Krediidipank

Annual Report 2016

Consolidated Annual Report 2016

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: 01.01.2016 - 31.12.2016

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 2016 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 2016 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 2016 consolidated financial statements of AS Eesti Krediidipank will be presented to the general meeting of shareholders for approval in April 2017. The previous 2015 consolidated financial statements were approved by the general meeting of shareholders at 25.04.2016.

Margus Rink /signed/
Chairman of the Management Board

Janek Uiboupin /signed/
Member of the Management Board

Kerli Lõhmus /signed/
Member of the Management Board

General information

Business name	AS Eesti Krediidipank
Registered	15.03.1992 in Tallinn
Address	Narva road 4, Tallinn 15014, 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 road 15, Tallinn 10141
Balance sheet date of the financial statements	31.12.2016
Reporting period	01.01.2016- 31.12.2016
Reporting currency	euro (EUR), in thousands

Shareholders holding in excess of 9% of the shares, as at 20.03.2017	Coop Investeeringud OÜ	36.5849%
	Coop Eesti Keskühistu TÜH liikmesühistud	23.1455%
	AS INBANK	9.9995%
	Saratoga Finance SPF S.A.	9.8638%
	East European Capital Investment Ltd	9.8104%
	Total percentage of votes represented	**89.4041%**
Shareholders holding in excess of 9% of the shares, as at 31.12.2016	BM-Bank PJSC	59.7304%
	Nordea Bank Finland PLC,Clients*	9.9995%
	Saratoga Finance SPF S.A.	9.8638%
	East European Capital Investment Ltd	9.8104%
	Total percentage of votes represented	**89.4041%**
	*nominee account	

Members of the Supervisory board, as at 20.03.2017	Jaanus Vihand, Chairman of the Supervisory Board Jaan Marjundi Roman Provotorov Priit Põldoja Marko Kairjak
Members of the supervisory board, as at 31.12.2016	Andrus Kluge, Chairman of the Supervisory Board Timur Dyakov Arthur Klaos Boris Beliaev Ain Soidla
Members of the management board, as at 20.03.2017	Margus Rink, Chairman of the Management Board Janek Uiboupin Kerli Lõhmus

Members of the management board, as at 31.12.2016	Valmar Moritz, Chairman of the Management Board Marina Laaneväli, Vice Chairman of the Management Board (since 20.10.2016, previously member of the Management board) Uku Tammaru, Vice Chairman of the Management Board until 13.10.2016 Karin Ossipova, since 14.10.2016 Helo Koskinen, since 14.10.2016 Ieva Rācenāja, until 30.06.2016.
Entities belonging to the Group	AS Eesti Krediidipank, emaettevõte Krediidipanga Liisingu AS AS Martinoza AS Krediidipank Finants

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
2016

AS Eesti Krediidipank group

Legal structure

The following companies were part of AS Eesti Krediidipank group as at 31.12.2016:

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.

AS Eesti Krediidipank has branch in Republic of Latvia:
AS Eesti Krediidipank Latvijas filiāle, Cēsu iela 31/3, Rīga, LV-1012, Latvija.
Latvian branch's revenue in 2016 was 485 thousand euros, loss before income tax was 720 thousand euros. There were no income tax or other tax chargeable for profit or loss on 2016. At 31.12.2016, the Latvian branch employed 16 people (in full time equivalent units).
Branch has not received any governmental aid.

All the above-mentioned subsidiaries are fully consolidated with the line by line method, eliminating all intra-group receivables and liabilities, transactions between group companies, and income and expenses.

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 organizational 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 organizational structure is mainly based on a 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 and business lines are formed in order to manage the activities or functions within the area of responsibility of a management board member.

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 business lines and it will also approve the organizational structure.

AS Eesti Krediidipank group management arrangement

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 governing body of the Group companies are the management board and the supervisory board of the companies. 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 group companies 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.

The Group manages risks across the entire group. In order to improve the effectiveness of group management, the following committees have been established on the Group level:

Audit Committee is comprised of members of the Supervisory Board of the bank (as at 31.12.2016) and it serves as an advisory body in respect of accounting, auditing, risk management, legal compliance, internal control and audit, general supervision and budgeting.

Remuneration Committee is comprised of members of the Supervisory Board of the bank (as at 31.12.2016) and its role is to evaluate the implementation of remuneration policy and their adherence to the operational objectives of the bank and to evaluate the effect of decisions related to remuneration to compliance with requirements set forth concerning the Group's risk management, own funds and liquidity.

Credit Committee and Credit Commission are competent bodies for making credit decisions and their role is to ensure through their decision-making the adherence to common credit policy across the Group.

Price Commission is a competent body for the Group-wide management of real estate risk and realized credit risk of the collaterals.

Asset/Liability Management Committee is a competent body on a group-wide basis 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.

A group-wide internal control system has been implemented by the Group encompassing all operational and management levels for the purposes of ensuring the effectiveness of the Group's operations, reliability of financial reporting, compliance of operations with applicable laws and other legislation, internal regulations approved by governing bodies and the adoption of decisions on the basis of reliable and relevant information. The control is based on a 3-level control system. The first level constitutes internal control that takes place internally within each division. The second level is made up of risk management and compliance function that operate as autonomous and independent control units. The third level comprises the internal audit unit that exercises control over the entire operations of the Group.

AS Eesti Krediidipank governing bodies

The governing bodies of AS Eesti Krediidipank are its Supervisory Board and Management Board.

The Supervisory Board is appointed by the General Meeting of Shareholders for a five-year term. Shareholders who hold shares at least 1/10 of the share capital are able to nominate candidates for election of members of the Supervisory Board in the form of a draft resolution of the General Meeting of Shareholders.

The Management Board is appointed by the Supervisory Board of the bank as a collegial body up to five-year term. When appointing members of the Management Board, the Supervisory Board ensures that the Management Board that is formed would be sufficiently diverse in composition through a profile of knowledge, skills, experience and education in order to make sure that the Management Board has the capability to effectively manage all of the bank's operating segments. The Supervisory Board also aims to take into consideration gender diversity when deciding on the composition of the Management Board.

Members of the governing body are appointed based upon requirements applicable to members of governing bodies pursuant to the provisions of the Credit Institutions Act: any appointed individual must have the necessary knowledge, skills, experience, education, professional qualifications and impeccable reputation in business to be able to manage a credit institution. A person whose earlier activities have caused the bankruptcy or compulsory liquidation or revocation of the activity license of a company, or from whom the right to engage in economic activity has been taken away pursuant to law, or whose earlier activities as a manager of a company have shown that he or she is not capable of organizing the management of a company such that the interests of the shareholders, members, creditors and clients of the company are adequately protected, or whose earlier activities have shown that he or she is not suitable to manage a company for other good reasons cannot be elected or appointed manager of a credit institution.

In order to ensure compliance with the aforementioned requirements, the bank has adopted an internal policy for the evaluation of the suitability of a member of its governing body: suitability is evaluated before the individual is appointed member of a governing body and, if necessary, during their term of office as members. The bank has established a policy for the regular training for members of the management board in order to ensure sustained competency of its management board members.

Remuneration policy

Krediidipank group applies a single remuneration policy that has been approved by the Supervisory Board of the bank and the effectiveness, adherence to objectives and implementation of the policy is supervised by the Remuneration Committee. In 2016 took place one Remuneration Committee meeting. The remuneration policy applies equally to both employees and members of the management boards of group companies.

The compensation structure applicable in Krediidipank group is comprised of three components:

- base salary (fixed and variable pay for successful performance);
- performance pay according to the profitability of the Group, which is based on return on equity;
- bonus for outstanding accomplishments.

Performance pay 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 personal holiday that depends on seniority. The Group's employees work under employment contracts, members of the management on the basis of authorization agreements. The remuneration paid by the Group during the financial year are presented in the table below.

in thousands of euros

	2016	2015
Wages and salaries and other compensation	3,347	3,352
Performance pay and bonuses	225	255
Redundancy benefits and severance payments	265	81
Fringe benefits	57	72
Social tax, unemployment insurance premiums	1,266	1,218
Total	**5,160**	**4,978**
Number of employees at end of reporting period (in full time equivalent units)	163	174
Average number of employees in reporting period (in full time equivalent units)	166	180
Severance payments specified in contracts	247	312

Information regarding management compensation is provided in accounting report note 36. Related parties.

Dividend policy

The current dividend policy was approved by shareholders on the annual general meeting of AS Eesti Krediidipank on 25 April 2016.

The objective of the dividend policy is to define the minimum and maximum level of distributable earnings to shareholders from unrestricted equity. The Bank defines unrestricted equity as the amount of the net assets after deducting the share capital, share premium and reserves.

According to the dividend policy, the profit allocation decision is adopted on the basis of consolidated group accounts. As dividends, a maximum of 40% of the Group's unrestricted equity, but not more than the profit for the last financial year and not more than the unrestricted equity of the parent company can be distributed.

Dividends are not paid out if the distributable amount is less than EUR 200,000 (two hundred thousand euros).

Herewith, all capital adequacy requirements must be met both on the consolidated and individual level, also after the dividend distribution decision.

Persons that have close links

According to the 26 June 2013 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 this definition, until 27.01.2017 AS Eesti Krediidipank had significant relationship with BM-Bank PJSC, 8/15 Rozhdestvenka Street, Moscow, that owned 59.7304% of shares of AS Eesti Krediidipank.

At the time of management signing the 2016 annual report, AS Eesti Krediidipank had significant relationship with Coop Investeeringud OÜ, which first acquired the 59.7304% shareholding owned by BM-Bank PJSC in AS Eesti Krediidipank and then transferred 23.1455% holding to six members cooperatives of AS Coop Eesti Keskühistu TÜH. At the time of signing the report, Coop Investeeringud OÜ owns 36.5849% of shares of AS Eesti Krediidipank.

Overview of activities and significant events

2016 was a turning point in the world - the British decided to leave the European Union, and the United States elected a businessman without any previous political experience as president. Both events are estimated to have an impact on the global and EU economies towards the increase in the direction of protectionism.

In 2016, the European Central Bank and national central banks continued to revive the economic through bond purchases. Also key interest rates remained low and the fees of the European Central Bank and national central banks in central banks for preserving a liquidity buffer were maintained. Despite the efforts, the average GDP growth in European Union countries in 2016 was very low, as in 2015.

The economic environment described above has kept the interest of deposits in Estonia at low levels, with major banks paying no interest at all on certain deposits. Loan interest rates are still at relatively low levels and the continued wage growth has increased the volume of housing loans. At the beginning of 2017, Eesti Pank announced that the loan leasing portfolio of Estonian enterprises and households grew rapidly in 2016, deposits of enterprises and households in bank increased, but the profitability of the banking sector decreased.

2016 was successful for Krediidipank Group. Group’s profit was EUR 1.53 million (2015: EUR 1.78 million). The loan portfolio grew to EUR 153.13 million, the volume of deposits decreased by approximately 5% as compared to the previous year, and totaled EUR 253.81 million at the end of the year. Largely due to a decline in the volume of deposits, the balance volume decreased almost by 5% in 2016 and amounted to EUR 290.17 million at the end of the year.

In 2016, housing loan was one of the Bank's focus products. Whereas in 2015, 185 loan contracts were concluded for the amount of EUR 6.84 million, there were 252 loan agreements in the total amount of EUR 11.77 million in 2016.

The sales volume of loans secured by real estate decreased slightly in 2016. By the end of the year, the Bank had granted EUR 1.87 million in loans secured by real estate and concluded approximately 100 loan contracts. In the comparison year 2015 98 loan contracts were concluded in the total amount of 2.01 million euros.

The leasing and loan portfolio of the bank's subsidiary Krediidipanga Liisingu AS decreased during the year 2016 from 25.22 million euros to 23.83 million euros. During the year, leasing projects amounting to a total of 3.76 million euros were financed. In the year 2015 the total amount of financing was 2.90 million euros. The leasing portfolio was comprised of 62% real estate (2015: 63%), 35% passenger vehicles and vans (2015: 35%), 3% machinery and other equipment (2015: 2%).

2016 turned out as predicted for AS Martinoza the Group’s subsidiary that deals with real estate, which means the sales revenue decreased, being the total of 2.1 million euros (it was 4.7 million euros in the year 2015), vacancies of larger leasable premises of commercial buildings remained very low during the financial year, as in 2015. The balance sheet volume of Martinoza totaled EUR 19.36 million at the end of 2016, in the year 2015 the balance sheet volume was 19.85 million euros.

The Bank's subsidiary of Krediidipanga Finants AS, which offers consumer credit Target Loan, operated successfully. During the year, the balance sheet volume increased by EUR 2.10 million, totaling EUR 13.48 million at the end of 2016.

Events in 2016

Focus products in 2016
The most important products actively offered and developed by Krediidpank were:
Settlement package;
Target loan;
Mortgage loan;
Home loan.

1,579 customers have joined the **Settlement package** during the year, and a total of 5,828 package agreements have been concluded. In the year 2015 the corresponding numbers were 1,753 and 4,576.

By the end of 2016, the **Target loan** loan portfolio of bank's subsidiary Krediidipank Finants held 7,739 clients and 10,026 valid loan agreements. In the year 2015 the corresponding numbers were 6,283 and 7,584.

New homepage of the Bank and extended usability of the Internet Bank
In February, Krediidipank's new homepage was completed, which can be viewed both from computers and smartphones. In addition, Krediidipank apps for Android and iOS platforms are available for smartphones, making it convenient to use Internet bank.

Three scholarships of EUR 2,000
For the tenth time, Rein Otsason Foundation and Eesti Krediidipank divided the traditional annual scholarships to students specializing in finance and economics from Estonia and foreign countries. In May, on the birth date of Rein Otsason, three scholarships of EUR 2,000 each were granted to Sander Veges (Fudan University School of Economics), Renee Pesor (EBS) and Jelena Komendantova (Tallinn University of Technology).

Sõle branch office shut down.
In accordance with the optimization of branch office network, the Sõle branch in Tallinn was shut down on September 14.

Bank's majority shareholder transferred its shares of Krediidpank
In its Quarter III interim report the Russian bank VTB announced that the majority shareholding of BM-Bank JSC in Eesti Krediidipank has been reclassified into asset held for sale.

On 27 January 2017 Coop Investeeringud OÜ – a company with owners of Estonian background – obtained the 59.7% shareholding in Eesti Krediidipank, formerly owned by BM-Bank JSC.

Outlook of Krediidipank group in the year 2017

On its 25th anniversary, Krediidipank is making a big step forward. Coop Eesti, the Bank's new strategic owner, and its 600,000 regular customers are creating an excellent precondition for increasing the Bank's customer base.

Employees of Krediidipank have the opportunity to contribute to the development of an Estonian growing bank with innovative strategies. Customers of Krediidipank will retain all current basic services and good depositing opportunities, and, as added value, the network of sales and service networks will increase notably.

The Bank will continue operating under its current name of Krediidipank until this autumn, and then will be renamed Coop Pank. During the spring and summer, we will prepare the bank's new product suite and new sales and service channels.

Coop Bank will continue operations in the banking market with a distinctive strategy. The cornerstone of our strategy are the bank's existing customers, 600,000 customers of Coop Estonia, and the needs of all our customers. We are creating a bank that:

- focuses in particular on providing services to private customers and to small and medium sized companies connected to private customers;
- we see our target market, in addition to current cities, in particular, regions outside larger cities;
- we offer two product packages: daily banking (account, transfers, bank cards, cash and deposits) and financing (small loan, installment loan, credit card, housing loan);
- we serve customers where it's most suitable for the customer: the bank's existing offices, the sales and service network in Coop stores, Internet/mobile bank, cash transactions in Coop checkouts;
- our customer offering will be based on the synergy between trade and banking as well as on customer gain.

Our estimated start of operations under Coop Bank is October 2017.

Key financial indicators and ratios of Krediidipank Group

In thousands of euros

	2016	2015
As at the end of the reporting period		
Balance sheet total	290,170	305,350
Shareholders' equity	29,577	28,898
Share capital	25,001	25,001
Number of shares of AS Eesti Krediidipank	39,117,600	39,117,600
Loans and advances to customers	153,133	152,652
Deposits	253,812	267,395
For the reporting period		
Net profit	1,743	1,772
Total income	14,596	17,076
Net interest income	7,398	5,888
Interest income	9,119	8,307
Interest expense	1,721	2,419

Ratios (annual)		
Return on equity (ROE) Net profit/shareholders´ equity	6.0%	6.3%
Return on assets (ROA) Net profit/assets	0.6%	0.6%
Equity multiplier (EM) Total assets/shareholders´ equity	10.2	10.0
Profit margin (PM) Net profit/total income	11.9%	10.4%
Asset utilization (AU) Total income/assets	4.9%	6.1%
Earnings per share EPS (euros) Net profit per common share eligible for dividends	0.04	0.05

Number of account holders*	33,345	43,008
Number of service locations	13	14

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

*In 2016, the client base was arranged, accounts, which were not used for years and where money was not held, were closed.

Indicators of capital adequacy of Krediidipank group

An overview about formation of regulative equity, capital demands and capital adequacy:

In thousands of euros

Capital base	**31.12.2016**	**31.12.2015**
Tier 1 capital		
Paid-in share capital and share premium	25,175	25,175
Statutory reserve capital	1,970	1,844
Accumulated profit/loss (-)	617	58
Intangible assets (-)	-687	-761
Deferred tax asset depending on future taxable profits (-)	-1	-1
Adjustment of value arising from requirements of reliable measurement (-)	-21	-17
Other deductions from Tier I Capital (-)	-1,019	0
Total Tier 1 capital	**26,034**	**26,298**
Subordinated debt	3,299	4,000
Tier 2 capital	**3,299**	**4,000**
Eligible capital for capital adequacy calculation	**29,333**	**30,298**
Risk-weighted assets (RWA)		
Central government and central banks using the Standardised Approach	1,452	526
Credit institutions, investment companies and local governments using the Standardised Approach	11,581	13,774
Companies using the Standardised Approach	8,323	4,404
Retail claims using the Standardised Approach	17,371	16,718
Claims secured by mortgage on real estate using the Standardised Approach	55,837	55,353
Claims past due using the Standardised Approach	2,645	2,874
Items subject to particularly high risk using the Standardised Approach	6,845	9,962
Other assets using the Standardised Approach	18,035	18,784
Total credit risk and counterparty credit risk	**122,089**	**122,395**
Operational risk using the Basic Indicator Approach	16,132	18,272
Total risk-weighted assets	**138,221**	**140,667**
Capital adequacy (%)	**21,22%**	**21,54%**
Tier 1 Capital Ratio (%)	**18,84%**	**18,69%**

Since 2016, in calculating capital we are taking into account the guidelines provided in the European Commission Regulation No 183/2014, whereby any amounts recorded in the financial year may be included in the calculation of general and specific credit risk adjustments only if the corresponding amounts are deducted from Tier 1 Capital of the credit institution. The Group does not use general credit risk adjustment, but only individual and collective allowances.

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
Systemic risk buffer	1.00%	Of total risk exposure
Capital maintenance buffer	2.50%	Of total risk exposure

The systemic risk buffer of Krediidipank group as at 31.12.2016 was 1,382 thousand euros compared to 2,813 thousand euros as at 31.12.2015.

The capital maintenance buffer of Krediidipank group as at 31.12.2016 was 3,456 thousand euros compared to 3,517 thousand euros as at 31.12.2015.

As at 31.12.2016, the Group was in compliance with all regulatory capital requirements.
The remaining maturity of all the exposures, broken down by exposure classes are presented in the table below.

In thousands of euros

31.12.2016

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	43,919	103	2,904	0	0	46,926
Credit institutions, investment companies and local governments	24,050	15,380	3,053	0	0	42,483
Companies	603	2,410	0	5,430	7	8,450
Retail claims	3	309	2,113	18,268	1,781	22,474
Claims secured by mortgage on real estate	237	1,016	3,895	11,152	105,880	122,180
Claims past due	2,163	0	0	0	0	2,163
Items subject to particularly high risk	3,358	0	228	402	429	4,417
Investments in equity	0	0	0	0	13	13
Other assets	26,615	0	0	0	13,761	40,376
Total balance sheet exposures	**100,948**	**19,218**	**12,193**	**35,252**	**121,871**	**289,482**
Off-balance sheet (Standardised Approach)						
Companies	497	0	0	0	0	497
Retail claims	2,367	0	0	0	0	2,367
Claims secured by mortgage on real estate under standard method	1,887	0	0	0	0	1,887
Items subject to particularly high risk	311	0	0	0	0	311
Total off-balance sheet exposures	**5,062**	**0**	**0**	**0**	**0**	**5,062**
Total exposure	**106,010**	**19,218**	**12,193**	**35,252**	**121,871**	**294,544**

31.12.2015

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	65,126	24	1,125	0	0	66,275
Credit institutions, investment companies and local governments	55,688	2,333	1,273	554	0	59,848
Companies	1,528	0	521	3,177	503	5,729
Retail claims	5	211	1,506	18,286	1,652	21,660
Claims secured by mortgage on real estate	2	1,800	2,276	15,382	101,622	121,082
Claims past due	2,598	0	0	0	0	2,598
Items subject to particularly high risk	2,300	16	3,820	73	4	6,213
Investments in equity	0	0	0	0	13	13
Other assets	2,422	0	0	0	18,749	21,171
Total balance sheet exposures	**129,669**	**4,384**	**10,521**	**37,472**	**122,543**	**304,589**

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Off-balance sheet (Standardised Approach)						
Credit institutions, investment companies and local governments	0	207	0	0	0	207
Companies	299	0	0	0	0	299
Retail claims	2,487	0	0	0	0	2,487
Claims secured by mortgage on real estate under standard method	3,663	0	0	0	0	3,663
Items subject to particularly high risk	1,422	0	0	0	0	1,422
Total off-balance sheet exposures	**7,871**	**207**	**0**	**0**	**0**	**8,078**
Total exposure	**137,540**	**4,591**	**10,521**	**37,472**	**122,543**	**312,667**

In addition to the capital adequacy indicator, according to the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV), an important indicator for banks is the financial leverage ratio in order to limit excessive indebtedness of banks.

In order to calculate the financial leverage ratio, the capital indicator (Tier 1 capital, see the table on page 16) is divided by the total exposure indicator (see the table on page 17) and it is expressed as a percentage. The financial leverage ratio of Krediidipank group was at 31.12.2016 8.84%, compared to 8.48% as at 31.12.2015.

Krediidipank group plans its strategy by taking into account the need to maintain its financial leverage ratio on a sustainable level. The bank's management board and the operational body that it has formed, the Asset/Liability Management Committee, monitor the risk levels arising from excessive financial leverage and the compliance of the ratio with regulations, analysing changes in the balance sheet structure and when necessary adopting an action plan for controlling financial leverage.

Group's liquidity position is strong. At 31.12.2016 the Liquidity Coverage Ratio (LCR) was 1,164.0% and at 31.12.2015 354.7%.

Concentration of risks 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.
According to the EU Regulation number 575/2013 article 400 paragraph 1 terms the 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	7,925
Credit institutions and investment companies	eligible capital	2	27,751

Consolidated financial statements of Krediidipank Group 2016

AS Eesti Krediidipank consolidated statement of financial position

In thousands of euros

Assets	**Note**	**31.12.2016**	**31.12.2015**
Cash on hand		22,337	2,342
Balances with central banks	3	43,919	65,126
Loans and advances to credit institutions	4	39,293	57,716
Financial assets held for trading	10	0	28
Financial assets designated at fair value through profit or loss	10	11,421	6,078
Loans and advances to customers	5-9	153,133	152,652
Held-to-maturity financial assets	10	503	503
Available-for-sale financial assets	10	13	13
Other financial assets	11	714	1,161
Assets held for sale	12	4,279	2,422
Investment property	13	9,105	11,220
Property, plant and equipment	14	4,512	5,088
Intangible assets	15	687	761
Other assets	16	254	240
Total assets		**290,170**	**305,350**

Liabilities			
Financial liabilities designated at fair value through profit or loss		0	276
Due to credit institutions	18	185	115
Due to customers	19	253,812	267,395
Other financial liabilities	20	1,433	3,576
Other liabilities	21	1,124	1,051
Subordinated debt	22	4,039	4,039
Total liabilities		**260,593**	**276,452**

Shareholders' equity	23		
Share capital		25,001	25,001
Share premium		174	174
Reserves		1,970	1,844
Retained earnings (accumulated loss)		2,146	1,838
Shareholders' equity attributable to owners of the parent company		**29,291**	**28,857**
Non-controlling interest		286	41
Total shareholders' equity		**29,577**	**28,898**
Total liabilities and shareholders' equity		**290,170**	**305,350**

Notes to the financial statements on pages 25 to 78 are an integral part of the consolidated financial statements.

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

In thousands of euros

	Note	2016	2015
Interest income	25	9,119	8,307
Interest expense	26	-1,721	-2,419
Net interest income		**7,398**	**5,888**
Fee and commission income	27	3,488	3,318
Fee and commission expense	28	-751	-661
Net fee and commission income		**2,737**	**2,657**
Revenue from sale of assets		975	3,609
Cost of assets sold		-809	-3,143
Change in fair value of investment property		108	115
Net profit/loss in fair value of financial assets designated at fair value through profit or loss	29	-32	-353
Payroll expenses	30	-5,160	-4,978
General and administrative expenses	31	-2,474	-2,565
Other income	32	906	1,727
Other expenses	33	-323	-376
Depreciation	14,15	-454	-486
Impairment losses on loans and advances		-1,009	-169
Profit before income tax		**1,863**	**1,926**
Income tax		**-120**	**-154**
Net profit		**1,743**	**1,772**
incl. share of profit/loss attributable to non-controlling interest		**214**	**-8**
incl. share of profit attributable to the owners of the parent company		**1,529**	**1,780**

Other comprehensive income/ expense			
Comprehensive income for the financial year		**1,743**	**1,772**
incl. share of profit/loss attributable to non-controlling interest		**214**	**-8**
incl. share of profit attributable to the owners of the parent company		**1,529**	**1,780**

Notes to the financial statements on pages 25 to 78 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	Retained earnings	Total equity attributable to the shareholders of the parent company	Non-controlling interest	Total share-holders'equity
Balance as of 31.12.2014	**25,001**	**174**	**1,813**	**89**	**27,077**	**49**	**27,126**
Net profit for the financial year	0	0	0	1,780	**1,780**	-8	**1,772**
Total comprehensive income for the period	0	0	0	1,780	**1,780**	-8	**1,772**
Changes in reserves	0	0	31	-31	**0**	0	**0**
Balance as of 31.12.2015	**25,001**	**174**	**1,844**	**1,838**	**28,857**	**41**	**28,898**
Dividends paid in 2015	0	0	0	-1,095	**-1,095**	0	**-1,095**
Contribution of a non-controlling stake in the share capital of the subsidiary	0	0	0	0	**0**	31	**31**
Net profit for the financial year	0	0	0	1,529	**1,529**	214	**1,743**
Total comprehensive income for the period	0	0	0	1,529	**1,529**	214	**1,743**
Changes in reserves	0	0	126	-126	**0**	0	**0**
Balance as of 31.12.2016	**25,001**	**174**	**1,970**	**2,146**	**29,291**	**286**	**29,577**

Additional information presented in Note 23.

Notes to the financial statements on pages 25 to 78 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)	Note	2016	2015
Net profit		1,529	1,780
Adjustments			
Change in provisions for loans and advances		1,009	169
Depreciation and impairment of non-current assets	14,15	456	499
Impairment of available-for-sale financial assets	12	82	171
Change in fair value of financial assets designated at fair value through profit or loss		186	372
Revaluation of investment property	13	-108	-115
Net profit/loss on sale of non-current assets (-/+)		12	-2
Effect of changes in currency exchange rates		5	-1
Net interest income	25,26	-7,398	-5,887
Interest received		8,571	6,873
Interest paid		-2,293	-2,666
Change in loans and advances related to customers of credit institution and leasing companies		-66	-1,320
Change in fair value of financial assets designated at fair value through profit or loss		-6,040	7,307
Change in long - term receivables from credit institutions		0	-80
Change in loans and advances to credit institutions		70	-241
Change in deposits		-13,010	59,439
Change in assets held for sale		-1,857	2,116
Change in other assets and liabilities related to operating activities		379	1,234
Total cash flows from operating activities		**-18,473**	**69,648**
Cash flows from investment activities (direct method)			
Redemption and sale of held-to-maturity financial assets		0	4,412
Proceeds from sale of non-current assets and investment property		37	2,474
Purchase of non-current assets and investment property		-144	-317
Contribution of a non-controlling stake in the share capital of the subsidiary		31	0
Total cash flows from investing activities		**-76**	**6,569**
Cash flows from financing activities (direct method)			
Dividends paid		-1,095	0
Repayments of loans to credit institutions		0	-14,000
Total cash flows from financing activities		**-1,095**	**-14,000**
Total cash flows		**-19,644**	**62,217**
Change in cash and cash equivalents		**-19,644**	**62,217**
Cash and cash equivalents at beginning of the period		124,684	62,467
Cash and cash equivalents at end of the period		105,040	124,684
Cash and cash equivalents balance is comprised of:		**105,040**	**124,684**
Cash on hand		22,337	2,342
Demand deposits in central banks		43,919	65,126
Demand and short-term deposits in credit institutions		38,784	57,216

Notes to the financial statements on pages 25 to 78 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. These consolidated financial statements of AS Eesti Krediidipank for the year 2016 have been approved by the management board of AS Eesti Krediidipank and will be presented to the shareholders for approval

Functional and presentation currency
The functional currency of the AS Eesti Krediidipank Group is euro. 2016 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.

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 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:
* loan allowances, incl. fair value assessment of collateral (Note 9);
* estimation of the fair value of investment property (Note 13);
* 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 2016.

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.

Subsidiaries
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 38). 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.

Non-controlling interest
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

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:

<table>
<tr><th colspan="2">Category (as defined by IAS 39)</th><th colspan="2">Class (as determined by the Group)</th></tr>
<tr><td rowspan="8">Financial assets</td><td rowspan="4">Loans and receivables</td><td colspan="2">Loans and advances to credit institutions</td></tr>
<tr><td rowspan="2">Loans and advances to customers</td><td>Private individuals</td></tr>
<tr><td>Legal entities</td></tr>
<tr><td colspan="2">Other financial assets</td></tr>
<tr><td rowspan="2">Financial assets at fair value through profit or loss</td><td colspan="2">Held for trading interest rate swaps - derivatives</td></tr>
<tr><td colspan="2">Debt securities designated at fair value through profit or loss</td></tr>
<tr><td>Held-to-maturity financial assets</td><td colspan="2">Debt securities held-to-maturity</td></tr>
<tr><td>Available-for-sale financial assets</td><td colspan="2">Investment securities – equity securities</td></tr>
<tr><td>Contingent receivables</td><td colspan="3">Contractual amounts of currency – related to derivatives</td></tr>
</table>

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 favorable 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, using effective interest rate method. 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.

<u>Lease receivables</u>

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 and securities held for trading (incl. derivatives).

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 "Net profit/loss change in fair value of financial assets designated at fair value through profit or loss”.

Securities held for trading are securities that have been acquired mainly for the purposes of resale or redemption in the near term or if such securities form a part of an independent portfolio of financial securities that are collectively managed and where proof of recently realised short-term gain exists, and derivative securities.
The Group does not own any securities acquired for the purposes of resale or redemption.
Derivative financial instruments (swap transactions) are initially recognised in the balance sheet at the fair value net of transaction costs at the trade date and are subsequently valued at fair value through profit or loss.
If derivatives are quoted on an active market, market value is used as the fair value. Otherwise, the valuation techniques are used to find the fair value.

Profits and losses from derivatives are recognised as income or expense of the period in the statement of comprehensive income under “Net gains/losses from financial assets measured at fair value”.

Derivatives are carried in the statement of financial position as assets, if their market value is positive and as liabilities, if the market value is negative.
The fair values of derivative assets and liabilities recorded in the balance sheet are not netted.
The Group does not use hedge accounting to account for its derivative financial instruments.

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
- 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:
* investments designated as fair value through profit or loss upon their initial recognition;
* investments classified as available-for-sale assets; and
* 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 of non-current assets is 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. Assets held for sale 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 as 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:

<table>
<tr><th colspan="2">Category (by IAS 39)</th><th colspan="2">Class (as determined by the Group)</th></tr>
<tr><td rowspan="6">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>Financial liabilities measured at fair value through profit or loss</td><td colspan="2">Held for trading interest rate swaps - derivatives</td></tr>
<tr><td rowspan="3">Contingent liabilities</td><td colspan="3">Contractual amounts of currency - related derivatives</td></tr>
<tr><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.

Payables to employees
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 contract value at the time of reporting or 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 or other payments decreasing the equity are subject to the taxation on the amount paid out as net distribution 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 or other payment decreasing the equity is accounted for as an expense in the period when dividends or other payment decreasing the equity are declared, regardless of the actual payment date or the period for which the dividends are paid.

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 37 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 2016 or later periods:

- Amendments to IAS 1 – disclosure initiative – (effective on 1 January 2016)

The standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The standard also provides new guidance on subtotals in

financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.
The Group has taken the amendment into account.

The Group has no significant impact from the other new or amended standards or interpretations that apply from 1.1.2016 or thereafter.

New or amended standards, which will be mandatory for the Group from 1.1.2017 or later annual periods:

- Amendments to IAS 7 – disclosure initiative - (effective for annual periods beginning on or after 1 January 2017; not yet adopted by the EU)

The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities.

The Group is taking the amendment into account in compiling the financial statements.

- Amendments to IAS 40 – transfers of investment property - (effective on 1 January 2018)

The amendment clarified that to transfer to, or from, investment properties there must be a change in use. This change must be supported by evidence; a change in intention, in isolation, is not enough to support a transfer.

The Group is assessing the impact of the amendments on its financial statements and taking the amendment into account in compiling the financial statements.

- IFRS 9, Financial Instruments: Classification and Measurement (effective for annual periods beginning from 1 January 2018)

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.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

• 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.
• Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

In practice, the new rules mean that the financial assets to be assessed are divided into three stages according to changes in its credit quality. For the first stage of financial assets for which there is no indication to impairment the loss equivalent to 12 months of expected credit losses ("trade receivables" for the entire period of expected credit losses) will have to be recognized since initial recognition.
If there has been a significant increase in credit risk the impairment for the financial assets belonging to the second (there has been a significant deterioration in credit quality) and third stage (non-working financial assets) is measured using the entire period of the expected credit losses, rather than the 12-month period the expected credit losses.
The Group is currently defining what criteria are used to evaluate the increase of the credit risk of an increase and how much these criteria predictably change the „significant increase“.
The probability of default throughout the contract period is being used as a credit quality indicator for the financial assets accounted for in the future.
The Group's current collective impairment calculation classifies the deterioration in a loan class as a loss event, but it is not expected that the loss event according to the current model will equal to the movement from the first stage to the second after implementing IFRS 9.
The sum of individual impairment for the financial assets with a significant deterioration in credit quality is calculated based on the estimated loss, but after implementing IFRS 9 the expected credit loss will be calculated based on total loss during the contract period, including the fact that the calculation shall be based on the weighted forward-looking information.
The Group assesses the likelihood that the new rules will lead to an increase in write-downs and when the standard is first applied, the negative impact on equity. The impact of capital adequacy is not currently possible to estimate, as expected enforces the Basel Committee's new rules for the transition to IFRS 9, but they have not yet been disclosed.

The Group does not use hedging, so the amendments in hedge accounting do not have a direct impact on the Group.
The Group has set up a working group for carrying out the necessary changes in risk management as well as IT systems. The Group intends to use the exemption in initial implementation of IFRS 9 standard not to restate comparative information for 2017 in financial statements for 2018.

• <u>IFRS 15 — Revenue from Contracts with Customers (applies to an annual reporting period beginning on or after 1 January 2018)</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.

- IFRS 16 — Leases (is effective for periods beginning on or after 1 January 2019 but has not yet been adopted by the European Union)

The new standard specifies the policies to be used to recognise, measure, present and disclose leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.
The Group is currently assessing the impact of the new standard on its financial statements.

Note 2. Risk management

Principles of risk management
The Group defines risk as possible negative deviation from the expected result.

Risk management is a process aimed at efficiency and profitability of operations that would meet the expectations of shareholders identified in the strategy. As risks are associated with all business activities and on all levels of activity, in addition to the management, risk management involves also all the Group's employees through the internal control system.
The tasks of risk management is the identification and measurement of business-related risks, implementation of measures necessary for controlling risks and reporting on risk management performance.

Structure and responsibility of risk management
The Group's risk management system is centralised on the management level - policies and principles of risk management are established at Group level by the Bank's Supervisory Board or Management Board to ensure implementation of common risk management principles in Eesti Krediidipank and its subsidiaries as well as rapid and effective response to changes in the economic environment or in the Group's business model. Risk management procedures must comply with existing legislative regulations and standards.

The Bank's Management Board is responsible for implementation of risk management, control and risk management policies and methods and effectiveness of risk management. In organising risk management, the Management Board may in limited degree delegate risk taking, control and monitoring to collegial decision-making bodies with limited decision-making competence set up by the Management Board.
The Bank's Management Board has set up the following committees and commissions with limited decision-making competence:

Asset/Liability Management Committee
The tasks, composition and activities of the Asset/Liability Management Committee is defined with its rules. The committee's task is to monitor, control, analyze, and evaluate risks, make decisions and implement them in the following areas of responsibility:

- assessment and management the Bank's and Group's liquidity risk, short-term and long-term liquidity position;
- monitoring of the maturity structure of the Bank's assets and liabilities;
- planning of the balance of interest income and expenses and management of interest rate risk;
- introducing limits on term and volume measures related to counterparties;
- bond portfolio management.

Committees/commissions coordinating credit activities:

Credit Committee
The Credit Committee is the Bank's highest body for making credit decisions, a workgroup responsible for risk management formed in accordance with the Credit Institutions Act and the Bank's statutes for ensuring that the Bank's credit policy is implemented through the adoption of credit decisions and compliance assessment of collateral.

Credit Commission
Credit Commission performs the functions of the Credit Committee in adopting decisions on lower-risk credit.

Price Commission
The objective of the Price Commission is the formation of a united and targeted price policy for the real estate portfolio of the Eesti Krediidipank Group as well as the problematic part of the Group's credit portfolio with the view of reaching the best financial result for the Group.

For effective implementation of risk management, the Group uses a 3-level control system in accordance with the principles of internal control system approved by the Supervisory Board.

Structural units with direct risk control function:

First line of defence

The first level constitutes sales and support divisions and subsidiaries. The first line of defence is to ensure that risks related to the activities, products, and processes in its area of responsibility are identified, assessed and that implementation of measures necessary for controlling risks.

Second line of defence

The second line of defence performs the risk control function independent from business lines. It constitutes the risk management department and persons/units responsible for sub-risks of the operational risk.

Risk Management Department
The main functions of the Risk Management Department are:
- Group wide view of regular identification, assessment and monitoring of risks;
- Stress testing for liquidity, credit and market risks and drawing up relevant risk reports;
- The notification of the Management and Supervisory Board of risks;
- development of risk management methodology, first line of defence counselling in risk management;
- assessment of credit risk of credit projects and compliance with credit conditions;
- organization of planned and special internal checks in the organization.

Compliance function
The compliance function is enforcement of various statutory requirements (regulations, guidelines of supervisory authorities, good banking practice, etc.). The independent compliance function acts as an additional first-level control to the existing self-control within the departments in managing compliance risk. Compliance risk means the risk of incurring a loss resulting from failure to comply with or improper performance of statutory requirements.

Third line of defence

Internal Audit Unit
The Internal Audit Unit that is part of the Bank's internal control system monitors the operations of Krediidipank and compliance with regulations, good banking practice and compliance with the requirements and guidelines of the Financial Supervisory Authority. The Internal Audit Unit monitors the implementation of decisions of the competent body by the Bank's structural units, as well as set rules, limits and other internal rules. The activity of the Internal Audit Unit is aimed at protecting the interests of the Bank's shareholders, depositors and other creditors.

Capital planning and internal capital adequacy assessment process

The Group uses risk-based capital planning which ensures that all risks are adequately covered by own funds at any given time.

Capital is defined as the Group's equity which consist of Tier 1 and Tier 2 capital. Overview of regulatory capital is provided in the following table:

In thousand euros

Capital base	**31.12.2016**	**31.12.2015**
Tier I Capital		
Paid-in share capital and share premium	25,175	25,175
Statutory reserve capital	1,970	1,844
Accumulated profit/loss (-)	617	58
Intangible assets (-)	-687	-761
Deferred tax asset depending on future taxable profits (-)	-1	-1
Adjustment of value arising from requirements of reliable measurement (-)	-21	-17
Other deductions from Tier I Capital (-)	-1,019	0
Total Tier 1 capital	**26,034**	**26,298**
Subordinated debt	3,299	4.000
Tier 2 capital	**3,299**	**4.000**
Eligible capital for capital adequacy calculation	**29,333**	**30.298**
Capital adequacy (%)	**21.22%**	**21.54%**
Tier 1 Capital Ratio (%)	**18.84%**	**18.69%**

Since 2016, in calculating capital we are taking into account the guidelines provided in the European Commission Regulation No 183/2014, whereby any amounts recorded in the financial year may be included in the calculation of general and specific credit risk adjustments only if the corresponding amounts are deducted from Tier 1 Capital of the credit institution.

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
Systemic risk buffer	1.00%	Of total risk exposure
Capital conservation buffer	2.50%	Of total risk exposure

The Group's total amount of own funds for calculating capital adequacy has declined during the year 2016 due to the amortization of subordinated debt in the Tier 2 capital (see Note 22) and additionally deducting the allowances from Tier 1 capital in the calculation methodology.

As at 31.12.2016, the Group is compliant with all regulatory capital requirements.

The Group uses a risk-based capital planning, ensuring that all risks are adequately covered by own funds at any given time.

Capital planning is conducted on the basis of balance sheet and profit and loss forecasts that take into account the Group's strategy, future expectations, risk profile and risk appetite. Capital planning is the responsibility of the Bank's Management Board.

The internal capital adequacy assessment (ICAAP) is an ongoing process, which aims to assess the Group's risk profile and the corresponding need for capital. ICAAP is the basis for regular capital planning in the Group.

The planning and forecasting of capital requirement takes place on the basis of calculating regulatory capital adequacy that takes into account capital requirements arising from ICAAP and supervisory assessment of the Financial Supervisory Authority (SREP) plus capital requirements to cover additional risks that are not taken into account in the context of regulatory capital requirements.

The Group's risk profile is assessed in particular by the following risks: credit risk, concentration risk, liquidity risk, market risk, including risk exposure from the portfolio of financial investments, the Bank's portfolio of interest rate risk, operational risk, strategic risk, reputation risk.

The recommended minimum capital adequacy level is the minimum required capital adequacy level determined in the SREP assessment plus the need-based reserve required for increasing business volumes, implementing strategy plans and ensuring a stable financial position in accordance with the Group's current operating strategy and balance sheet forecasts.

For determining the capital requirement, the balance sheet position is forecast, taking into account changes by items of the risk position and equity. The balance sheet and profit and loss forecasts are reviewed regularly and approved by the Bank's Management Board. It also takes into account the possible impact of strategic and reputation risk to the Group's business success, and determines the necessary equity buffer to ensure that desired internal capital adequacy level if alternative and risk scenarios materialize. Overview of the development of capital adequacy including the capital requirements arising from the SREP assessment are presented to the Bank's Management Board and the Supervisory Board on a quarterly basis.

The Group ensures that all risks are covered by adequate capital at any time.

Credit risk management

Credit risk reflects the risk that the counterparty fails to fulfill its obligations to the Group. Credit risk expresses potential loss that could arise from non-compliance with the counterparty obligations in case of credit risk-bearing receivables. Krediidipank follows the standard method of calculating credit risk capital requirements. In calculating capital requirements the Group uses ratings of accepted rating agencies according to the procedure established by the Financial Supervisory Authority. Credit risk management is based on the Group's credit policy. The main objectives of credit policy are to sustainably achieve the rate of return on Group's assets from credit activities required by shareholders, adhering to the prudency and risk diversification principles and taking moderate risks that can be evaluated and managed.

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

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

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

31.12.2016	Not past due		Past due		Past due		Total
	Impaired	Not impaired	Impai-red	Not impaired	Individual impairment	Collective impairment	
Cash on hand	0	22,337	0	0	0	0	22,337
Balances with central banks	0	43,919	0	0	0	0	43,919
Loans and advances to credit institutions	0	39,293	0	0	0	0	39,293
Financial assets held for trading	0	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	0	11,421	0	0	0	0	11,421
Loans and advances to customers	2,844	136,847	4,618	11,077	-763	-1,490	153,133
Held-to-maturity financial assets	0	503	0	0	0	0	503
Available-for-sale financial assets	0	13	0	0	0	0	13
Other financial assets	0	714	0	0	0	0	714
Total financial assets	**2,844**	**255,047**	**4,618**	**11,077**	**-763**	**-1,490**	**271,333**
Financial guarantees	0	1,354	0	0	0	0	1,354
Loan commitments	0	539	0	0	0	0	539
Overdraft facilities	0	3,169	0	0	0	0	3,169
Total off-balance sheet exposures	**0**	**5,062**	**0**	**0**	**0**	**0**	**5,062**
Total exposure to credit risk	**2,844**	**260,109**	**4,618**	**11,077**	**-763**	**-1,490**	**276,395**

In thousands of euros

31.12.2015	Not past due		Past due		Past due		Total
	Impaired	Not impaired	Impai-red	Not impaired	Individual impairment	Collective impairment	
Cash on hand	0	2,342	0	0	0	0	2,342
Balances with central banks	0	65,126	0	0	0	0	65,126
Loans and advances to credit institutions	0	57,716	0	0	0	0	57,716
Financial assets held for trading	0	28	0	0	0	0	28
Financial assets designated at fair value through profit or loss	0	6,078	0	0	0	0	6,078
Loans and advances to customers	3,338	137,744	2,599	11,465	-1,447	-1,047	152,652
Held-to-maturity financial assets	0	503	0	0	0	0	503
Available-for-sale	0	13	0	0	0	0	13
Other financial	0	1,161	0	0	0	0	1,161
Total financial assets	**3,338**	**270,711**	**2,599**	**11,465**	**-1,447**	**-1,047**	**285,619**

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Financial	0	1,253	0	0	0	0	1,253
Loan commitments	0	566	0	0	0	0	566
Overdraft facilities	0	6,052	0	0	0	0	6,052
Total off-balance sheet exposures	**0**	**7,871**	**0**	**0**	**0**	**0**	**7,871**
Total exposure to credit risk	**3,338**	**278,582**	**2,599**	**11,465**	**-1,447**	**-1,047**	**293,490**

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

Counterparty credit risk management
Counterparty credit risk is defined as balances loans and advances to credit institutions. The transaction-related counterparty credit risk exposure, the Assets and Liabilities Committee (ALCO) has imposed limits on transactions with counterparties, encompassing money market transactions and currency transactions. In its evaluation of counterparty creditworthiness and limit of credit, the bank takes into consideration their domicile and makes a judgment regarding the counterparty's financial position, management, legal status and market position. All balances loans and advances to credit institutions are unsecured receivables. As at 31.12.2016 and 31.12.2015, all balances loans and advances to credit institutions were current and not impaired.

Credit risk division
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.

Financial assets by economic sector classification

In thousands of euros

31.12.2016

	E	K	L	S	G	D	I	Other	Total
Cash on hand	0	22,337	0	0	0	0	0	0	22,337
Balances with central banks	0	43,919	0	0	0	0	0	0	43,919
Loans and advances to credit institutions	0	39,293	0	0	0	0	0	0	39,293
Financial assets designated at fair value through profit or loss	0	3,073	0	1,091	0	2,188	0	5,069	11,421
Loans and advances to customers	117,685	0	11,976	267	7,860	1,880	5,464	8,001	153,133
Held-to-maturity financial assets	0	0	0	0	0	503	0	0	503
Available-for-sale financial assets	0	0	0	0	0	0	0	13	13
Other financial assets	0	621	0	0	0	0	0	93	714
Total	**117,685**	**109,243**	**11,976**	**1,358**	**7,860**	**4,571**	**5,464**	**13,176**	**271,333**

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

In thousands of euros

31.12.2015	E	K	L	S	G	D	I	Other	Total
Cash on hand	0	2,342	0	0	0	0	0	0	2,342
Balances with central banks	0	65,126	0	0	0	0	0	0	65,126
Loans and advances to credit institutions	0	57,716	0	0	0	0	0	0	57,716
Financial assets held for trading	0	28	0	0	0	0	0	0	28
Financial assets designated at fair value through profit or loss	0	1,327	0	0	0	2,254	0	2,497	6,078
Loans and advances to customers	114,015	104	13,575	2,052	8,756	927	5,664	7,559	152,652
Held-to-maturity financial assets	0	0	0	0	0	503	0	0	503
Available-for-sale financial assets	0	0	0	0	0	0	0	13	13
Other financial assets	0	1,097	0	0	0	0	0	64	1,161
Total	**114,015**	**127,740**	**13,575**	**2,052**	**8,756**	**3,684**	**5,664**	**10,133**	**285,619**

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

Amounts by geographical classification

In thousands of euros

31.12.2016	EE	LV	IT	FI	BE	DE	Other	Total
Cash on hand	22,075	262	0	0	0	0	0	22,337
Balances with central banks	43,886	33	0	0	0	0	0	43,919
Loans and advances to credit institutions	20,167	0	0	0	1,252	6,644	11,230	39,293
Financial assets designated at fair value through profit or loss	2,188	0	2,904	1,839	0	0	4,490	11,421
Loans and advances to customers	143,208	8,874	0	654	0	0	397	153,135
Held-to-maturity financial assets	503	0	0	0	0	0	0	503
Available-for-sale financial assets	0	0	0	0	13	0	0	13
Other financial assets	706	8	0	0	0	0	0	714
Total	**232,733**	**9,177**	**2,904**	**2,493**	**1,265**	**6,644**	**16,117**	**271,333**

In thousands of euros

31.12.2015	EE	LV	US	GB	BE	DE	Other	Total
Cash on hand	2,139	203	0	0	0	0	0	2,342
Balances with central banks	64,968	158	0	0	0	0	0	65,126
Loans and advances to credit institutions	11,941	0	19,316	8,760	8,658	5,486	3,555	57,716
Financial assets held for trading	28	0	0	0	0	0	0	28
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Financial assets designated at fair value through profit or loss	2,254	0	0	0	0	0	3,824	6,078

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Loans and advances to customers	141,019	10,242	426	48	0	0	917	152,652
Held-to-maturity financial assets	503	0	0	0	0	0	0	503
Available-for-sale financial assets	0	0	0	0	13	0	0	13
Other financial assets	1,058	103	0	0	0	0	0	1,161
Total	**223,910**	**10,706**	**19,742**	**8,808**	**8,658**	**5,486**	**8,309**	**285,619**

76.9% of loans and advances to customers are granted to private individuals (31.12.2015: 74.7%). The portfolio of loans granted to corporate entities is diversified between various economic sectors to avoid high levels of concentration. 33.8% (31.12.2015: 35.1%) of loans to companies are granted to companies engaged in the real estate sector and 22.2% (31.12.2015: 22.7%) 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.

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.

Past due receivables are receivables which scheduled principal or interest part payments are not received by the deadline.

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 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

31.12.2016	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total	Collective impairment	Individual impairment	Net
A	106,312	1,679	1,362	109,353	-1,097	-2	108,254
B	31	2,813	7	2,851	-85	0	2,766
C	2,220	1,588	619	4,427	-91	-76	4,260
D	1	448	129	578	-21	-3	554
E	7	508	0	515	-25	0	490
F	123	1,121	293	1,537	-60	-116	1,361
Total	**108,694**	**8,157**	**2,410**	**119,261**	**-1,379**	**-197**	**117,685**

In thousands of euros

31.12.2015	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total	Collective impairment	Individual impairment	Net
A	97,693	1,102	1,507	100,302	-453	-3	99,846
B	4,717	2,072	39	6,828	-44	0	6,784
C	2,065	1,329	172	3,566	-61	-3	3,502
D	581	641	228	1,450	-9	-16	1,425
E	11	549	10	570	-154	-1	415
F	98	954	2,477	3,529	-258	-1,228	2,043
Total	**105,165**	**6,647**	**4,433**	**116,245**	**-979**	**-1,251**	**114,015**

Risk categories of loans and advances to legal entities

In thousands of euros

31.12.2016	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total	Collective impairment	Individual impairment	Net
A	12,099	11	0	12,110	-46	0	12,064
B	12,614	103	810	13,527	-62	-40	13,425
C	3,214	2,569	148	5,931	-3	-13	5,915
D	226	9	250	485	0	-37	448
E	0	39	0	39	0	0	39
F	0	189	3,844	4,033	0	-476	3,557
Total	**28,153**	**2,920**	**5,052**	**36,125**	**-111**	**-566**	**35,448**

In thousands of euros

31.12.2015	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total	Collective impairment	Individual impairment	Net
A	11,743	143	0	11,886	-22	0	11,864
B	10,955	248	116	11,319	-40	-1	11,278

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C	9,537	344	1,145	11,026	-5	-87	10,934
D	308	248	50	606	0	-2	604
E	36	15	193	244	-1	-106	137
F	0	3,820	0	3,820	0	0	3,820
Total	**32,579**	**4,818**	**1,504**	**38,901**	**-68**	**-196**	**38,637**

In 2016 the Group's the overdue loan portfolio increased at the expense of legal entities, the past due loans of private individuals have decreased by 4.6%. The classification of loans past due by number of days past due and security is provided in 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.

The value of impaired loans and advances was increased in 2016 by a total of 1.53 million euros (2015: decreased EUR 3.4 million), including an increase in the portfolio of loans to legal entities by 3.55 million euros (2015: decreased 4.4 million euros). The value of individually impaired loans and advances to private individuals reduce by 2.02 million euros (2015: increased 1 million euros). The total number of impaired risk exposures was 100 (2015: 140).

Individual impairments was accounted for 763 thousand euros total (2015: 1,447 thousand euros) and collective impairments for 1,490 thousand euros total (2015: 958 thousand euros). Interest income on individually impaired loans in 2016 was 96 thousand euros and in 2015 it amounted to 257 thousand euros. The reduction in impaired loans and advances is conditioned by clients' better paying capacity.

As at 31.12.2016, the amount of outstanding impaired loans and advances to private individuals was 2,410 thousand euros, the amount of individually impaired loans was 197 thousand euros and 17.5% 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 8.2% at 31.12.2016. As at 31.12.2015, the amount of outstanding impaired loans and advances to private individuals was 4,432 thousand euros, the amount of individually impaired loans was 1,251 thousand euros and 48.7% of impaired receivables were past due. The proportion of individual impairment of impaired receivables in the case of private individuals was 28.2% at 31.12.2015.

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

In thousands of euros

31.12.2016	Not past due	1-30 days	31-60 days	61-90 days	91-180 days	More than 180 days	Total	Individual impairment	Net
A	1,362	0	0	0	0	0	1,362	-2	1,360
B	7	0	0	0	0	0	7	0	7
C	619	0	0	0	0	0	619	-76	543
D	0	0	0	129	0	0	129	-3	126
F	0	0	0	0	6	287	293	-116	177
Total	**1,988**	**0**	**0**	**129**	**6**	**287**	**2,410**	**-197**	**2,213**

In thousands of euros

31.12.2015	Not past due	1-30 days	31-60 days	61-90 days	91-180 days	More than 180 days	Total	Individual impairment	Net
A	1,506	0	0	0	0	0	1,506	-3	1,503
B	18	21	0	0	0	0	39	0	39
C	38	27	107	0	0	0	172	-3	169
D	31	153	18	26	0	0	228	-16	212
E	0	0	0	0	10	0	10	-1	9
F	680	0	0	0	128	1,669	2,477	-1,228	1,249
Total	**2,273**	**201**	**125**	**26**	**138**	**1,669**	**4,432**	**-1,251**	**3,181**

Structure of impaired loans to legal entities according to past due time

In thousands of euros

31.12.2016	Not past 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	810	0	0	0	0	0	810	-40	770
C	46	101	0	0	0	0	147	-13	134
D	0	0	0	1	0	249	250	-37	213
F	0	0	0	0	0	3,845	3,845	-476	3,369
Total	**856**	**101**	**0**	**1**	**0**	**4,094**	**5,052**	**-566**	**4,486**

In thousands of euros

31.12.2015	Not past 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	117	0	0	0	0	0	117	-1	116
C	898	0	247	0	0	0	1,145	-87	1,058
D	50	0	0	0	0	0	50	-2	48
E	0	0	0	0	0	193	193	-106	87
F	0	0	0	0	0	0	0	0	0
Total	**1,065**	**0**	**247**	**0**	**0**	**193**	**1,505**	**-196**	**1,309**

As at 31.12.2016, the amount of outstanding impaired loans and advances to legal entities was 5,052 thousand euros, the amount of individually impaired loans was 566 thousand euros of which 83.0% were past due. As at 31.12.2016 there were 25 loans impaired and past due. As at 31.12.2016 the percentage of individual impairment to total impaired receivables was 11.2% in the case of legal entities.

As at 31.12.2015 the amount of outstanding impaired loans and advances to legal entities was 1,505 thousand euros, the amount of individually impairment loans was 196 thousand euros of which 29.2% were past due. As at 31.12.2015 there were 49 loans impaired and past due. As at 31.12.2015 the percentage of individual impairment to total impaired receivables was 13.1% in case of legal entities.

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 past due loans. Balance sheet value for past due under-collateralised loans as at 31.12.2016 was 464 thousand euros and 791 thousand euros as at 31.12.2015. 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.

Acceptance value of collateral represents the liquidity risk, market risk and legal risk of the collateral and is calculated as a percentage of its market value. Overview of ratios of residual overdue loans and market value of the collateral and the distribution of the credit portfolio by collateral is given in notes 6 and 7. The financial impact of collateral is significant for loans and receivables which are unlikely to be serviced from customer's primary cash flows, as reflected in long payment delays (over 90 days).

Loans and advances to customers by collateralisation, gross

In thousands of euros

31.12.2016	Loans without collateral		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 customers	**15,995**	**0**	**7,613**	**3,881**	**131,778**	**475,927**
Incl Not past due	13,014	0	7,149	3,526	119,528	435,912
Incl Past due	2,981	0	464	355	12,250	40,015

31.12.2015	Loans without collateral		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 customers	**13,809**	**0**	**8,415**	**4,730**	**132,922**	**510,620**
Incl Not past due	11,919	0	7,624	4,329	121,539	466,617
Incl Past due	1,890	0	791	401	11,383	44,003

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 Bank's main liquidity management body 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 the bank's liquidity position: the Management Board, ALCO and Credit Committee. The bank maintains a sufficient level of liquidity in order to ensure timely performance of its obligations.
Krediidipank group uses an approach based on the analysis of the duration gap between the maturities of assets and liabilities for the management of Krediidipank group's liquidity position. An overview of the division of assets and liabilities by maturities has been provided in table page 52. 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 following indicators are used for the measurement of liquidity risk:

- Liquidity Coverage Ratio (LCR);
- Maintenance period in a liquidity crisis situation;
- Financing concentration;
- Ratio of liquid assets to demand deposits;
- Ratio of non-current liabilities to investments requiring stable funding.

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 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.

The overview of the Group's financial assets and financial by residual maturity (including receivables or payables interests in the future) is provided in the table below.

thousands of euros

31.12.2016	**Up to 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**	**Total**
Assets					
Cash on hand	22,337	0	0	0	22,337
Balances with central banks	43,919	0	0	0	43,919
Loans and advances to credit institutions	38,793	500	0	0	39,293
Financial assets designated at fair value through profit or loss	1,037	5,457	4,927	0	11,421
Loans and advances to customers	15,220	21,271	73,399	92,503	202,393
Held-to-maturity financial assets	0	0	503	0	503
Available-for-sale financial assets	0	0	0	13	13
Other financial assets	431	0	0	283	714
Total financial assets	**121,737**	**27,228**	**78,829**	**92,799**	**320,593**
Liabilities					
Due to credit institutions	185	0	0	0	185
Due to customers	170,036	55,902	26,229	2,493	254,660
Other financial liabilities	1,433	0	0	0	1,433
Subordinated debt	76	234	4,969	0	5,279
Total financial liabilities	**171,730**	**56,136**	**31,198**	**2,493**	**261,557**
Off-balance sheet liabilities					
Undrawn lines of credit and overdraft facilities	3,708	0	0	0	3,708
Financial guarantees	1,355	0	0	0	1,355
Total on-balance-sheet and off-balance-sheet liabilities	**176,793**	**56,136**	**31,198**	**2,493**	**266,620**
Duration gap of financial assets and financial liabilities	**-55,056**	**-28,908**	**47,631**	**90,306**	**53,973**

In thousands of euros

31.12.2015	Up to 3 months	3-12 months	1-5 years	More than 5 years	Total
Assets					
Cash on hand	2,342	0	0	0	2,342
Balances with central banks	65,126	0	0	0	65,126
Loans and advances to credit institutions	57,216	500	0	0	57,716
Financial assets held for trading	28	0	0	0	28
Financial assets designated at fair value through profit or loss	0	2,346	3,732	0	6,078
Loans and advances to customers	13,228	21,605	76,668	88,875	200,376
Held-to-maturity financial assets	0	0	0	503	503
Available-for-sale financial assets	0	0	0	13	13
Other financial assets	913	0	0	248	1,161
Total financial assets	**138,853**	**24,451**	**80,400**	**89,639**	**333,343**
Off-balance sheet financial assets					
Financial assets held for trading (derivatives)	20,437	0	0	0	20,437
Total on-balance-sheet and off-balance-sheet financial assets	**159,290**	**24,451**	**80,400**	**89,639**	**353,780**
Liabilities					
Due to credit institutions	115	0	0	0	115
Due to customers	174,918	68,181	23,652	1,538	268,289
Financial liabilities held for trading	276	0	0	0	276
Other financial liabilities	3,576	0	0	0	3,576
Subordinated debt	76	234	5,279	0	5,589
Total financial liabilities	**178,961**	**68,415**	**28,931**	**1,538**	**277,845**
Off-balance sheet liabilities					
Financial liabilities held for trading (derivatives)	20,685	0	0	0	20,685
Undrawn lines of credit and overdraft facilities	6,618	0	0	0	6,618
Financial guarantees	1,253	0	0	0	1,253
Total on-balance-sheet and off-balance-sheet liabilities	**207,517**	**68,415**	**28,931**	**1,538**	**306,401**
Duration gap of financial assets and financial liabilities	**-48,227**	**-43,964**	**51,469**	**88,101**	**47,379**

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 at fair value through profit or loss, Held-to-maturity financial assets and Available-for-sale financial assets.

The total size of debt securities portfolio has been increased by a total of 5.34 million euros (87.9%) during the year 2016 (see Note 10). The average maturity of portfolio and summarized market risk has been decreased.

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 31.12.2016 was 87 thousand euros, the respective indicator as at 31.12.2015 was 257 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 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. The total amount of open currency positions as at 31.12.2016 was 57 thousand euros (2015: absolute amount 234 thousand euros), currency risk is low.

Data on the structure of assets and liabilities by currency positions and respective net currency positions have been presented in following table:

In thousands of euros

31.12.2016	EUR	USD	Other	Total
Assets				
Cash on hand	21,987	282	68	22,337
Balances with central banks	43,919	0	0	43,919
Loans and advances to credit institutions	4,468	28,756	6,069	39,293
Financial assets designated at fair value through profit or loss	5,964	5,457	0	11,421
Loans and advances to customers	152,922	211	0	153,133
Held-to-maturity financial assets	503	0	0	503
Available-for-sale financial assets	13	0	0	13
Other financial assets	376	220	118	714
Total financial assets	**230,152**	**34,926**	**6,255**	**271,333**
Liabilities				
Due to credit institutions	123	62	0	185
Due to customers	213,171	34,423	6,218	253,812
Subordinated debt	4,039	0	0	4,039
Other financial liabilities	1,012	404	17	1,433
Total financial liabilities	**218,345**	**34,889**	**6,235**	**259,469**
Off-balance sheet liabilities				
Undrawn lines of credit and overdraft facilities	3,708	0	0	3,708
Financial guarantees	1,354	0	0	1,354
Total on-balance-sheet and off-balance-sheet liabilities	**223,407**	**34,889**	**6,235**	**264,531**
Net position	**6,745**	**37**	**20**	**6,802**

In thousands of euros

31.12.2015	EUR	USD	Other	Total
Assets				
Cash on hand	1,024	1,218	100	2,342
Balances with central banks	65,126	0	0	65,126
Loans and advances to credit institutions	17,616	28,741	11,359	57,716
Financial assets held for trading	28	0	0	28
Financial assets designated at fair value through profit or loss	5,154	924	0	6,078
Loans and advances to customers	151,908	744	0	152,652
Held-to-maturity financial assets	503	0	0	503
Available-for-sale financial assets	13	0	0	13
Continues on the next page				
Other financial assets	910	246	5	1,161
Total financial assets	**242,282**	**31,873**	**11,464**	**285,619**
Off-balance sheet assets				
Financial assets held for trading (derivatives)	0	0	20,437	20,437
Total on-balance-sheet and off-balance-sheet assets	**242,282**	**31,873**	**31,901**	**306,056**
Liabilities				
Due to credit institutions	69	46	0	115
Due to customers	204,846	31,082	31,467	267,395
Financial liabilities held for trading	276	0	0	276
Subordinated debt	4,039	0	0	4,039
Other financial liabilities	2,517	802	257	3,576
Total financial liabilities	**211,747**	**31,930**	**31,724**	**275,401**
Off-balance-sheet liabilities				
Financial liabilities held for trading (derivatives)	20,685	0	0	20,685
Undrawn lines of credit and overdraft facilities	6,618	0	0	6,618
Financial guarantees	1,253	0	0	1,253
Total on-balance-sheet and off-balance-sheet liabilities	**240,303**	**31,930**	**31,724**	**303,957**
Net position	**1,979**	**-57**	**177**	**2,099**

Interest rate risk is defined as a risk of unexpected unfavorable changes in interest rates that might affect the revenue generated by the group.

The Group is exposed to interest rate risk if the due payment dates of its main assets and liabilities are different, if the structure of assets and liabilities varies in different currencies or if the interest rates of assets and liabilities can be adjusted at different time intervals. The overview of interest-bearing financial assets and financial liabilities by the due date of changing the interest rate is provided in the following table.

In thousands of euros

31.12.2016	Up to 3 months	3-12 months	1-5 years	More than 5 years	Total
Interest-earning assets					
Balances with central banks	43,919	0	0	0	43,919
Loans and advances to credit institutions	39,284	0	0	0	39,284
Financial assets designated at fair value through profit or loss	1,037	5,457	4,927	0	11,421
Loans and advances to customers, gross	94,176	63,793	23	0	157,992
Held-to-maturity financial assets	0	503	0	0	503
Total interest-earning assets	**178,416**	**69,753**	**4,950**	**0**	**253,119**
Interest-bearing liabilities					
Due to credit institutions	185	0	0	0	185
Due to customers	244,957	2,737	5,434	17	253,145
Subordinated debt	0	0	4,000	0	4,000
Total interest-bearing liabilities	**245,142**	**2,737**	**9,434**	**17**	**257,330**
Exposure to interest rate risk duration gap	**-66,726**	**67,016**	**-4,484**	**-17**	**-4,211**

In thousands of euros

31.12.2015	Up to 3 months	3-12 months	1-5 years	More than 5 years	Total
Interest-earning assets					
Balances with central banks	65,126	0	0	0	65,126
Loans and advances to credit institutions	57,716	0	0	0	57,716
Financial assets designated at fair value through profit or loss	0	2,346	3,732	0	6,078
Loans and advances to customers, gross	89,957	68,189	28	0	158,174
Held-to-maturity financial assets	0	503	0	0	503
Total interest-earning assets	**212,799**	**71,038**	**3,760**	**0**	**287,597**
Interest-bearing liabilities					
Due to credit institutions	115	0	0	0	115
Due to customers	258,325	3,422	4,391	17	266,155
Subordinated debt	0	0	0	4,000	4,000
Total interest-bearing liabilities	**258,440**	**3,422**	**4,391**	**4,017**	**270,270**
Exposure to interest rate risk duration gap	**-45,641**	**67,616**	**-631**	**-4,017**	**17,327**

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. Once a year the assessment of interest risk of the bank portfolio is done. 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 31.12.2016. The shift in the yield curve and the net interest income of the Group is 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 268 thousand euros at the balance sheet date. The interest rate decrease of 100 bp impact was -164 thousand euros. 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 interest rate risk scenario assumes the impact of derivative instruments and decrease in interest rates to a minimum of 0% level, demand deposits are classified as not interest-rate sensitive. The interest rate risk scenario assumes on-time repayment of loans.

The impact of a 100 bp increase in interest rates of the Group's equity as at 31.12.2016 was 1,509 thousand euros and the impact of a decrease of 100bp was 10,832 thousand euros and the corresponding figures as at 31.12.2015 were 129 thousand euros and 5,485 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

31.12.2016	EUR	USD	Other	Total
Change in interest income	661	2	0	663
Change in interest expense	373	22	0	395
Change in net interest income	288	-20	0	268

31.12.2015	EUR	USD	Other	Total
Change in interest income	729	16	6	751
Change in interest expense	567	23	1	591
Change in net interest income	162	-7	5	160

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 behavior 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 organization 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.

Financial assets and liabilities 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

	31.12.2016		31.12.2015	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Assets				
Cash on hand	22,337	22,337	2,342	2,342
Balances with central banks	43,919	43,919	65,126	65,126
Loans and advances to credit institutions	39,293	39,293	57,716	57,716
Financial assets held for trading	0	0	28	28
Loans and advances to customers	153,133	153,866	152,652	154,494
incl. individuals	117,685	118,418	114,015	115,857
incl. legal entities	35,448	35,448	38,637	38,637
Held-to-maturity financial assets	503	510	503	503
Other financial assets	714	714	1,161	1,161
Total assets	**259,899**	260,632	**279,528**	**281,370**
Liabilities				
Due to credit institutions	185	185	115	115
Financial assets held for trading	0	0	276	276
Due to customers	253,812	253,791	267,395	268,006
incl. individuals	136,686	136,896	151,633	152,244
incl. legal entities	117,126	116,895	115,762	115,762
Other financial liabilities	1,433	1,433	3,576	3,576
Subordinated debt	4,039	4,039	4,039	4,039
Total liabilities	**259,469**	259,448	**275,401**	**276,012**

Fair value is calculated in accordance with the principles of Level 3, where assets or liabilities are not traceable with market parameters. See the description of the levels by IFRS 13 on the page 30. To find the fair value of deposits existing deposits are discounted using the rates of interest offered on newly received deposits. In calculating the fair value of the floating interest rate loans and fixed-interest loans the future cash flows are discounted based on market interest rate curve plus margins applicable on new loans.

The fair value of loans and advances as at 31.12.2016 was 0.47% higher (733 thousand euros) and the fair value of customer deposits was 21 thousand euros lower than their carrying amounts, which do not differ with balance value. As at 31.12.2015, the fair value of loans and advances was 1.21% higher (1,842 thousand euros) than the carrying amount and the fair value of deposits was 0.23% higher (611 thousand euros) than the carrying amount.

Note 3. Balances with central banks

In thousands of euros

	31.12.2016	31.12.2015
Demand deposits		
incl. minimum reserve requirement	1,919	2,221
incl. demand deposits, cash equivalents	42,000	62,905
Total	**43,919**	**65,126**

Note 4. Loans and advances to credit institutions

In thousands of euros

	31.12.2016	31.12.2015
EU countries, except Estonia	18,344	25,582
Estonia	20,167	11,941
U.S.	0	19,316
All other countries	782	877
Total	**39,293**	**57,716**

Classification by credit rating		
AA	85	1,952
AA-	20,236	12,014
A+	184	645
A	2,515	7
A-	7,896	8,658
BBB+	7,595	24,803
BBB-	130	9,553
BB+	0	28
BB-	607	0
Not rated	45	56
Total	**39,293**	**57,716**

Note 5. Loans and advances to customers

In thousands of euros

	31.12.2016	31.12.2015
Total receivables from private individuals	119,261	116,245
Home loan	88,961	82,440
Consumer loan	25,166	27,956
Lease financing	5,134	5,849

Contnues on the next page

Total receivables from corporates	36,125	38,901
Investment loan	19,602	22,812
Working capital loan	12,215	12,294
Lease financing	4,308	3,795
Total receivables	**155,386**	**155,146**
Allowance for doubtful receivables (Note 9)	-2,253	-2,494
Total	**153,133**	**152,652**
EU countries, except Estonia	10,097	10,678
Estonia	144,994	143,507
All other countries	295	961
Total receivables	**155,386**	**155,146**
Allowance for doubtful receivables (Note 9)	-2,253	-2,494
Total	**153,133**	**152,652**

Note 6. Past due receivables

In thousands of euros, gross

	31.12.2016		**31.12.2015**	
Private individuals	Loan balance	Collateral coverage ratio	Loan balance	Collateral coverage ratio
1-30 days	4,718	44.9%	3,814	47.6%
31-60 days	1,370	35.1%	1,391	36.0%
61-90 days	579	37.1%	395	24.2%
more than 90 days	1,914	23.8%	3,206	60.3%
Total	**8,581**		**8,806**	

	31.12.2016		**31.12.2015**	
Corporates	Loan balance	Collateral coverage ratio	Loan balance	Collateral coverage ratio
1-30 days	282	32.2%	593	42.7%
31-60 days	43	58.1%	410	79.5%
61-90 days	2,467	49.4%	228	19.3%
more than 90 days	4,322	21.1%	4,027	27.7%
Total	**7,114**		**5,258**	

The collateral coverage ratio is calculated contract basis as the receivable from the customer divided by the market value of collateral. Then the results are weighed with contractual net balance in the respective group.

Note 7. Collateral structure

Loans and advances to credit institutions

In thousands of euros

	31.12.2016	31.12.2015
Unsecured	39,293	57,716
Total	**39,293**	**57,716**

Structure of collateral of loans

In thousands of euros

	Private individuals		Corporates	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
Mortgage loans	98,480	96,606	30,379	33,811
Leased assets	5,133	5,849	4,308	3,795
Unsecured loans	15,147	13,198	848	611
Personal sureties, guarantees	500	590	424	485
Loans secured by deposits	1	1	3	15
Other	0	1	163	184
Total	**119,261**	**116,245**	**36,125**	**38,901**
Allowance for doubtful receivables	-1,576	-2,230	-677	-264
Total	**117,685**	**114,015**	**35,448**	**38,637**

Note 8. Finance lease receivables

In thousands of euros

	31.12.2016	31.12.2015
Gross investment balance	**9,988**	**10,418**
Lease payments receivable, incl.		
up to 1 year	4,541	3,717
1-5 years	5,278	6,476
over 5 years	169	225
Future payments	**487**	**602**
up to 1 year	220	250
1-5 years	259	338
over 5 years	8	14
Net investment*	**9,501**	**9,816**
Lease payments receivable, incl.		
up to 1 year	4,321	3,467
1-5 years	5,019	6,137
over 5 years	161	212

Net investment 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

	31.12.2016	31.12.2015
Balance at the beginning of the reporting period	-2,494	-3,019
incl. collective impairments	-1,047	-546
incl. individual impairment	-1,447	-2,473
Impairments posted during the reporting period	-2,055	-1,600
Adjustment of previous impairments	1,036	1,425
Written-off loan receivables	-146	-176
Loans written off during the reporting period	1,406	876
Balance at the end of the reporting period	**-2,253**	**-2,494**
incl. collective impairments	-1,490	-1,047
incl. individual impairment	-763	-1,447

Note 10. Financial investments

In thousands of euros

	31.12.2016	31.12.2015
Financial assets held for trading	**0**	**28**
Concluded with credit institutions, foreign currency related derivative transactions	0	28
incl. level 1 instruments	0	28
Financial assets designated at fair value through profit or loss	**11,421**	**6,078**
Debt securities	11,421	6,078
incl. level 1 instruments	11,421	6,078
Held-to-maturity financial assets	**503**	**503**
Debt securities	503	503
incl. amortised cost	503	503
Available-for-sale financial assets	**13**	**13**
Equity securities	13	13
incl. level 2 instruments	13	13

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

In thousands of euros

	31.12.2016	31.12.2015
Financial assets held for trading	**0**	**28**
Concluded with credit institutions, foreign currency related derivative transactions	0	28
Financial assets designated at fair value through profit or loss	**11,421**	**6,078**
Government debt securities	2,904	1,053
Debt securities of credit institutions and financing institutions	3,073	1,327
Debt securities of other non-financial companies	5,444	3,698

Continues on the next page

Held-to-maturity financial assets	**503**	**503**
Debt securities of other non-financial companies	503	503
Available-for-sale financial assets	**13**	**13**
Shares of other non-financial companies	13	13

Financial assets held for trading	**0**	**28**
Derivative contracts with credit institutions registered in EU	0	28

Financial assets designated at fair value through profit or loss	**11,421**	**6,078**
Securities of companies registered in the EU	10,362	5,154
Securities registered in other countries	1,059	924

Held-to-maturity financial assets	**503**	**503**
Securities of companies registered in the EU	503	503

Available-for-sale financial assets	**13**	**13**
Securities of companies registered in the EU	13	13

Financial assets held for trading	**0**	**28**
AA- to AA+ credit rating	0	28

Financial assets designated at fair value through profit or loss	**11,421**	**6,078**
A- to A+ credit rating	2,188	2,254
BBB- to BBB+	5,977	1,573
BB- to BB+	433	555
B- to B+	1,732	1,696
Not rated*	1,091	0

Held-to-maturity financial assets	**503**	**503**
Not rated*	503	503

Available-for-sale financial assets	**13**	**13**
Not rated*	13	13

* There are no available credit rating from rating agencies

	31.12.2016	**31.12.2015**
Financial assets held for trading		
Opening balance	28	0
During the reporting period:		
- currency related derivatives change in fair value	-28	28
Closing balance	0	28

Continues on the next page

Financial assets designated at fair value through profit or loss		
Opening balance	6,078	13,184
During the reporting period:		
Acquired	9,181	0
Sold	0	0
Redeemed	-3,652	-6,734
Change in fair value	-186	-372
Closing balance	11,421	6,078

Held-to-maturity financial assets		
Continues on the next page		
Opening balance	503	3,921
During the reporting period:		
Acquired	0	500
Sold	0	0
Redeemed	0	-3,918
Closing balance	503	503

Note 11. Other financial assets

In thousands of euros

	31.12.2016	31.12.2015
Cash in transit	431	913
Security deposits	190	184
Other receivables	93	64
Total	**714**	**1,161**

Other financial assets are all not past due and not impaired.

Note 12. Assets held for sale

In thousands of euros

	31.12.2016	31.12.2015
Properties under construction	3,563	1,590
Real estate acquired for resale	716	832
Total	**4,279**	**2,422**
incl. impairment of inventories during the reporting period	82	171

Note 13. Investment property

In thousands of euros

	31.12.2016	31.12.2015
Carrying amount at the beginning of the period	**11,220**	**13,515**
Sold during the period	0	-2,410
Reclassification from property, plant and equipment	288	0
Reclassification from inventories	-2,511	0
Change in fair value	108	115

Continues on the next page

Carrying amount at the end of the period	**9,105**	**11,220**
incl. investment property earning rental income	9,105	9,127
Rental income	535	533
Expenses incurred on generation of rental income	140	147
Sale of investment property in sale price	0	2,410

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 attributes are used by expert appraisals for the determination of fair value of investment property:
• Rental income: rents under current lease agreements are used;
• Vacancy rate: the actual vacancy rate of the investment properties, taking into account the risks associated with the property;
• Discount rate: it is calculated using the weighted average cost of capital (WACC) associated with the investment property;
• Capitalisation rate: it is based on the estimated level of return at the end of the estimated holding period, taking into consideration the forecast market condition and risks associated with the property.

Income approach based on the capability of the asset to generate income in the future. The value is defined as the present value of the expected future income. The income approach is used for the valuation of income-producing real estate (leased asset or can be deemed to be a leased asset).
Income-based approaches are the capitalisation of income and discounted cash flow analysis.

Market approach is based on analysis to compare the appraised asset to sold assets of similar nature. The comparison determines differences between the appraised asset and sold assets of similar nature and then uses the results to adjust the prices of sold assets and determine the value of the appraised asset.
In certain situations it is not possible to only rely on one approach and therefore the methods must be combined**.** A valuation specialist uses one to three valuation approaches (or combinations thereof) to carry out the appraisal. Typically multiple different results are obtained when several approaches are used, which are then adjusted into the valuation through weighing. No substantive changes have occurred in the approaches used to appraise real estate compared to the financial statements for the year 2015. The mixed method was not used in evaluation in 2016.
The following table provides an overview of the valuation methodology used and the classification of investment property.

In thousands of euros

31.12.2016	Fair value	Rent income per year	Value or medium rent price (euros/m2)	Discount rate	Capitalisation rate	Possible change in rent price	Impact to value
Investment property which is valued:							
Market approach	4,486	159	-	-	-	-	-
-other commercial real estate	4,071	153	1.81 – 7.26	-	-	5-10%	+/- 20%
-residential property	388	6	1.39 – 8.98	-	-	0-6%	+/- 5%
-land	27	0	0	-	-	0-5%	+/-25%

Income approach -offices	4,619	373	5.70-9.86	9.5-11.0%	7.70-9.0%	CPI to 8 %	+/- 15%
Investment property total	**9,105**	**532**	**-**	**-**	**-**	**-**	**-**

31.12.2015	Fair value	Rent income per year	Value or medium rent price (euros/m2)	Discount rate	Capitalisa-tion rate	Possible change in rent price	Impact to value
Investment property which is valued:							
Market approach	7,020	117	-	-	-	-	-
-other commercial real estate	1,956	88	0.22 – 1.41	-	-	5-10%	+/- 20%
-residential property	665	23	1.39 – 2.64	-	-	0-8%	+/- 5%
-land	4,399	6	0.01 – 0.24	-	-	0-8%	+/-25%
Income approach -offices	3,100	254	5.41 EUR	9%	8%	CPI to 8 %	+/- 15%
Combined method -offices	1,100	88	6.56 EUR	9%	8%	CPI to 8 %	+/- 10%
Investment property total	**11,220**	**459**	**-**	**-**	**-**	**-**	**-**

Note 14. Property, plant and equipment

In thousands of euros

	Land and properties	Other assets	Total
Carrying amount at 01.01.2015	**4,299**	**1,061**	**5,360**
incl. cost	5,446	2,648	8,094
incl. depreciation	1,147	1,587	2,734
Acquisition	0	128	128
Sale at carrying amount	0	62	62
Write-off at carrying amount	0	12	12
Depreciation charged	94	232	326
Carrying amount at 31.12.2015	**4,205**	**883**	**5,088**
incl. cost	5,446	2,400	7,846
incl. depreciation	1,241	1,517	2,758
Acquisition	0	53	53
Sale at carrying amount	0	49	49
Write-off at carrying amount	0	12	12
Reclassification as investment property	-288	9	-279
Depreciation charged	93	196	289
Carrying amount at 31.12.2016	3,824	688	4,512
incl. cost	5,092	2,237	7,329
incl. depreciation	1,268	1,549	2,817

Note 15. Intangible assets

In thousands of euros

Carrying amount at 01.01.2015	**733**
incl. cost	1,834
incl. depreciation	1,101
Acquisition	189
Reclassification as investment property	-1
Depreciation charged	160
Carrying amount at 31.12.2015	**761**
incl. cost	2,014
incl. depreciation	1,253
Acquisition	91
Depreciation charged	165
Carrying amount at 31.12.2016	687
incl. cost	2,104
incl. depreciation	1,417

Note 16. Other assets

In thousands of euros

	31.12.2016	**31.12.2015**
Prepayment for financial supervision	101	97
Settlements with the Tax and Customs Board	3	1
Other prepayments	150	142
Total	**254**	**240**

Note 17. Encumbered assets

Assets are deemed encumbered if such assets are used for securing any on-balance sheet or off-balance sheet transaction or improvement of creditworthiness and such assets are pledged and cannot be withdrawn from the pledge without prior approval by the pledgee.
Deposited or pledged assets that are not in use and can be readily reclaimed are not deemed to be encumbered assets.

The assets of Krediidipank group are predominantly unencumbered with the exception of deposits pledged in the total amount of 0.69 million euros for securing various transactions.
The bank has previously pledged notes to the central bank, however, the bank is not subject to any obligations to the central bank with regard to the pledged assets, therefore such assets can be readily reclaimed.

The following table gives an overview about encumbered assets.

In thousands of euros

31.12.2016	Carrying value of encumbered assets	Fair value of encumbered assets	Carrying value of unencumbered assets	Fair value of unencumbered	Total carrying value of assets
Assets	**690**	**690**	**289,754**	**302,425**	**290,170**
Due from central banks and credit institutions	690	690	82,522	82,522	83,212
Shares	0	0	13	13	13
Bonds	0	0	11,924	11,931	11,924
incl. government bonds	0	0	2,904	2,904	2,904
incl. bonds of credit/financial institutions	0	0	3,073	3,073	3,073
incl. bonds of non-financial companies	0	0	5,947	5,954	5,947
Loans and advances to	0	0	153,133	153,866	153,133
Other assets	0	0	41,888	41,888	41,888

31.12.2015	Carrying value of encumbered assets	Fair value of encumbered assets	Carrying value of unencumbered assets	Fair value of unencumbered	Total carrying value of assets
Assets	**1,602**	**1,602**	**303,748**	**350,590**	**305,350**
Due from central banks and credit institutions	1,602	1,602	121,240	121,240	122,842
Shares	0	0	13	13	13
Bonds	0	0	6,581	6,581	6,581
incl. government bonds	0	0	1,053	1,053	1,053
incl. bonds of credit/financial institutions	0	0	1,327	1,327	1,327
incl. bonds of non-financial companies	0	0	4,201	4,201	4,201
Loans and advances to customers	0	0	152,652	154,494	152,652
Other assets	0	0	23,262	23,262	23,262

Note 18. Due to credit institutions

In thousands of euros

	31.12.2016	31.12.2015
Demand deposits	185	115
incl. EUR	123	69
USD	62	46

Note 19. Due to customers

In thousands of euros

	31.12.2016	31.12.2015
Private individuals	136,686	151,633
Corporates	117,126	115,762
Total	**253,812**	**267,395**
Demand deposits	141,088	105,386
Term deposits	112,724	162,009
Total	**253,812**	**267,395**

Note 20. Other financial liabilities

In thousands of euros

	31.12.2016	31.12.2015
Cash in transit	1,061	3,178
Trade payables	100	104
Other financial liabilities	272	294
Total	**1,433**	**3,576**

Note 21. Other liabilities

In thousands of euros

	31.12.2016	31.12.2015
Payables to employees	668	352
Tax liabilities	186	354
Other liabilities	270	345
Total	**1,124**	**1,051**

Note 22. Subordinated debt

In thousands of euros

	31.12.2016			31.12.2015		
	Amount	Maturity	Interest rate	Amount	Maturity	Interest rate
Subordinated loan agreement	4,000	15.02.2021	7.75%	4,000	15.02.2021	7.75%
Accrued interest	39	-		39	-	
Total	**4,039**			**4,039**		

Subordinated loan have fixed interest rate.

Note 23. 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. As at 31.12.2016 the carrying value of one share is 0.64 euros.

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.

Managing the capital according to credibility and regulatory requirements on equity are presented in Note 2 page 42.

Note 24. Contingent assets and liabilities

In thousands of euros

31.12.2016	Assets	Liabilities
Contingent liabilities	**0**	**5,062**
incl. financial guarantees	0	1,354
incl. lines of credit and overdraft facilities	0	3,708
31.12.2015		
Financial assets held for trading	**20,437**	**20,685**
incl. underlying assets of currency related derivatives	20,437	20,685
Contingent liabilities	**0**	**7,871**
incl. financial guarantees	0	1,253
incl. lines of credit and overdraft facilities	0	6,618

The tax authorities may at any time inspect the books and records of the company within 5 years subsequent to the reported tax year, and may as a result of their inspection impose additional tax assessments and penalties.
The management is not aware of any circumstances which may give rise to a potential material liability in this respect.

Note 25. Interest income

In thousands of euros

	2016	2015
From demands to clients	8,331	7,665
On financial assets measured at fair value	511	423
On held-to-maturity financial assets	33	160
On cash and amounts due from banks	244	59
Incl. interest income on liabilities	130	46
Total	**9,119**	**8,307**

Interest income on liabilities in the amount of EUR 46 thousand was reflected as the fee and commission income in the 2015 annual report. Interest expense in the amount of 52 thousand was reflected as fee and commission expense in the 2015 annual report.
In 2016, EBA published its position on reflecting negative interest rate as interest income and expense in financial accounts. Therefore, the mentioned indicators has been corrected in income statement, cash flow statement and in notes 25-28.

Note 26. Interest expense

In thousands of euros

	2016	2015
On term deposits	1,244	1,804
On subordinated loans	310	558
On loans	5	4
On demand deposits	0	1
Interest expense on assets	162	52
Total	**1,721**	**2,419**

Note 27. Fee and commission income

In thousands of euros

	2016	2015
Bank transfer fees	1,115	1,139
Gains from foreign exchange transactions	942	808
Charges on card transactions	314	368
Account opening and management fees	438	450
Fees related to securities	26	21
Other fees	653	532
Total	**3,488**	**3,318**

Note 28. Fee and commission expense

In thousands of euros

	2016	2015
Charges on card transactions	437	435
Bank transfer fees	266	192
Securities transaction and custodial fees	11	10
Other fees	37	24
Total	**751**	**661**

Note 29. Net income/expense from financial assets and liabilities at fair value through profit or loss

In thousands of euros

	2016	2015
Derivatives	**154**	**19**
Currency related derivatives	154	19
Continues on the next page		
Financial assets at fair value	**-186**	**-372**
Financial assets at fair value through profit or loss	-186	-372
Total	**-32**	**-353**

Note 30. Payroll expenses

In thousands of euros

	2016	2015
Wages and salaries	3,894	3,760
Social tax, unemployment insurance premiums	1,266	1,218
Total	**5,160**	**4,978**

Note 31. General and administrative expenses

In thousands of euros

	2016	2015
Services purchased	457	309
Rent of buildings	401	503
Administration and use of information systems	367	336
Advertising expenses	349	285
Office expenses	292	252
Financial supervision fee instalments	86	88
Contributions to Deposit Compensation Fund	85	277
Legal services, state fees	80	97
Training and travel expenses	48	50
Membership fees	30	27
Transport expenses	28	45
Property and casualty insurance	9	11
Other operating expenses	242	285
Total	**2,474**	**2,565**

Note 32. Other income

In thousands of euros

	2016	2015
Rental income	753	743
Insurance brokerage	29	53
Fines collected	5	33
Redemption of financial assets held-to-maturity	0	834
Other operating income	119	64
Total	**906**	**1,727**

Note 33. Other expenses

In thousands of euros

	2016	2015
Expenses incurred on generation of rental income	304	360
Loss on sale of non-current assets, net	12	0
Foreign exchange loss	5	0
Impairment of other assets	2	16
Total	**323**	**376**

Note 34. Litigation

As at 31 December 2016, the principal amount subject for pending court proceedings initiated by the Group companies amounted to 1,037 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 agreements with clients. The recourse to court is due to unsatisfactory payment behavior 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.

When 2016 annual report was signed by the Management Board, all actions taken by the parties had been withdrawn and the court had accepted the withdrawal of actions. The Group did not incur any financial obligations.

Note 35. Leased assets

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

In thousands of euros

	2016	2015
Up to 1 year	171	158
1-5 years	390	409
Over 5 year	100	148
Total	**661**	**715**

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

	31.12.2016	31.12.2015
Shareholders with significant interest		
Receivables 31.12	0	30
Payables 31.12	28	28
Subordinated loan 31.12	4,000	4,000
Interest expenses of reporting period	310	534

Members of the management board and supervisory board, and persons and companies associated with them		
Loans 31.12	128	131
Deposits 31.12	236	158
Interest income of the reporting period	3	4
Interest expenses of the reporting period	0	0
Sale of other goods and services	2	14
Purchase of other goods and services	0	0
Compensation paid and payable to members of the management board and supervisory board	469	423
Maximum termination benefits payable to members of the management board, on a contingent basis	30	156

The termination benefit determined according to the contract was not paid to the two members of the management board, who resigned in 2016.

Note 37. Events after the balance sheet date

No 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.

On January 27, 2017, the 59.7304% that belonged to BM-Bank JSC in Eesti Krediidipank was acquired by Coop Investeeringud OÜ. In relation to this acquisition, at the time of signing the report no events affecting the bank's assets, liabilities or equity have taken place.

On February 3, 2017, Coop Investments OÜ transferred the 23.1455% holding to six consumer cooperatives of AS COOP Eesti Keskühistu TÜH. At the time of signing the report, Coop Investeeringud OÜ owned 36.5849% of shares of AS Eesti Krediidipank.

On February 10, 2017, shareholders meeting took place and new Supervisory Board was elected. Since 10.02.2017 the members of the Supervisory Board are:

- Jaanus Vihand, Chairman of the Supervisory Board - Chairman of the Management Board of the Coop Eesti Keskühistu
- Jaan Marjundi - member of the Management Board of the Coop Eesti Keskühistu, member of the Management Board of the Harju Tarbijate Ühistu
- Roman Provotorov – member of the Management Board of the Coop Eesti Keskühistu, member of the Management Board of Antsla Tarbijate Ühistu
- Priit Põldoja – Chairman of the Supervisory Board of the Inbank AS
- Marko Kairjak – lawyer, member of the Management Board of the Varul Collateral Agent Holding OÜ

On February 13, 2017, at the bank's Supervisory Board meeting, new management board members were elected for three years. Since 13.02.2017 the members of the Management Board are:

- Margus Rink, the Chairman of the Management board
- Janek Uiboupin, risk manager
- Kerli Lõhmus, finance manager

Note 38. Primary statements of parent company as a separate entity

Statement of financial position of AS Eesti Krediidipank

In thousands of euros

Assets	31.12.2016	31.12.2015
Cash on hand	22,337	2,342
Balances with central banks	43,919	65,126
Loans and advances to credit institutions	39,282	57,701
Financial assets held for trading	0	28
Financial assets at fair value through profit or loss	11,421	6,078
Loans and advances to customers	167,255	166,534
Held-to-maturity financial assets	503	503
Available-for-sale financial assets	13	13
Other financial assets	656	1,748
Financial investments in associates and subsidiaries	2,883	2,850
Property, plant and equipment	605	750
Intangible assets	467	512
Investment property	213	213
Other assets	253	237
Total assets	**289,807**	**304,635**

Liabilities		
Fair value of financial liabilities at fair value through profit or loss	0	276
Due to credit institutions	185	115
Due to customers	254,374	267,936
Other financial liabilities	1,154	3,348
Other liabilities	900	673
Subordinated debt	4,039	4,039
Total liabilities	**260,652**	**276,387**

Shareholders' equity		
Share capital	25,001	25,001
Share premium	174	174
Reserves	1,970	1,844
Retained earnings (accumulated loss)	2,010	1,229
Total shareholders' equity	**29,155**	**28,248**
Total liabilities and shareholders' equity	**289,807**	**304,635**

Income statement and statement of comprehensive income of AS Eesti Krediidipank

In thousands of euros

	2016	2015
Interest income	7,659	7,629
Interest expense	-1,721	-2,419
Net interest income	**5,938**	**5,210**
Fee and commission income	3,104	3,009
Fee and commission expense	-737	-654
Net fee and commission income	**2,367**	**2,355**
Change in fair value of financial assets designated at fair value through profit or loss	-32	-353
Payroll expense	-4,577	-4,386
General and administrative expenses	-1,933	-2,250
Other income	745	1,756
Other expenses	-8	-20
Depreciation	-294	-334
Loan losses	-196	542
Profit before income tax	**2,010**	**2,520**
Income tax	**-8**	**0**
Net profit	**2,002**	**2,520**

Other comprehensive income/loss	0	0
Comprehensive income/loss for the financial year	**2,002**	**2,520**

Statement of changes in equity of AS Eesti Krediidipank

In thousands of euros

	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total shareholders' equity
Balance as of 31.12.2014	**25,001**	**174**	**1,813**	**-1,260**	**25,728**
Net profit for the financial year	0	0	0	2,520	**2,520**
Total comprehensive income for the period	0	0	0	2,520	**2,520**
Changes in reserves	0	0	31	-31	**0**
Balance as of 31.12.2015	**25,001**	**174**	**1,844**	**1,229**	**28,248**
Dividends payout	0	0	0	-1,095	**-1,095**
Changes in reserves	0	0	126	-126	**0**
Net profit for the financial year	0	0	0	2,002	**2,002**
Total comprehensive income for the period	0	0	0	2,002	**2,002**
Balance as of 31.12.2016	**25,001**	**174**	**1,970**	**2,010**	**29,155**

Adjusted unconsolidated equity	Total
Book value of holding under control or significant influence	-2,883
Value of holdings under control or significant influence, calculated by equity method	3,019
Adjusted unconsolidated equity as at 31.12.2016	**29,291**

Statement of cash flows of AS Eesti Krediidipank

In thousands of euros

Cash flows from operating activities (indirect method)	31.12.2016	31.12.2015
Net profit	2,002	2,520
Adjustments		
Impairment of loans and advances	196	-542
Depreciation and impairment of non-current assets	294	344
Change in fair value of financial assets designated at fair value through profit or loss	186	372
Net gain on sale of non-current assets and investment property	0	-6
Effect of changes in currency exchange rates	5	-1
Net interest income	-5,938	-5,210
Interest received	7,172	6,291
Interest paid	-2,293	-2,666
Change in receivables from customers of credit institutions and leasing companies	43	3,300
Change in fair value of financial assets designated at fair value through profit or loss	-6,040	7,307
Change in long - term receivables from credit institutions	0	-80
Change in loans and advances to credit institutions	70	-241
Change in deposits	-12,990	59,615
Change in other assets and liabilities related to operating activities	-1,622	970
Total cash flows from operating activities	**-18,915**	**71,973**

Cash flows from investment activities (direct method)		
Redemption and sale of held-to-maturity financial assets	0	4,412
Proceeds from sale of non-current assets	36	48
Purchase of non-current assets	-133	-220
Investments raising in subsidiaries	-33	0
Total cash flows from investing activities	**-130**	**4,240**

Cash flows from financing activities (direct method)		
Dividends payout	-1,095	0
Loans repaid to credit institutions	0	-14,000
Total cash flows from financing activities	**-1,095**	**-14,000**

Total cash flows	**-20,140**	**62,213**
Change in cash and cash equivalents	**-20,140**	**62,213**
Cash and cash equivalents at beginning of the year	124,669	62,456
Cash and cash equivalents at end of the year	104,529	124,669

The balance of cash and cash equivalents is comprised of:	**104,529**	**124,669**
Cash on hand	22,337	2,342
Demand deposits in central bank	43,919	65,126
On demand and short-term deposits in credit institutions	38,273	57,201

Appended documents
2016

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Eesti Krediidipank

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Eesti Krediidipank and its subsidiaries (together the Group) as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

We audited the Group's consolidated financial statements that comprise:
- the consolidated statement of financial position as at 31 December 2016;
- the consolidated income statement and statement of other comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

Other information

The Management Board is responsible for the other information contained in the annual report in addition to the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as 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.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.

- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AS PricewaterhouseCoopers

/signed/

Tiit Raimla
Auditor's Certificate No.287

21 March 2017

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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 2016 at 21.03.2017.

The profit of AS Eesti Krediidipank for the financial year 2016 was 2,002,012.00 euros. The profit of AS Eesti Krediidipank Group for the financial year 2016 was 1,529,059.88 euros.

The Management Board of AS Eesti Krediidipank proposes two different alternatives to the General Meeting of the Shareholders to allocate the profit of AS Eesti Krediidipank:

Allocate the financial year 2016 profit of AS Eesti Krediidipank in total of 2,002,012.00 euros as follows:
1. allocate 100,100.60 euros to the balance sheet statutory reserve capital line item "Reserves";
2. allocate 1,901,911.40 euros to the balance sheet line item "Retained earnings“