Krediidipank

Annual Report 2014

Consolidated Annual Report 2014

Business name: Public Limited Company (AS) Eesti Krediidipank
Legal address: Narva road 4, 15014 Tallinn, Republic of Estonia
Registry code: 10237832
Telephone: +372 669 0900
Fax: +372 661 6037
E-mail: info@krediidipank.ee
Website: www.krediidipank.ee
Auditor: AS PricewaterhouseCoopers
Beginning and end of the financial year: 01.01.2014-31.12.2014

Attached documents:
Independent auditor's report
Proposal for profit allocation

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Management Board declaration

All data and supplementary information presented in the 2014 consolidated financial statements of AS Eesti Krediidipank are true and complete; no omissions have been made with regard to data or information that would affect the content or meaning of the information. The consolidated financial statements give a true and fair view of the financial position, performance and cash flows of AS Eesti Krediidipank Group.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and referred to in § 17 of the Accounting Act of Estonia. These 2014 consolidated financial statements of AS Eesti Krediidipank are in compliance with the laws of the Republic of Estonia. AS Eesti Krediidipank and the subsidiaries of the bank are going concern.

The 2014 consolidated financial statements of AS Eesti Krediidipank will be presented to the general meeting of shareholders for approval in April 2015. The previous 2013 consolidated financial statements were approved by the general meeting of shareholders at 22.04.2014.

Valmar Moritz /signed/
Chairman of the Management Board

Uku Tammaru /signed/
Vice Chairman of the Management Board

Marina Laaneväli /signed/
Member of the Management Board

Janek Uiboupin /signed/
Member of the Management Board

General information

Business name	AS Eesti Krediidipank	
Registered	15.03.1992 in Tallinn	
Address	Narva road 4, 15014 Tallinn, Estonia	
Commercial register number	10237832 (Commercial Register of the Republic of Estonia)	
Date of first entry	19.08.1997	
Phone	+ 372 669 0900	
Fax	+ 372 661 6037	
SWIFT/BIC	EKRDEE22	
Email address	info@krediidipank.ee	
Website	www.krediidipank.ee	
Auditor	AS PricewaterhouseCoopers	
Commercial register number of the auditor	10142876 (Commercial Register of the Republic of Estonia)	
Address of the auditor	Pärnu mnt 15, Tallinn 10141	
Balance sheet date of the financial statements	31.12.2014	
Reporting period	01.01.2014 - 31.12.2014	
Reporting currency	euro (EUR), in thousands	
Shareholders holding in excess of 1% of the shares	Bank of Moscow	59.7304%
	BSI SA*	9.9995%
	East European Capital Investment Ltd	9.8104%
	Radio Elektroniks OÜ	9.2797%
	Raiffeisen Bank International AG*	6.2172%
	Firmex Investeeringud OÜ	3.8997%
	Total percentage of votes represented	98.9370%
Members of the supervisory board	Andrus Kluge, Chairman of the Supervisory Board	
	Timur Dyakov	
	Arthur Klaos	
	Boris Beliaev	
	Ain Soidla	
Members of the management board	Valmar Moritz, Chairman of the Management Board	
	Uku Tammaru, Vice Chairman of the Management Board	
	Marina Laaneväli	
	Janek Uiboupin	
	Marju Arras, until 30.06.2014	
Entities belonging to the group	AS Eesti Krediidipank, parent company	
	Krediidipanga Liisingu AS	
	AS Martinoza	
	AS Krediidipank Finants	

* nominee account

The following definitions are used for the purposes of this report:

- "Parent company" - AS Eesti Krediidipank, including its Latvian branch, hereinafter also referred to as "Eesti Krediidipank", "Krediidipank" and "bank";
- "AS Eesti Krediidipank group" - parent company AS Eesti Krediidipank and the following companies belonging to the group: AS Martinoza, Krediidipanga Liisingu AS and AS Krediidipank Finants, hereinafter also referred to as "Krediidipank group", "group"

Management report
2014

AS Eesti Krediidipank group

Legal structure
The following companies were part of AS Eesti Krediidipank group as at 31.12.2014:

Name of the Company	Address	Field of activity	Commercial register number Reg. date	Participation
AS Eesti Krediidipank	Narva road 4 Tallinn	banking	10237832 19.08.1997	parent company
Krediidipanga Liisingu AS	Narva road 4 Tallinn	leasing	10079244 27.08.1996	100%
AS Martinoza	Narva road 4 Tallinn	real estate management	10078109 28.10.1996	100%
AS Krediidipank Finants	Narva road 4 Tallinn	other credit granting	12546980 03.10.2013	AS Eesti Krediidipank ownership interest of 51%

All companies are registered in the Commercial Register of the Republic of Estonia. The parent company is AS Eesti Krediidipank.

The aforementioned companies are consolidated on a line-by-line basis and all intra-group receivables and payables, transactions between group companies and income and expenses have been eliminated in full.

The decision was made to merge the subsidiaries of AS Martinoza that were previously included in the group, Murru-Murikatsi Põllumajandussaadused OÜ and Äigrumäe Kinnisvara OÜ, into the parent company AS Martinoza at 01.10.2014, an application was submitted to the Commercial Register at 26.12.2014 and the register entry was made at 09.01.2015.

AS Krediidipank Finants is included in the AS Eesti Krediidipank group and it is considered to be a subsidiary because control over the company exists both on the shareholders level and the level of the supervisory board.

The definition of group according to the Regulation (EU) No 575/2013 of the European Parliament and of the Council matches that of IFRS.

Principles of organisational structure
The core activity of AS Eesti Krediidipank group is providing banking services as a credit institution. The activities of subsidiaries are primarily based on providing support services to the bank as a credit institution.
The structure of the group is designed and approved by the management board of the bank in accordance with the provisions of legislation, the articles of association and strategies of the bank and its subsidiaries, as well as by adhering to the instructions provided by the supervisory board and the development priorities of the bank.
The group's organisational structure is mainly based on a divisional and functional structure. Responsibility for the activities of the bank and its subsidiaries is divided between the members of the bank's management board according to field of activity and function, thereby establishing areas of responsibility.

The allocation of areas of responsibility among members of the management board is based on the principle of separation of functions, which ensures the separation of controlling entities from controlled entities. Departments are formed in order to manage the activities of fields of activity/functions within the area of responsibility of a management board member either according to the functional or business segment criteria.
The allocation of areas of responsibility among members of the management board is decided by the supervisory board of the bank.
The management board of the bank decides the competence, formation and staffing of the departments and it will also approve the organisational structure.

Description of general principles of management
AS Eesti Krediidipank group acts on the basis of the principle of consolidation, which entails the establishment of collective and coordinated objectives, the sharing of common core values and the formation of competent governing bodies to manage risks across the entire group.
The strategy, objectives and risk management policy of the group are approved by the supervisory board of the bank.
The management board of the bank and the supervisory boards of the companies that are part of the group approve a plan of action that is more detailed for the specific company and targeted to the specific company in consideration of the bank's group strategy, objectives and risk appetite approved by the supervisory board of the bank.
The core values expressed by the group strategy are shared by all of the group companies of the bank.
The group manages risks across the entire group. In order to improve the effectiveness of risk management, the following competent bodies have been established on the group level:

- Credit Committee and Credit Commission for following a common credit policy when making lending decisions;
- Price Committee for the management of real estate risk and recovered credit risk collateral;
- Asset/Liability Management Committee for the management of liquidity risk, interest rate risk of the bank portfolio and securities portfolio, designing of the structure of assets and liabilities, management of profitability and management of capital.

Persons that have close links with AS Eesti Krediidipank
According to the Regulation (EU) number 575/2013 of the European Parliament and of the Council, close links is defined as a situation in which two or more natural or legal persons are linked in any of the following ways:

- participation in the form of ownership, direct or by way of control, of 20% or more of the voting rights or capital of an undertaking;
- control;
- a permanent link of both or all of them to the same third person by a control relationship.

According to the aforementioned definition, the following persons have close links to AS Eesti Krediidipank:
1. Bank of Moscow, Rozhdestvenka Street 8/15, Moscow; ownership interest in share capital of 59.7304%;
2. Subsidiaries that are part of the AS Eesti Krediidipank group

Overview of activities and significant events

The year 2014 was very high in political tensions globally and as a result many experienced difficulties, however despite of everything, Estonia ended the previous year with an economic growth rate of 2% and the year 2014 was also successful for the AS Eesti Krediidipank group.

Comprehensive income of the AS Eesti Krediidipank group in 2014 was 1.4 million euros. At the same time, the group's total assets decreased by approximately 4 million euros and amounted to 256.0 million euros at the year-end.

The decrease in total assets was partially related to a decline in the deposits of business customers - the amount of such deposits decreased to 60.6 million euros. At the same time, the amount of deposits held by private individuals experienced strong growth during the year and reached 147.2 million euros.

The loan volume of business customers remained approximately the same in the group's loan portfolio when compared with the previous year. However, total loans to private individuals increased substantially to 112.8 million euros.

The introduction of a new small loan product - Target loan (Sihtlaen) - was the year's biggest success. Approximately 6 million euros of such loans were granted during the year. The lender of the target loans is a subsidiary of Krediidipank, AS Krediidipank Finants.

The subsidiary of the bank, AS Martinoza, continued its successful disposition of real estate purchased in previous years. The average vacancy rate of the larger commercial buildings that have been leased out was stable and favourable during the year. The rents of office buildings also remained stable and experienced a moderate growth trend.
The operating profit of AS Martinoza for the year 2014 was in excess of 0.4 million euros.

In August, Martinoza signed a general contracting contract for the construction of an apartment building with 25 apartments in the Sikupilli subdistrict, due for completion in June 2015.
In addition, the process of merging the subsidiaries Murru-Murikatsi Põllumajandussaadused OÜ and Äigrumäe Kinnisvara OÜ with AS Martinoza was completed.

As a result of the business activities in the year 2014 of the bank's subsidiary, Krediidipanga Liisingu AS, the leasing and loan portfolio grew from 27.3 million euros to 27.6 million euros. During the year, leasing projects amounting to a total of 5.26 million euros were financed. The profit for the year 2014 was 0.4 million euros.
The leasing portfolio was comprised of 63% real estate, 33% passenger vehicles and vans, 4% machinery and other equipment.

Events in 2014

15.01.2014
New product – Target loan (Sihtlaen). Krediidipank in co-operation with AS Cofi launched Target loan (Sihtlaen) on the market. It is a consumer ("small") loan requiring no collateral and the response to a loan application is received in a couple of minutes.

01.02.2014
Transition to SEPA and e-invoice payment via standing order. A new European Union directive coming into force brought forth longer account numbers, slower bank transfers and e-invoice payment via standing order replacing former direct debit orders.

23.05.2014
Scholarship laureates of ROF announced. The Rein Otsason Foundation awarded three traditional scholarships of 2000 euros to young Estonian researchers. The scholarship laureates were Karoline Jostov, Sten Sonts and Jürgen Kaevats.

01.08.2014
Settlements (Arveldaja) package. As an innovation, we offer our individual customers the Settlements (Arveldaja) package for fixed monthly fee, which offers all of the most popular banking services at no additional charge.

13.08.2014
Martinoza is constructing. AS Martinoza and Nordlin Ehitus OÜ entered into an agreement for the construction of an apartment building in the Sikupilli subdistrict of Tallinn. The building to be constructed will have 25 apartments.

16.12.2014
Extraordinary meeting of shareholders of Eesti Krediidipank. The meeting of shareholders resolved to convert the share capital of the bank into euros and as a result the relevant sections of the articles of association were amended. According to the resolution, the share capital of AS Eesti Krediidipank is 25,000,703 euros, which is divided into 39,117,600 shares of no par value.

Outlook of Krediidipank group in the year 2015

Target customer
Krediidipank is a universal bank that provides a wide range of banking services, including settlements, online banking, credit and debit cards, deposits, loans and leasing.

Krediidipank offers its customers the following value:

• Suitability of banking products
Banking products are developed with the needs of the target customer, estimated profitability and activities of competitor banks in mind.

• Comprehensiveness of banking products
Eesti Krediidipank is a universal bank which enables its customers to handle all of their everyday banking needs in one place.

• Accessibility of banking products
Branches of Eesti Krediidipank are located in all of the major attraction centres of Estonia, as well as in Riga, and are easily accessible. We are continually developing our online banking in order to enhance the electronic banking and to expand its possibilities. Our objective is to enable the digital signing of all contracts.

• Simplicity
The products of Eesti Krediidipank are simple to use and easy to understand.

• Friendliness
The service culture of Eesti Krediidipank is friendly, customer-oriented and personal.

• Competence
The employees of Eesti Krediidipank are competent, accurate and effective. Doing business with Eesti Krediidipank is simple and quick.

AS Eesti Krediidipank has the following priorities for the upcoming years:

- Capital efficiency

Different assets require different equity backing. Krediidipank is capable of offering products based on the needs of its customers that involve a minimum of equity, are of a balanced risk to income ratio and are suitably priced for the customer and the bank.

- Cost-effectiveness

The objective of Krediidipank is not to offer a range of products that is as wide as possible but instead to offer a sufficient selection of products on a good level and at a fair price for the customers to handle their everyday financial matters. A suitable structure ensures a good opportunity for selling products as the bank focuses on sales and customer service locations and the consolidation of support activities.

- Changing organisation

Krediidipank is transforming its organisation to be more sales-oriented. In order to accomplish that, we are restructuring the management of the retail network, consolidating business account managers into regions and consolidating supporting divisions.

- Valued employer

Employees are an important asset of Krediidipank. Our objective is to be a valued employer for the best employees. Our aim is to improve management and work performance through the provision of honest feedback. As an employer, we support our employees' desire for development and contribute to helping our employees find or create learning opportunities.

Key financial indicators and ratios of Krediidipank Group

In thousands of euros

	2014	2013
As at the end of the reporting period*		
Balance sheet total	255,985	259,647
Shareholders' equity	27,126	25,737
Share capital	25,001	25,001
Number of shares of AS Eesti Krediidipank	39,117,600	39,117,600
Loans and advances to customers	150,705	142,770
Deposits	207,779	212,420
For the reporting period		
Net profit	1,378	1,041
Total income	14,929	14,874
Net interest income	5,913	5,631
Interest income	8,723	8,216
Interest expense	2,810	2,585

Ratios (year-on-year)		
Return on equity (ROE) Net profit/shareholders´ equity	5.2%	4.2%
Return on assets (ROA) Net profit/assets	0.5%	0.4%
Equity multiplier (EM) Total assets/shareholders´ equity	9.8	11.3
Profit margin (PM) Profit/total income	9.2%	7.0%
Asset utilisation (AU) Total income/assets	5.8%	5.1%
Earnings per share EPS (euros) Net profit per common share eligible for dividends	0.04	0.03

Number of account holders	58,571	74,068
Number of service locations	31	33

* Ratios have been calculated based on average balance sheet indicators for the reporting period

Indicators of capital adequacy of Krediidipank group

Information on the capital adequacy of the group is presented in the table below.

In thousands of euros

Capital base	31.12.2014	31.12.2013
Tier 1 capital		
Paid-in share capital and share premium	25,175	25,175
Statutory reserve capital	1,813	1,791
Accumulated loss	-1,308	-2,414
Intangible assets (-)	-733	-711
Deferred tax asset depending on future taxable profits	-1	0
Adjustment of value arising from requirements of reliable measurement (-)	-13	-16
Goodwill	0	-4
Profit/loss for reporting period (+/-)	0	1,060
Total Tier 1 capital	**24,933**	**24,881**
Subordinated debt	6,469	8,263
Tier 2 capital	**6,469**	**8,263**
Eligible capital for capital adequacy calculation	**31,402**	**33,144**
Risk-weighted assets		
Central government and central banks using the Standardised Approach	2,670	3,952
Credit institutions, investment companies and local governments using the Standardised Approach	7,171	15,665
Companies using the Standardised Approach	9,553	18,731
Retail claims using the Standardised Approach	13,246	12,804
Claims secured by mortgage on real estate using the Standardised Approach	54,842	57,790
Claims past due using the Standardised Approach	5,418	8,759
Items subject to particularly high risk using the Standardised Approach	10,406	8,690
Other assets using the Standardised Approach	23,250	30,436
Total credit risk and counterparty credit risk	**126,556**	**156,827**
Operational risk using the Basic Indicator Approach	19,706	17,803
Total risk-weighted assets	**146,262**	**174,630**
Capital adequacy (%)	**21.47%**	**18.98%**
Tier 1 Capital Ratio (%)	**17.05%**	**14.25%**

Own funds requirements:

Core Tier 1 capital ratio	4.50%	Core Tier 1 capital/total risk exposure
Tier 1 capital ratio	6.00%	Tier 1 capital/total risk exposure
Total capital ratio	8.00%	Total capital/total risk exposure

During the year 2014, the group's capital adequacy has improved primarily due to the reduction in credit risk capital requirements. The group's total amount of own funds used for the calculation of capital adequacy has decreased during the year 2014 as a result of the decline in the proportion of subordinated debt in the calculation of Tier 2 capital.

The remaining maturity of all the exposures, broken down by exposure classes are presented in the table below.

In thousands of euros

31.12.2014						
Balance sheet (Standardised Approach)	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Central governments and central banks	33,182	4,242	0	1,098	0	38,522
Credit institutions, investment companies and local governments	30,089	0	0	1,387	0	31,476
Companies	3,146	0	2,145	4,311	3,940	13,542
Retail claims	16,436	643	0	0	0	17,079
Claims secured by mortgage on real estate	114,742	5,424	0	0	0	120,166
Claims past due	2,023	591	883	1,520	245	5,262
Items subject to particularly high risk	5,791	0	0	68	95	5,954
Other assets	4,377	0	0	0	18,874	23,251
Total balance sheet exposures	**209,786**	**10,900**	**3,028**	**8,384**	**23,154**	**255,252**
Off-balance sheet (Standardised Approach)						
Companies	182	0	0	0	0	182
Retail claims	2,248	0	0	0	0	2,248
Claims secured by mortgage on real estate under standard method	782	0	0	0	0	782
Claims past due	1	0	0	0	0	1
Items subject to particularly high risk	1,966	0	0	0	0	1,966
Total off-balance sheet exposures	**5,179**	**0**	**0**	**0**	**0**	**5,179**
Total exposure	**214,965**	**10,900**	**3,028**	**8,384**	**23,154**	**260,431**

In thousands of euros

31.12.2013						
Balance sheet (Standardised Approach)	Demand	Up to 3	3-12	1-5 years	Over 5	Total
Central governments and central banks	21,792	2,657	0	5,247	0	29,696
Credit institutions, investment companies and local governments	31,282	1,487	7,074	4,609	0	44,452
Companies	9,852	0	2,618	7,189	3,921	23,580
Retail claims	15,789	76	0	0	0	15,865
Claims secured by mortgage on real estate	98,851	5,576	0	0	0	104,427
Claims past due	3,864	844	1,436	2,379	49	8,572
Items subject to particularly high risk	5,449	93	0	167	78	5,787
Other assets	26,553	0	0	0	0	26,553
Total balance sheet exposures	**213,432**	**10,733**	**11,128**	**19,591**	**4,048**	**258,932**
Off-balance sheet (Standardised Approach)						
Companies	994	0	0	0	0	994
Retail claims	5,033	0	0	0	0	5,033
Claims secured by mortgage on real estate	926	0	0	0	0	926
Claims past due	0	0	0	0	0	0
Items subject to particularly high risk	32	0	0	0	0	32
Total off-balance sheet exposures	**6,985**	**0**	**0**	**0**	**0**	**6,985**
Total exposure	**220,417**	**10,733**	**11,128**	**19,591**	**4,048**	**265,917**

Concentration of exposures limits of Krediidipank group

According to the Regulation (EU) number 575/2013 of the European Parliament and of the Council, a credit institution's exposure to a client or group of connected clients is considered a large exposure where its value is equal to or exceeds 10% of the credit institution's eligible capital.
Exposures relating to customers as a result of undrawn commitments are exempt from the applicable concentration of exposures limits specified in the table below.
In addition, exposures to central governments and central banks which have been assigned a risk weight of 0% are exempt from the applicable concentration of exposures limits.

In thousands of euros

Concentration of exposure limits applicable to counterparties	Applicable limit	Number of clients	Total value of clients' exposures
Persons other than credit institutions and investment companies	25% of eligible capital	2	8,723
Credit institutions and investment companies	eligible capital	1	24,418

In the event that risks materialise concerning the largest loan client of the group, the potential maximum adverse impact on interest income is 168 thousand euros per annum and the net carrying amount of the loan was 3.6 million euros at the year-end.

Remuneration policy

The bank has formed a remuneration committee comprised of 5 members, which:
• complies with Estonian law, follows sound banking principles, the articles of association of the bank and the relevant decisions of the governing bodies of the bank and the rules and regulations of the remuneration committee;
• acts in the long-term interests of the shareholders and customers of the credit institution and public interest.

The duties of the remuneration committee are to evaluate:
• the application of the compensation policy approved by the supervisory board of the bank and adherence to the operational objectives of the bank;
• the effect of decisions related to compensation to compliance with requirements set forth concerning the bank's risk management, own funds and liquidity.

Remuneration committee:
• conducts supervision over the compensation of management board members and employees subject to supervision by the compensation committee;
• evaluates the application of the compensation policy at least once annually and, if necessary, proposes to update the compensation policy;
• prepares draft resolutions for the supervisory board of the bank concerning compensation.

In the year 2014, 4 meetings of the remuneration committee were held.

Krediidipank encourages employees to maintain a long-term and loyal employment relationship.

The compensation structure applicable in the Krediidipank group is comprised of three components:
- base salary (fixed and variable pay for successful performance);
- performance pay according to the profitability of the parent company, which is based on return on equity;
- bonus for outstanding accomplishments.

Performance pay corresponding to the profitability of the parent company is payable in cash in the period following the reporting period to those employees who have contributed to achieving the results while adhering to the objective and values of the group and continue to be employed by the group. The group does not use any performance pay based on shares or options. Performance pay encourages efficient risk management and does not incentivise excessive risk-taking.

Other non-monetary benefits are additional to the salary in the form of flexible work time, various collective events and supplementary paid holiday that depends on seniority.

In thousands of euros

	2014	**2013**
Wages and salaries and other compensation	3,504	3,697
Performance pay and bonuses	38	17
Redundancy benefits and severance payments	101	84
Fringe benefits	50	64
Social tax, unemployment insurance premiums	1,199	1,238
Total	**4,892**	**5,100**
Number of employees at end of reporting period (in full time equivalent units)	206	219
Average number of employees in reporting period (in full time equivalent units)	221	245
Severance payments specified in contracts	271	281

During the 2014 financial year, severance payments were made to 1 member of the management board.
Information regarding management compensation is provided in Note 35. Related parties.

Dividend policy

The bank's shareholders have determined that at least 20% of distributable net profit will be distributed as dividends during the period 2012-2014. Dividends shall not be paid if the retained earnings are less than 200 thousand euros.
Since the distributable profit does not exceed the determined amount as at 31.12.2014, the Management Board does not propose to distribute profit as dividends.

Consolidated financial statements of Krediidipank Group 2014

AS Eesti Krediidipank consolidated statement of financial position

In thousands of euros

Assets	Note	31.12.2014	31.12.2013
Cash on hand		2,576	2,165
Balances with central banks	3	30,475	19,440
Loans and advances to credit institutions	4	29,836	30,615
Financial assets designated at fair value through profit or loss at inception	10	13,184	29,166
Loans and advances to customers	5-9	150,705	142,770
Held-to-maturity financial assets	10	3,921	5,617
Available-for-sale financial assets	10	18	18
Other financial assets	16	843	2,207
Assets held for sale	15	4,538	5,004
Investment property	14	13,515	16,052
Property, plant and equipment	12	5,360	5,496
Intangible assets	13	733	715
Other assets	17	281	382
Total assets		**255,985**	**259,647**

Liabilities			
Due to central banks	18, 40	5,073	5,064
Due to credit institutions	19	356	380
Due to customers	20	207,779	212,420
Other financial liabilities	22	1,463	2,056
Other liabilities	23	798	600
Subordinated debt	21	13,390	13,390
Total liabilities		**228,859**	**233,910**

Shareholders' equity	24		
Share capital		25,001	25,001
Share premium		174	174
Reserves		1,813	1,791
Retained earnings (accumulated loss)		89	-1,308
Shareholders' equity attributable to owners of the parent company		**27,077**	**25,658**
Non-controlling interest		49	79
Total shareholders' equity		**27,126**	**25,737**
Total liabilities and shareholders' equity		**255,985**	**259,647**

Notes to the financial statements on pages 21 to 72 are an integral part of the consolidated financial statements.

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Kuupäev/date 20.03.15
PricewaterhouseCoopers, Tallinn

Consolidated income statement and statement of comprehensive income of AS Eesti Krediidipank

In thousands of euros

	Note	2014	2013
Interest income	26	8,723	8,216
Interest expense	27	-2,810	-2,585
Net interest income		**5,913**	**5,631**
Fee and commission income	28	2,643	3,229
Fee and commission expense	29	-602	-778
Net fee and commission income		**2,041**	**2,451**
Revenue from sale of assets		1,640	958
Cost of assets sold		-1,057	-713
Change in fair value of investment property		893	1,331
Change in fair value of financial assets designated at fair value through profit or loss at inception		-559	-679
Payroll expenses	30	-4,892	-5,100
General and administrative expenses	31	-2,749	-2,943
Other income	32	1,029	1,140
Other expenses	33	-654	-765
Depreciation		-534	-542
Impairment losses on loans and advances		307	272
Profit before income tax		**1,378**	**1,041**
Income tax		**0**	**0**
Net profit		**1,378**	**1,041**
incl. share of profit attributable to non-controlling interest		**-30**	**-19**
incl. share of profit attributable to the owners of the parent company		**1,408**	**1,060**
Other comprehensive income/ expense			
incl. unrealised foreign currency gains and losses arising from the translation of foreign business entities' financial information		**11**	**90**
incl. revaluation of available-for-sale financial assets		**0**	**29**
Comprehensive income for the financial year		**1,389**	**1,060**
incl. share of profit attributable to non-controlling interest		**-30**	**-19**
incl. share of profit attributable to the owners of the parent company		**1,419**	**1,179**

Notes to the financial statements on pages 21 to 72 are an integral part of the consolidated financial statements.

Consolidated statement of changes in shareholders' equity of AS Eesti Krediidipank

In thousands of euros

	Share capital	Share premium	Statutory reserve capital	Unrealised foreign currency gains and losses	Revaluation of available-for-sale financial assets	Retained earnings	Total equity attributable to the shareholders of the parent company	Non-controlling interest	Total shareholders' equity
Balance as of 31.12.2012	**25,001**	**174**	**1,908**	**-101**	**-29**	**-2,474**	**24,479**	**0**	**24,479**
Adjustments	0	0	-190			190	**0**	0	**0**
Balance as of 01.01.2013	**25,001**	**174**	**1,718**	**-101**	**-29**	**-2,284**	**24,479**	**0**	**24,479**
Net profit for the financial year	0	0	0	0	0	1,060	**1,060**	-19	**1,041**
Other comprehensive income	0	0	0	90	29	0	**119**	0	**119**
Total comprehensive income for the period	0	0	0	90	29	1,060	**1,179**	-19	**1,160**
Non-controlling interest contribution to subsidiary´s share capital	0	0	0	0	0	0	**0**	98	**98**
Formation of statutory reserve	0	0	73	0	0	-73	**0**	0	**0**
Balance as of 31.12.2013	**25,001**	**174**	**1,791**	**-11**	**0**	**-1,297**	**25,658**	**79**	**25,737**
Net profit for the financial year	0	0	0	0	0	1,408	**1,408**	-30	**1,378**
Other comprehensive income	0	0	0	11	0	0	**11**	0	**11**
Total comprehensive income for the period	0	0	0	11	0	1,408	**1,419**	-30	**1,389**
Changes in reservs	0	0	22	0	0	-22	**0**	0	**0**
Balance as of 31.12.2014	**25,001**	**174**	**1,813**	**0**	**0**	**89**	**27,077**	**49**	**27,126**

Additional information presented in Note 24.
Notes to the financial statements on pages 21 to 72 are an integral part of the consolidated financial statements.

AS Eesti Krediidipank consolidated statement of cash flows

In thousands of euros

Cash flows from operating activities (indirect method)	**2014**	**2013**
Net profit	1,408	1,060
Adjustments		
Change in provisions for loans and advances	-307	-272
Depreciation and impairment of non-current assets	548	559
Impairment of available-for-sale financial assets	37	0
Change in fair value of financial assets designated at fair value through profit or loss at inception	559	679
Revaluation of investment property	-893	-1,331
Revaluation of available-for-sale financial assets	0	30
Net gain on sale of non-current assets	52	-1
Effect of changes in currency exchange rates	15	49
Net interest income	-5,913	-6 592
Interest received	8,698	8,089
Interest paid	-2,234	-2,910
Change in loans and advances related to customers of credit institution and leasing companies	-7,243	-22,939
Change in fair value of financial assets designated at fair value through profit or loss at inception	15,423	8,168
Change in long - term receivables from credit institutions	15	16
Change in loans and advances to credit institutions	-23	-1,594
Change in deposits	-5,209	-42,220
Assets held for sale	466	2,521
Change in other assets and liabilities related to operating activities	487	-1,237
Total cash flows from operating activities	**5,886**	**-57,925**
Cash flows from investment activities (direct method)		
Redemption and sale of held-to-maturity financial assets	1,696	2,469
Proceeds from sale of non-current assets and investment property	3,977	2,750
Purchase of non-current assets and investment property	-877	-235
Non-controlling interest contribution to subsidiary´s share capital	0	98
Total cash flows from investing activities	**4,796**	**5,082**
Cash flows from financing activities (direct method)		
Repayments of loans credit institutions	0	-5,000
Total cash flows from financing activities	**0**	**-5,000**
Total cash flows	**10,682**	**-57,843**
Change in cash and cash equivalents	**10,682**	**-57,843**
Cash and cash equivalents at beginning of the period	51,785	109,628
Cash and cash equivalents at end of the period	62,467	51,785
Cash and cash equivalents balance is comprised of:	**62,467**	**51,785**
Cash on hand	2,576	2,165
Demand deposits in central banks	30,475	19,440
Demand and short-term deposits in credit institutions	29,416	30,180

Notes to the financial statements on pages 21 to 72 are an integral part of the consolidated financial statements.

Notes to Financial Statements

Note 1. Accounting principles

AS Eesti Krediidipank (Reg. No. 10237832) is a credit institution registered in Tallinn (Estonia) Narva road 4. At year-end 2014, the AS Eesti Krediidipank group employed 206 people (2013: 219 accordingly).
These consolidated financial statements of AS Eesti Krediidipank for the year 2014 have been approved by the management board of AS Eesti Krediidipank and will be presented to the shareholders for approval. The consolidated financial statements for the year 2013 were approved by the general meeting of shareholders at 22.04.2014.

Functional and presentation currency
The functional currency of the AS Eesti Krediidipank Group is euro. 2014 consolidated financial statements have been presented in thousands of euros.

1.1 Basis of preparation

These consolidated financial statements of AS Eesti Krediidipank Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.
These financial statements have been prepared under the historical cost convention, except as disclosed in some of the accounting policies below (i.e. financial assets at fair value). Financial statements have been prepared according to accrual principle of accounting. The group classifies its expenses by nature of expense method.
When the presentation or classification of items in the consolidated financial statements is amended, comparative information for the previous period are also reclassified, if not referred differently in specific accounting principle.
Presentation of information under the primary financial statements of Annual Report 2014 has been changed (presentation of line items separately and in total); corresponding figures have been adjusted in accordance with new presentation manner. In management estimation, new presentation manner gives more fair overview of the group’s assets, liabilities, revenue and expenses. Change of presentation did not affect the group’s statement of financial position, net profit and cash flows neither for the accounting period nor for 2013.

1.2 Critical accounting estimates and judgements

The preparation of the consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the EU requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Although these estimates are based on management's best knowledge and judgement of current events and actions, the actual outcome and the results ultimately may significantly differ from those estimates. More detailed overview of the estimates made is provided under accounting principles or disclosures set out below.
Critical estimates and judgements are primarily used in the following areas:

a) Loan allowances, incl. fair value assessment of collateral (Note 9),
b) Estimation of the fair value of investment property (Note 14),
c) Fair value of financial assets and liabilities (Note 2).

Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under these circumstances. Changes in assumptions may have a significant impact on the financial statements in the period assumptions are changed. Management believes that the underlying assumptions are appropriate and the Group's financial statements therefore present the financial position and results truly and fairly.

1.3. Consolidation

These consolidated financial statements of the AS Eesti Krediidipank Group are comprised of the financial statements of the parent company AS Eesti Krediidipank and its subsidiaries Krediidipanga Liisingu AS, AS Martinoza and AS Krediidipank Finants as of 31 December 2014.
The financial information of all companies controlled by AS Eesti Krediidipank has been consolidated. Group entities use uniform accounting policies.
The definition of group according to the Regulation (EU) No 575/2013 of the European Parliament and of the Council matches that of IFRS.

The statements of financial position and income statements of the bank and its subsidiaries are consolidated on a line-by-line basis, eliminating the intercompany balances, revenues, income-expenses and unrealised gains/losses on transactions between group companies.

<u>Subsidiaries</u>

Subsidiaries are all economic entities in which the group has control. An entity is controlled by the group if the group receives or has rights to the variable profit arising from ownership interest in an entity and it is able to influence the size of the profit by exercising its influence over the entity. Subsidiaries are consolidated in the financial statements from the time control arises until it ceases.

Pursuant to the Accounting Act of the Republic of Estonia, information of the separate financial statements (primary statements) of the consolidating entity (parent company) shall be disclosed in the notes to the consolidated financial statements (see Note 40). In preparing the primary financial statements of the parent company the same accounting policies have been used as in preparing the consolidated financial statements. In the parent company's separate primary financial statements, disclosed to these consolidated financial statements, the investments into the shares of subsidiaries are accounted for at cost less any impairment recognised.

<u>Non-controlling interest</u>

Non-controlling interest is the share of the net profit (loss) of a subsidiary in the statement of comprehensive income, which is attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's subsidiaries shareholders outside the group or the interest of the subsidiary's shareholders' equity. Non-controlling interests in the comprehensive income is included within equity in the consolidated statement of financial position separately from the equity attributable to the shareholders of the parent company and is disclosed below the consolidated statement of comprehensive income.

1.4 Foreign currency transactions and assets and liabilities denominated in a foreign currency

All other currencies except for the functional currency, the euro, constitute foreign currencies. Foreign currency transactions have been translated to functional currencies based on the foreign currency exchange rates of the European Central Bank prevailing on the transaction date. Monetary assets and liabilities denominated in a foreign currency have been translated into functional currency based on the foreign currency exchange rates of the European Central Bank prevailing on the balance sheet date. Foreign exchange gains and losses are recognised in the income statement as income or expenses of that period. Non-monetary assets and liabilities denominated in a foreign currency measured at fair value have been translated into functional currency based on the foreign currency exchange rates of the European Central Bank prevailing on the balance sheet date. Non-monetary assets and liabilities that are not measured at fair value (e.g. prepayments, inventories accounted for using the cost method; property, plant and equipment as well as intangible assets) in a foreign currency are not translated at the balance sheet date but they continue to be reported using the official exchange rate of the European Central Bank prevailing at the date of the transaction.

1.5 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits due from central banks and other credit institutions, that are available for use without any significant restrictions and which are subject to an insignificant risk of changes in value. The section of cash flows from operating activities of the statement of cash flows is presented using the indirect method, the cash flows from investment activities and cash flows from financing activities are presented using the direct method.

1.6. Financial assets

The AS Eesti Krediidipank Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

Category (as defined by IAS 39)		Class (as determined by the Group)	
Financial assets	Loans and receivables	Loans and advances to credit institutions	
		Loans and advances to customers	Private individuals
			Legal entities
		Other financial assets	
	Financial assets at fair value through profit or loss	Financial assets designated at fair value through profit or loss at inception	Debt securities
	Available-for-sale financial assets	Investment securities	Equity securities
	Held-to-maturity financial assets	Investment securities	Debt securities

Financial assets are any assets that are cash, a contractual right to receive cash or another financial asset from another party, a contractual right to exchange financial instruments with another party under conditions that are potentially favourable or an equity instrument of another party. Management determines the classification of its investments at initial recognition.

1.6.1. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the resulting receivable.

Loans and advances are initially recognised in the consolidated statement of financial position at fair value including any transaction costs, when the cash is paid to the borrower or right to demand payment has arisen and are derecognised only when they are repaid or written-off, regardless of the fact that part of them may be recognised as costs through providing allowances for loans. The loan allowances are presented on the respective line of statement of financial position at negative value. Loans have been recognised in the statement of financial position at amortised cost. Accrued interest on the loans is recorded in the respective line of statement of financial position. For overdrafts and credit cards, the actual use of the limit by the borrower is stated in the statement of financial position. The unused credit limit is recognised as contingent liability. Loan restructuring constitutes a change in the terms of the loan (maturity, payment schedule, interest rate) resulting from a change in the risk level of the borrower. The policies for the accounting and presentation of restructured loans do not differ from other loans.

Lease receivables

Finance lease transactions are lease transactions under which all significant risks and rights from using the assets are immediately transferred from the Group to the lessee. Legal ownership of assets is transferred to the customer at the end of the lease term. The receivables from the financial lease agreements are recognised at net present value of the minimum lease payments, from which the payments of principal received have been deducted, plus unguaranteed residual value at the end of contract. Lease payments collected are allocated between repayment of principal and finance income. Finance income is recognised over the rental period based on the pattern reflecting a constant periodic rate of return on the lessor's net investment in the financial lease. The lessor's direct expenses related to the contract are part of effective interest rate and are booked as decrease of income from lease over the period of lease contract. Allowances for lease receivables are presented on the respective line of the statement of financial position at negative value. A lease receivable from a client is recognised in the statement of financial position as of the moment of delivering the assets being the subject of the agreement to the client. In case of transactions, in which the assets being the object of the agreement having a long delivery term have not yet been delivered to the client, the payments received from the lessees under these agreements are recognised in the statement of financial position as prepayments of buyers in on line "Other financial liabilities". The amounts paid by the leasing firm for the assets under lease agreements not yet delivered are recognise in the statement of financial position as prepayments to suppliers on line "Other financial assets".

Factoring and warehouse receipt financing receivables

Factoring transactions are considered to be financing transactions where the leasing firm provides the financial resources to its selling partners through transfer of the rights to the receivables from these sales transactions. The leasing firm acquires the right for the receivables payable by the buyer subject to the sales contract. Factoring is the transfer of receivables. Depending on the terms of the factoring contract the buyer either accepts the transfer of substantially all the risks and rewards of the ownership of the receivable (non-recourse factoring) or retains the right to transfer the risks and rewards back to the seller during a pre-specified term (recourse factoring). Transaction is booked as financing in case the leasing company does not own all the rights related to the receivable. The receivable is included in statement of financial position until payment is received or recourse is expired. If a contract does not include the seller's guarantee and the leasing company acquires control of all rights at the moment of selling the receivable, the transaction is accounted for as an acquisition of a receivable at fair value. Subsequently receivables are measured at acquisition cost. The receivable from the client is recognised

as of the moment of factoring the purchase-sale agreement, i.e. as of acquisition of the receivable.
Derecognition of factoring assets and liabilities follows the regulation in IAS 39 and the assessment is made based on each specific agreement type and status.
Warehouse receipt financing transactions are financing transactions, where the lease firm finances its partners, by granting them a loan against pledged stock reserves.

Valuation of loans and receivables
The Group assesses consistently whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
For valuation of loans and receivables several risks are prudently considered. The Group uses a customer rating system for evaluating corporate loans, in accordance of which the valuation of the customer receivables is based on the legal entities financial position, trustworthiness of the borrower, timely fulfilment of contractual obligations and other factors, all of which together help to assess the value of the receivable and the amount of incurred loss in the portfolio of loans.
Valuation of loans to private individuals is based on timely fulfilment of contractual obligations, solvency and collateral and other factors, affecting the credit risk.
The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets.
Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the historical probabilities of default and historical rates of losses experienced on the assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future receivables are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.
For assessment of loan losses, the expected collections from the loan and interest payments over the coming periods are considered, as well as expected collections and anticipated proceeds from the realisation of collateral, discounted at the financial asset's original effective interest rate, which together form a recoverable amount of the loan and help to assess the amount of loss incurred of the loan. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. For these assessed incurred loan losses, the relevant allowance has been established. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

Individual allowances are provided for individually assessed loans, and group based allowances for homogenous loan groups.
In a subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in "'Impairment losses on loans and advances".
When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due and are treated as normal loans.
More detailed overview of the credit risk management principles is given in Note 2 "Risk management".
Interest income on loans is presented on the income statement on line "Interest income".

1.6.2. Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets designated at fair value through profit or loss at inception.

Securities at fair value through profit or loss are designated irrevocably, at initial recognition, into this category. In the current reporting period this class of securities is included the portfolio of liquid bonds. The intention of the investment is to keep local liquidity reserves in liquid securities, which can be pledged to the central bank or sold in order to raise liquidity whenever necessary.
Securities carried at fair value through profit of loss are measured at fair value, which is based on the bid price of the security. If the listing of a security does not indicate a price or quotations are not sufficiently regular, the financial instruments are revalued to fair value by using as a basis all of the available information concerning the issuer in order to determine the fair value of the financial instrument by using the prices of similar quoted securities that are available on the market.
Interest income on these instruments is recognised in income statement under "Interest income". The realised and unrealised gains or losses from the revaluation of these securities are presented in the income statement under "Change in fair value of financial assets designated at fair value through profit or loss at inception".

IFRS 13 determines a hierarchy for fair value measurements, which is based on whether inputs are observable or unobservable. Observable inputs reflect market information obtained from independent sources; unobservable inputs reflect assumptions that are available for a market. The following hierarchy for fair value measurement has been established on the basis of these two categories of inputs:
Level 1 – (unadjusted) quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date. This level includes publicly quoted equity-related securities and debt instruments listed on exchanges, as well as instruments quoted by market participants.
Level 2 – inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (in the form of prices) or indirectly (are derived from prices). Sources for input parameters (for example euro bond yield curve or counterparty credit risk) are Bloomberg and Reuters.

Level 3 – inputs for the asset or liability that are not based on observable market information (unobservable inputs). Investment property is classified as Level 3 in the fair value hierarchy.

1.6.3. Available-for-sale financial assets

Securities are classified as available-for-sale financial assets, if they do not belong to one of the aforementioned categories: financial assets held for trading or other financial assets designated at fair value through profit or loss. Available-for-sale investments are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices; or investments with strategic purpose for long-term holding.

Available-for-sale financial assets are recorded at fair value plus transaction costs on their settlement date. Subsequently they are carried at fair value. If the assessment of fair value is not reliable, the securities will be presented at cost. The gains and losses arising from changes in the fair value of available for sale financial assets are recognised in the consolidated statement of comprehensive income on line "revaluation of available-for-sale financial assets". The Group assesses consistently whether there is objective evidence that a financial asset available-for-sale is impaired. In the case of equity investments classified as available-for- sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. A debt instrument is considered to be impaired when there is a change in expected cash flows to be collected from the instrument. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from statement of comprehensive income and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. In a subsequent period, if the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

When a financial asset is sold, the cumulative gain previously recognised in statement of comprehensive income on that specific instrument is to the extent reversed from the statement of comprehensive income and the remaining portion is recognised in income statement.

Interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement.

Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

1.6.4 Held-to-maturity financial assets

Held-to-maturity financial assets are financial instruments quoted in an active market with a fixed due date and which the Management Board of the bank has an intention and opportunity to hold until their maturity. They do not include:

a) investments designated as fair value through profit or loss upon their initial recognition;
b) investments classified as available-for-sale assets; and
c) investments which meet the criteria of loans and receivables.

These investments are initially recognised at fair value, plus all directly attributable transaction costs incremental to such acquisitions and they are subsequently measured at amortised cost using the effective interest rate method. Interest income on held-to-maturity investments is included within interest income in the statement of comprehensive income. Impairment losses are deducted from the carrying amount of the investments and the impairment charge is recorded in the line “Other expenses” in the statement of comprehensive income.

1.7. **Property, plant and equipment and intangible assets other than goodwill**
Land, buildings, IT equipment, office equipment and other assets of long-term use are recognised in the statement of financial position as property, plant and equipment. Intangible assets are identifiable, non-monetary assets without physical substance and as of balance sheet date comprise of acquired software.
Property, plant and equipment and intangible assets are initially recognised at acquisition cost, consisting of the purchase price, non-refundable taxes and other direct costs related to taking the asset into use. Subsequent expenditures related to an item of property, plant and equipment are recognised as an asset if these are in accordance with definition of property, plant and equipment and meet the criteria for recognition in the statement of financial position (including if it is probable that future economic benefits associated with the item will flow to the entity). Ongoing repairs and maintenance expenditures are expensed during the reporting period in which they are incurred.
Property, plant and equipment and intangible assets with finite useful lives are subsequently stated at historical cost less depreciation / amortisation and any impairment losses. Depreciation / amortisation is calculated starting from the month of acquisition until the asset is fully depreciated. Assets are depreciated / amortised on a straight-line basis.
Depreciation / amortisation calculation is based on the useful life of the asset, which serves as basis for forming the depreciation / amortisation rates. Depreciation of property, plant and equipment is charged in accordance with the estimated useful life of the asset from the month following the month it is taken into use:

buildings	2% per annum,
vehicles	15% per annum,
fixtures	12.5% per annum,
office equipment	25% per annum,
computer hardware and software	10-25% per annum.

Non-current assets with an unlimited useful life (land) are not depreciated. Depreciation and impairment of non-current assets are presented in the income statement line item "Depreciation". Depreciation of an asset is ceased when the asset is fully depreciated, when the asset is reclassified as non-current assets held for sale or when the asset is retired from use. The appropriateness of the assets´ residual values, depreciation methods used and useful lives are reviewed, and adjusted if that has become appropriate, at each balance sheet date.
The gain or loss on sale of non-current assets is determined by way of comparison with the carrying amount. Gain or loss on sale is presented in the income statement in the line items "Other income" and "Other expenses", respectively.

Capitalisation of expenses
Reconstruction expenses related to the leased space used by the group are capitalised as property, plant and equipment and expensed on a straight-line basis in accordance with the duration of the lease agreement.

Development costs
If software development expenses result in additional functionality and if they meet the definition of intangible assets and criteria for inclusion in the statement of financial position (incl. expected participation in the generation of future economic benefits), such expenses are recognised as intangible assets. Expenses related to the use of software are expensed as incurred.

Expenditures incurred on advertising and the launch of new products, services and processes are expensed as incurred. Expenditures associated with internally developed trademarks and other such items are expensed as incurred.

1.8 Investment property

Investment property is a real estate property which is primarily held for the purpose of earning rental income or for capital appreciation or for both purposes but not for the use in the ordinary course of business.

An investment property is initially recognised in the balance sheet at cost, including the purchase price and any expenditure directly attributable to the acquisition. After initial recognition, investment property is measured at fair value at each balance sheet date. Independent expert valuation is used for determining the fair value of investment property, which is based on either the income approach (the value is determined by calculating the present value of future cash flows generated by the asset) or market approach (comparable market transactions involving similar properties are analysed) or a combination of the two aforementioned approaches is used.

Gains and losses arising from a change in the fair value of investment property are recognised in the line item "Change in fair value of investment property" in the income statement of the reporting period in which they are incurred.

When the purpose of use of an investment property changes, the asset is reclassified in the balance sheet. From the date when this change occurred, accounting policies of this asset group into which the item has been reclassified shall be applied to the property. If the purpose of use of an investment property changes to property, plant and equipment, the investment property is reclassified as property, plant and equipment and the cost is the fair value of the property at the reclassification date. If the purpose of use of an item of property, plant and equipment changes to investment property, the difference between the carrying amount of the property, plant and equipment and the fair value of the asset at the reclassification date is recognised in the income statement.

If a change occurs in the use of an investment property, as evidenced by starting development for the purposes of preparation of the property for sale, the property is reclassified as inventory and the cost of the item of inventory is the fair value at the reclassification date.

1.9 Assets held for sale

Assets held for sale are assets that are held for sale in the course of ordinary business and are recognised at cost.

Cost is either cash or the fair value of non-monetary consideration given to acquire an asset at the time of its acquisition or processing. Inventories are measured at the balance sheet date and are carried in the balance sheet at the lower of cost and net realisable value. The net realisable value is the sales price less estimated costs to sell.

1.10 Impairment of non-financial assets

Assets with an indefinite useful life are not subject to amortisation and are tested annually for impairment, comparing the carrying value of the asset to its recoverable value. Assets that are subject to amortisation / depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In such circumstances the recoverable value of the asset is assessed and compared to its carrying value. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

1.11 Leases - the group is the lessee

Leases of assets where the lessee acquires substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

The group has not leased any assets under finance leases during the reporting period or the previous reporting period. Operating lease payments are recognised in the income statement as expenses over the rental period on straight line basis. The Group uses operating leases mainly for renting buildings / premises. Rental expense is recognised in income statement as "General and administrative expenses".

1.12 Financial liabilities

The classification made can be seen in the table below:

Category (by IAS 39) **Class (as determined by the Group)**

<table>
<tr><td rowspan="5">Financial liabilities</td><td rowspan="5">Financial liabilities measured at amortised cost</td><td colspan="2">Due to credit institutions</td></tr>
<tr><td rowspan="2">Deposits from customers</td><td>Private individuals</td></tr>
<tr><td>Legal entities</td></tr>
<tr><td colspan="2">Subordinated debt</td></tr>
<tr><td colspan="2">Other financial liabilities</td></tr>
<tr><td rowspan="2">Contingent liabilities</td><td colspan="3">Loan commitments</td></tr>
<tr><td colspan="3">Guarantees</td></tr>
</table>

<u>Deposits from credit institutions and customers</u>

Deposits are recognised in the statement of financial position on their settlement date at fair value net of transaction costs and subsequently measured at amortised cost using the effective interest rate method and presented on line items "Due to credit institutions" and "Due to customers", accrued interest is included in corresponding liabilities line items. Interest expense is recorded in the income statement on line "Interest expense".

<u>Borrowings</u>

Borrowings are recognised initially at fair value net of transaction costs (the proceeds received, net of transaction costs incurred). Borrowings are subsequently stated at amortised cost using the effective interest rate method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the instrument using effective interest rate.

The effective interest rate is the rate that exactly discounts the expected stream of future cash payments through maturity. The amortisation of the transaction costs is presented in the income statement together with the interest expense. The respective interest expense is recorded in the income statement on line "Interest expense".

In case there is an unused limit for any borrowings, this is presented as contingent asset.

<u>Payables to employees</u>

Payables to employees include unpaid salary accruals and a vacation pay accrual calculated in accordance with employment contracts and the laws of the Republic of Estonia in force as at the balance sheet date. The liability related to the payment of a vacation pay accrual together with social security and unemployment insurance premiums is included within current liabilities in the balance sheet and as wages and salaries expense in the statement of comprehensive income.

Social tax includes payments to the state pension fund. The group has no existing legal or constructive obligations to make pension payments or similar payments supplementary to social tax.

1.13 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer 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. Such financial guarantees are given to banks, financial institutions, companies and other bodies on behalf of customers to secure loans, other banking facilities and liabilities to other parties. Financial guarantees are initially recognised in the financial statements at fair value (contract value) on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are recognised at the outstanding value of guarantee. In the income statement the fee income earned on a guarantee is recognised straight-line basis over the life of the guarantee. In cases where the fees are charged periodically in respect of an outstanding commitment, they are recognised as revenue on a time proportion basis over the respective commitment period. At the end of each reporting period, the commitments are reflected either i) contract value at the time of reporting ii) contract value and in addition provision in balance sheet. The amounts disbursed to settle the guarantee obligation are recognised in the statement of financial position on the date it is disbursed.

1.14 Revenue and expense recognition

Interest income and expense is recognised in income statement for all interest-earning financial assets and interest-bearing financial liabilities carried at amortised cost using the effective interest rate method. Interest income also includes similar income on interest bearing financial instruments classified at fair value through profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all significant fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

Revenue is recognised in the fair value of the consideration received or receivable for the services provided in the ordinary course of the Group's activities. Fees and commissions are generally recognised on an accrual basis when the service has been provided (e.g. charges related to credit and debit cards). Credit issuance fees for loans / leases are deferred and recognised as an adjustment to the effective interest rate on the credit. Fees from the custodial services of securities are recognised on an accrual basis.

Other transaction fee income and other income are recognised on accrual basis at the moment of executing the respective transactions.

Dividend income

Dividends are recognised in the income statement when the entity's right to receive payment is established.

1.15 Taxation

Corporate income tax

According to the effective legislation, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to the taxation on the amount paid out as net dividends at the rate set forth in Income Tax Act. The profit of the Latvian branch is taxed in accordance with the legislation of the Republic of Latvia. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. The income tax is accounted for only in cases when the taxable event occurs (like payment of dividends and payments decreasing the equity). Because of the specifics of the Estonian tax system permanent and temporary differences are not accounted for and thus effective income tax is not currently accounted for as well.

1.16 Statutory reserve capital

Statutory reserve capital is formed from annual net profit allocations to comply with the requirements of the Commercial Code. During each financial year, at least one-twentieth of the net profit shall be transferred to the statutory reserve, until reserve reaches one-tenth of share capital. Statutory reserve may be used to cover a loss, or to increase share capital. Payments to shareholders from statutory reserve are not allowed.

1.17 Events after the balance sheet date

Material events that have an effect on the evaluation of assets and liabilities and that became evident between the balance sheet date and the date of preparation of the financial statements by the management board but that are related to transactions in the reporting period or earlier periods, are reported in the financial statements.
Events after the balance sheet date that have not been taken into account for evaluating assets and liabilities but have a material impact on the results of the next financial year are disclosed in Note 41 to the financial statements.

1.18 New International Financial Reporting Standards, amendments to published standards and interpretations by the International Financial Reporting Interpretations Committee

The following new or revised standards and interpretations became effective for the Group from 1 January 2014:

- IFRS 10, Consolidated Financial Statements:

The standard replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The change in the standard did not have any effect on the accounting of transactions or balances.

- IFRS 12, Disclosure of Interest in Other Entities

The standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28 "investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities. The effect of the aforementioned changes was accounted for in the 2014 financial statements.

Newly or amended standards which have been issued and are mandatory for the group's following reporting periods:

- <u>IFRS 9, Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU):</u>

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held for collection purposes, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss
- IFRS 9 introduces a new model for the recognition of impairment losses - the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

The Group is currently assessing the impact of the standard on its financial statements.

- <u>IFRS 15 — Revenue from Contracts with Customers (applies to an annual reporting period beginning on or after 1 January 2017 but has not yet been adopted by the European Union):</u>

The core principle of the new standard is that an entity will recognise revenue to depict the transfer of promised goods or services upon delivery of such goods or services to customers at the transaction price. Where distinct goods and services are sold on a bundled basis, they must be recognised separately and an entity will allocate any discounts on the contract price to standalone elements. Variable consideration is only included in the transaction price if, and to the extent that, it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty has been subsequently resolved. Costs incurred to fulfil a contract are recognised as an asset and amortised on a systematic basis over the period that income is earned from the contract.
The group is currently assessing the impact of the standard on its financial statements.

- Equity Method in Separate Financial Statements (Amendments to IAS 27) (effective for annual periods beginning on or after 1 January 2016 but has not yet been adopted by the European Union):

The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The group is considering the application of this amendment.

- Disclosure Initiative – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2016 but has not yet been adopted by the European Union):

The amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. Change in standard does not affect recognition of balances or transactions.

Note 2. Risk management

Principles of risk management
The risk management system of the Eesti Krediidipank group is centralised, ensuring the implementation of standardised risk management principles in Eesti Krediidipank, its foreign branch and subsidiaries, as well as quick and effective response to changes in the marketplace.

The tasks of risk management are the following:
1. Ensure that appropriate methods, resources and risk control structure corresponding to regulations stipulated by law and the group's risk profile are in place for the identification, evaluation and control of all significant risks;
2. Evaluate the extent and potential impact on the financial position of the group of risks related to operations;
3. Ensure that the structure and cumulative size of risks after risk control does not compromise the solvency or stability of the group or the compliance with the prudential requirements or operational strategy;
4. Ensure that the management is informed of risks on a regular basis.

Structure and responsibility of risk management
The management board of Krediidipank is responsible for the management and control of the risks related to all activities of the group, implementation of the risk management principles and methods, and performance of risk management. The risk management function is the responsibility of the following structural units and committees of the group:

1. Assets and Liabilities Committee (ALCO)
ALCO's task is management of liquidity risk, interest rate risk of the bank portfolio and securities portfolio, designing of the structure of assets and liabilities, management of profitability and management of capital.

2. Credit Committee and Credit Commission
The Credit Committee is the group's highest operational body responsible for credit risk management, formed in accordance with the Credit Institutions Act and the articles of association of the bank with the purpose of implementation of the credit policy through approving lending decisions and assessment of the compliance of requirement set for collateral.
The Credit Commission serves the functions of the Credit Committee in approving lending decisions of a lower risk level.

3. Risk Management Department
The main functions of the Risk Management Department is the identification and evaluation of risks, performance of regular stress tests with respect to liquidity, credit and main market risks, as well as the preparation of the corresponding risk reports to the management board of Krediidipank, development of risk management methodology, evaluation of the credit risk of major credit projects, as well as monitoring and analysis of the credit portfolio.

4. Internal Audit Department
The Internal Audit Department forms a part of the internal control system of the bank, and supervises the activities of the whole Eesti Krediidipank group, as well as its compliance with legislation, legal acts of the Eesti Pank and principles of sound banking,

as well as precepts of the Financial Supervisory Authority. The Internal Audit Department also monitors the different structural units' adherence to the articles of association of Krediidipank, the resolutions of the general meeting of shareholders, the supervisory board and management board of Krediidipank and compliance with rules, limits and other requirements established by the supervisory board and management board.

5. Compliance function
The objective of the compliance function is to assure the compliance of the group´s activities with legislation (including instructions of the supervisory body), generally accepted practices and standards, business ethics and internal rules and regulations. The responsibility of the compliance function is to assure the application of necessary procedural policies and measures and the compliance of the entire personnel with applicable rules and regulations.

6. Price Commission
The objective of the Price Commission is the development of uniform and relevant pricing policy for the real estate portfolio owned by the Krediidpank group, as well as the collateral of the problematic credit portfolio of Krediidipank (both immovable and movable property), and approval of the prices for specific properties in order to achieve the best financial result for the Krediidipank group.

Management of capital and internal capital adequacy assessment process
The group employs risk-based management of capital, ensuring that all risks are adequately backed by own funds at all times. Management of capital occurs on the basis of balance sheet and profit forecasts that take into account the strategy, future expectations, risk profile and risk appetite of the group.

The internal capital adequacy assessment process (ICAAP) is a continuous process with the objective of evaluating the risk profile of Krediidipank and the corresponding capital requirement. Krediidipank ensures capital coverage of aggregated risks at all times.

Management and forecasting of capital needs is based on the calculation of regulatory capital adequacy, which takes into account the capital requirements arising from the ICAAP and the Supervisory Review and Evaluation Process (SREP) of the Financial Supervisory Authority. Forecasts are made with regard to balance sheet exposures by using the changes in exposures and equity line items as a basis in order to determine the capital needs. The bank's management board reviews and approves forecasts of the balance sheet and income statement on a regular basis. The potential effects of strategic and reputation risks on the performance of the group are also taken into account in forecasting the capital needs.

The minimum desirable level of capital adequacy is the minimum required level of capital adequacy determined by the SREP assessment, to which a buffer necessary for the growth of operational volumes or other implementation of a strategic plan is added as required in accordance with the effective operational strategy and balance sheet forecasts of the group. A quarterly overview of the breakdown of capital adequacy including the capital requirements arising from SREP assessments is provided to the management board and supervisory board of the bank.

Management of credit risk
Credit risk is the risk that a counterparty fails to perform the obligations it has undertaken to perform to the Krediidipank group. The size of credit risk reflects the probable loss that may be incurred as a result of failure by a counterparty to perform obligations with

regard to receivables subject to credit risk. Krediidipank follows the standardised approach for calculation of credit risk capital requirements. In order to calculate capital requirements, the group uses credit ratings issued by ratings agencies recognised by the Financial Supervisory Authority in accordance with the procedure enacted by the Financial Supervisory Authority. Management of credit risk is based on the credit policy of the Eesti Krediidipank group. The primary objectives of the credit policy are to achieve a sustainable return on assets of the group from lending activities that provides a rate of return required by shareholders while adhering to the principles of prudence and diversification of risks and by assuming moderate risks that are measurable and manageable.

The primary assets of the group that are exposed to credit risk are the following:

- Loans and lease receivables from customers (Notes 5-9);
- Financial investments (Note 10);
- Loans and advances to credit institutions (Notes 3-4).

The following table provides an overview of the observable positions of the group that are exposed to credit risk by category.

In thousands of euros

31.12.2014	Not due		Past due		Impairments		Total
	Impaired	Unimpaired	Impaired	Unimpaired	Individual impairment	Collective impairment	
Cash on hand	0	2,576	0	0	0	0	2,576
Balances with central banks	0	30,475	0	0	0	0	30,475
Loans and advances to credit institutions	0	29,836	0	0	0	0	29,836
Financial assets designated at fair value through profit or loss at inception	0	13,184	0	0	0	0	13,184
Loans and advances to customers	5,307	136,574	4,060	7,783	-2,473	-546	150,705
Held-to-maturity financial assets	0	3,921	0	0	0	0	3,921
Available-for-sale financial assets	0	18	0	0	0	0	18
Other financial assets	0	843	0	0	0	0	843
Total financial assets	**5,307**	**217,427**	**4,060**	**7,783**	**-2,473**	**-546**	**231,558**
Off-balance sheet liabilities	0	5,179	0	0	0	0	5,179
Total exposure to credit risk	**5,307**	**222,606**	**4,060**	**7,783**	**-2,473**	**-546**	**236,737**

In thousands of euros

31.12.2013	Not due		Past due		Impairments		Total
	Impaired	Unimpaired	Impaired	Unimpaired	Individual impairment	Collective impairment	
Cash on hand	0	2,165	0	0	0	0	2,165
Balances with central banks	0	19,440	0	0	0	0	19,440
Loans and advances to credit institutions	0	30,615	0	0	0	0	30,615
Financial assets designated at fair value through profit or loss at inception	0	29,166	0	0	0	0	29,166
Loans and advances to customers	6,286	126,634	5,953	7,146	-2,825	-424	142,770
Held-to-maturity financial assets	0	5,617	0	0	0	0	5,617
Available-for-sale financial assets	0	18	0	0	0	0	18
Other financial assets	0	2,207	0	0	0	0	2,207
Total financial assets	**6,286**	**215,862**	**5,953**	**7,146**	**-2,825**	**-424**	**231,998**
Off-balance sheet liabilities	0	6,985	0	0	0	0	6,985
Total exposure to credit risk	**6,286**	**222,847**	**5,953**	**7,146**	**-2,825**	**-424**	**238,983**

Past due loans and receivables are considered to be loans and receivables where the principal, interest or late payment fee is fully or partially unpaid.

Counterparty credit risk management

In order to limit the transaction-related counterparty credit risk exposure, the Assets and Liabilities Committee (ALCO) has imposed limits on transactions with counterparties, encompassing money market transactions, currency transactions and securities transactions. In its evaluation of counterparty creditworthiness, the bank takes into consideration their domicile and makes a judgment regarding the counterparty's financial position, management, legal status and market position. Counterparty credit risk is defined as balances due from credit institutions. All balances due from credit institutions are unsecured receivables. As at 31.12.2014 and 31.12.2013, all balances due from credit institutions were current and unimpaired.

Credit risk control

The group adheres to the principle of diversification of credit risk according to field of activity, geographical area and product. A summary of the division of exposures by economic sector and geographical areas has been provided in the tables below.

Amounts due from credit institutions, financial investments and loans and other similar receivables by economic sector classification

In thousands of euros

31.12.2014

	E	K	L	S	G	D	I	Other	Total
Cash on hand	0	2,576	0	0	0	0	0	0	**2,576**
Balances with central banks	0	30,475	0	0	0	0	0	0	**30,475**
Loans and advances to credit institutions	0	29,836	0	0	0	0	0	0	**29,836**
Financial assets designated at fair value through profit or loss at inception	0	1,387	0	0	534	3,587	0	7,676	**13,184**
Loans and advances to customers	110,906	0	13,018	2,650	9,419	1,101	5,951	7,660	**150,705**
Held-to-maturity financial assets	0	0	0	0	0	3,921	0	0	**3,921**
Available-for-sale financial assets	0	5	0	0	0	0	0	13	**18**
Other financial assets (cash in transit, security deposits, other financial assets)	0	689	0	0	0	0	0	154	**843**
Total	**110,906**	**64,968**	**13,018**	**2,650**	**9,953**	**8,609**	**5,951**	**15,503**	**231,558**

In thousands of euros

31.12.2013

	E	K	L	S	G	D	F	Other	Total
Cash on hand	0	2,165	0	0	0	0	0	0	**2,165**
Balances with central banks	0	19,440	0	0	0	0	0	0	**19,440**
Loans and advances to credit institutions	0	30,615	0	0	0	0	0	0	**30,615**
Financial assets designated at fair value through profit or loss at inception	0	11,456	0	0	1,057	5,672	7,904	3,077	**29,166**
Loans and advances to customers	103,592	110	9,423	2,890	8,802	760	0	17,193	**142,770**
Held-to-maturity financial assets	0	1,790	0	0	0	3,904	0	-77	**5,617**
Available-for-sale financial assets	0	5	0	0	0	0	0	13	**18**
Other financial assets (cash in transit, security deposits, other financial assets)	0	1,439	0	0	0	0	0	768	**2,207**
Total	**103,592**	**67,020**	**9,423**	**2,890**	**9,859**	**10,336**	**7,904**	**20,974**	**231,998**

E- private individuals, K - finance and insurance activities, L - activities related to real estate, S- other services, G - wholesale and retail, D - power and heat generation, I - hospitality, food service, F- public administration

Amounts due from credit institutions, financial investments and loans and other similar receivables by geographical classification

In thousands of euros

31.12.2014

	EE	LV	US	RO	NL	LT	Other	Total
Cash on hand	2,360	216	0	0	0	0	0	**2,576**
Balances with central banks	30,289	186	0	0	0	0	0	**30,475**
Loans and advances to credit institutions	1,618	824	23,554	0	0	2	3,838	**29,836**
Financial assets designated at fair value through profit or loss at inception	2,303	0	0	3,202	1,920	2,138	3,621	**13,184**
Loans and advances to customers	137,698	11,574	347	0	16	0	1,070	**150,705**
Held-to-maturity financial assets	3,921	0	0	0	0	0	0	**3,921**
Available-for-sale financial assets	5	0	0	0	0	0	13	**18**
Other financial assets (cash in transit, security deposits, other financial assets)	368	180	0	0	0	0	295	**843**
Total	**178,562**	**12,980**	**23,901**	**3,202**	**1,936**	**2,140**	**8,837**	**231,558**

In thousands of euros

31.12.2013

	EE	LV	US	RU	NL	RO	Other	Total
Cash on hand	1,791	374	0	0	0	0	0	**2,165**
Balances with central banks	14,324	5,116	0	0	0	0	0	**19,440**
Loans and advances to credit institutions	748	5,636	19,009	1,647	0	0	3,575	**30,615**
Financial assets designated at fair value through profit or loss at inception	2,264	0	0	3,493	7,873	3,270	12,266	**29,166**
Loans and advances to customers	131,906	8,484	324	51	0	0	2,005	**142,770**
Held-to-maturity financial assets	3,904	0	0	0	0	0	1,713	**5,617**
Available-for-sale financial assets	5	0	0	0	0	0	13	**18**
Other financial assets (cash in transit, security deposits, other financial assets)	1,261	146	0	0	0	0	800	**2,207**
Total	**156,203**	**19,756**	**19,333**	**5,191**	**7,873**	**3,270**	**20,372**	**231,998**

74.8% of loans and advances to customers are granted to private individuals (31.12.2013: 72.0%). The portfolio of loans granted to corporate entities is diversified between various economic sectors to avoid high levels of concentration. 31.8% (31.12.2013: 23.1%) of loans to companies are granted to companies engaged in the real estate sector and 23.0% (31.12.2013: 21.7%) are attributable to wholesale and retail enterprises. The lending activity of the group is focused on local financing. The distribution of loans and advances to customers according to main credit product is provided in Note 5.

The accepted value of the collateral expresses the liquidity risk, market risk and legal risk of the collateral, and is measured as a percentage of the market value of the collateral. An overview of the ratios between unpaid loan balances and market value of the collateral and the division of the credit portfolio according to posted collateral have been provided in Note 6 and 7. The balance sheet or off-balance sheet netting of credit risk principle is not in use. The financial impact of the collateral is material in the case of loans and advances that are unlikely to be serviced from the cash flows of the customer, which is reflected in a lengthy (in excess of 90 days) period of delinquency.

Principles for classification and measurement of receivables

Credit receivables are divided into risk categories in accordance with the borrower's payment discipline and the financial-economic position:

A – no circumstances have arisen that could cause a default on the loan as per the terms of the loan agreement, up to 13 days past due.

B – contains potential weaknesses, the mitigation of which may affect the creditworthiness of the borrower in the future, 14-45 days past due.

C – contains clearly identifiable deficiencies, giving reason to believe that the repayment of the loan in full is doubtful or the loan has been restructured, 46-59 days past due.

D – inadequate creditworthiness of the borrower, giving reason to believe that the repayment of the loan under contract terms is improbable unless the situation materially changes, 60-89 days past due

E – the borrower is unable to persistently perform the contract on agreed-upon terms, 90-179 days past due

F - the loan is no longer being serviced and there is no prospect of the restoration of solvency and/or the contract has been terminated on an extraordinary basis, 180 days past due and/or the amount of payments collected on the loan during a period of 90 consecutive days is 0.

In the case of loans granted to private individuals, the basis for impairment of loans is the number of days and classification in the respective risk category. In the case of loans granted to legal entities, the basis for impairment of loans is a combination of number of days past due and the internal judgment of the group with regard to the company's financial position and classification in the respective risk category.

Receivables classified in risk categories A to D are classified as performing loans. Across risk categories and product categories homogeneous groups of loans are formed, to which group-based rates of impairment are applied. An individual impairment allowance is recognised on the basis of the probability of cash flows and net realisable value of collateral and the date of expected recovery of collateral. An overview of the group's loan portfolio risk categories is provided in the table below with the distribution of private individuals and legal entities.

Risk categories of loans and advances to private individuals

In thousands of euros

31.12.2014	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total	Collective impairment	Individual impairment	Net
A	94,806	1,367	0	96,173	-315	0	95,858
B	4,302	2,883	0	7,185	-48	0	7,137
C	2,334	1,472	84	3,890	-83	-25	3,782
D	483	536	565	1,584	-11	-98	1,475
E	34	413	460	907	-4	-67	836
F	104	589	2,366	3,059	-13	-1,228	1,818
Total	**102,063**	**7,260**	**3,475**	**112,798**	**-474**	**-1,418**	**110,906**

In thousands of euros

31.12.2013	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total	Collective impairment	Individual impairment	Net
A	81,689	1,346	44	83,079	-174	-19	82,886
B	7,652	1,785	110	9,547	-19	-6	9,522
C	3,426	2,020	1,531	6,977	-149	-95	6,733
D	257	520	878	1,655	-9	-108	1,538
E	134	1,126	2,672	3,932	-18	-1,002	2,912
F	0	0	0	0	0	0	0
Total	**93,158**	**6,797**	**5,235**	**105,190**	**-369**	**-1,230**	**103,591**

* In 2014, a change was made to the definition of risk categories: the risk category F was added, which was previously included within risk category E.

Risk categories of loans and advances to corporates

In thousands of euros

31.12.2014	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total	Collective impairment	Individual impairment	Net
A	14,852	27	37	14,916	-43	-31	14,885
B	11,218	141	129	11,488	-22	-16	11,450
C	7,340	229	4,567	12,136	-7	-323	11,813
D	1,101	122	0	1,223	0	0	1,223
E	0	0	597	597	0	-181	416
F	0	5	561	566	0	-504	62
Total	**34,511**	**524**	**5,891**	**40,926**	**-72**	**-1,055**	**39,799**

In thousands of euros

31.12.2013	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total	Collective impairment	Individual impairment	Net
A	9,649	23	3,792	13,464	-27	-566	12,871
B	13,502	157	56	13,715	-22	-2	13,691
C	9,624	13	82	9,719	-6	-15	9,698
D	654	2	1,124	1,780	0	-186	1,594
E	47	154	1,950	2,151	0	-826	1,325
Total	**33,476**	**349**	**7,004**	**40,829**	**-55**	**-1,595**	**39,179**

* In 2014, a change was made to the definition of risk categories: the risk category F was added, which was previously included within risk category E.

In the year 2014, the improvement in the quality of the credit portfolio continued as a result of the stabilising economic environment, decrease in unemployment and growth in the operating profits of companies, which has improved the capacity of customers to service loans, reducing the value of loans past due, see Note 6.

The value of impaired loans and advances, individual impairments and collective impairments of loans to private individuals and legal entities are provided in the table above and in Note 9.
In the year 2014, the value of impaired receivables decreased by a total of 2.9 million euros, comprised of a decrease of 1.1 million euros in the value of the corporate loan portfolio and a decrease of 1.8 million euros in the value of impaired loans to private individuals. Interest income on individually impaired loans in the year 2014 was 391

thousand euros and in the year 2013 it amounted to 370 thousand euros. The decrease in the impaired receivables is the result of improvement in the solvency of customers.

As at 31.12.2014, the amount of outstanding impaired loans and advances to private individuals was 3,475 thousand euros, the amount of individually impaired loans was 1,418 thousand euros and 80.7% of impaired receivables were past due (see the table below). The proportion of individual impairment of impaired receivables in the case of private individuals was 40.8% at 31.12.2014. As at 31.12.2013, the amount of outstanding impaired loans and advances to private individuals was 5,235 thousand euros, the amount of individually impaired loans was 1,230 thousand euros and 70.4% of impaired receivables were past due (see the table below). The proportion of individual impairment of impaired receivables in the case of private individuals was 23.5% at 31.12.2013.

Structure of impaired loans to private individuals according to past due time

In thousands of euros

31.12.2014	Not due	1-30 days	31-60 days	61-90 days	91-180 days	More than 180 days	Total	Individual impairment	Net
A	0	0	0	0	0	0	0	0	0
B	0	0	0	0	0	0	0	0	0
C	0	0	84	0	0	0	84	-25	59
D	208	157	82	108	10	0	565	-98	467
E	17	0	6	92	345	0	460	-67	393
F	444	85	0	20	71	1,746	2,366	-1,228	1,138
Total	**669**	**242**	**172**	**220**	**426**	**1,746**	**3,475**	**-1,418**	**2,057**

In thousands of euros

31.12.2013	Not due	1-30 days	31-60 days	61-90 days	91-180 days	More than 180 days	Total	Individual impairment	Net
A	44	0	0	0	0	0	44	-19	25
B	67	43	0	0	0	0	110	-6	104
C	1,098	287	146	0	0	0	1,531	-95	1,436
D	318	112	180	248	20	0	878	-108	770
E	24	0	0	11	206	2,431	2,672	-1,002	1,670
Total	**1,551**	**442**	**326**	**259**	**226**	**2,431**	**5,235**	**-1,230**	**4,005**

* In 2014, a change was made to the definition of risk categories: the risk category F was added, which was previously included within risk category E.

Structure of impaired loans to corporates according to past due time

In thousands of euros

31.12.2014	Not due	1-30 days	31-60 days	61-90 days	91-180 days	More than 180 days	Total	Individual impairment	Net
A	7	0	0	0	0	30	37	-31	6
B	64	65	0	0	0	0	129	-16	113
C	4,567	0	0	0	0	0	4,567	-323	4,244
D	0	0	0	0	0	0	0	0	0
E	0	0	0	0	0	597	597	-181	416
F	0	0	0	0	0	561	561	-504	57
Total	**4,638**	**65**	**0**	**0**	**1,188**	**1,198**	**5,891**	**-1,055**	**4,836**

In thousands of euros

31.12.2013	Not due	1-30 days	31-60 days	61-90 days	91-180 days	More than 180 days	Total	Individual impairment	Net
A	3,762	30	0	0	0	0	3,792	-566	3,226
B	56	0	0	0	0	0	56	-2	54
C	16	66	0	0	0	0	82	-15	67
D	798	0	97	0	0	229	1,124	-186	938
E	103	0	0	0	42	1,805	1,950	-826	1,124
Total	**4,735**	**96**	**97**	**0**	**42**	**2,034**	**7,004**	**-1,595**	**5,409**

* In 2014, a change was made to the definition of risk categories: the risk category F was added, which was previously included within risk category E.

As at 31.12.2014, the amount of outstanding impaired loans and advances to corporates was 5,891 thousand euros, the amount of individually impaired loans was 1,055 thousand euros and 21.5% of impaired receivables were past due. The proportion of individual impairment of impaired receivables in the case of legal entities was 17.9% at 31.12.2014. As at 31.12.2013, the amount of outstanding impaired loans and advances to legal entities was 7,004 thousand euros, the amount of individually impaired loans was 1,595 thousand euros and 32.6% of impaired receivables were past due. The proportion of individual impairment of impaired receivables in the case of legal entities was 40.3% at 31.12.2013.

Financial effect of loan collateral depends on market value of receivable and collateral for corresponding agreement. Loans and advances by collateralisation type are presented in the table below. Financial effect on change in fair value of loan collateral's market value appears first of all in case of past due loans and advances, as servicing of those loans is more uncertain and need for realisation of collateral is more probable than in case of not due loans. Balance sheet value for past due under-collateralised loans as at 31.12.2014 was 821 thousand euros and 1,189 thousand euros as at 31.12.2013. Balance sheet value of under-collateralised loans and advances is bigger than fair value of collaterals for corresponding receivables and, on the contrary, balance sheet value of over-collateralised loans and advances is smaller than fair value of collaterals for corresponding receivables.

Loans and advances to customers by collateralisation

In thousands of euros

31.12.2014	Non-collateralised loans		Under-collateralised loans		Over-collateralised loans	
	Balance sheet value	Fair value of collateral	Balance sheet value	Fair value of collateral	Balance sheet value	Fair value of collateral
Loans and advances to cusomers	7,651	0	4,804	3,817	141,269	498,855
Incl Not due	6,792	0	3,983	3,260	131,106	473,375
Incl Past due	859	0	821	557	10,163	25,480

In thousands of euros

31.12.2013	Non-collateralised loans		Under-collateralised loans		Over-collateralised loans	
	Balance sheet value	Fair value of collateral	Balance sheet value	Fair value of collateral	Balance sheet value	Fair value of collateral
Loans and advances to cusomers	1,414	0	6,922	5,484	137,683	450,103
Incl Not due	1,374	0	5,733	4,712	125,813	417,974
Incl Past due	40	0	1,189	772	11,870	32,129

Liquidity risk management
Liquidity risk is defined as the risk of insufficient solvency on behalf of Krediidipank to perform its contractual obligations on a timely basis - i.e. the Bank's failure to timely and sustainably finance various assets, or to liquidate its positions in order to perform contractual obligations. Liquidity risk is managed based on the liquidity management policy. The objective of liquidity management in Krediidipank is to guarantee, at any given moment, the timely and complete performance of the obligations assumed by the group while optimising the liquidity risk in such a manner as to achieve maximum and stable profitability on investments with different maturities.

The main liquidity management body in Krediidipank is the Assets and Liabilities Committee (ALCO). The functions and areas of responsibility of ALCO in the management of liquidity are:

- to plan short-term and long-term liquidity of the group, and to design and implement the measures to be used;
- to analyse and summarise the information concerning the group's assets and liabilities, interest income and expenses, management of liquidity and investments, and, if necessary, to prepare the adoption of strategic decisions by the Board;
- to optimise the ratio of the maturities, profitability and instruments of the group's assets and liabilities in order to achieve the bank's strategic objectives;
- to regulate the group's required liquidity level as well the level of the risk of change in the acceptable interest rate risk and the acceptable value of assets and liabilities.

The following bodies are regularly informed of Krediidipank's liquidity position: the Management Board, ALCO and Credit Committee. Krediidipank maintains a sufficient level of liquidity in order to ensure timely performance of its obligations.
The Krediidipank group uses an approach based on the analysis of the duration gap between the maturities of assets and liabilities for the management of the Krediidipank group's liquidity position. An overview of the division of assets and liabilities by maturities has been provided in Note 37. This model is also used for determining the main observable liquidity ratios and term proportions of assets and liabilities, as well as for conducting stress tests. Limits have been established for all major liquidity indicators. The group's total duration gap in the period of up to 12 months is negative. This indicates that the group has more liabilities with a duration of up to 12 months compared to receivables with the corresponding duration. The management of the duration gap risk is based on estimates concerning forecast cash flows arising from liabilities and the group ensures an adequate amount of liquidity buffers in order to meet the net outflow of liabilities as they become due.

The liquidity policy of the Krediidipank group is built upon the principle of prudence and established liquidity buffers are sufficient to cover even a large-scale outflow of deposits. The group has established a business continuity and recovery plan for conduct in a liquidity crisis, specifying the actions to be taken for covering a cash flow deficit even in extraordinary circumstances.

Market risk management
Market risk arises from the group's trading and investment activities in the interest, currency and equity markets. Among financial products, financial investments and derivative instruments are subject to market risk. Market risk arises from changes in interest rates, currency exchange rates and prices of financial assets. The acceptance of market risk is controlled by using risk limits. Different factors influencing market risks are

monitored on a daily basis. The primary market risk bearing assets in the group are investments in bonds. Investments in bonds are included in the following line items: Financial assets designated at fair value through profit or loss at inception, Held-to-maturity financial assets and Available-for-sale financial assets. The total size of debt securities portfolio has been reduced by a total of 17.7 million euros (-50.8%) during the year 2014 (see Note 10). The average duration of the portfolio and the total market risk have also been reduced. In addition, the capital requirement needed to cover the position risk of the trading portfolio at fair value through profit or loss has decreased accordingly.

The price risk of the debt securities portfolio mainly arises from the potential change in interest rates. The group uses the VaR *(Value at Risk)* method to measure the price risk of its portfolio of financial investments. The VaR of the debt securities portfolio given a 100bp increase in interest rates as at 31.12.2014 was 301 thousand euros, the respective indicator as at 31.12.2013 was 398 thousand euros.

Currency risk is defined as a risk arising from the differences in the currency structure of the group's assets and liabilities. Changes in currency exchange rates cause changes in the value of assets and liabilities, as well as the amount of income and expenses measured in the functional currency. The Krediidipank group generally maintains minimum foreign currency positions required for the provision of services to customers. All foreign currency positions are continually monitored and marked to market. The group covers open foreign currency positions using swap and forward transactions. Data on the structure of assets and liabilities by currency positions and respective net currency positions have been presented in Note 38. The total amount of open currency positions as at 31.12.2014 was 89 thousand euros. Currency risk is low.

Interest rate risk is defined as a risk of unexpected unfavourable changes in interest rates that might affect the revenue generated by the group. The group is exposed to interest rate risk because of the differences in the (payment) maturity terms of the group's assets and liabilities, or from differences in the currency structure of assets and liabilities, or because of the adjustment of the interest rates thereof on a regular basis. The division of Krediidipank's assets and liabilities by term of interest rate change has been disclosed in Note 39.

Interest rate risk management entails the analysis of the interest rate risk of all of the group's assets and liabilities and the management of duration. The table below specifies the estimates with regard to the annual impact of a parallel shift in the yield curve on the interest income and interest expense by currency as at 31.12.2014. The shift in the yield curve and the net interest income of Krediidipank group are positively correlated, therefore net interest income decreases in the event of a decline in interest rates and net interest income increases in the event of an increase in interest rates.

The total impact of an increase in the interest rate of 100 bp on net interest income over one year was 295 thousand euros at the balance sheet date. Interest rate risk has declined compared to 31.12.2013. Sensitivity to interest rates is impacted by the transfer of interest rate risk arising from the establishment of a contractual minimum rate of interest on loans with a floating interest rate. The scenario of declining interest rates assumes a minimum level of interest rates on deposits of 0%.

The impact of a shift in the yield curve on equity is in the opposite direction from the interest rate risk of cash flow, meaning that as interest rates rise, the discounted present value of assets decreases to a greater extent than the present value of liabilities and thus the equity of the group decreases. The impact of a 100 bp increase in interest rates to the economic value of the group's equity as at 31.12.2014 was -605 thousand euros and the impact of a decrease of 100bp was 2,235 thousand euros and the corresponding figures as at 31.12.2013 were 727 thousand euros and 7,267 thousand euros, respectively.

Impact of a shift in the yield curve of 100 bp on the net interest income of the group

In thousands of euros

31.12.2014	EUR	USD	Other	Total
Change in interest income	822	24	0	846
Change in interest expense	526	24	1	551
Change in net interest income	296	0	-1	295

31.12.2013	EUR	USD	Other	Total
Change in interest income	710	31	60	801
Change in interest expense	383	26	28	437
Change in net interest income	327	5	32	364

Interest rate risk is mitigated through the limitation of the duration gap of assets and liabilities in different currencies sensitive to interest rates, harmonisation of the duration structure of assets and liabilities and, if necessary, the use of interest rate derivatives.

Operational risk management

Operational risk is risk arising from malfunctions or deficiencies in the group's information systems, errors in personnel policy, negligence or wrongful behaviour of staff members, inadequate rules of procedure or external factors that cause damage to or disturb the group's daily business activities. Operational risk includes information technology risk, procedural risk, personnel risk, legal risk, security systems risk and discovery risk. The group manages operational risk on the basis of established operational risk policy.

Operational risk is viewed and managed as a separate risk management area within the group, with the required resources allocated and an adequate amount of own funds provided for covering potential losses. The management of operational risk is integrated within the group's day-to-day activities. The nature, impact and need to control the operational risk must be acknowledged by all employees within the group.

The evaluation of operational risk is, above all, carried out qualitatively, as the organisation is relatively small and simple and therefore seldom experiences actual loss events. The loss events are registered in the loss database, specifying the amount of loss that was incurred. The group monitors the dynamics of operational risk by analysing the main risk indicators on a quarterly basis. Reports are submitted to the management board on the loss events related to operational risk events and the main risk indicators on a regular basis at least once a quarter. The group carries out operational risk self-evaluation on a regular basis. The group uses the Basic Indicator Approach to calculate the operational risk capital requirements.

Principles of capital management

The group employs risk-based management of capital, ensuring that all risks are adequately backed by own funds at all times. Management of capital occurs on the basis of balance sheet and profit forecasts that take into account the strategy, future expectations, risk profile and risk appetite of the group. Capital is considered to be own funds of the group that are comprised of Tier 1 capital and Tier 2 capital. An overview of capital is provided in the table below.

In thousands of euros

Own funds	31.12.2014	31.12.2013
Common Equity Tier 1		
Paid-in share capital and share premium	25,175	25,175
Statutory reserve capital	1,813	1,791
Accumulated deficit	-1,308	-2,414
Intangible assets (-)	-733	-711
Deferred tax asset depending on future taxable profits	-1	0
Adjustment of value arising from requirements of reliable measurement (-)	-13	-16
Goodwill	0	-4
Profit/loss for reporting period (+/-)	0	1,060
Total Tier 1 capital	**24,933**	**24,881**
Subordinated debt	6,469	8,263
Tier 2 capital	**6,469**	**8,263**
Regulatory capital for capital adequacy calculation	**31,402**	**33,144**

As at 31.12.2014, the group's own funds amounted to 31,402 thousand euros (as at 31.12.2013: 33,144 thousand euros), including Tier 1 capital of 24,933 (31.12.2013: 24,881) and Tier 2 capital of 6,469 (31.12.2013: 8,263). Tier 2 capital comprises subordinated liabilities in compliance with established criteria where the amount included in the calculation of own funds is amortised over the final remaining five years.
As at 31.12.2014, the group is in compliance with all of the regulatory capital requirements.
An overview of regulatory capital, capital requirements and the calculation of capital adequacy is presented in the table of capital adequacy indicators on page 12.

The internal capital adequacy assessment process (ICAAP) is a continuous process with the objective of evaluating the risk profile of the group and the corresponding capital requirement. The group ensures capital coverage of aggregated risks at all times.

The management board of Krediidipank is responsible for the management of capital. The internal capital adequacy assessment process (ICAAP) is the basis for management of capital within the group on a regular basis. The management and forecasting of the capital needs is carried out on the basis of regular calculation of capital adequacy, to which the capital requirements are added for covering additional risks that are not taken into account within the framework of regulatory capital requirements.

The risk profile of the group is mainly assessed regarding the following risks: credit risk, concentration risk, liquidity risk, market risks, including price risk of the portfolio of financial investments, interest rate risk of the bank portfolio, operational risk, strategic risk and reputation risk.

The minimum desirable level of capital adequacy is the minimum required level of capital adequacy determined by the Supervisory Review and Evaluation Process assessment, to which a buffer necessary for the growth of operational volumes or other implementation of a strategic plan is added as required in accordance with the effective operational strategy and balance sheet forecasts of the group.

Capital needs are determined by way of forecasting balance sheet exposures by using changes in various risk-weighted assets and equity line items as a basis. In addition, a required equity buffer is determined in order to ensure an internally desirable level of capital adequacy in the event that alternative scenarios or risk scenarios materialise. The group ensures adequate capital coverage of all risks at all times.

Financial assets not measured at fair value

The group estimates the fair value of such financial assets and financial liabilities that are not measured at fair value in the statement of financial position of the group. Assets not measured at fair value are primarily loans and advances to customers and liabilities not measured at fair value are mainly deposits.

The group discounts cash flows using the market yield curve as a basis in order to estimate the fair value of financial assets and financial liabilities.

In thousands of euros

	31.12.2014		31.12.2013	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Assets				
Cash on hand	2,576	2,576	2,165	2,165
Balances with central banks	30,475	30,475	19,440	19,440
Loans and advances to credit institutions	29,836	29,836	30,615	30,615
Loans and advances to	150,705	150,138	142,770	139,881
incl. individuals	110,906	110,165	103,592	100,218
incl. legal entities	39,799	39,973	39,178	39,664
Held-to-maturity financial assets	3,921	4,622	5,617	6,198
Other financial assets	843	843	2,207	2,207
Total assets	**218,356**	**218,490**	**202,814**	**200,506**
Liabilities				
Balances with central banks	5,073	5,073	5,064	5,064
Loans and advances to credit institutions	356	356	380	380
Due to customers	207,779	208,702	212,420	212,838
incl. individuals	147,190	148,095	132,477	132,891
incl. legal entities	60,589	60,607	79,943	79,946
Other financial liabilities	1,463	1,463	2,056	2,056
Subordinated debt	13,390	13,390	13,390	13,390
Total liabilities	**228,061**	**228,984**	**233,310**	**233,728**

Future cash flows generated by loans are discounted using interest rates applicable to new loans of similar risk profile to determine the fair value of loans and advances. Existing deposits are discounted in a similar manner using the rates of interest offered on newly received deposits.

The fair value of loans and advances as at 31.12.2014 was lower by 567 thousand euros and the fair value of customer deposits was 923 thousand euros higher than their carrying amounts, both of which account for 0.4% of their carrying amount. As at 31.12.2013, the fair value of loans and advances was 2% lower than the carrying amount and the fair value of deposits was 0.3% higher than the carrying amount.

Note 3. Balances with central banks

In thousands of euros

	31.12.2014	31.12.2013
Demand deposits		
incl. minimum reserve requirement	1,606	2,451
incl. demand deposits, cash equivalents	28,869	16,989
Total	**30,475**	**19,440**

Note 4. Loans and advances to credit institutions

In thousands of euros

	31.12.2014	31.12.2013
EU countries, except Estonia	3,855	9,193
Estonia	1,629	748
U.S.	23,554	19,009
All other countries	798	1 665
Total	**29,836**	**30,615**

Classification by credit rating		
AA	12	43
AA-	164	702
A+	3,448	6,652
A	24,424	19,191
A-	1,405	2,323
BBB+ to CCC	327	1,637
Unrated	56	67
Total	**29,836**	**30,615**

Note 5. Loans and advances to customers

In thousands of euros

	31.12.2014	31.12.2013
Total receivables from corporates	40,927	40,828
Investment loan	22,594	24,482
Working capital loan	13,596	11,934
Lease financing	4,737	4,412
Total receivables from private individuals	112,797	105,191
Home loan	85,165	85,271
Consumer loan	21,979	16,025
Lease financing	5,653	3,895
Total receivables	**153,724**	**146,019**
Allowance for doubtful receivables (Note 9)	-3,019	-3,249
Total	**150,705**	**142,770**

EU countries, except Estonia	12,215	9,415
Estonia	140,529	134,554
All other countries	980	2,050
Total receivables	**153,724**	**146,019**
Allowance for doubtful receivables (Note 9)	-3,019	-3,249
Total	**150,705**	**142,770**

Note 6. Past due receivables

In thousands of euros

	31.12.2014		31.12.2013	
Private individuals	Loan balance	Collateral coverage ratio	Loan balance	Collateral coverage ratio
1-30 days	5,037	49.1%	4,820	40.6%
31-60 days	1,453	40.8%	1,162	43.2%
61-90 days	450	58.2%	786	25.9%
more than 90 days	3,126	45.7%	3,713	52.6%
Total	**10,066**		**10,481**	

	31.12.2014		31.12.2013	
Corporates	Loan balance	Collateral coverage ratio	Loan balance	Collateral coverage ratio
1-30 days	469	34.9%	290	44.1%
31-60 days	88	26.5%	97	43.3%
61-90 days	15	93.8%	0	-
more than 90 days	1,205	41.2%	2,231	30.4%
Total	**1,777**		**2,618**	

The collateral coverage ratio is calculated as the receivable from the customer divided by the market value of collateral.

Note 7. Structure of collateral

In thousands of euros

Due from credit institutions	31.12.2014	31.12.2013
Unsecured	29,836	30,615
Total	**29,836**	**30,615**

Structure of collateral of loans
In thousands of euros

	Private individuals		Corporates	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Mortgage loans	99,214	99,521	34,924	34,984
Leased assets	5,653	3,895	4,737	4,412
Unsecured loans	7,015	714	636	700
Personal sureties, guarantees	906	1,016	612	435
Loans secured by deposits	5	38	15	40
Loans secured by pledge of building	4	7	0	0
Other	0	0	3	257
Total	**112,797**	**105,191**	**40,927**	**40,828**
Allowance for doubtful receivables	-1,892	-1,599	-1,127	-1,650
Total	**110,905**	**103,592**	**39,800**	**39,178**

Note 8. Finance lease receivables

In thousands of euros

	31.12.2014	31.12.2013
Gross investment balance	**11,969**	**10,093**
Lease payments receivable, incl.		
up to 1 year	3,788	3,068
1-5 years	7,816	6,618
over 5 years	365	407
Future payments	**743**	**708**
up to 1 year	275	252
1-5 years	445	416
over 5 years	23	40
Net investment balance*	**11,226**	**9,385**
Lease payments receivable, incl.		
up to 1 year	3,513	2,816
1-5 years	7,370	6,202
over 5 years	343	367

* The net investment balance is included in the consolidated statement of financial position in the line item "Loans and advances to customers".

Note 9. Impairment of loans and advances

In thousands of euros

	31.12.2014	31.12.2013
Balance at the beginning of the reporting period	-3,249	-3,529
Impairments posted during the reporting period	-1,236	-1,613
Adjustment of previous impairments	1,538	1,883
Receipts from off-balance sheet loan receivables	-437	-322
Loans written off during the reporting period	365	332
Balance at the end of the reporting period	**-3,019**	**-3,249**

Note 10. Financial investments

In thousands of euros

	31.12.2014	31.12.2013
Fair value of financial assets designated at fair value through profit or loss at inception	**13,184**	**29,166**
Debt securities	13,184	29,166
incl. level 1 instruments	13,184	29,166
Held-to-maturity financial assets	**3,921**	**5,617**
Debt securities	3,921	5,617
incl. level 1 instruments	3,921	5,617
Available-for-sale financial assets	**18**	**18**
Equity securities	18	18
incl. level 2 instruments	18	18

No reclassifications of financial investments between different levels occurred during the reporting period.

In thousands of euros

	31.12.2014	31.12.2013
Fair value of financial assets designated at fair value through profit or loss at inception	**13,184**	**29,166**
Government bonds	5,340	7,904
Bonds of credit institutions and financing institutions	1,387	11,456
Bonds of other non-financial companies	6,457	9,806
Held-to-maturity financial assets	**3,921**	**5,617**
Bonds of credit institutions and financing institutions	0	1,713
Bonds of other non-financial companies	3,921	3,904
Available-for-sale financial assets	**18**	**18**
Shares of other non-financial companies	18	18

Fair value of financial assets designated at fair value through profit or loss at inception	**13,184**	**29,166**
Securities of companies registered in the EU	10,635	21,327
Securities registered in other countries	2,549	7,839
Held-to-maturity financial assets	**3,921**	**5,617**
Securities of companies registered in the EU	3,921	5,617
Available-for-sale financial assets	**18**	**18**
Securities of companies registered in the EU	18	18
Held-to-maturity financial assets	**3,921**	**5,617**
At amortised cost	3,921	5,617
At fair value	4,622	6,198

Fair value of financial assets designated at fair value through profit or loss at inception	**13,184**	**29,166**
A- to A+ credit rating	2,303	2,264
BBB- to BBB+	7,969	16,774
BB- to BB+	2,041	7,977
B- to B+	871	2,151
Held-to-maturity financial assets	**3,921**	**5,617**
BBB- to BBB+	3,921	5,617
Available-for-sale financial assets	**18**	**18**
Non-rated	18	18

In thousands of euros

	31.12.2014	31.12.2013
Fair value of financial assets designated at fair value through profit or loss at inception		
Opening balance	29,166	38,014
During the reporting period:		
Acquired	4,166	18,948
Sold	-6,330	-15,350
Redeemed	-13,259	-11,767
Change in fair value	-559	-679
Closing balance	13,184	29,166
Held-to-maturity financial assets		
Opening balance	5,617	8,086
During the reporting period:		
Sold	-1,411	0
Redeemed	-285	-2,469
Closing balance	3,921	5,617

During the year 2014, financial assets classified as held-to-maturity were sold as a result of a material change in the risk level. According to the management's judgment, the significant criteria of IAS 39 are met and therefore the group will continue to classify financial assets as financial assets held-to-maturity.

Note 11. Investments in subsidiaries and associates

In thousands of euros

Company	Country	Number of shares	Ownership interest
Krediidipanga Liisingu AS	Estonia	192	100%
AS Martinoza	Estonia	2,240	100%
AS Krediidipank Finants	Estonia	12,750	51%

At the date of the financial statements, the group has no investments in unconsolidated subsidiaries.
No acquisitions or sales occurred during the year 2014.

Note 12. Property, plant and equipment

In thousands of euros

	Land and buildings	Other assets	Total
Carrying amount at 01.01.2013	**4,852**	**896**	**5,748**
incl. cost	5,824	2,433	8,257
incl. depreciation	972	1,537	2,509
Acquisition in 2013	0	160	160
Sale at carrying amount in 2013	0	6	6
incl. cost	0	29	29
incl. depreciation	0	23	23
Write-off at carrying amount in 2013	0	21	21
incl. cost	0	154	154
incl. depreciation	0	133	133
Depreciation charged in 2013	103	282	385
Carrying amount at 31.12.2013	**4,749**	**747**	**5,496**
incl. cost	5,824	2,410	8,234
incl. depreciation	1,075	1,663	2,738
Acquisition in 2014	0	668	668
Sale at carrying amount in 2014	135	66	201
incl. cost	154	279	433
incl. depreciation	19	213	232
Write-off at carrying amount in 2014	0	15	15
incl. cost	0	151	151
incl. depreciation	0	135	135
Reclassification as investment property in 2014	-213	0	-213
incl. cost	-224	0	-224
incl. depreciation	-11	0	-11
Depreciation charged in 2014	102	272	374
Carrying amount at 31.12.2014	**4,299**	**1,061**	**5,360**
incl. cost	5,446	2,648	8,094
incl. depreciation	1,147	1,587	2,734

Note 13. Intangible assets

In thousands of euros

Carrying amount at 01.01.2013	**804**
incl. cost	1,634
incl. depreciation	830
Acquisition in 2013	75
Write-off at carrying amount in 2013	0
incl. cost	5
incl. depreciation	5
Reclassification in 2013	-7
incl. cost	-7
incl. depreciation	0
Depreciation charged in 2013	157
Carrying amount at 31.12.2013	**715**
incl. cost	1,697
incl. depreciation	982
Acquisition in 2014	209
Sale at carrying amount in 2014	3
incl. cost	31
incl. depreciation	28
Write-off at carrying amount in 2014	4
incl. cost	17
incl. depreciation	13
Reclassification in 2014	-24
incl. cost	-24
incl. depreciation	0
Depreciation charged in 2014	160
Carrying amount at 31.12.2014	**733**
incl. cost	1,834
incl. depreciation	1,101

Note 14. Investment property

In thousands of euros

	31.12.2014	**31.12.2013**
Carrying amount at the beginning of the period	**16,052**	**15,187**
Sold during the period	-3,825	-2,743
Reclassification from property, plant and equipment	213	0
Reclassification from inventories	182	2,277
Change in fair value	893	1,331
Carrying amount at the end of the period	**13,515**	**16,052**
incl. investment property earning rental income	**8,871**	**13,726**
Rental income	646	742
Expenses incurred on generation of rental income	354	370

Investment property is measured at fair value on the basis of expert appraisal carried out by qualified appraisers, as applicable to level 3 instruments. Independent expert valuation is based on either the income approach, market approach or a combination of the two aforementioned approaches is used. The following table provides an overview of the valuation methodology used and the classification of investment property.

In thousands of euros

	31.12.2014	31.12.2013	Valuation method
Office premises	4,090	455	Income approach
Office premises	1,021	5,030	Combined approach
Other commercial real estate	2,985	2,639	Market approach
Residential real estate	1,047	3,699	Market approach
Land	4,372	4,229	Market approach
Total	**13,515**	**16,052**	

Significant inputs in valuation using the income approach to determine fair value are the discount rate applied to future cash flows and the capitalisation rate. In the estimates of 31.12.2014, discount rates ranging between 8% and 12% and capitalisation rates ranging between 7% and 10% have been used. In 2013 the corresponding rates were 11% - 12% and 10%.
Significant input in valuation using the market approach is the price per square metre of comparable properties that have changed ownership on the market in the location of the property being valued.
In the event of a change in the capitalisation rate of 1%, the impact on the fair value of investment property according to information as at 31.12.2014 is 1,638 thousand euros. In 2013 the corresponding figure was 1,605 thousand euros.

Note 15. Assets held for sale

In thousands of euros

	31.12.2014	31.12.2013
Properties under construction	2,403	1,643
Real estate acquired for resale	2,134	3,356
Property returned by lease customers held for sale	0	5
Total	**4,538**	**5,004**
incl. impairment of inventories	37	0

On the basis of a sale transaction that occurred after the balance sheet date, an impairment loss was recognised on real estate acquired for resale as at 31.12.2014 in the amount of 37 thousand euros.

Note 16. Other financial assets

In thousands of euros

	31.12.2014	31.12.2013
Cash in transit	524	1,029
Security deposits	165	410
Other receivables	154	768
Total	**843**	**2,207**

Note 17. Other assets

In thousands of euros

	31.12.2014	31.12.2013
Prepayment for financial supervision	81	138
Settlements with the Tax and Customs Board	37	34
Other prepayments	163	210
Total	**281**	**382**

Note 18. Pledged assets

In February 2012, Krediidipank took part in the long-term refinancing programme organised by the European Central Bank by raising 10 million euros with a 3-year maturity, of which the bank repaid 5 million euros prematurely in July 2013. Krediidipank has pledged bonds with the carrying amount of 9.4 million euros to the European Central Bank as the collateral of the aforementioned loan. The loan was repaid as it fell due in February 2015.
In addition, Krediidipank has established cash deposits in banks in the total amount of 2.2 million euros to secure various settlements.

In thousands of euros

	31.12.2014	31.12.2013
Debt securities pledged to central bank	9,427	9,427
incl. debt securities of central government	3,203	3,203
incl. debt securities of other non-financial companies	6,224	6,224
Deposits established for securing transactions	2,182	2,165
incl. for securing money-market transactions	1,597	1,469
incl. for securing card transactions	585	696
Total	**11,609**	**11,592**

Note 19. Due to credit institutions

In thousands of euros

	31.12.2014	31.12.2013
Demand deposits	356	380
incl. EUR	268	237
USD	88	100
LVL	0	42
Other	0	1

Note 20. Due to customers

In thousands of euros

	31.12.2014	31.12.2013
Private individuals	147,190	132,477
Corporates	60,589	79,943
Total	**207,779**	**212,420**
Demand deposits	79,872	99,761
Term deposits	127,907	112,659
Total	**207,779**	**212,420**

Note 21. Subordinated debt

In thousands of euros

	31.12.2014			31.12.2013		
	Amount	Maturity	Interest rate	Amount	Maturity	Interest rate
Subordinated loan agreement	9,000	15.05.2016	5.625%-7.75%	9,000	15.05.2016	5.625%-7.75%
Subordinated loan agreement	4,000	15.02.2021	7.75%	4,000	15.02.2021	7.75%
Accrued interest	390	-		390	-	
Total	**13,390**			**13,390**		

Within the terms of the first subordinated loan agreement, amounts have been drawn at different dates and at different interest rates. Subordinated loans have fixed interest rates.

Note 22. Other financial liabilities

In thousands of euros

	31.12.2014	31.12.2013
Cash in transit	657	1,531
Trade payables	443	261
Payables to employees	119	121
Other financial liabilities	244	143
Total	**1,463**	**2,056**

Note 23. Other liabilities

In thousands of euros

	31.12.2014	31.12.2013
Tax liabilities	173	265
Other liabilities	625	335
Total	**798**	**600**

Note 24. Equity

The share capital of the bank amounts to 25,001 thousand euros, which is divided into 39,117,600 shares of no par value. Pursuant to the articles of association, share capital can be increased to 80 million euros without any amendment to the articles of association.

According to the requirements of § 336 of the Commercial Code, during each financial year, at least one-twentieth of the net profit shall be transferred to the statutory reserve, until the statutory reserve reaches one-tenth of share capital. Once the statutory reserve capital reaches the amount specified in the articles of association, no more transfers on account of net profit will be made to the statutory reserve capital.

On the basis of a decision of the general meeting of shareholders, statutory reserve capital may be used to cover losses, as well as to increase share capital. Distributions to shareholders from the statutory reserve capital are not permitted.

In the statement of changes in equity on pages 19 and 70, presentation of numerical data has been changed compared to previous periods and due to the differences coming from the changes in accounting methodology - the amount of statutory reserve capital is adjusted.

Note 25. Contingent liabilities

In thousands of euros

31.12.2014	
Contingent liabilities	**5,179**
incl. financial guarantees	1,041
incl. lines of credit and overdraft facilities	4,138

31.12.2013	
Contingent liabilities	**6,985**
incl. financial guarantees	686
incl. lines of credit and overdraft facilities	6,299

Note 26. Interest income

In thousands of euros

	2014	**2013**
On loans and lease receivables	7,272	5,934
On financial assets measured at fair value	1,070	1,839
On held-to-maturity financial assets	326	334
On cash and amounts due from banks	55	109
Total	**8,723**	**8,216**

Note 27. Interest expense

In thousands of euros

	2014	**2013**
On term deposits	1,932	1,573
On subordinated loans	866	866
On loans	8	70
On demand deposits	4	8
On financial assets held for trading	0	68
Total	**2,810**	**2,585**

Note 28. Fee and commission income

In thousands of euros

	2014	**2013**
Bank transfer fees	1,155	1,531
Gains from foreign exchange transactions	482	933
Charges on card transactions	373	375
Account opening and management fees	250	190
Fees related to securities	16	17
Other fees	367	183
Total	**2,643**	**3,229**

Note 29. Fee and commission expense

In thousands of euros

	2014	2013
Charges on card transactions	385	489
Bank transfer fees	191	259
Securities transaction and custodial fees	11	13
Other fees	15	17
Total	**602**	**778**

Note 30. Payroll expenses

In thousands of euros

	2014	2013
Wages and salaries	3,693	3,862
Social tax, unemployment insurance premiums	1,199	1,238
Total	**4,892**	**5,100**

Note 31. General and administrative expenses

In thousands of euros

	2014	2013
Rent of buildings	668	863
Administration and use of information systems	376	370
Office expenses	269	342
Advertising expenses	252	164
Contributions to Deposit Compensation Fund	242	427
Services purchased	153	30
Financial supervision fee instalments	135	104
Legal services, state fees	127	164
Transport expenses	69	88
Training and travel expenses	35	41
Membership fees	32	33
Property and casualty insurance	13	15
Other operating expenses	378	302
Total	**2,749**	**2,943**

Note 32. Other income

In thousands of euros

	2014	2013
Rental income	755	882
Insurance brokerage	90	108
Fines collected	30	40
Gain on sale of non-current assets, net	0	1
Other operating income	154	109
Total	**1,029**	**1,140**

Note 33. Other expenses

In thousands of euros

	2014	2013
Expenses incurred on generation of rental income	577	667
Loss on sale of non-current assets, net	52	0
Foreign exchange loss	15	49
Loss on sale of available-for-sale financial assets	0	28
Impairment of other assets	10	21
Total	**654**	**765**

Note 34. Litigation

As at 31 December 2014, the principal amount subject for pending court proceedings initiated by the group companies amounted to 556 thousand euros, plus interest for late payment. From a legal point of view, the claims have good prospects as the majority of these claims are related to the obligations arising from loan and lease agreements. The recourse to court is due to unsatisfactory payment behaviour of debtors as opposed to legal disputes.
The group will not incur potential losses from the aforementioned litigation.

The shareholders of the bank and the supervisory authority have challenged various resolutions of the general meeting of shareholders. Such litigation by substance constitutes disputes between shareholders and the bank is a defendant on procedural grounds. No monetary claims have been asserted against the group.

Note 35. Rented assets

The contractual payments for office premises rented by the group under operating lease terms are classified as follows:

In thousands of euros

	2014	2013
up to 1 year	209	278
1-5 years	436	609
over 5 years	238	143
Total	**883**	**1,030**

One rental agreement has been entered into for an indefinite term. The rent is 1 thousand euros per month.

Note 36. Related parties

For the purposes of this Note, the following have been considered related parties:
- a shareholder of significant influence and companies that are part of its group;
- management of the group: members of the management board and the supervisory board of the parent company, the head of internal audit and entities controlled by them;
- those who have the same economic interest as management and entities related to them.

The terms of the loans granted to related parties do not differ from the loans granted to other customers with regard to interest rates.
Transactions with related parties are based on the price list and/or are carried out at market value.

In thousands of euros

	31.12.2014	31.12.2013
Shareholders with significant interest		
Receivables 31.12	100	77
Payables 31.12	32	72
Subordinated loan 31.12	13,000	13,000
Interest expenses of reporting period	866	875

Members of the management board and supervisory board, and persons and companies associated with them		
Loans 31.12	119	140
Deposits 31.12	436	804
Interest income of the reporting period	3	8
Interest expenses of the reporting period	7	11
Sale of other goods and services	8	7
Purchase of other goods and services	4	2
Compensation paid and payable to members of the management board and supervisory board	443	443
Maximum termination benefits payable to members of the management board, on a contingent basis	141	171

Note 37. Classification of financial assets and financial liabilities by remaining maturity

In thousands of euros

31.12.2014	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Cash on hand	2,576	0	0	0	2,576
Balances with central banks	30,475	0	0	0	30,475
Loans and advances to credit institutions	29,416	420	0	0	29,836
Fair value of financial assets designated at fair value through profit or loss at inception	4,242	2,145	6,797	0	13,184
Loans and advances to customers	6,435	7,171	43,065	141,900	198,571
Held-to-maturity financial assets	0	0	0	3,921	3,921
Available-for-sale financial assets	0	0	0	18	18
Other financial assets	678	0	0	165	843
Total assets	**73,822**	**9,736**	**49,862**	**146,004**	**279,424**
Liabilities					
Due to central banks	5,073	0	0	0	5,073
Due to credit institutions	356	0	0	0	356
Due to customers	115,793	63,741	27,064	2,478	209,076
Other financial liabilities	1,463	0	0	0	1,463
Subordinated debt	0	0	10,106	4,859	14,965
Total liabilities	**122,685**	**63,741**	**37,170**	**7,337**	**230,933**
Off-balance sheet liabilities					
Undrawn lines of credit and overdraft facilities	4,138	0	0	0	4,138
Financial guarantees	1,041	0	0	0	1,041
Total on-balance-sheet and off-balance-sheet liabilities	**127,864**	**63,741**	**31,170**	**7,337**	**236,112**
Duration gap of financial assets and financial liabilities	**-54,042**	**-54,005**	**12,692**	**138,667**	**43,312**

Thousands of euros

31.12.2013	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Cash on hand	2,165	0	0	0	2,165
Balances with central banks	19,440	0	0	0	19,440
Loans and advances to credit institutions	30,195	420	0	0	30,615
Fair value of financial assets designated at fair value through profit or loss at inception	3,773	9,691	15,702	0	29,166
Loans and advances to customers	8,161	7,668	41,914	130,722	188,465
Held-to-maturity financial assets	371	0	1,420	3,826	5,617
Available-for-sale financial assets	0	0	0	18	18
Other financial assets	1,425	506	0	276	2,207
Total assets	**65,530**	**18,285**	**59,036**	**134,842**	**277,693**
Liabilities					
Due to central banks	0	0	5,064	0	5,064
Due to credit institutions	380	0	0	0	380
Due to customers	128,932	67,207	15,124	2,272	213,535
Other financial liabilities	2,056	0	0	0	2,056
Subordinated debt	0	0	10,655	5,169	15,824
Total liabilities	**131,368**	**67,207**	**30,843**	**7,441**	**236,859**
Off-balance sheet liabilities					
Undrawn lines of credit and overdraft facilities	6,299	0	0	0	6,299
Financial guarantees	686	0	0	0	686
Total on-balance-sheet and off-balance-sheet liabilities	**138,353**	**67,207**	**30,843**	**7,441**	**243,844**
Duration gap of assets and liabilities	**-72,823**	**-48,922**	**28,193**	**127,401**	**33,849**

Note 38. Classification of assets and liabilities by currency

In thousands of euros

31.12.2014	EUR	USD	Other	Total
Assets				
Cash on hand	1,283	1,238	55	2,576
Balances with central banks	30,475	0	0	30,475
Loans and advances to credit institutions	3,268	25,241	1,327	29,836
Fair value of financial assets designated at fair value through profit or loss at inception	8,497	4,687	0	13,184
Loans and advances to customers	149,839	866	0	150,705
Held-to-maturity financial assets	3,921	0	0	3,921
Available-for-sale financial assets	18	0	0	18
Other financial assets, other assets	24,554	390	26	24,970
Total assets	**221,855**	**32,422**	**1,408**	**255,685**
Liabilities				
Due to central banks	5,073	0	0	5,073
Due to credit institutions	268	88	0	356
Due to customers	174,308	32,212	1,259	207,779
Subordinated debt	13,390	0	0	13,390
Other financial liabilities, other liabilities	2,079	95	87	2,261
Total liabilities	**195,118**	**32,395**	**1,346**	**228,859**
Net position	**26,737**	**27**	**62**	**26,826**

In thousands of euros

31.12.2013	EUR	USD	LVL	Other	Total
Assets					
Cash on hand	1,378	261	283	243	2,165
Balances with central banks	14,622	0	4,818	0	19,440
Loans and advances to credit institutions	3,446	20,583	4,186	2,400	30,615
Fair value of financial assets designated at fair value through profit or loss at inception	13,896	15,270	0	0	29,166
Loans and advances to customers	140,759	1,776	235	0	142,770
Held-to-maturity financial assets	3,827	1,790	0	0	5,617
Available-for-sale financial assets	18	0	0	0	18
Other financial assets, other assets	29,089	566	191	10	29,856
Total assets	**207,035**	**40,246**	**9,713**	**2,653**	**259,647**
Liabilities					
Due to central banks	5,064	0	0	0	5,064
Due to credit institutions	237	100	42	1	380
Due to customers	161,657	39,419	8,453	2,891	212,420
Subordinated debt	13,390	0	0	0	13,390
Other financial liabilities, other liabilities	1,715	673	69	199	2,656
Total liabilities	**182,063**	**40,192**	**8,564**	**3,091**	**233,910**
Net position	**24,972**	**54**	**1,149**	**-438**	**25,737**

Note 39. Structure of the interest-earning assets and interest-bearing liabilities by term of interest change

In thousands of euros

31.12.2014	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest-earning assets					
Balances with central banks	30,475	0	0	0	30,475
Loans and advances to credit institutions	29,836	0	0	0	29,836
Financial assets designated at fair value through profit or loss at inception	13,184	0	0	0	13,184
Loans and advances to customers	86,896	69,882	0	388	157,166
Held-to-maturity financial assets	3,921	0	0	0	3,921
Total interest-earning assets	**164,312**	**69,882**	**0**	**388**	**234,582**
Interest-bearing liabilities					
Due to central banks	5,000	0	0	0	5,000
Due to credit institutions	356	0	0	0	356
Due to customers	187,747	10,389	8,574	6	206,716
Subordinated debt	13,000	0	0	0	13,000
Total interest-bearing liabilities	**206,103**	**10,389**	**8,574**	**6**	**225,072**
Exposure to interest rate risk duration gap	**-41,791**	**59,493**	**-8,574**	**382**	**9,510**

In thousands of euros

31.12.2013	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest-earning assets					
Balances with central banks	19,440	0	0	0	19,440
Loans and advances to credit institutions	30,180	435	0	0	30,615
Financial assets designated at fair value through profit or loss at inception	29,166	0	0	0	29,166
Loans and advances to customers	80,700	65,318	0	0	146,018
Held-to-maturity financial assets	5,617	0	0	0	5,617
Total interest-earning assets	**165,103**	**65,753**	**0**	**0**	**230,856**
Interest-bearing liabilities					
Due to central banks	5,000	0	0	0	5,000
Due to credit institutions	380	0	0	0	380
Due to customers	202,720	5,942	3,255	8	211,925
Subordinated debt	13,000	0	0	0	13,000
Total interest-bearing liabilities	**221,100**	**5,942**	**3,255**	**8**	**230,305**
Exposure to interest rate risk duration gap	**-55,997**	**59,811**	**-3,255**	**-8**	**551**

Note 40. Primary statements of parent company as a separate entity

Statement of financial position of AS Eesti Krediidipank
In thousands of euros

Assets	**31.12.2014**	**31.12.2013**
Cash on hand	2,576	2,165
Balances with central banks	30,475	19,440
Loans and advances to credit institutions	29,825	30,615
Fair value of financial assets designated at fair value through profit or loss at inception	13,184	29,166
Loans and advances to customers	168,706	165,244
Held-to-maturity financial assets	3,921	5,617
Available-for-sale financial assets	18	18
Other financial assets	792	2,135
Financial investments in associates and subsidiaries	2,850	2,850
Property, plant and equipment	882	769
Intangible assets	552	593
Investment property	213	0
Other assets	232	266
Total assets	**254,226**	**258,878**
Liabilities		
Due to central banks	5,073	5,064
Due to credit institutions	356	380
Due to customers	208,144	212,766
Other financial liabilities	870	1,852
Other liabilities	665	321
Subordinated debt	13,390	13,390
Total liabilities	**228,498**	**233,773**
Shareholders' equity		
Share capital	25,001	25,001
Share premium	174	174
Reserves	1,813	1,791
Accumulated loss	-1,260	-1,861
Total shareholders' equity	**25,728**	**25,105**
Total liabilities and shareholders' equity	**254,226**	**258,878**

Income statement and statement of comprehensive income of AS Eesti Krediidipank
In thousands of euros

	2014	2013
Interest income	8,564	8,932
Interest expense	-2,814	-2,585
Net interest income	**5,750**	**6,347**
Fee and commission income	2,466	3,223
Fee and commission expense	-601	-779
Net fee and commission income	**1,865**	**2,444**
Change in fair value of financial assets designated at fair value through profit or loss at inception	-559	-679
Change in fair value of investment property	0	143
Payroll expense	-4,361	-4,626
General and administrative expenses	-2,527	-3,271
Other income	422	332
Other expenses	-26	-101
Depreciation	**-381**	**-383**
Loan losses	429	239
Profit before income tax	**612**	**445**
Income tax	**0**	**0**
Net profit	**612**	**445**

Other comprehensive income/loss		
incl. Unrealised foreign currency gains and losses arising from the translation of foreign business entities' financial information	11	90
incl. revaluation of available-for-sale financial assets	0	29
Comprehensive income/loss for the financial year	**623**	**564**

Statement of changes in equity of AS Eesti Krediidipank
In thousands of euros

	Share capital	Share premium	Statutory reserve capital	Unrealised foreign currency gains and losses	Revaluation of available-for-sale financial assets	Retained earnings	Total shareholders' equity
Balance as of 31.12.2012	**25,001**	**174**	**1,718**	**-101**	**-29**	**-1,596**	**25,167**
Adjustments	0	0	0	0	0	0	**0**
Balance as of 01.01.2013	**25,001**	**174**	**1,718**	**-101**	**-29**	**-1,596**	**25,167**
Net profit for the financial year	0	0	0	0	0	445	**445**
Other comprehensive income	0	0	0	90	29	0	**119**
Total comprehensive income for the period	0	0	0	90	29	445	**564**
Non-controlling interest contribution to subsidiary´s share capital	0	0	73	0	0	-73	**0**
Formation of statutory reserve	0	0	0	0	0	-626	**-626**
Balance as of 31.12.2013	**25,001**	**174**	**1,791**	**-11**	**0**	**-1,850**	**25,105**
Net profit for the financial year	0	0	0	0	0	612	**612**
Other comprehensive income	0	0	0	11	0	0	**11**
Total comprehensive income for the period	0	0	0	11	0	612	**623**
Changes in reservs	0	0	22	0	0	-22	**0**
Balance as of 31.12.2014	**25,001**	**174**	**1,813**	**0**	**0**	**-1,260**	**25,728**

Statement of cash flows of AS Eesti Krediidipank
In thousands of euros

Cash flows from operating activities (indirect method)	31.12.2014	31.12.2013
Net profit	612	445
Adjustments		
Impairment of loans and advances	-428	-300
Depreciation and impairment of non-current assets	393	400
Change in fair value of financial assets designated at fair value through profit or loss at inception	559	679
Revaluation of available-for-sale financial assets	0	30
Net gain on sale of non-current assets and investment property	-27	-147
Effect of changes in currency exchange rates	15	49
Net interest income	-5,753	-6,347
Interest received	8,594	9,059
Interest paid	-2,238	-2,910
Change in receivables from customers of credit institutions and leasing companies	-2,731	-21,968
Change in fair value of financial assets designated at fair value through profit or loss at inception	15,423	8,168
Change in long - term receivables from credit institutions	15	16
Change in loans and advances to credit institutions	-23	-1,594
Change in deposits	-5,189	-42,062
Change in other assets and liabilities related to operating activities	425	365
Total cash flows from operating activities	**9,647**	**-56,117**
Cash flows from investment activities (direct method)		
Redemption and sale of held-to-maturity financial assets	1,696	2,469
Proceeds from sale of non-current assets and investment property	70	1,049
Purchase of non-current assets and investment property	-742	-142
Increase in share capital of subsidiary	0	-102
Total cash flows from investing activities	**1,024**	**3,274**
Cash flows from financing activities (direct method)		
Loans repaid to credit institutions	0	-5,000
Total cash flows from financing activities	**0**	**-5,000**
Total cash flows	**10,671**	**-57,843**
Change in cash and cash equivalents	**10,671**	**-57,843**
Cash and cash equivalents at beginning of the year	51,785	109,628
Cash and cash equivalents at end of the year	62,456	51,785
The balance of cash and cash equivalents is comprised of:	**62,456**	**51,785**
Cash on hand	2,576	2,165
Demand deposits in central bank	30,475	19,440
On demand and short-term deposits in credit institutions	29,405	30,180

AS Eesti Krediidipank has a branch in the Republic of Latvia:

- AS Eesti Krediidipank Latvijas filiāle, Cēsu iela 31/3, Rīga, LV-1012, Latvija;
- turnover or revenue of 1,030 thousand euros;
- the number of full-time equivalent employees was 24 as at 31.12.2014;
- pre-tax loss in the year 2014 was 414 thousand euros;
- income tax or other tax payable on profit or loss in the year 2014 was 9 thousand euros;
- no government grants have been received.

Note 41. Events after the balance sheet date

In February 2015, the loan of 5 million euros was due to the European Central Bank. The loan was repaid as it fell due.
No other events after the balance sheet date that would have a significant impact on the assets, liabilities or equity of the bank have occurred at the date of approval of the financial statements.

Appended documents
2014

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Eesti Krediidipank

We have audited the accompanying consolidated financial statements of AS Eesti Krediidipank and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2014 and the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

AS PricewaterhouseCoopers

/signed/	/signed/
Tiit Raimla Auditor's Certificate No. 287	Stan Nahkor Auditor's Certificate No. 508

20 March 2015

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* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

Proposal for profit allocation

The Management Board of AS Eesti Krediidipank approved the annual report of AS Eesti Krediidipank Group for the financial year 2014 at 20.03.2015.

The profit of AS Eesti Krediidipank for the financial year 2014 was 611,770.45 euros. The profit of AS Eesti Krediidipank Group for the financial year 2014 was 1,408,393.48 euros.

The Management Board of AS Eesti Krediidipank proposes the General Meeting of the Shareholders to allocate the profit of AS Eesti Krediidipank for 2014 in the amount of 611,770.45 euros as follows:
1. allocate 30,588.52 euros to the balance sheet statutory reserve capital line item "Reserves";
2. allocate 581,181.93 euros to the balance sheet line item "Retained earnings“ to cover the accumulated loss of prior periods.