6
Transfer to investment property (note 12)	-1.5	-	-	-1.5
Transfer	-	-	0.1	0.1
Transfer to assets held for sale (note 15)	-0.3	-1.7	-1.0	-3.0
Balance at 31 December 2022	**9,6**	**6,2**	**5,1**	**20,9**
Balance at 1 January 2023	9.6	6.2	5.1	20.9
Purchases	-	-	2.0	2.0
Sales	-	-	-0.2	-0.2
Derecognition	-	-	-1.7	-1.7
Revaluation recognised in other comprehensive income	-	0.5	-	0.5
Transfer to investment property (note 12)	-9.6	-0.4	-	-10.0
Balance at 31 December 2023	**-**	**6,3**	**5,2**	**11,5**
Depreciation				
Balance at 1 January 2022	-	-0.1	-4.2	-4.3
Depreciation charge for the year	-	-0.3	-0.5	-0.8
Sales	-	-	0.2	0.2
Derecognition	-	-	0.3	0.3
Write-down	-	-0.4	-	-0.4
Transfer to assets held for sale (note 15)	-	0.6	0.6	1.2
Transfer**	-	0.2		0.2
Effect of movements in exchange rates	-	-	-0.1	-0.1
Balance at 31 December 2022	**-**	**-**	**-3,7**	**-3,7**

(in millions of euros)

	Land	Buildings	Other items*	Total
Balance at 1 January 2023	-	-	-3.7	-3.7
Depreciation charge for the period	-	-0.2	-0.6	-0.8
Sales	-	-	0.2	0.2
Derecognition	-	-	0.3	0.3
Transfer**	-	0.2	-	0.2
Balance at 31 December 2023	**-**	**-**	**-3,8**	**-3,8**
Carrying amount				
Balance at 1 January 2022	9.0	7.6	1.3	17.9
Balance at 31 December 2022	9.6	6.2	1.4	17.2
Balance at 31 December 2023	**-**	**6,3**	**1,4**	**7,7**

* 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 6.

In addition to the assets shown in the table, biological assets of 1.0 million euros were included in the opening balance in 2022, which were classified as assets held for sale by the end of 2022.

If land and buildings had been measured using the cost model, the carrying amounts would have been as follows:

At 31 December	2023	2022
Cost	5.5	5.8
Depreciation	-1.7	-1.7
Net carrying amount	**3.8**	**4.1**

Right-of-use assets

	2023	2022
Carrying amount at 1 January	1.1	2.0
Additions	1.2	0.4
Depreciation charge	-0.6	-0.7
Transfer to assets held for sale (note 15)	-	-0.6
Carrying amount at end of year	**1.7**	**1.1**

For lease payments for right-of-use assets, see note 20, and for depreciation expense, see note 32.

(in millions of euros)

Note 12. Investment properties

	2023	2022 restated
Opening balance at 1 January	**35.5**	**35.7**
Sales	-	-6.2
Transfer from office premises to investment property	0.4	-
Transfer from land to investment property*	9.8	1.5
Net gain on fair value adjustments (note 6)	3.4	4.5
Closing balance at 31 December	**49.1**	**35.5**

* A part of agricultural land, which previously was classified as property, plant and equipment, was leased out to third parties and was therefore reclassified to investment property.

The Group's rental income from investment properties was 3.5 million euros in 2023 (2022: 3.6 million euros). Property management expenses were 1.5 million euros (2022: 1.6 million euros) (see notes 26, 27 and 32).

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

	2023	2022
Cost at beginning of year	**38.6**	**35.0**
Purchased and developed software*	4.1	5.5
Of which purchases	0.4	2.8
Of which capitalised payroll costs	3.7	2.7
Write-off	-1.0	-1.9
Cost at end of year	**41.7**	**38.6**
Amortisation at beginning of year	**-8.6**	**-7.9**
Amortisation charge for the year	-4.9	-2.5
Write-off	1.0	1.8
Amortisation at end of year	**-12.5**	**-8.6**
Carrying amount at beginning of year	30.0	27.1
Carrying amount at end of year	**29.2**	**30.0**

* The Group's intangible assets comprise various software.

(in millions of euros)

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 28). The carrying amount of Nest at 31 December 2023 was 29.0 million euros (31 December 2022: 29.8 million euros). In 2023, the period over which Nest is expected to generate economic benefits (useful life) was shortened from 15 to 5 years, which is why amortisation for the reporting period increased compared with the previous period (see note 3).

Note 14. Other assets

At 31 December	2023	2022
Financial assets		
Customer receivables and other miscellaneous receivables	1.0	2.1
Collection, recovery and other charges receivable	0.7	0.5
Impairment allowance for other receivables	-0.3	-0.2
Total financial assets	**1.4**	**2.4**
Non-financial assets		
Other tax prepayments	0.1	1.7
Prepayments to suppliers and prepaid expenses	1.4	0.8
Total non-financial assets	**1.5**	**2.5**
Total other assets	**2.9**	**4.9**

Note 15. Disposal groups and discontinued operations

At the end of 2022, the Group began the liquidation of two subsidiaries: Palupera Põllud OÜ and Abja Põld OÜ as their operations (agricultural production) did not support Bigbank's core business and was not part of the Group's long-term strategic plans. Consequently, the assets and liabilities of these subsidiaries were classified as held for sale in the consolidated statement of financial position as at 31 December 2022. The subsidiary Abja Põld OÜ was sold in April 2023. Palupera Põllud OÜ had discontinued active operations by the end of 2023: the company had no employees and most of its assets had been disposed of. The Group started the merger of Palupera Põllud OÜ and Rüütli Property OÜ at the end of 2023 (see note 37).

In segment reporting (see note 23), the operations of the companies were reported in the segment of other activities.

Assets and liabilities of disposal groups classified as held for sale

Assets held for sale have to be measured at the lower of their carrying amount and fair value less cost to sell. Disposal groups held for sale comprised the following assets and liabilities:

(in millions of euros)

At 31 December	2023	2022
Land	-	0.3
Buildings	-	1.1
Right-of-use assets: agricultural equipment and machinery	-	0.4
Other items	0.2	0.4
Biological assets	-	1.0
Inventories	-	0.7
Other receivables	0.1	-
Total assets held for sale	**0.3**	**3.9**
Lease liabilities (note 20)	-	-0.2
Other liabilities, incl. trade payables and payables to employees	-	-0.8
Total liabilities related to assets held for sale	**-**	**-1.0**
Net value of disposal group	**0.3**	**2.9**

Impairment of the disposal group

To measure assets held for sale at fair value less costs to sell, the Group recognised an impairment loss of 0.6 million euros in 2022. The carrying amount of the property, plant and equipment of the disposal group was reduced by the amount of the impairment loss. In 2023, no additional write-downs were recognised.

There was no cumulative income or expense relating to the disposal group that was recognised in other comprehensive income.

Fair value measurement

The one-off fair value of the disposal group was 0.3 million euros (31 December 2022: 2.9 million euros). Based on the valuation techniques applied, the measurement was categorised to level 3 in the fair value hierarchy. The fair value of the assets of the disposal group was measured using the market comparison approach (see note 6).

Discontinued operations

An operation is classified as discontinued either at disposal or on meeting the criteria for being classified as held for sale, whichever is earlier.

(in millions of euros)

Loss from discontinued operations

	2023	2022
Other operating income	2.2	3.7
Other operating expenses	-2.0	-2.2
Net operating income	**0.2**	**1.5**
Salaries and associated charges	-0.4	-0.7
Administrative expenses	-	-0.4
Depreciation, amortisation and impairment losses	-0.4	-1.0
Total operating expenses	**-0.8**	**-2.1**
Loss before income tax	**-0.6**	**-0.6**
Income tax	-	-
Loss from discontinued operations	**-0.6**	**-0.6**
Basic earnings per share (EUR)	-7	-7
Diluted earnings per share (EUR)	-7	-7

Cash flows from discontinued operations

	2023	2022
Cash flows from operating activities	1.4	0.8
Cash flows from/used in investing activities	0.9	-0.1
Cash flows used in financing activities	-0.2	-0.2
Increase in cash and cash equivalents of subsidiaries	**2.1**	**0.5**

Line item *Paid in connection with business combinations* comprises the last instalment payment of 0.5 million euros for an acquisition through a business combination, which was to be paid after an 18-month closing period.

Note 16. Loans from banks

At 31 December	2023	2022
Loans from other credit institutions	8.9	9.2

The Group previously financed its subsidiaries' real estate purchases with intragroup loans. In 2022, the real estate loans of two subsidiaries were refinanced with external loans received for a term of five years in the amount of 9.3 million euros. Interest expense for the year was 0.6 million euros (2022: 0.2 million euros).

(in millions of euros)

Note 17. Deposits from customers

At 31 December	2023	2023
Deposits from customers	**1,937.4**	**1,367.7**
Deposits by customer type		
Individuals	1,919.6	1,353.5
Legal persons	17.8	14.2
Deposits by currency		
EUR (euro)	1,892.8	1,303.9
SEK (Swedish krona)	40.1	62.6
BGN (Bulgarian lev)	4.5	1.2
Deposits by maturity		
On demand*	1,021.6	627.2
Maturing within 1 month	77.1	39.6
Maturing between 1 and 6 months	243.1	160.4
Maturing between 6 and 12 months	261.4	184.0
Maturing between 12 and 18 months	114.6	71.9
Maturing between 18 and 24 months	64.8	85.0
Maturing between 24 and 36 months	67.1	100.7
Maturing between 36 and 48 months	25.3	39.9
Maturing between 48 and 60 months	24.5	19.5
Maturing in over 60 months	37.9	39.5

* Includes term deposits maturing within 3 days and savings deposits.

Annual interest rates of deposits offered to customers at 31 December 2023

The interest rates of deposits offered to customers depend on the country as well as the deposit term, currency and amount, and the interest payment method. The terms of term deposits offered by the Group range from 1 day to 10 years. In addition, the Group offers savings deposits, which the customer can start using at short notice.

During the reporting period, the interest rates of deposits increased significantly as a result of the increase in the ECB key interest rates. At 31 December 2023, the annual interest rates ranged from 0.9% to 4.7% (2022: from 0.3% to 3.2%): for term deposits from 0.9% to 4.7% and for savings deposits from 2.5% to 3.9% (2022: from 1.3% to 2.0%). Deposits with the shortest term of 1 day are offered in Estonia, Latvia, and (to corporate customers) in Lithuania. In Finland, Germany, Austria and Bulgaria, the shortest term for deposits is 1 month, in Sweden 6 months and in the Netherlands 12 months. Savings deposits are offered in Germany, Austria, the Netherlands, Estonia, Latvia and Lithuania. The minimum amount for a term deposit is 500 euros, 10,000 Swedish kronas or 1,000 Bulgarian levs. The median amount of customer deposits was 33 thousand euros.

(in millions of euros)

Note 18. Subordinated bonds

In 2023, Bigbank carried out five issues of subordinated bonds, including subordinated bonds publicly traded on the Nasdaq Tallinn stock exchange that qualify as Tier 2 capital of 20 million euros and subordinated bonds which qualify as Additional Tier 1 capital of 16.2 million euros. Subject to approval by the Estonian Financial Supervision and Resolution Authority, the bonds can be called early after five years have passed.

Changes in bonds

At 31 December	2023	2022
Balance at beginning of year	40.1	15.0
Cash items:		
Receipts	36.2	25.0
Payments	-5.3	-1.2
Non-cash items:		
Movement in accrued interest	5.1	1.7
Transaction costs related to issue	-	-0.4
Balance at end of year	**76.1**	**40.1**

Bonds at 31 December 2023

	Nominal price	Interest rate	Date of issue	Maturity date
Bond EE3300111400	5.0	6.5%	28 December 2017	28 December 2027
Bond EE3300002526	10.0	6.5%	30 December 2021	30 December 2031
Bond EE3300002583	5.0	7.5%	16 May 2022	16 May 2032
Bond EE3300002690	20.0	8.0%	21 September 2022	21 September 2032
Bond EE3300003052	15.0	8.0%	16 February 2023	16 February 2033
Bond EE3300003151	7.7	10.5%	15 March 2023	Perpetual
Bond EE3300003284	3.4	12.0%	31 May 2023	Perpetual
Bond EE3300002690	5.1	12.0%	31 August 2023	Perpetual
Bond EE3300003706	5.0	8.0%	30 November 2023	30 November 2033

(in millions of euros)

Note 19. Other liabilities

At 31 December	2023	2022
Financial liabilities		
Received surplus payments	8.4	7.0
Trade payables	1.3	0.7
Lease liabilities (note 20)	1.8	1.2
Total financial liabilities	**11.5**	**8.9**
Non-financial liabilities		
Payables to employees	3.6	2.8
Other taxes payable	1.4	1.0
Provisions	-	0.4
Other payables and deferred income	1.2	1.4
Total non-financial liabilities	**6.2**	**5.6**
Total other liabilities	**17.7**	**14.5**

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 20. Lease liabilities

The carrying amounts of lease liabilities and movements during the period were as follows:

	2023	2022
Balance at 1 January	1.2	1.8
Additions	1.2	0.4
Payments	-0.6	-0.8
Transfer to liabilities related to assets held for sale (note 15)	-	-0.2
Carrying amount at end of year	**1.8**	**1.2**

For right-of-use assets related to the lease liabilities, see note 11, and for interest expense on lease liabilities, see note 25.

(in millions of euros)

Note 21. 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 as at 31 December 2023 and 2022 consisted 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	2023	Change	2022	Change	2021
Exchange differences on translating foreign operations	1.0	-0.1	1.1	0.4	0.7
Asset revaluation reserve	1.5	-2.1	3.6	2.8	0.8
Fair value changes of debt instruments measured at FVOCI	-0.7	0.6	-1.3	-0.9	-0.4
Total other reserves	**1.8**	**-1.6**	**3.4**	**2.3**	**1.1**

Unrestricted equity

At 31 December 2023, the Group's unrestricted equity amounted to 237.4 million euros (31 December 2022 (restated): 199.8 million euros).

(in millions of euros)

Dividends

The company has made the following dividend distributions:

- 2023: 75.00 euros per share, i.e. 6.0 million euros in total; and
- 2022: 75.00 euros per share, i.e. 6.0 million euros in total.

Note 22. Subsidiaries

The table below contains information about the Group's subsidiaries.

			Ownership interest	
Subsidiary	Country of incorporation	Equity	2023	2022
OÜ Rüütli Majad	Estonia	4.3	100%	100%
OÜ Rüütli Property	Estonia	11.4	100%	100%
OÜ Papiniidu Property	Estonia	2.2	100%	100%
OÜ Pärnu mnt 153	Estonia	0.9	100%	100%
Palupera Põllud OÜ*	Estonia	3.6	100%	100%
Balti Võlgade Sissenõudmise Keskus OÜ	Estonia	2.5	100%	100%
AS Baltijas Izaugsmes Grupa	Latvia	2.4	100%	100%

* The activity of the subsidiary Palupera Põllud OÜ has been discontinued, see note 15.

Note 23. Operating segments

Operating segments are components of the Group for which separate financial information is available, which enables the management board and the supervisory board to regularly review their operating results. The Group's banking operations are divided into two main segments: retail banking and corporate banking. In addition, there is the segment of other activities.

Segment reporting is based on internal reports to the Group's executive management. The Group's chief operating decision maker is the management board of Bigbank AS, which regularly reviews the Group's internally generated financial information to assess operating results, including the performance of operating segments, and to allocate resources efficiently. The Group's banking operations are divided into two operating segments based on the categories of customers served: retail banking and corporate banking. The retail banking segment covers all countries where Bigbank operates and the corporate banking segment covers the Baltic countries. Both segments offer loan products to customers and raise deposits. Group entities that are involved in investment property management and agriculture and units that support banking operations (including the treasury) form the segment of other activities. Intersegment loans and services as well as receivables and liabilities are presented as eliminations in the table below.

(in millions of euros)

The result of an operating segment is the segment's net profit, which comprises financial items directly attributable to the segment. The retail and corporate banking segments also include financial items (other operating income and expenses, operating expenses and income tax expense), which are allocated to segments consistent with their nature based on the size of the loan portfolio, the number of loans or the number of staff associated with the segment. The allocation is based on internal transfer prices. The prices applied in intersegment transactions (including the provision of loans and services to Group companies) do not differ significantly from market prices. Segment assets and liabilities comprise assets and liabilities which are directly attributable to the segment as well as assets and liabilities allocated to the segment on the basis of the size of the loan portfolio.

Segment profit 2023

	Retail banking	Corporate banking	Other activities	Elimina-tion	Total
Interest income	101.7	41.3	0.2	-2.3	140.9
Interest expense	-30.0	-12.4	-2.9	2.4	-42.9
Net interest income/expense	**71.7**	**28.9**	**-2.7**	**0.1**	**98.0**
Fee and commission income	8.5	-	-	-	8.5
Fee and commission expense	-0.2	-0.1	-	-	-0.3
Net fee and commission income/expense	**8.3**	**-0.1**	**-**	**-**	**8.2**
Net gain/loss on financial assets and loss on derecognition of non-financial assets	-	8.9	-1.1	-	7.8
Net other operating income and expenses	-4.1	-0.1	2.7	-0.7	-2.2
Net operating income	**75.9**	**37.6**	**-1.1**	**-0.6**	**111.8**
Operating expenses and expenses on provisions	-33.7	-11.8	-0.3	0.6	-45.2
Gain on change in the fair value of investment property	-	-	3.4	-	3.4
Profit before loss allowances	**42.2**	**25.8**	**2.0**	**-**	**70.0**
Net loss allowances for loans and financial investments	-20.7	-0.2	-	-	-20.9
Profit before income tax	**21.5**	**25.6**	**2.0**	**-**	**49.1**
Income tax	-4.5	-3.2	-	-	-7.7
Profit for the year from continuing operations	**17.0**	**22.4**	**2.0**	**-**	**41.4**

(in millions of euros)

Segment assets and liabilities at 31 December 2023

	Retail banking	Corporate banking	Other activities	Elimination	Total
Total assets	1,483.8	762.3	89.1	-44.1	2,291.1
Total liabilities	1,986.3	52.9	45.9	-42.0	2,043.1

Segment profit 2022, restated

	Retail banking	Corporate banking	Other activities	Elimination	Total
Interest income	75.5	21.1	0.6	-1.6	95.6
Interest expense	-9.5	-3.7	-1.2	1.2	-13.2
Net interest income/expense	**66.0**	**17.4**	**-0.6**	**-0.4**	**82.4**
Fee and commission income	7.7	-	-	-	7.7
Fee and commission expense	-0.2	-0.1	-	-	-0.3
Net fee and commission income/expense	**7.5**	**-0.1**	**-**	**-**	**7.4**
Net gain/loss on financial assets	-	1.1	-0.4	-	0.7
Net other operating income and expenses	-2.5	-0.2	2.7	-0.7	-0.7
Net operating income	**71.0**	**18.2**	**1.7**	**-1.1**	**89.8**
Operating expenses and expenses on provisions	-34.5	-7.9	-0.3	0.7	-42.0
Gain on change in the fair value of investment property	-	-	4.5	-	4.5
Profit before loss allowances	**36.5**	**10.3**	**5.9**	**-0.4**	**52.3**
Net loss allowances for loans and financial investments	-15.5	-	-	-	-15.5
Profit before income tax	**21.0**	**10.3**	**5.9**	**-0.4**	**36.8**
Income tax	-1.8	-1.7	-	-	-3.5
Profit for the year from continuing operations	**19.2**	**8.6**	**5.9**	**-0.4**	**33.3**

Segment assets and liabilities at 31 December 2022, restated

	Retail banking	Corporate banking	Other activities	Elimination	Total
Total assets	1,040.4	554.4	92.6	-42.4	1,645.0
Total liabilities	1,404.3	32.1	39.0	-42.4	1,433.0

(in millions of euros)

Note 24. Interest income

	2023	2022 restated
Interest income on loans to customers at amortised cost	130.5	94.5
Interest income on debt instruments	0.2	0.5
Interest income on deposits with banks and central banks	10.2	0.4
Interest income on liabilities	-	0.2
Total interest income	**140.9**	**95.6**

Note 25. Interest expense

	2023	2022
Interest expense on deposits	37.1	11.1
Interest expense on liabilities to banks	0.6	0.2
Interest expense on bonds	5.2	1.7
Other interest expense	-	0.2
Total interest expense	**42.9**	**13.2**

Note 26. Other operating income

	2023	2022
Rental income	3.5	3.6
Income from debt recovery proceedings*	0.8	0.5
Miscellaneous income	0.3	0.3
Total other operating income	**4.6**	**4.4**

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

Note 27. Other operating expenses

	2023	2022
Legal regulation charges	3.1	1.1
Expenses from investment properties	1.5	1.6
Expenses related to registry inquires	0.6	1.1
Expenses related to enforcement proceedings	0.5	0.5
Miscellaneous expenses	1.1	0.8
Total other operating expenses	**6.8**	**5.1**

(in millions of euros)

Note 28. Salaries and associated charges

	2023	2022
Salaries	18.8	16.7
Social security costs*	4.8	4.2
Employee health costs and fringe benefits including associated taxes	0.4	0.4
Total salaries and associated charges	**24.0**	**21.3**

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

Together with the capitalised payroll costs and associated taxes related to the development of Nest (see note 13), the amount of salaries and associated charges is 3.7 million euros larger.

The annual average number of full-time employees was 479 (2022: 461).

Note 29. Administrative expenses

	2023	2022
Marketing expenses	8.6	11.1
Short-term leases	0.2	0.1
Office and other similar administrative expenses	0.7	1.1
Other personnel-related expenses	1.4	1.5
Software licensing and other information technology costs	1.7	1.5
Other services	1.3	0.6
Postal supplies and charges	0.2	0.2
Telephone and other communications expenses	0.9	0.7
Miscellaneous operating expenses	0.2	0.2
Total administrative expenses	**15.2**	**17.0**

(in millions of euros)

Note 30. Earnings per share

	2023	2022 restated*
Profit from continuing operations (EUR million)	41.4	33.3
Profit from discontinued operations (EUR million)	-0.6	-0.6
Net profit for the year (EUR million)	**40.8**	**32.7**
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 from continuing operations (EUR)	517	416
Earnings per share from discontinued operations (EUR)	-7	-7
Earnings per share (EUR)*	**510**	**409**

* See notes 4 and 15.

At the end of 2023 and 2022 the Group did not have any potential dilutive ordinary shares. Therefore, diluted earnings per share equal basic earnings per share.

Dividend distributions

	Amount per share (EUR)	**Total amount** (EUR million)
Declared and paid in 2023	75.0	6.0
Declared and paid in 2022	75.0	6.0

After the reporting date, the management board has proposed that the company pay dividends of 8.0 million euros (100 euros per share) for the financial year 2023.

Note 31. Income tax

Income tax expense

	2023	2022
Profit before tax	48.5	36.2
Income tax (standard tax rate 20% in Estonia)	9.7	7.2
Effect of reduced tax rates (including 0%)	-2.0	-4.3
Adjustment of current tax for previous years	-	0.6
Effective tax	**7.7**	**3.5**
The parent company's domestic tax	2.7	1.0
Income tax in foreign jurisdictions	5.0	2.5

The above income tax expense has been calculated on the profit earned in Lithuania, Finland and Sweden and it includes the advance income tax that credit institutions are required to pay in Estonia. At the end of 2023, Latvia imposed advance income tax on credit institutions similar to Estonia. The tax is to be paid for the first time in 2024 and it is to be calculated on profit before tax for 2023. Therefore, income tax expense for the reporting period is more than two times larger than the figure for the previous period. The income tax payable on the distribution of profits earned in Latvia until 2022 would be 10.6 million euros and it is accounted for off the statement of financial position.

Consolidated profit before tax includes profit from both continuing and discontinued operations. The profit for 2022 has been restated.

Dividend distributions to shareholders had no income tax consequences in 2023 and 2022.

Contingent income tax liabilities

At 31 December 2023, the Group's retained earnings totalled 237.4 million euros (31 December 2022 (restated): 199.8 million euros).

Under the Estonian Income Tax Act, in 2023 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 47.5 million euros. Thus, the maximum amount that could be distributed as the net dividend is 189.9 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 24.5 million euros and the maximum amount that could be distributed as the net dividend is 212.9 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 related dividend tax expense cannot exceed total distributable profits at 31 December 2023.

Note 32. Leases

The Group as a lessee – operating leases

The Group has leases of office premises. Most lease terms fall in the range of 3 to 10 years. Leases of office premises can be cancelled by giving one month's to 10 years' notice and fixed-term lease contracts can be extended on market terms. 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 2023 (2022: 0.1 million euros).

(in millions of euros)

The Group recognised depreciation expense on the right-of-use assets of office premises of 0.6 million euros (2022: 0.7 million euros). See notes 11 and 35. For changes in lease liabilities, see note 20.

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	2023	2022
Up to 1 year	2.6	2.7
1 to 5 years	4.4	4.9
Over 5 years	0.9	0.9

For rental income and property management expenses, see note 12.

Note 33. Assets pledged as collateral

Assets are encumbered in connection with loans and other financing received against collateral. At 31 December 2023, no assets were pledged as collateral (31 December 2022: 0 million euros).

Note 34. Contingent liabilities

At 31 December 2023, the unused portions of credit lines and loans totalled 134.9 million euros (31 December 2022: 113.6 million euros).

Note 35. Additional cash flow information

Changes in liabilities arising from financing activities in 2023

	Subordinated bonds	Loans from other credit institutions	Lease liabilities
Opening balance	40.1	9.2	1.2
Cash flow items:			
Receipts	36.2	-	-
Payments	-5.3	-0.8	-0.6
Non-cash flow items:			
Accrued interest, revaluation and increase in liabilities	5.1	0.5	1.2
Balance at 31 December 2023	**76.1**	**8.9**	**1.8**

(in millions of euros)

Changes in liabilities arising from financing activities in 2022

	Subordinated bonds	Loans from central banks	Loans from other credit institutions	Lease liabilities
Opening balance	15.0	36.5	-	1.8
Cash flow items:				
Receipts	25.0	-	9.3	-
Payments	-1.2	-36.3	-0.3	-0.8
Non-cash flow items:				
Accrued interest, revaluation and increase in liabilities	1.7	-0.2	0.2	0.4
Transaction costs related to issue of bonds	-0.4	-	-	-
Transfer to liabilities related to assets held for sale (note 15)	-	-	-	-0.2
Balance at 31 December 2022	**40.1**	**-**	**9.2**	**1.2**

Note 36. Related party disclosures

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 related to the above persons, except where the persons cannot exert significant influence on the company's operating decisions.

In 2023, the remuneration of the members of Group companies' management boards and supervisory board including taxes amounted to 1.8 million euros (2022: 1.9 million euros) and 95 thousand euros (2022: 70 thousand euros), respectively.

At 31 December 2023, the Group had receivables from related parties *(Loans to customers)* of 10.4 million euros (31 December 2022: 9.4 million euros), which were classified as stage 1 items. The receivables did not include any loss allowances because all loans are secured (31 December 2022: loss allowances amounted to 9 thousand euros). Interest income on the receivables amounted to 0.6 million euros (2022: 0.3 million euros) and expenses on their loss allowances amounted to 16 thousand euros in 2023 (2022: 16 thousand euros). The loans have been provided to the related parties on market terms. At the reporting date, management and supervisory board members and parties related to them held 748 Bigbank bonds with a total nominal value of 748 thousand euros (31 December 2022: 245 thousand euros).

(in millions of euros)

At 31 December	2023	2022
Loans to customers	10.4	9.4
Of which to members of management and supervisory boards	1.8	1.8
Of which to companies related to related parties	8.6	7.6
Subordinated bonds	0.7	0.2
Of which held by members of management and supervisory boards	0.7	0.2

The Group finances subsidiaries and branches with long-term loans. Such loans are eliminated from the consolidated financial statements.

Note 37. Events after the reporting period

The Group's subsidiary Palupera Põllud OÜ (the acquiree) was merged with the Group's subsidiary OÜ Rüütli Property (the acquirer). The merger resolutions were adopted on 2 January 2024 and the merger was registered in the Commercial Register on 12 February 2024. Palupera Põllud OÜ was deleted from the Commercial Register as of 12 February 2024. For the purpose of the statement of financial position, the date of the merger was 1 January 2024.

The Group resumed the issuance of consumer loans at its Bulgarian branch from 1 January 2024 (issuance of the consumer loans was suspended at the end of 2022).

Note 38. Material accounting policies

This note contains material accounting policies applied in the preparation of the consolidated financial statements, which have not been disclosed in the previous notes. The policies have been consistently applied in all periods presented unless otherwise specified.

The Group started to disclose its accounting policy information in accordance with amendments to IAS 1 and IFRS Practice Statement 2 as from 1 January 2023. The purpose of the amendments is to enable companies to provide more useful information about their accounting policies. The amendments require the disclosure of material, rather than significant accounting policies.

Accounting policy information is material if omitting, misstating or obscuring it could influence the decisions that the primary users of the financial statements make on the basis of those financial statements.

While the adoption of the amendments did not result in any changes in accounting policies, in some cases it affected the accounting policy disclosures presented in this note.

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.

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. Intragroup balances and transactions and any unrealised income and expenses and gains and losses arising from intragroup 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 a 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. The 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 the 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 classified 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 valuation 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 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 FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value, adjusted for transaction costs or day 1 profit or loss (see the section *Loans to customers*). 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 amortised cost 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 the 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 to the following measurement categories: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) and amortised cost. The classification and subsequent measurement of debt instruments 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 the 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 things, the following factors: a significant change in the interest rate, a change in the currency denomination, a 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 the 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 the 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.

Financial liabilities – measurement categories

Financial liabilities are classified as subsequently measured at amortised cost, 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 amortised cost 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 amortised cost 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, considered to be stage 1 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 to customers are recognised when the Group makes a payment to purchase or give a loan to a customer. Based on the business model and the cash flow characteristics, the Group classifies loans to customers as:

- Loans measured at amortised cost. These are loans held to collect contractual cash flows and the cash flows represent solely payments of principal and interest (SPPI) if the loans have not been voluntarily designated as at FVTPL. Loss allowances are determined based on forward-looking ECL models.

- Loans measured at FVTPL. These include loans with the features of a hybrid instrument (e.g. loans with investment risk) and transactions for the acquisition of agricultural land that grant the seller a repurchase option. Loans with the features of a hybrid instrument comprise the host (non-derivative) component and the component of the underlying asset and their objective is to collect cash flows consisting of principal and interest payments as well as potential additional cash flows from the gain on the sale of the underlying asset at the end of the contract term. Transactions for the acquisition of agricultural land are financial instruments whose contractual cash flows do not pass the SPPI test: a) the contractual cash flows of the instruments are inconsistent with the criteria for basic lending arrangements – for example, their interest does not reflect the usual market interest rate because it includes more than the consideration for the time value of money, credit risk, other basic lending risks and a profit margin; and b) the instruments include options: instead of repaying the loan the seller may decide to waive the rights to the property put up as collateral in which case the Group will lose the rights to the contractual cash flows of the instrument and will acquire the property. Due to their business model and cash flows, they do not meet the SPPI requirement and do not qualify as instruments held for sale. Accordingly, they are not measured at amortised cost or at FVOCI.

  The Group measures the fair value of loans to customers measured at FVTPL (i.e. financial instruments not traded in an active market) using a valuation technique, whereby the present value of an instrument is found by discounting all expected future cash flows at prevailing market interest rates. The market interest rate is calculated using a model, which uses as inputs both market data on instruments with similar currency, maturity, interest rate, credit risk and other characteristics and the Group's internal data.

  Differences may arise between the fair value at initial recognition (which, in accordance with IFRS 13 and IFRS 9, is normally the transaction price) and the amount determined at initial recognition using the valuation technique. Any such differences are deferred as day 1 gains or losses. The deferred day 1 gain or loss is presented in the statement of financial position within *Loans to customers* as an adjustment to the initial carrying amount of the financial asset. The day 1 gain or loss is subsequently recognised on a straight-line basis over the term of the contract as a gain or loss on financial assets at FVTPL.

  In subsequent periods, the change in the fair value of loans to customers (the valuation difference arising from changes in factors (including time) that affect fair value) is recognised as a gain or loss on financial assets at FVTPL. Fair value is adjusted when the factors that affect it such as time, interest rates, the value of the underlying asset, etc. change.

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. 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 and defaulted loans, including loans which are restructured due to the financial difficulties of the counterparty. As in case of stage 2 loans, the allowance for credit losses captures lifetime ECL where the PD is equal to 100%.

Signs of a significant increase in credit risk include a past due status of 30 or more days for a contractual payment exceeding the amount of 100 euros for retail loans and 500 euros for other loans during the last six months of a reporting period, or where a behavioural model identifies a significant increase in credit risk compared to the initial PD of the loan. In the case of corporate exposures, a loan is categorised as a loan with a significant increase in credit risk in the event of a significant deterioration in the credit rating or by the decision of the credit committee, when other factors have been identified that significantly increase credit risk. 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.

Expected credit loss

The impairment methodology is based on the expected credit loss (ECL) formula according to which the ECL is calculated by multiplying the probability of default (PD), loss given default (LGD) and exposure at default (EAD). These are the main parameters the Group uses to assess credit risk. PD reflects how high is the probability that a contract or a customer will experience a settlement default. LGD reflects the rate of loss that may occur in the event of default on the basis of country- and product-specific loss rates identified using historical loss statistics, which have been adjusted, if necessary, to reflect the assessments of experts. EAD is the expected total amount of the receivables at the time of default.

Credit risk is assessed using the expected credit loss (ECL) formula:

Expected credit loss (ECL) = probability of default (PD) * loss given default (LGD)* exposure at default (EAD).

In 2023, the model was updated in both the second and the fourth quarter. As a result of revisions, the expected credit loss allowance increased by 1.8 million euros. Updates to the model are reported to the Group's management board and communicated to the managements of the branches.

Default on meeting obligations and write-off

A contract is classified as non-performing in the following situations, which indicate that a customer will not meet their financial obligations and has or may become insolvent:

- past due payments: when both the relative materiality threshold (the ratio of the past due amount to the total loan amount is 1%) and the absolute materiality threshold (100 euros for the principal and/or interest receivables of retail loans and 500 euros for the principal and/or interest receivables of other loans) are more than 90 days past due;
- collection of payments has become doubtful: the loan (agreement) is performing but there is objective evidence that makes it reasonable to assume that the customer will be 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 letter of contract termination, including a claim for payment, has been sent to the customer; b) the customer is, or recently was, in financial difficulty and is now being restructured; c) the customer is bankrupt or deceased or bankruptcy, liquidation or debt restructuring proceedings have been initiated in respect of the customer; d) identity theft, i.e. misuse of the credit receiver's identity has been identified.

If a receivable from a customer that has been classified as non-performing accounts for over 20% of the total amount of receivables from the customer, other loans to the customer are also classified as non-performing even if they are not non-performing according to the above criteria.

For the classification of a loan as performing, the following rules apply:

- Contracts which have been classified as non-performing because the contract of a customer that is having or recently had payment difficulties is restructured are subject to a one-year monitoring period. If no contractual payment is over 30 days past due during the one-year period and there is no other indication of insolvency, monitoring ceases. If a contractual payment is over 30 days past due or there are other indications of insolvency, the monitoring period is renewed for another year.

- Contracts with past due payments or other indications that collection of the receivables may be doubtful are subject to a three-month monitoring period – at least three months have to pass since the contract was over 30 days past due.

If a receivable is uncollectible or its collection is impossible or impractical, it 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 for loans and financial investments.*

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

Impairment methodology for loans secured by collateral

Corporate loans secured by real estate are assessed for impairment on an individual basis. The Group recognises an individual impairment allowance for a receivable or a group of receivables when the need for a loss allowance has been identified. In the case of individual assessment, the unsecured portion is determined by evaluating the net realisable value of collateral. An important parameter for determining the unsecured portion is the ratio of the loan amount to the market value of the collateral (Loan-to-Value, LTV), which is determined separately for each type of real estate.

After that the impairment loss on the unsecured portion is identified using the discounted cash flow method. The discount rate applied 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 loans whose amount is not individually significant and whose individual assessment would not be reasonable.

PROPERTY, PLANT AND 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 profit or loss on a straight-line basis over the estimated useful life of each item and separately identifiable 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 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.

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 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 to five 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) on changes in the fair value of investment properties.* Fair value is determined based on the market value determined by an independent real estate expert and/or management's estimates.

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

A discontinued operation is a component of the Group that has operations and cash flows that can be clearly distinguished from the rest of the Group and that: a) represents a separate major line of business or geographical area of operations; b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or c) is a subsidiary acquired exclusively for resale.

A component of the Group is classified as a discontinued operation when it has been disposed of or it qualifies for classification as held for sale, whichever is earlier.

When a component has been classified as a discontinued operation, the statement of comprehensive income is re-presented as if the component had been a discontinued operation at the beginning of the comparative period.

FAIR VALUE MEASUREMENT

The Group measures financial instruments such as derivatives, 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 6.

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 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 assessed for impairment consistent with the Group's policy which is described in note 38 *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 three 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 five 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 term and it is included in revenue in 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 bonds 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 bonds

A bond is classified as a subordinated bond if on the winding up or bankruptcy of the credit institution the bond 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 payments 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 they are fully secured by mortgages. 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 for 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 expense include all interest and similar income and expense. Income and expense similar to interest include income (including contract fees) and expense related to the contractual/redemption term or the size of an 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. The incremental costs of obtaining contracts are capitalised and recognised in profit or loss during the term of the contract.

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 OPERATING INCOME

Other operating income comprises:

- various operating income, including revenue from the sale of services, which is recognised in the period in which the service is provided (e.g. the lease income of a subsidiary), and revenue from the sale of goods, which is recognised when the goods are sold to the customer;
- 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;
- dividend income (in the parent's financial statements), which is recognised when the right to receive payment is established.

OTHER OPERATING EXPENSES

Other operating 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 (including services related to space leased out);
- expenses related to securities.

Other operating 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.*

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). 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. Since 2018, credit institutions operating in Estonia have had the obligation to pay advance income tax at the rate of 14% of their pre-tax quarterly profit, which is recognised as an expense. The advance income tax is not refundable but it may be deducted from the income tax payable on a dividend distribution. 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). Similar to Estonia, Latvia has imposed advance income tax on credit institutions, which is to be paid at the rate of 20% of profit before tax for the previous year. The tax is to be paid for the first time in 2024 and it is to be calculated on the profit for 2023. The Group recognises the tax as an expense.

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%.

(in millions of euros)

Corporate income tax rates

	2024	2023	2022
Estonia*	14.0%	14.0%	14.0%
Bulgaria	10.0%	10.0%	10.0%
Lithuania	15.0–20.0%	15.0–20.0%	15.0–20.0%
Latvia	20.0%	20.0%	-
Sweden	20.6%	20.6%	20.6%
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.

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 and a deferred income tax liability need 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's shares are not listed on the stock exchange. Therefore, the information presented in note 30 to the financial statements is voluntary.

Note 39. New standards not yet effective

The following new and amended standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted. The Group has not early adopted any of these new and amended standards and does not expect that they will have a material impact on its consolidated financial statements when they become effective.

- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)
- Non-Current Liabilities with Covenants (Amendments to IAS 1)
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)
- Lack of Exchangeability (Amendments to IAS 21)

Other new or amended standards and interpretations not yet effective for the reporting period ended 31 December 2023 are not expected to have a material effect on the Group's financial statements. The Group plans to adopt them when they become effective.

Note 40. 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)	**2023**	**2022 restated**
Assets		
Cash and balances at central banks	495.1	151.1
Due from other banks	18.8	18.9
Debt instruments at FVOCI	15.4	19.2
Loans to customers	1,656.1	1,350.1
Receivables from subsidiaries	36.4	36.6
Investments in subsidiaries	0.8	0.6
Property, plant and equipment	6.9	3.0
Investment properties	0.5	0.1
Intangible assets	29.2	30.0
Current tax assets	0.4	1.1
Other assets	2.4	3.5
Total assets	**2,262.0**	**1,614.2**
Liabilities		
Deposits from customers	1,937.4	1,367.8
Liabilities to subsidiaries	1.8	1.8
Subordinated bonds	76.1	40.1
Current tax liabilities	3.0	0.4
Other liabilities	20.9	13.8
Total liabilities	**2,039.2**	**1,423.9**
Equity		
Paid-in share capital	8.0	8.0
Capital reserve	0.8	0.8
Other reserves	0.3	0.2
Retained earnings	213.7	181.3
Total equity	**222.8**	**190.3**
Total liabilities and equity	**2,262.0**	**1,614.2**

Statement of comprehensive income

(in millions of euros)	2023	2022 restated
Interest income	143.2	97.5
Interest expense	-42.5	-13.1
Net interest income	**100.7**	**84.4**
Net fee and commission income	8.3	7.4
Loss on sale of debt instruments at FVOCI	-0.1	-1.3
Net gain on financial assets at FVTPL	8.9	1.6
Net gain/loss on exchange differences	0.1	-0.4
Net income/loss on financial assets	8.9	-0.1
Net loss on derecognition of non-financial assets	-1.4	-0.1
Other operating income	1.1	0.8
Other operating expenses	-5.4	-3.4
Total net operating income	**112.2**	**89.0**
Salaries and associated charges	-24.0	-21.3
Administrative expenses	-15.5	-17.6
Depreciation, amortisation and impairment	-6.4	-3.4
Total operating expenses	**-45.9**	**-42.3**
Provision expenses	0.4	-0.1
Profit before loss allowances	**66.7**	**46.6**
Net loss allowances for loans and financial investments	-20.9	-15.5
Profit before income tax	**45.8**	**31.1**
Income tax	-7.7	-3.5
Profit for the year	**38.1**	**27.6**
Other comprehensive income/expense	**0.4**	**-0.5**
Other comprehensive income/expense that may be reclassified subsequently to profit or loss:	0.4	-0.5
Exchange differences on translating foreign operations	-0.1	0.4
Changes in the fair value of debt instruments at FVOCI	0.5	-0.9
Total comprehensive income for the year	**38.5**	**27.1**

Statement of cash flows

(in millions of euros)	2023	2022
Cash flows from operating activities		
Interest received	136.3	90.8
Interest paid	-10.8	-7.7
Salary, administrative and other expenses paid	-49.3	-46.5
Other income and fees received	9.5	12.0
Recoveries of receivables previously written off and proceeds from the sale of portfolio items	10.1	8.0
Received for other assets	1.0	0.3
Loans provided	-787.4	-861.5
Repayment of loans provided	472.7	395.7
Change in mandatory reserves with central banks and related interest receivables	-6.6	-4.4
Proceeds from customer deposits	1,677.2	1,155.9
Paid on redemption of deposits	-1,133.2	-684.2
Income tax paid	-4.8	-4.6
Effect of movements in exchange rates	-0.2	-
Net cash from operating activities	**314.5**	**53.8**
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	-5.4	-6.2
Paid for investment in subsidiaries	-0.2	-
Acquisition of financial instruments	-	-7.7
Proceeds from redemption of financial instruments	4.4	31.9
Net cash used in / from investing activities	**-1.2**	**18.0**
Cash flows from financing activities		
Proceeds from issue of bonds	36.2	25.0
Interest paid on bonds	-5.3	-1.2
Loan repayments to a central bank	-	-36.3
Payments of principal lease liabilities	-0.9	-0.6
Dividends paid	-6.0	-6.0
Net cash from / used in financing activities	**24.0**	**-19.1**
Effect of movements in foreign exchange rates	-	-0.8
Increase in cash and cash equivalents	**337.3**	**51.9**
Cash and cash equivalents at beginning of year	161.4	109.5
Cash and cash equivalents at end of year	**498.7**	**161.4**

Cash and cash equivalents

At 31 December (in millions of euros)	**2023**	**2022**
Demand and overnight deposits with credit institutions	18.8	18.9
Demand and overnight deposits with central banks	475.2	141.5
Surplus on mandatory reserves with central banks	4.7	1.0
Total	**498.7**	**161.4**

Statement of changes in equity

(in millions of euros)	Share capital	Capital reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2022	**8.0**	**0.8**	**0.6**	**159.7**	**169.1**
Profit for the year, restated	-	-	-	27.6	27.6
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	0.4	-	0.4
Net change in fair value of debt instruments at FVOCI	-	-	-0.8	-	-0.8
Total other comprehensive expense	**-**	**-**	**-0.4**	**-**	**-0.4**
Total comprehensive income for the year	**-**	**-**	**-0.4**	**27.6**	**27.2**
Dividend distribution	-	-	-	-6.0	-6
Total transactions with shareholders	-	-	-	-6.0	-6.0
Restated balance at 31 December 2022	**8.0**	**0.8**	**0.2**	**181.3**	**190.3**
Balance at 1 January 2023	**8.0**	**0.8**	**0.2**	**181.3**	**190.3**
Profit for the year	-	-	-	38.1	38.1
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	-0.1	-	-0.1
Net change in fair value of debt instruments at FVOCI	-	-	0.5	-	0.5
Revaluation of land and buildings	-	-	-0.3	0.3	-
Total other comprehensive income	**-**	**-**	**0.1**	**0.3**	**0.4**
Total comprehensive income for the year	**-**	**-**	**0.1**	**38.4**	**38.5**
Dividend distribution	-	-	-	-6.0	-6.0
Total transactions with shareholders	**-**	**-**	**-**	**-6.0**	**-6.0**
Balance at 31 December 2023	**8.0**	**0.8**	**0.3**	**213.7**	**222.8**

At 31 December	2023	2022
Unconsolidated equity at end of year	**222.8**	**190.3**
Investments in subsidiaries:		
Carrying value (cost)	-0.8	-0.6
Carrying value under the equity method	26.0	22.3
Adjusted unconsolidated equity at end of year	**248.0**	**212.0**

Signatures

The management board has prepared the review of operations and the financial statements of Bigbank AS for the financial year that ended on 31 December 2023.

Martin Länts
Chairman of the Management Board

Mart Veskimägi
Member of the Management Board

Argo Kiltsmann
Member of the Management Board

Ingo Põder
Member of the Management Board

Ken Kanarik
Member of the Management Board

Signed digitally on 28 February 2024

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 2023, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material 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 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the *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.

Impairment of loans to customers	
Refer to Note 3 "Significant accounting estimates and assumptions", Note 5 "Risk and capital management", Note 9 "Loans to customers", Note 10 "Loss allowances for loan receivables" and Note 38 "Significant accounting policies".	
The key audit matter	**How the matter was addressed in our audit**
As at 31 December 2023, loans and advances to customers at amortised cost amounted to EUR 1 621 million and related impairment loss allowance to EUR 35 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	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.

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 38 subsection Impairment methodology for financial assets. Critical accounting estimates and judgments are set out in Note 3 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.	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 loan 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 probability of default 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.

Other Information

Management is responsible for the other information. The other information includes Bigbank Group at a glance, letter from the CEO, the review of operations, the social responsibility and sustainability report and the 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 of this other information, 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 by 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 scepticism 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.

Report on Other Legal and Regulatory Requirements

Report on Compliance with the Requirements for iXBRL tagging of Consolidated Financial Statements included within the European Single Electronic Format Regulatory Technical Standard (ESEF RTS)

We have undertaken a reasonable assurance engagement on the iXBRL tagging of the consolidated financial statements included in the digital files 5493007SWCCN9S3J2748-2023-12-31-et.zip prepared by AS Bigbank.

Responsibilities of Management for the Digital Files Prepared in Compliance with the ESEF RTS

Management is responsible for preparing digital files that comply with the ESEF RTS. This responsibility includes:

– the selection and application of appropriate iXBRL tags using judgement where necessary;

– ensuring consistency between digitised information and the consolidated financial statements presented in human-readable format; and

– the design, implementation and maintenance of internal control relevant to the application of the ESEF RTS.

Auditors' Responsibilities

Our responsibility is to express an opinion on whether the electronic tagging of the consolidated financial statements complies in all material respects with the ESEF RTS based on the evidence we have obtained.

We apply the provisions of the International Standard on Quality Management (Estonia) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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 conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ISAE 3000) issued by the International Auditing and Assurance Standards Board.

A reasonable assurance engagement in accordance with ISAE 3000 (Revised) involves performing procedures to obtain evidence about compliance with the ESEF RTS. The nature, timing and extent of procedures selected depend on the practitioner's judgment, including the assessment of the risks of material departures from the requirements set out in the ESEF RTS, whether due to fraud or error. A reasonable assurance engagement includes:

– obtaining an understanding of the tagging and the ESEF RTS, including of internal control over the tagging process relevant to the engagement;

– reconciling the tagged data with the audited consolidated financial statements of the Group dated 31 December 2023;

– evaluating the completeness of the tagging of the consolidated financial statements;

– evaluating the appropriateness of the Group's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;

– evaluating the use of anchoring in relation to the extension elements.

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

In our opinion, the consolidated financial statements included in the annual report of AS Bigbank identified as 5493007SWCCN9S3J2748-2023-12-31-et.zip for the year ended 31 December 2023 are tagged, in all material respects, in compliance with the ESEF RTS.

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 27 December 2022 to audit the consolidated financial statements of AS Bigbank for the year ended 31 December 2023. Our total uninterrupted period of engagement is 4 years, covering the periods ending 31 December 2020 to 31 December 2023.

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 2024

(signed digitally)

Eero Kaup

Certified Public Accountant,
Licence No 459

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Profit allocation proposal

Total consolidated retained earnings of Bigbank AS at 31 December 2023 comprise:

Earnings retained in prior years at 31 December 2023	196.6 million euros
Net profit for 2023	40.8 million euros
Total retained earnings at 31 December 2023	**237.4 million euros**

The management board of Bigbank AS proposes that the general meeting distribute the profit for the year ended 31 December 2023 as follows:

1. Dividend distribution (100.00 euros per share)	8.0 million euros
2. Transfer to retained earnings	32.8 million euros
Balance of retained earnings after allocations	229.4 million euros

on 28 February 2024

Revenue by EMTAK

Area of activity	EMTAK code	2023 (in millions of euros)
Consolidated revenue		
Credit institutions (banks)	64191	150.6
Rental and operating of own or leased real estate	68201	3.5
Total consolidated revenue		**154.1**
Unconsolidated revenue		
Credit institutions (banks)	64191	152.9
Total unconsolidated revenue		**152.9**

EMTAK – Estonian classification of economic activities

Liisi Zingel
Office Specialist