Krediidipank

Annual Report 2015

Consolidated Annual Report 2015

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: 01.01.2015-31.12.2015

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 2015 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 2015 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 2015 consolidated financial statements of AS Eesti Krediidipank will be presented to the general meeting of shareholders for approval in April 2016. The previous 2014 consolidated financial statements were approved by the general meeting of shareholders at 28.04.2015.

Valmar Moritz
Chairman of the Management Board

Uku Tammaru
Vice Chairman of the Management Board

Marina Laaneväli
Member of the Management Board

Janek Uiboupin
Member of the Management Board

Ieva Rācenāja
Member of the Management Board

General information

Business name	AS Eesti Krediidipank	
Registered	15.03.1992 in Tallinn	
Address	Narva road 4, 15014 Tallinn, Estonia	
Commercial register number	10237832 (Commercial Register of the Republic of Estonia)	
Date of first entry	19.08.1997	
Phone	+ 372 669 0900	
Fax	+ 372 661 6037	
SWIFT/BIC	EKRDEE22	
Email address	info@krediidipank.ee	
Website	www.krediidipank.ee	
Auditor	AS PricewaterhouseCoopers	
Commercial register number of the auditor	10142876 (Commercial Register of the Republic of Estonia)	
Address of the auditor	Pärnu road 15, Tallinn 10141	
Balance sheet date of the financial statements	31.12.2015	
Reporting period	01.01.2015 - 31.12.2015	
Reporting currency	euro (EUR), in thousands	
Shareholders holding in excess of 1 % of the shares	Bank of Moscow	59.7304%
	BSI SA*	9.9995%
	East European Capital Investment Ltd	9.8104%
	Firmex Investeeringud OÜ	5.2623%
	Raiffeisen Bank International AG*	4.8546%
	Radio Elektroniks OÜ	4.6782%
	Saratoga Finance SPF S.A.	4.6015%
	Total percentage of votes represented	98.9369%
Members of the supervisory board	Andrus Kluge, Chairman of the Supervisory Board	
	Timur Dyakov	
	Arthur Klaos	
	Boris Beliaev	
	Ain Soidla	
Members of the management board	Valmar Moritz, Chairman of the Management Board	
	Uku Tammaru, Vice Chairman of the Management Board	
	Marina Laaneväli	
	Janek Uiboupin	
	Ieva Rācenāja, from 01.05.2015	
Entities belonging to the group	AS Eesti Krediidipank, parent company	
	Krediidipanga Liisingu AS	
	AS Martinoza	
	AS Krediidipank Finants	

* nominee account

The following definitions are used for the purposes of this report:
"Parent company" - AS Eesti Krediidipank, including its Latvian branch, hereinafter also referred to as "Eesti Krediidipank", "Krediidipank" and "bank";
" AS Eesti Krediidipank group" - parent company AS Eesti Krediidipank and the following companies belonging to the group: AS Martinoza, Krediidipanga Liisingu AS and AS Krediidipank Finants, hereinafter also referred to as "Krediidipank group", "group"

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AS Eesti Krediidipank group

Legal structure
The following companies were part of AS Eesti Krediidipank group as at 31.12.2015:

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 2015 was 631 thousand euros, profit before income tax was 469 thousand euros. There were no income tax or other tax chargeable for profit or loss on 2015.
At 31.12.2015, the Latvian branch employed 22 people (in full time equivalent units).
Branch has not received any governmental aid.

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

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 divisional and functional structure. Responsibility for the activities of the bank and its subsidiaries is divided between the members of the bank's management board according to field of activity and function, thereby establishing areas of responsibility.

The allocation of areas of responsibility among members of the management board is based on the principle of separation of functions, which ensures the separation of controlling entities from controlled entities. Departments are formed in order to manage the activities of fields of activity/functions within the area of responsibility of a management board member either according to the functional or business segment criteria.

The allocation of areas of responsibility among members of the management board is decided by the supervisory board of the bank.
The management board of the bank decides the competence, formation and staffing of the departments and it will also approve the 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 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 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 also for a 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
The 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. The remuneration policy applies equally to both employees and members of the management boards of group companies.

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

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

Performance pay corresponding to the profitability of the group 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.

in thousands of euros

	2015	**2014**
Wages and salaries and other compensation	3,352	3,504
Performance pay and bonuses	255	38
Redundancy benefits and severance payments	81	101
Fringe benefits	72	50
Social tax, unemployment insurance premiums	1,218	1,199
Total	**4,978**	**4,892**
Number of employees at end of reporting period (in full time equivalent units)	174	206
Average number of employees in reporting period (in full time equivalent units)	180	221
Severance payments specified in contracts	312	271

Information regarding management compensation is provided in Note 36. Related parties. As of 31.12.2015 the group had no valid policy for dividends.

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 the definition, close links to AS Eesti Krediidipank have Bank of Moscow, Rozhdestvenka Street 8/15, Moscow; owning 59.7304% of shares of AS Eesti Krediidipank.

Overview of activities and significant events

For the European Union, the most important target market for Estonia, the year 2015 was marked by the refugee crisis and bond purchases by European central banks for stimulating the economy.

These events did not fail to affect Estonia as a country with an open economy.
The measures applied by the European Central Bank and other central banks of European Union Member States for stabilizing the European economy and stimulating growth - very low base rates and fees for maintaining a liquidity buffer in central banks - have created an environment that the bank has previously never operated in.
This has led to a substantial reduction in interest rates on deposits in the banking sector, as well as somewhat of a decrease in interest rates on loans.

Despite the reduced interest rates, businesses are mostly cautious about making investments and initiating new projects whereas the volume of deposits keeps growing regardless of the nearly non-existent interest rates on deposits.

Fuel prices sharply declined in 2015 and relatively fast-paced salary growth continued along with associated growth in purchasing power and consumer confidence. These developments have in turn stimulated the local financial markets.

The year 2015 was successful for Krediidipank and the subsidiaries of the banking group in spite of the problems arising from the economic environment. The consolidated profit of Eesti Krediidipank increased by approximately 30% compared to the previous year, reaching almost 1.8 million euros.

The deposits of the group's customers also increased by almost 29% and reached 267.40 million euros. Total assets also increased to 305.35 million euros thanks to the rise in deposits. Growth was almost 50 million euros compared to the previous year's comparison period. Total loans grew by 2 million euros compared to the period 12 months earlier, reaching 152.65 million euros.

The bank's subsidiaries had a successful year. AS Martinoza, a company engaged in the real estate business, recorded its best ever sales performance, which exceeded 4.7 million euros.

Krediidipank Finants AS, a consumer lender that provides credit under its Sihtlaen (Target Loan) brand, continued to display successful performance from the year before. More than 9.81 million euros of loans were granted during the year, which was up significantly from the level recorded in the year 2014.

The leasing and loan portfolio of the bank's subsidiary Krediidipanga Liisingu AS decreased during the year 2015 from 27.58 million euros to 25.22 million euros. During the year, leasing projects amounting to a total of 2.90 million euros were financed. The loss for the year 2015 was 0.07 million euros.
The leasing portfolio was comprised of 63% real estate, 35% passenger vehicles and vans, 2% machinery and other equipment.

Events in 2015

Most important accomplishments of the year

The most important accomplishment of the year 2015 in our view was the internal structural realignment within the bank that we undertook with the aim of realigning the organization that had until then mostly been focused on service to an organization mainly focused on sales, therefore the retail banking and marketing areas of the bank were transformed to the greatest extent.

The bank repaid a loan of 5 million euros in the spring, which was the final instalment of the 10-million euro 3-year term loan raised as part of the long-term refinancing operation organized by the European Central Bank in the year 2012.
The adequacy of the bank's capital buffer allowed the bank to repay early its subordinated loan of 9 million euros.

The bank continued its branch network rationalization program, closing its branches in Paldiski and Nõmme in the month of September. The bank's Maardu branch was updated with a new look.

Biggest successes of the year

Successful sales performance of the Sihtlaen product – the target that was set for three years has been met in essentially half of the time. Approximately 9.81 million euros of loans were granted under the Sihtlaen brand during the year.

The economic crisis has lasted for a long period of time and the year 2015 was best in terms of performance for the entire group during the period. The group's profit in conditions of remarkably low interest rates was approximately 1.8 million euros.

New appointment of the year

Ieva Rācenāja, manager of the Latvian branch of Krediidipank was appointed the fifth member of the bank's management board in the month of May. Ieva had been working at the bank for four years before her appointment.

Outlook of Krediidipank group in the year 2016

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

Krediidipank offers its customers the following value:

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

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

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

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

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

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

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

- Capital efficiency

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

- Cost-effectiveness

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

- Valued employer

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

The group will continue to focus on the sale of three successful products during the year 2016 – the Arveldaja (Settlements) package, Sihtlaen (Target Loan) and mortgage loans.

The Arveldaja package is an attractively priced collection of most used banking products and services offered to customers. For a fixed monthly fee, customers subscribing to this package are able to make an unlimited number of bank transfers, direct debit orders, e-invoice payments via standing order in Estonia and Europe (SEPA) and they get a debit card that they can use to withdraw cash unlimited times from cash machines in Estonia and almost the entire world. No separate card fees or account management fees are charged from the customer when they subscribe to the package.

The advantage of Sihtlaen as compared to other loan products is the quick response to the loan application - customers get a response typically within less than one minute and they do not have to prove their income or provide collateral beforehand. The maximum loan amount of Sihtlaen is 7,500 euros and it is intended for financing customers' important work and activities.

A mortgage loan is suited to a customer that needs a larger amount for implementing their objectives. A loan secured by real estate can be up to 100,000 euros and the mortgage loan is for a term of up to 20 years.

Key financial indicators and ratios of Krediidipank Group

In thousands of euros

	2015	2014
As at the end of the reporting period		
Balance sheet total	305,350	255,985
Shareholders' equity	28,898	27,126
Share capital	25,001	25,001
Number of shares of AS Eesti Krediidipank	39,117,600	39,117,600
Loans and advances to customers	152,652	150,705
Deposits	267,395	207,779
For the reporting period		
Net profit	1,772	1,378
Total income	17,076	14,929
Net interest income	5,894	5,913
Interest income	8,261	8,723
Interest expense	2,367	2,810

Ratios (year-on-year)*		
Return on equity (ROE)		
Net profit/shareholders´ equity	6.3%	5.2%
Return on assets (ROA)		
Net profit/assets	0.6%	0.5%
Equity multiplier (EM)		
Total assets/shareholders´ equity	10.0	9.8
Profit margin (PM)		
Net profit/total income	10.4%	9.2%
Asset utilization (AU)		
Total income/assets	6.1%	5.8%
Earnings per share EPS (euros)		
Net profit per common share eligible for dividends	0.05	0.04

Number of account holders**	43,008	58,571
Number of service locations***	14	31

* Ratios have been calculated based on average balance sheet indicators for the reporting period
** During the year 2015 there were arrangements on client base - the accounts, having no deposit amount and have not been used for years, were closed.
*** The contract with Estonian Road Administration expired in 2015 because Estonian Road Administration started to receive the payments for registration operations by itself. Therefore, 14 branch offices in Estonia were closed.

Indicators of capital adequacy of Krediidipank group

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

In thousands of euros

Capital base	31.12.2015	31.12.2014
Tier 1 capital		
Paid-in share capital and share premium	25,175	25,175
Statutory reserve capital	1,844	1,813
Accumulated profit/loss (-)	58	-1,308
Intangible assets (-)	-761	-733
Deferred tax asset depending on future taxable profits (-)	-1	-1
Adjustment of value arising from requirements of reliable measurement (-)	-17	-13
Total Tier 1 capital	**26,298**	**24,933**
Subordinated debt	4,000	6,469
Tier 2 capital	**4,000**	**6,469**
Eligible capital for capital adequacy calculation	**30,298**	**31,402**
Risk-weighted assets		
Central government and central banks using the Standardised Approach	526	2,670
Credit institutions, investment companies and local governments using the Standardised Approach	13,774	7,171
Companies using the Standardised Approach	4,404	9,553
Retail claims using the Standardised Approach	16,718	13,246
Claims secured by mortgage on real estate using the Standardised Approach	55,353	54,842
Claims past due using the Standardised Approach	2,874	5,418
Items subject to particularly high risk using the Standardised Approach	9,962	10,406
Other assets using the Standardised Approach	18,784	23,250
Total credit risk and counterparty credit risk	**122,395**	**126,556**
Operational risk using the Basic Indicator Approach	18,272	19,706
Total risk-weighted assets	**140,667**	**146,262**
Capital adequacy (%)	**21,54%**	**21.47%**
Tier 1 Capital Ratio (%)	**18,69%**	**17.05%**

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	2,00%	Of total risk exposure
Capital maintenance buffer	2,50%	Of total risk exposure

The systemic risk buffer of the Krediidipank group as at 31.12.2015 was 2,813 thousand euros compared to 2,925 thousand euros as at 31.12.2014.

The capital maintenance buffer of the Krediidipank group as at 31.12.2015 was 3,517 thousand euros compared to 3,656 thousand euros as at 31.12.2014.

The group's total amount of own funds used for the calculation of capital adequacy has decreased during the year 2015 as a result of the decline in the subordinated debt in the calculation of Tier 2 capital.

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

In thousands of euros

31.12.2015						
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**
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**

31.12.2014						
Balance sheet (Standardised Approach)	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Central governments and central banks	33,182	4,242	0	1,098	0	38,522
Credit institutions, investment companies and local governments	30,089	0	0	1,387	0	31,476
Companies	3,146	0	2,145	4,311	3,940	13,542
Retail claims	6	171	937	14,129	1,836	17,079
Claims secured by mortgage on real estate	58	870	2,244	13,672	103,322	120,166
Claims past due	2,023	591	883	1,520	245	5,262
Items subject to particularly high risk	5,791	0	0	68	95	5,954
Other assets	4,377	0	0	0	18,874	23,251
Total balance sheet exposures	**78,672**	**5,874**	**6,209**	**36,185**	**128,312**	**255,252**
Off-balance sheet (Standardised Approach)						
Companies	182	0	0	0	0	182
Retail claims	2,248	0	0	0	0	2,248
Claims secured by mortgage on real estate under standard method	782	0	0	0	0	782
Items subject to particularly high risk	1,966	0	0	0	0	1,966
Total off-balance sheet exposures	**5,179**	**0**	**0**	**0**	**0**	**5,179**
Total exposure	**83,851**	**5,874**	**6,209**	**36,185**	**128,312**	**260,431**

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 15) is divided by the total exposure indicator (see the table on page 16) and it is expressed as a percentage. The financial leverage ratio of the Krediidipank group, calculated as a simple arithmetical average of monthly financial leverage ratios over one quarter, as at 31.12.2015, is 8.48 %, compared to 9.37 % as at 31.12.2014.

The 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.

Concentration of exposures limits of Krediidipank group

According to the Regulation (EU) number 575/2013 of the European Parliament and of the Council, a credit institution's exposure to a client or group of connected clients is considered a large exposure where its value is equal to or exceeds 10% of the credit institution's eligible capital.
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	8,497
Credit institutions and investment companies	eligible capital	5	54,139

Consolidated financial statements of Krediidipank Group 2015

AS Eesti Krediidipank consolidated statement of financial position

In thousands of euros

Assets	**Note**	**31.12.2015**	**31.12.2014**
Cash on hand		2,342	2,576
Balances with central banks	3	65,126	30,475
Loans and advances to credit institutions	4	57,716	29,836
Financial assets held for trading	10	28	0
Financial assets designated at fair value through profit or loss	10	6,078	13,184
Loans and advances to customers	5-9	152,652	150,705
Held-to-maturity financial assets	10	503	3,921
Available-for-sale financial assets	10	13	18
Other financial assets	11	1,161	843
Assets held for sale	12	2,422	4,538
Investment property	13	11,220	13,515
Property, plant and equipment	14	5,088	5,360
Intangible assets	15	761	733
Other assets	16	240	281
Total assets		**305,350**	**255,985**

Liabilities			
Due to central banks		0	5,073
Financial liabilities designated at fair value through profit or loss		276	0
Due to credit institutions	18	115	356
Due to customers	19	267,395	207,779
Other financial liabilities	20	3,928	1,463
Other liabilities	21	699	798
Subordinated debt	22	4,039	13,390
Total liabilities		**276,452**	**228,859**

Shareholders' equity	23		
Share capital		25,001	25,001
Share premium		174	174
Reserves		1,844	1,813
Retained earnings (accumulated loss)		1,838	89
Shareholders' equity attributable to owners of the parent company		**28,857**	**27,077**
Non-controlling interest		41	49
Total shareholders' equity		**28,898**	**27,126**
Total liabilities and shareholders' equity		**305,350**	**255,985**

Notes to the financial statements on pages 24 to 77 are an integral part of the consolidated financial statements.

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

In thousands of euros

	Note	2015	2014
Interest income	25	8,261	8,723
Interest expense	26	-2,367	-2,810
Net interest income		**5,894**	**5,913**
Fee and commission income	27	3,364	2,643
Fee and commission expense	28	-713	-602
Net fee and commission income		**2,651**	**2,041**
Revenue from sale of assets		3,609	1,640
Cost of assets sold		-3,143	-1,057
Change in fair value of investment property		115	893
Net profit/loss in fair value of financial assets designated at fair value through profit or loss	29	-353	-559
Payroll expenses	30	-4,978	-4,892
General and administrative expenses	31	-2,565	-2,749
Other income	32	1,727	1,029
Other expenses	33	-376	-654
Depreciation		-486	-534
Impairment losses on loans and advances		-169	307
Profit before income tax		**1,926**	**1,378**
Income tax		**-154**	**0**
Net profit		**1,772**	**1,378**
incl. share of profit/loss attributable to non-controlling		**-8**	**-30**
incl. share of profit attributable to the owners of the parent company		**1,780**	**1,408**

	2015	2014
Other comprehensive income/expense		
incl. unrealised foreign currency gains and losses arising from the translation of foreign business entities' financial information	0	**11**
Comprehensive income for the financial year	**1,772**	**1,389**
incl. share of profit/loss attributable to non-controlling interest	**-8**	**-30**
incl. share of profit attributable to the owners of the parent company	**1,780**	**1,419**

Notes to the financial statements on pages 24 to 77 are an integral part of the consolidated financial statements.

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

In thousands of euros

	Share capital	Share premium	Statutory reserve capital	Unrealised foreign currency gains and losses	Retained earnings	Total equity attributable to the shareholders of the parent company	Non-controlling interest	Total shareholders' equity
Balance as of 31.12.2013	**25,001**	**174**	**1,791**	**-11**	**-1,297**	**25,658**	**79**	**25,737**
Net profit for the financial year	0	0	0	0	1,408	**1,408**	-30	**1,378**
Other comprehensive income	0	0	0	11	0	**11**	0	**11**
Total comprehensive income for the	0	0	0	11	1,408	**1,419**	-30	**1,389**
Formation of statutory reserve	0	0	22	0	-22	**0**	0	**0**
Balance as of 31.12.2014	**25,001**	**174**	**1,813**	**0**	**89**	**27,077**	**49**	**27,126**
Net profit for the financial year	0	0	0	0	1,780	**1,780**	-8	**1,772**
Total comprehensive income for the	0	0	0	0	1,780	**1,780**	-8	**1,772**
Changes in reserves	0	0	31	0	-31	**0**	0	**0**
Balance as of 31.12.2015	**25,001**	**174**	**1,844**	**0**	**1,838**	**28,857**	**41**	**28,898**

Additional information presented in Note 23.
Notes to the financial statements on pages 24 to 77 are an integral part of the consolidated financial statements.

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AS Eesti Krediidipank consolidated statement of cash flows

In thousands of euros

Cash flows from operating activities (indirect method)	Note	2015	2014
Net profit		1,780	1,408
Adjustments			
Change in provisions for loans and advances		169	-307
Depreciation and impairment of non-current assets		499	548
Impairment of available-for-sale financial assets	12	171	37
Change in fair value of financial assets designated at fair value through profit or loss		372	559
Revaluation of investment property	13	-115	-893
Net profit/loss on sale of non-current assets (-/+)		-2	52
Effect of changes in currency exchange rates		-1	15
Net interest income	25, 26	-5,894	-5,913
Interest received		6,828	8,698
Interest paid		-2,614	-2,234
Change in loans and advances related to customers of credit institution and leasing companies		-1,320	-7,243
Change in fair value of financial assets designated at fair value through profit or loss		7,307	15,423
Change in long - term receivables from credit institutions		-80	15
Change in loans and advances to credit institutions		-241	-23
Change in deposits		59,439	-5,209
Change in assets held for sale		2,116	466
Change in other assets and liabilities related to operating activities		1,234	487
Total cash flows from operating activities		**69,648**	**5,886**
Cash flows from investment activities (direct method)			
Redemption and sale of held-to-maturity financial assets		4,412	1,696
Proceeds from sale of non-current assets and investment property		2,474	3,977
Purchase of non-current assets and investment property		-317	-877
Total cash flows from investing activities		**6,569**	**4,796**
Cash flows from financing activities (direct method)			
Repayments of loans to credit institutions		-14,000	0
Total cash flows from financing activities		**-14,000**	**0**
Total cash flows		**62,217**	**10,682**
Change in cash and cash equivalents		**62,217**	**10,682**
Cash and cash equivalents at beginning of the period		62,467	51,785
Cash and cash equivalents at end of the period		124,684	62,467
Cash and cash equivalents balance is comprised of:		**124,684**	**62,467**
Cash on hand		2,342	2,576
Demand deposits in central banks		65,126	30,475
Demand and short-term deposits in credit institutions		57,216	29,416

Notes to the financial statements on pages 24 to 77 are an integral part of the consolidated financial statements.

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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 2015 have been approved by the management board of AS Eesti Krediidipank and will be presented to the shareholders for approval. The consolidated financial statements for the year 2014 were approved by the general meeting of shareholders at 28.04.2014.

Functional and presentation currency
The functional currency of the AS Eesti Krediidipank Group is euro. 2015 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:
a) loan allowances, incl. fair value assessment of collateral (Note 9),
b) estimation of the fair value of investment property (Note 13),
c) fair value of financial assets and liabilities (Note 2).

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

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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 2015.

The financial information of all companies controlled by AS Eesti Krediidipank has been consolidated. Group entities use uniform accounting policies.

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

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

<u>Subsidiaries</u>

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

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

<u>Non-controlling interest</u>

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

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

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

1.5 Cash and cash equivalents

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

1.6. Financial assets

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

<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 favourable or an equity instrument of another party. Management determines the classification of its investments at initial recognition.

1.6.1. Loans and receivables

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

Loans and advances are initially recognised in the consolidated statement of financial position at fair value including any transaction costs, when the cash is paid to the borrower or right to demand payment has arisen and are derecognised only when they are repaid or written-off, regardless of the fact that part of them may be recognised as costs through providing allowances for loans. The loan allowances are presented on the respective line of statement of financial position at negative value. Loans have been recognised in the statement of financial position at amortised cost, 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.

Lease receivables

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

Factoring and warehouse receipt financing receivables

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

Derecognition of factoring assets and liabilities follows the regulation in IAS 39 and the assessment is made based on each specific agreement type and status.

Warehouse receipt financing transactions are financing transactions, where the lease firm finances its partners, by granting them a loan against pledged stock reserves.

Valuation of loans and receivables

The Group assesses consistently whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For valuation of loans and receivables several risks are prudently considered. The Group uses a customer rating system for evaluating corporate loans, in accordance of which the valuation of the customer receivables is based on the legal entities financial position, trustworthiness of the borrower, timely fulfilment of contractual obligations and other factors, all of which together help to assess the value of the receivable and the amount of incurred loss in the portfolio of loans.

Valuation of loans to private individuals is based on timely fulfilment of contractual obligations, solvency and collateral and other factors, affecting the credit risk.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the historical probabilities of default and historical rates of losses experienced on the assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future receivables are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

For assessment of loan losses, the expected collections from the loan and interest payments over the coming periods are considered, as well as expected collections and anticipated proceeds from the realisation of collateral, discounted at the financial asset's original effective interest rate, which together form a recoverable amount of the loan and help to assess the amount of loss incurred of the loan. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. For these assessed incurred loan losses, the relevant allowance has been established. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Individual allowances are provided for individually assessed loans, and group based allowances for homogenous loan groups.

In a subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in "'Impairment losses on loans and advances".

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been

completed and the amount of the loss has been determined. Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due and are treated as normal loans. More detailed overview of the credit risk management principles is given in Note 2 "Risk management".
Interest income on loans is presented on the income statement on line "Interest income".

1.6.2. Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets designated at fair value through profit or loss 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:
a) investments designated as fair value through profit or loss upon their initial recognition;

b) investments classified as available-for-sale assets; and
c) investments which meet the criteria of loans and receivables.

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

1.7. **Property, plant and equipment and intangible assets other than goodwill**
Land, buildings, IT equipment, office equipment and other assets of long-term use are recognised in the statement of financial position as property, plant and equipment. Intangible assets are identifiable, non-monetary assets without physical substance and as of balance sheet date comprise of acquired software.

Property, plant and equipment and intangible assets are initially recognised at acquisition cost, consisting of the purchase price, non-refundable taxes and other direct costs related to taking the asset into use. Subsequent expenditures related to an item of property, plant and equipment are recognised as an asset if these are in accordance with definition of property, plant and equipment and meet the criteria for recognition in the statement of financial position (including if it is probable that future economic benefits associated with the item will flow to the entity). Ongoing repairs and maintenance expenditures are expensed during the reporting period in which they are incurred.

Property, plant and equipment and intangible assets with finite useful lives are subsequently stated at historical cost less depreciation / amortisation and any impairment losses. Depreciation / amortisation is calculated starting from the month of acquisition until the asset is fully depreciated. Assets are depreciated / amortised on a straight-line basis. Depreciation / amortisation calculation is based on the useful life of the asset, which serves as basis for forming the depreciation / amortisation rates. Depreciation of property, plant and equipment is charged in accordance with the estimated useful life of the asset from the month following the month it is taken into use:

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

Non-current assets with an unlimited useful life (land) are not depreciated. Depreciation 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 is the lessee

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

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

1.12 Financial liabilities

The classification made can be seen in the table below:

<table>
<tr><th>Category (by IAS 39)</th><th colspan="3">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>

Deposits from credit institutions and customers

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".

Borrowings

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 i) contract value at the time of reporting ii) contract value and in addition provision in balance sheet. The amounts disbursed to settle the guarantee obligation are recognised in the statement of financial position on the date it is disbursed.

1.14 Revenue and expense recognition

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

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

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

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

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

1.15 Taxation
Corporate income tax
According to the effective legislation, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings 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 42 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 February 2015:
• Clarification was issued to conclusions to IFRS 13 to explain that the revocation of certain paragraphs of IAS 39 upon the publication of IFRS 13 did not intend to remove the ability

to measure short- term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

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

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

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

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

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

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

- Equity Method in Separate Financial Statements (Amendments to IAS 27) (effective for annual periods beginning on or after 1 January 2016):

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

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

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

- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (the effective date will be determined by IASB, they have not yet been adopted in the European Union):

The amendments resolve a conflict between the requirements of IAS 28 and IFRS 10, which regulate the sale or contribution of assets between an investor and its associate or joint venture. The main impact of the amendment is that the gain or loss resulting from the sale or contribution to an associate or a joint venture of assets that constitute a business is recognised in full. If a transaction involves assets that do not constitute a business, the gain or loss is recognised partially, even if such assets are owned by a subsidiary and shares in the subsidiary are transferred as part of the transaction.

- "Amendments to IFRSs in 2014" – (effective from 1 January 2016):

- IFRS 5 was amended to clarify for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.
- An amendment to IFRS 7 adds additional guidance for management to assess whether a servicing contract involving financial assets is continuing involvement in a transferred asset for the purpose of determining the disclosures required under IFRS 7. The amendment also clarifies that the amendments to IFRS 7 on offsetting disclosures do not immediately apply to all condensed interim financial statements, except in cases where such disclosures are required under IAS 34.
- IAS 34 requires information presented "elsewhere in the interim report" to be indicated in interim financial statements by adding a cross-reference.

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

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

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

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

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

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

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

monitors the different structural units' adherence to the articles of association of Krediidipank, the resolutions of the general meeting of shareholders, the supervisory board and management board of Krediidipank and compliance with rules, limits and other requirements established by the supervisory board and management board.

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

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

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

The internal capital adequacy assessment process (ICAAP) is a continuous process with the objective of evaluating the risk profile of the group and the corresponding capital requirement.

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

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

Management of credit risk
Credit risk is the risk that a counterparty fails to perform the obligations it has undertaken to perform to the Krediidipank group. The size of credit risk reflects the probable loss that may be incurred as a result of failure by a counterparty to perform obligations with regard to receivables subject to credit risk. Krediidipank follows the standardised approach for calculation of credit risk capital requirements. In order to calculate capital requirements,

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

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

- Loans and advances to central banks and credit institutions (Notes 3-4);
- Financial investments (Note 10);
- Loans and advances from 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

31.12.2015	Not past due		Past due		Impairments		Total	The avarage position of the period
	Impaired	Not impaired	Impaired	Not impaired	Individual impairment	Collective impairment		
Cash on hand	0	2,342	0	0	0	0	2,342	2,459
Balances with central banks	0	65,126	0	0	0	0	65,126	47,801
Loans and advances to credit institutions	0	57,716	0	0	0	0	57,716	43,776
Financial assets held for trading	0	28	0	0	0	0	28	14
Financial assets designated at fair value through profit or loss	0	6,078	0	0	0	0	6,078	9,631
Loans and advances to customers	3,338	137,744	2,599	11,465	-1,447	-1,047	152,652	151,723
Held-to-maturity financial assets	0	503	0	0	0	0	503	2,212
Available-for-sale financial assets	0	13	0	0	0	0	13	16
Other financial assets	0	1,161	0	0	0	0	1,161	1,002
Total financial assets	**3,338**	**270,711**	**2,599**	**11,465**	**-1,447**	**-1,047**	**285,619**	**258,589**
Financial guarantees	0	1,253	0	0	0	0	1,253	1,147
Loan commitments	0	566	0	0	0	0	566	538
Overdraft facilities	0	6,052	0	0	0	0	6,052	4,840
Total off-balance sheet exposures	**0**	**7,871**	**0**	**0**	**0**	**0**	**7,871**	**6,525**
Total exposure to credit risk	**3,338**	**278,582**	**2,599**	**11,465**	**-1,447**	**-1,047**	**293,490**	**265,114**

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PricewaterhouseCoopers, Tallinn

In thousands of euros

31.12.2014	Not past due		Past due		Impairments		Total	The avarage position of the period
	Impaired	Not impaired	Impaired	Not impaired	Individual impairment	Collective impairment		
Cash on hand	0	2,576	0	0	0	0	2,576	2,371
Balances with central banks	0	30,475	0	0	0	0	30,475	24,958
Loans and advances to credit institutions	0	29,836	0	0	0	0	29,836	30,226
Financial assets designated at fair value through profit or loss	0	13,184	0	0	0	0	13,184	21,175
Loans and advances to customers	5,307	136,574	4,060	7,783	-2,473	-546	150,705	146,738
Held-to-maturity financial assets	0	3,921	0	0	0	0	3,921	4,769
Available-for-sale financial assets	0	18	0	0	0	0	18	18
Other financial assets	0	843	0	0	0	0	843	1,525
Total financial assets	**5,307**	**217,427**	**4,060**	**7,783**	**-2,473**	**-546**	**231,558**	**231,780**
Financial guarantees	0	1,041	0	0	0	0	1,041	864
Undrawn lines of credit	0	510	0	0	0	0	510	611
Overdraft facilities	0	3,628	0	0	0	0	3,628	4,608
Total off-balance sheet exposures	**0**	**5,179**	**0**	**0**	**0**	**0**	**5,179**	**6,082**
Total exposure to credit risk	**5,307**	**222,606**	**4,060**	**7,783**	**-2,473**	**-546**	**236,737**	**237,862**

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

In order to limit the transaction-related counterparty credit risk exposure, the Assets and Liabilities Committee (ALCO) has imposed limits on transactions with counterparties, encompassing money market transactions, currency transactions and securities transactions. In its evaluation of counterparty creditworthiness 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. Counterparty credit risk is defined as balances due from credit institutions. All balances due from credit institutions are unsecured receivables. As at 31.12.2015 and 31.12.2014, all balances due from credit institutions were current and not impaired.

Credit risk control

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

Amounts due from credit institutions, financial investments and loans and advances by economic sector classification

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 (cash in transit, security deposits, 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

In thousands of euros

31.12.2014

	E	K	L	S	G	D	I	Other	Total
Cash on hand	0	2,576	0	0	0	0	0	0	**2,576**
Balances with central banks	0	30,475	0	0	0	0	0	0	**30,475**
Loans and advances to credit institutions	0	29,836	0	0	0	0	0	0	**29,836**
Financial assets designated at fair value through profit or loss	0	1,387	0	0	534	3,587	0	7,676	**13,184**
Loans and advances to customers	110,905	0	13,018	2,650	9,419	1,101	5,951	7,661	**150,705**
Held-to-maturity financial assets	0	0	0	0	0	3,921	0	0	**3,921**
Available-for-sale financial assets	0	5	0	0	0	0	0	13	**18**
Other financial assets (cash in transit, security deposits, other financial assets)	0	689	0	0	0	0	0	154	**843**
Total	**110,905**	**64,968**	**13,018**	**2,650**	**9,953**	**8,609**	**5,951**	**15,504**	**231,558**

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 due from credit institutions, financial investments and loans and advances by geographical classification

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
Financial assets designated at fair value through profit or loss	2,254	0	0	0	0	0	3,824	6,078
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	0	0	13	13
Other financial assets (cash in transit, security deposits, 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**

In thousands of euros

31.12.2014	EE	LV	US	RO	NL	LT	Other	Total
Cash on hand	2,360	216	0	0	0	0	0	**2,576**
Balances with central banks	30,289	186	0	0	0	0	0	**30,475**
Loans and advances to credit institutions	1,618	824	23,554	0	0	2	3,838	**29,836**
Financial assets designated at fair value through profit or loss	2,303	0	0	3,202	1,920	2,138	3,621	**13,184**
Loans and advances to customers	137,698	11,574	347	0	16	0	1,070	**150,705**
Held-to-maturity financial assets	3,921	0	0	0	0	0	0	**3,921**
Available-for-sale financial assets	5	0	0	0	0	0	13	**18**
Other financial assets (cash in transit, security deposits, other financial assets)	368	180	0	0	0	0	295	**843**
Total	**178,562**	**12,980**	**23,901**	**3,202**	**1,936**	**2,140**	**8,837**	**231,558**

74.7% of loans and advances to customers are granted to private individuals (31.12.2014: 74.8%). The portfolio of loans granted to corporate entities is diversified between various economic sectors to avoid high levels of concentration. 35.1% (31.12.2014: 31.8%) of loans to companies are granted to companies engaged in the real estate sector and 22.7% (31.12.2014: 23.0%) are attributable to wholesale and retail enterprises. The lending activity of the group is focused on local financing. The distribution of loans and advances to customers according to main credit product is provided in Note 5.

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

Principles for classification and measurement of receivables
Credit receivables are divided into risk categories in accordance with the borrower's payment discipline and the financial-economic position:
A – no circumstances have arisen that could cause a default on the loan as per the terms of the loan agreement, up to 13 days past due.
B – contains potential weaknesses, the mitigation of which may affect the creditworthiness of the borrower in the future, 14-45 days past due.
C – contains clearly identifiable deficiencies, giving reason to believe that the repayment of the loan in full is doubtful or the loan has been restructured, 46-59 days past due.
D – inadequate creditworthiness of the borrower, giving reason to believe that the repayment of the loan under contract terms is improbable unless the situation materially changes, 60-89 days past due
E – the borrower is unable to persistently perform the contract on agreed-upon terms, 90-179 days past due
F - the loan is no longer being serviced and there is no prospect of the restoration of solvency and/or the contract has been terminated on an extraordinary basis, 180 days past due and/or the amount of payments collected on the loan during a period of 90 consecutive days is 0.

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

31.12.2015	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**

Continues on the next page

In thousands of euros

31.12.2014	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total	Collective impairment	Individual impairment	Net
A	94,806	1,367	0	96,173	-315	0	95,858
B	4,302	2,883	0	7,185	-48	0	7,137
C	2,334	1,472	84	3,890	-83	-25	3,782
D	483	536	565	1,584	-11	-98	1,475
E	34	413	460	907	-4	-67	836
F	104	589	2,365	3,058	-13	-1,228	1,817
Total	**102,063**	**7,260**	**3,474**	**112,797**	**-474**	**-1,418**	**110,905**

Risk categories of loans and advances to legal entities

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
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 thousands of euros

31.12.2014	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total	Collective impairment	Individual impairment	Net
A	14,852	27	37	14,916	-43	-31	14,885
B	11,218	141	129	11,488	-22	-16	11,450
C	7,340	229	4,567	12,136	-7	-323	11,813
D	1,101	122	0	1,223	0	0	1,223
E	0	0	597	597	0	-181	416
F	0	5	561	566	0	-504	62
Total	**34,511**	**524**	**5,892**	**40,927**	**-72**	**-1,055**	**39,800**

In 2015, the improvement in the quality of the credit portfolio continued as a result of the stabilizing economic environment and decrease in unemployment. The amount of loans past due to private individuals has declined by 12.5%, however the value of loans past due to legal entities has sharply increased. 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 reduced by 36.6% in 2015 by a total of 3.4 million euros, including a reduction in the portfolio of loans to legal entities by 4.4 million euros. The value of individually impaired loans and advances to private individuals increased by 1 million euros. The total number of impaired risk exposures was 140.

Individual impairments was accounted for 1,447 thousand euros total and collective impairments for 958 thousand euros total. Interest income on individually impaired loans in 2015 was 257 thousand euros and in 2014 it amounted to 391 thousand euros. The reduction in impaired loans and advances is attributable to the improvement of creditworthiness of customers and the adjustment of the individual impairment methodology according to industry practices. As at 31.12.2015, the amount of outstanding impaired loans and advances to private individuals was 4,433 thousand euros, the amount of individually impaired loans was 1,251 thousand euros and 48.7% of impaired receivables were past due (see the table below). The proportion of individual impairment of impaired receivables in the case of private individuals was 28.2% at 31.12.2015. As at 31.12.2014, the amount of outstanding impaired loans and advances to private individuals was 3,475 thousand euros, the amount of individually impaired loans was 1,418 thousand euros and 80.7% of impaired receivables were past due. The proportion of individual impairment of impaired receivables in the case of private individuals was 40.8% at 31.12.2014.

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

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**

In thousands of euros

31.12.2014	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	0	0	0	0	0	0	0	0	0
C	0	0	84	0	0	0	84	-25	59
D	208	157	82	108	10	0	565	-98	467
E	17	0	6	92	345	0	460	-67	393
F	444	85	0	20	71	1,746	2,366	-1,228	1,138
Total	**669**	**242**	**172**	**220**	**426**	**1,746**	**3,475**	**-1,418**	**2,057**

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

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**

In thousands of euros

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

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 impaired loans was 196 thousand euros and 29.2 % of impaired receivables were past due. As at 31.12.2015 impaired and not received was 49 positions. Individual impairment was accounted for 756 thousands of euros in total. The proportion of individual impairment of impaired receivables in the case of legal entities was 13.0 % at 31.12.2014. As at 31.12.2014, the amount of outstanding impaired loans and advances to legal entities was 5,891 thousand euros, the amount of individually impaired loans was 1,055 thousand euros and 21.5% of impaired receivables were past due. As at 31.12.2014 impaired and not received was 84 positions. Individual impairment was accounted for 1,685 thousands of euros in total. The proportion of individual impairment of impaired receivables in the case of legal entities was 17.9% at 31.12.2014.

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 31.12.2015 was 791 thousand euros and 821 thousand euros as at 31.12.2014. Balance sheet value of under-collateralised loans and advances is bigger than fair value of collaterals for corresponding receivables and, on the contrary, balance sheet value of over-collateralised loans and advances is smaller than fair value of collaterals for corresponding receivables.

Loans and advances to customers by collateralisation, gross

In thousands of euros

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 cusomers	**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

In thousands of euros

31.12.2014	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 cusomers	**7,651**	**0**	**4,804**	**3,817**	**141,269**	**498,855**
Incl Not past due	6,792	0	3,983	3,260	131,106	473,375
Incl Past due	859	0	821	557	10,163	25,480

Liquidity risk management

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

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

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

The following bodies are regularly informed of Krediidipank's liquidity position: the Management Board, ALCO and Credit Committee. Krediidipank maintains a sufficient level of liquidity in order to ensure timely performance of its obligations.
The Krediidipank group uses an approach based on the analysis of the duration gap between the maturities of assets and liabilities for the management of the Krediidipank group's liquidity position. An overview of the division of assets and liabilities by maturities has been provided in Note 37. This model is also used for determining the main observable liquidity ratios and term proportions of assets and liabilities, as well as for conducting stress tests. Limits have been established for all major liquidity indicators.
The 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 Krediidipank group is built upon the principle of prudence and established liquidity buffers are sufficient to cover even a large-scale outflow of deposits. The group has established a business continuity and recovery plan for conduct in a liquidity crisis, specifying the actions to be taken for covering a cash flow deficit even in extraordinary circumstances.

Market risk management
Market risk arises from the group's trading and investment activities in the interest, currency and equity markets. Among financial products, financial investments and derivative instruments are subject to market risk. Market risk arises from changes in interest rates, currency exchange rates and prices of financial assets. The acceptance of market risk is controlled by using risk limits. Different factors influencing market risks are monitored on a daily basis. The primary market risk bearing assets in the group are investments in bonds. Investments in bonds are included in the following line items: Financial assets 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 reduced by a total of 10.5 million euros (-61.5%) during the year 2015 (see Note 10). The average duration of the portfolio and the total market risk have also been reduced. In addition, the capital requirement needed to cover the position risk of the trading portfolio at fair value through profit or loss has decreased accordingly.

The price risk of the debt securities portfolio mainly arises from the potential change in interest rates. The group uses the VaR *(Value at Risk)* method to measure the price risk of its portfolio of financial investments. The VaR of the debt securities portfolio given a 100bp increase in interest rates as at 31.12.2015 was 257 thousand euros, the respective indicator as at 31.12.2014 was 301 thousand euros.

Currency risk is defined as a risk arising from the differences in the currency structure of the group's assets and liabilities. Changes in currency exchange rates cause changes in the value of assets and liabilities, as well as the amount of income and expenses measured in the functional currency. The Krediidipank group generally maintains minimum foreign currency positions required for the provision of services to customers. All foreign currency positions are continually monitored and marked to market. The group covers open foreign currency positions using swap and forward transactions. Data on the structure of assets and liabilities by currency positions and respective net currency positions have been presented in Note 38. The total amount of open currency positions as at 31.12.2015 was 120 thousand euros, currency risk is low.

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

Interest rate risk management entails the analysis of the interest rate risk of all of the group's assets and liabilities and the management of duration. 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 31.12.2015. The shift in the yield curve and the net interest income of Krediidipank group are positively correlated, therefore net interest income decreases in the event of a decline in interest rates and net interest income increases in the event of an increase in interest rates.

The total impact of an increase in the interest rate of 100 bp on net interest income over one year was 160 thousand euros at the balance sheet date. The interest rate decrease of 100 bp impact was -277 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

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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 to the economic value of the group's equity as at 31.12.2015 was 129 thousand euros and the impact of a decrease of 100bp was 5,485 thousand euros and the corresponding figures as at 31.12.2014 were -605 thousand euros and 2,235 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

31.12.2015	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

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

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

Operational risk management

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

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

The evaluation of operational risk is, above all, carried out qualitatively, as the 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.

Principles of capital management

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

In thousands of euros

Own funds	**31.12.2015**	**31.12.2014**
Tier 1 capital		
Paid-in share capital and share premium	25,175	25,175
Statutory reserve capital	1,844	1,813
Retained earnings	58	-1,308
Intangible assets (-)	-761	-733
Deferred tax asset depending on future taxable profits	-1	-1
Adjustment of value arising from requirements of reliable measurement (-)	-17	-13
Total Tier 1 capital	**26,298**	**24,933**
Subordinated debt	4,000	6,469
Tier 2 capital	**4,000**	**6,469**
Eligible capital for capital adequacy calculation	**30,298**	**31,402**

As at 31.12.2015, the group's own funds amounted to 30,298 thousand euros (as at 31.12.2014: 31,402 thousand euros), including Tier 1 capital of 26,298 (31.12.2014: 24,933) and Tier 2 capital of 4,000 (31.12.2013: 6,469). Tier 2 capital comprises of subordinated liabilities in compliance with established criteria where the amount included in the calculation of own funds is amortised over the final remaining five years.

As at 31.12.2015, the group is compliant with all of the regulatory capital requirements. An overview of regulatory capital, capital requirements and the calculation of capital adequacy is presented in the table of capital adequacy indicators on page 15.

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

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

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

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

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

Financial assets and liabilities carrying value and 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

	31.12.2015		31.12.2014	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Cash on hand	2,342	2,342	2,576	2,576
Balances with central banks	65,126	65,126	30,475	30,475
Loans and advances to credit institutions	57,716	57,716	29,836	29,836
Financial assets held for trading	28	28	0	0
Loans and advances to customers	152,652	154,494	150,705	150,138
incl. individuals	114,015	115,857	110,906	110,165
incl. legal entities	38,637	38,637	39,799	39,973
Held-to-maturity financial assets	503	503	3,921	4,622
Other financial assets	1,161	1,161	843	843
Total assets	**279,528**	**281,370**	**218,356**	**218,490**
Liabilities				
Balances with central banks	0	0	5,073	5,073
Loans and advances to credit institutions	115	115	356	356
Finacial assets held for trading	276	276	0	0
Due to customers	267,395	268,006	207,779	208,702
incl. individuals	151,633	152,244	147,190	148,095
incl. legal entities	115,762	115,762	60,589	60,607
Other financial liabilities	3,928	3,928	1,463	1,463
Subordinated debt	4,039	4,039	13,390	13,390
Total liabilities	**275,753**	**276,364**	**228,061**	**228,984**

Group's loans and advances are priced on risk basis, due to that the fair value may differ from the carrying value in these situations where there are differnces between contractual loan balance and carrying value which is measured with amortized cost method. Fair value is calculated in accordance with the principles of Level 3. See the description of the levels by IFRS 13 on the page 29. To find the fair value of deposits existing deposits are discounted using the rates of interest offered on newly received deposits.

The fair value of loans and advances as at 31.12.2015 was 1,842 thousand euros higher and the fair value of customer deposits was 611 thousand euros higher than their carrying amounts, both of which account for 1.2 % and 0.2 % of their carrying amount. As at 31.12.2014, the fair value of loans and advances was 0.4 % lower than the carrying amount and the fair value of deposits was 0.4 % higher than the carrying amount.

Note 3. Balances with central banks

In thousands of euros

	31.12.2015	31.12.2014
Demand deposits		
incl. minimum reserve requirement	2,221	1,606
incl. demand deposits, cash equivalents	62,905	28,869
Total	**65,126**	**30,475**

Note 4. Loans and advances to credit institutions

In thousands of euros

	31.12.2015	31.12.2014
EU countries, except Estonia	25,582	3,855
Estonia	11,941	1,629
U.S.	19,316	23,554
All other countries	877	798
Total	**57,716**	**29,836**
Classification by credit rating		
AA	1,952	12
AA-	12,014	164
A+	645	3,448
A	7	24,424
A-	8,658	1,405
BBB+	24,803	107
BBB-	9,553	220
BB+	28	0
Not rated	56	56
Total	**57 716**	**29,836**

Note 5. Loans and advances to customers

In thousands of euros

	31.12.2015	31.12.2014
Total receivables from private individuals	116,245	112,797
Home loan	82,440	85,165
Consumer loan	27,956	21,979
Lease financing	5,849	5,653
Total receivables from corporates	38,901	40,927
Investment loan	22,812	22,594
Working capital loan	12,294	13,596
Lease financing	3,795	4,737
Total receivables	**155,146**	**153,724**
Allowance for doubtful receivables (Note 9)	-2,494	-3,019
Total	**152,652**	**150,705**

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EU countries, except Estonia	10,678	12,215
Estonia	143,507	140,529
All other countries	961	980
Total receivables	**155,146**	**153,724**
Allowance for doubtful receivables (Note 9)	-2,494	-3,019
Total	**152,652**	**150,705**

Note 6. Past due receivables

In thousands of euros

	31.12.2015		31.12.2014	
Private individuals	Loan balance	Collateral coverage ratio	Loan balance	Collateral coverage ratio
1-30 days	3,814	47.6%	5,037	56.9%
31-60 days	1,391	36.0%	1,453	43.8%
61-90 days	395	24.2%	450	53.9%
more than 90 days	3,206	60.3%	3,126	65.3%
Total	**8,806**		**10,066**	

	31.12.2015		31.12.2014	
Corporates	Loan balance	Collateral coverage ratio	Loan balance	Collateral coverage ratio
1-30 days	593	42,7%	469	62.9%
31-60 days	410	79,5%	88	46.1%
61-90 days	228	19,3%	15	32.8%
more than 90 days	4 027	27,7%	1,205	82.9%
Total	**5 258**		**1,777**	

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

In thousands of euros

	31.12.2015	31.12.2014
Unsecured	57,716	29,836
Total	**57,716**	**29,836**

Structure of collateral of loans
In thousands of euros

	Private individuals		Corporates	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Mortgage loans	96,606	99,214	33,811	34,924
Leased assets	5,849	5,653	3,795	4,737
Unsecured loans	13,198	7,015	611	636
Personal sureties, guarantees	590	906	485	612
Loans secured by deposits	1	5	15	15
Other	1	4	184	3
Total	**116,245**	**112,797**	**38,901**	**40,927**
Allowance for doubtful receivables	-2,230	-1,892	-264	-1,127
Total	**114,015**	**110,905**	**38,637**	**39,800**

Note 8. Finance lease receivables

In thousands of euros

	31.12.2015	31.12.2014
Gross investment balance	**10,418**	**11,969**
Lease payments receivable, incl.		
up to 1 year	3,717	3,788
1-5 years	6,476	7,816
over 5 years	225	365
Future payments	**602**	**743**
up to 1 year	250	275
1-5 years	338	445
over 5 years	14	23
Net investment*	**9,816**	**11,226**
Lease payments receivable, incl.		
up to 1 year	3,467	3,513
1-5 years	6,137	7,370
over 5 years	212	343

* The 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

	31.12.2015	31.12.2014
Balance at the beginning of the reporting period	-3,019	-3,249
incl. collective impairments	-546	-424
incl. individual impairment	-2,473	-2,825
Impairments posted during the reporting period	-1,600	-1,236
Adjustment of previous impairments*	1,425	1,538
Receipts from off-balance sheet loan receivables	-176	-437
Loans written off during the reporting period	876	365
Balance at the end of the reporting period	**-2,494**	**-3,019**
incl. collective impairments	-1,047	-546
incl. individual impairment	-1,447	-2,473

* The changes in the calculation of individual impairments (the correction of net realization value of the collaterals) affect the amount approximately 400 thousands euros.

Note 10. Financial investments

In thousands of euros

	31.12.2015	31.12.2014
Financial assets held for trading	**28**	**0**
Concluded with credit institutions, foreign currency related derivative transactions	28	0
incl. level 1 instruments	28	0
Financial assets designated at fair value through profit or loss	**6,078**	**13,184**
Debt securities	6,078	13,184
incl. level 1 instruments	6,078	13,184

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Held-to-maturity financial assets	**503**	**3,921**
Debt securities	503	3,921
incl. amortised cost	503	3,921
Available-for-sale financial assets	**13**	**18**
Equity securities	13	18
incl. level 1 instruments	13	18

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

In thousands of euros

	31.12.2015	**31.12.2014**
Financial assets held for trading	**28**	**0**
Concluded with credit institutions, foreign currency related derivative transactions	28	0
Financial assets designated at fair value through profit or loss	**6,078**	**13,184**
Government debt securities	1,053	5,340
Debt securities of credit institutions and financing institutions	1,327	1,387
Debt securities of other non-financial companies	3,698	6,457
Held-to-maturity financial assets	**503**	**3,921**
Debt securities of other non-financial companies	503	3,921
Available-for-sale financial assets	**13**	**18**
Shares of other non-financial companies	13	18
Financial assets held for trading	**28**	**0**
Derivative contracts with credit institutions registred in EU	28	0
Financial assets designated at fair value through profit or loss	**6,078**	**13,184**
Securities of companies registered in the EU	5,154	10,635
Securities registered in other countries	924	2,549
Held-to-maturity financial assets	**503**	**3,921**
Securities of companies registered in the EU	503	3,921
Available-for-sale financial assets	**13**	**18**
Securities of companies registered in the EU	13	18
Financial assets held for trading	**28**	**0**
AA- to AA+ credit rating	28	0
Financial assets designated at fair value through profit or loss	**6,078**	**13,184**
A- to A+ credit rating	2,254	2,303
BBB- to BBB+	1,573	7,969
BB- to BB+	555	2,041
B- to B+	1,696	871

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Held-to-maturity financial assets	503	3,921
BBB- to BBB+ credit rating	0	3,921
Not rated*	503	0

Available-for-sale financial assets	13	18
Not rated	13	18

* There are no available credit raiting from raiting agencies

	31.12.2015	31.12.2014
Financial assets held for trading		
Opening balance	0	0
During the reporting period		
- currency related derivatives change in fair value	28	0
Closing balance	28	0
Financial assets designated at fair value through profit or loss		
Opening balance	13 184	29 166
During the reporting period:		
Acquired	0	4 166
Sold	0	-6 330
Redeemed	-6 734	-13 259
Change in fair value	-372	-559
Closing balance	6 078	13 184
Held-to-maturity financial assets		
Opening balance	3 921	5 617
During the reporting period:		
Aquired	500	0
Sold	0	-1 411
Redeemed	-3 918	-285
Closing balance	503	3 921

* During 2015, financial assets classified as held-to-maturity were redeemed early as a result of an exercise of early redemption right at the issuer's option. According to the management's judgment, the significant criteria of IAS 39 are met and therefore the group will continue to classify the remaining notes as financial assets held-to-maturity.

Note 11. Other financial assets

In thousands of euros

	31.12.2015	31.12.2014
Cash in transit	913	524
Security deposits	184	165
Other receivables	64	154
Total	**1,161**	**843**

Other financial assets are all not passed due date and not impaired.

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Note 12. Assets held for sale

In thousands of euros

	31.12.2015	31.12.2014
Properties under construction	1,590	2,403
Real estate acquired for resale	832	2,134
Total	**2,422**	**4,538**
incl. impairment of inventories during the reporting period	171	37

Note 13. Investment property

In thousands of euros

	31.12.2015	31.12.2014
Carrying amount at the beginning of the period	**13 515**	**16,052**
Sold during the period	-2 410	-3,825
Reclassification from property, plant and equipment	0	213
Reclassification from inventories	0	182
Change in fair value	115	893
Carrying amount at the end of the period	**11 220**	**13,515**
incl. investment property earning rental income	**9 127**	**8,871**
Rental income	533	646
Expenses incurred on generation of rental income	147	354
Sale of investment property in sale price	2 410	3,888

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 2014.

The following table provides an overview of the valuation methodology used and the classification of investment property.

In thousands of euros

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%
-residental 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	0.09	0.08	CPI to 8 %	+/- 15%
Combined method -offices	1,100	88	6.56 EUR	0.09	0.08	CPI to 8 %	+/- 10%
Investment property total	**11,220**	459	-	-	-	-	-

In thousands of euros

31.12.2014	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	8,404	169	-	-	-	-	-
-other commercial and business property	2,985	132	0.14 – 1.40	-	-	5-10%	+/- 25%
-residental property	1,047	34	0.08 – 2.95	-	-	0-8%	+/- 10%
-land	4,372	3	0.01 – 0.23	-	-	0-8%	+/-25%
Income approach -offices	4,090	309	4.74 EUR	0.095 – 0.12	0.08-0.10	CPI to 10%	+/- 15%
Combined method -offices	1,021	58	6.15 EUR	0.095	0.08	CPI to 2.5%	+/- 10%
Investment property total	**13,515**	**536**	-	-	-	-	-

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Note 14. Property, plant and equipment

In thousands of euros

	Land and buildings	Other assets	Total
Carrying amount at 31.12.2014	**4,749**	**747**	**5,496**
incl. cost	5,824	2,410	8,234
incl. depreciation	1,075	1,663	2,738
Acquisition	0	668	668
Sale at carrying amount	135	66	201
Write-off at carrying amount	0	15	15
Reclassification as investment property	-213	0	-213
Depreciation charged	102	272	374
Carrying amount at 31.12.2014	**4,299**	**1,061**	**5,360**
incl. cost	5,446	2,648	8,094
incl. depreciation	1,147	1,587	2,734
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

Note 15. Intangible assets

In thousands of euros

Carrying amount at 31.12.2014	**715**
incl. cost	1,697
incl. depreciation	982
Acquisition	209
Sale at carrying amount	3
Write-off at carrying amount	4
Reclassification	-24
Depreciation charged	160
Carrying amount at 31.12.2014	**733**
incl. cost	1,834
incl. depreciation	1,101
Acquisition	189
Write-off at carrying amount	0
Reclassification	-1
Depreciation charged	160
Carrying amount at 31.12.2015	**761**
incl. cost	2,014
incl. depreciation	1,253

Note 16. Other assets

In thousands of euros

	31.12.2015	31.12.2014
Prepayment for financial supervision	97	81
Settlements with the Tax and Customs Board	1	37
Other prepayments	142	163
Total	**240**	**281**

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 the Krediidipank group are predominantly unencumbered with the exception of deposits pledged in the total amount of 1.60 million euros for securing various transactions.
The bank has previously pledged notes totalling 3.31 million euros 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.

In February 2012, Krediidipank took part in the long-term refinancing programme organized by the European Central Bank by raising 10 million euros with a 3-year maturity, of which the bank repaid 5 million euros prematurely in July 2013 and 5 million euros in February 2015.

In thousands of euros

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 encumbered and unencumbered assets
Assets	**1,602**	**1,602**	**303,748**	**350,590**	**305,350**
Demand deposits and term deposits	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 institutions and financing institutions	0	0	1,327	1,327	1,327
incl. bonds of other 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

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31.12.2014	Carrying value of encumbered assets	Fair value of encumbered assets	Carrying value of unencumbered assets	Fair value of unencumbered	Total carrying value of encumbered and unencumbered
Assets	**11,609**	**12,310**	**244,376**	**243,809**	**255,985**
Demand deposits and deposits	2,182	2,182	58,129	58,129	60,311
Shares	0	0	18	18	18
Bonds	9,427	10,128	7,678	7,678	17,105
incl. government bonds	3,203	3,203	2,137	2,137	5,340
incl. bonds of credit institutions and financing institutions	0	0	1,387	1,387	1,387
incl. bonds of other non-financial companies	6,224	6,925	4,154	4,154	10,378
Loans and advances to customers	0	0	150,705	150,138	150,705
Other assets	0	0	27,846	27,846	27,846

Note 18. Due to credit institutions

In thousands of euros

	31.12.2015	31.12.2014
Demand deposits	115	356
incl. EUR	69	268
USD	46	88

Note 19. Due to customers

In thousands of euros

	31.12.2015	31.12.2014
Private individuals	151,633	147,190
Corporates	115,762	60,589
Total	**267,395**	**207,779**
Demand deposits	105,386	79,872
Term deposits	162,009	127,907
Total	**267,395**	**207,779**

Note 20. Other financial liabilities

In thousands of euros

	31.12.2015	31.12.2014
Cash in transit	3,178	657
Trade payables	352	443
Payables to employees	104	119
Other financial liabilities	296	244
Total	**3,928**	**1,463**

Note 21. Other liabilities

In thousands of euros

	31.12.2015	31.12.2014
Tax liabilities	354	173
Other liabilities	345	625
Total	**699**	**798**

Note 22. Subordinated debt

In thousands of euros

	31.12.2015			31.12.2014		
	Amount	Maturity	Interest rate	Amount	Maturity	Interest rate
Subordinated loan agreement	0	-	-	9,000	15.05.2016	5.625%-7.75%
Subordinated loan agreement	4,000	15.02.2021	7.75%	4,000	15.02.2021	7.75%
Accrued interest	39	-		390	-	
Total	**4,039**			**13,390**		

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 31.12.2015 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.

Note 24. Contingent assets and liabilities

In thousands of euros

31.12.2015	**Assets**	**Liabilites**
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
31.12.2014		
Contingent liabilities	**0**	**5,179**
incl. financial guarantees	0	1,041
incl. lines of credit and overdraft facilities	0	4,138

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

	2015	2014
On loans and lease receivables	7,665	7,272
On financial assets measured at fair value	423	1,070
On held-to-maturity financial assets	160	326
On cash and amounts due from banks	13	55
Total	**8,261**	**8,723**

Note 26. Interest expense

In thousands of euros

	2015	2014
On term deposits	1,804	1,932
On subordinated loans	558	866
On loans	4	8
On demand deposits	1	4
Total	**2,367**	**2,810**

Note 27. Fee and commission income

In thousands of euros

	2015	2014
Bank transfer fees	1,139	1,155
Gains from foreign exchange transactions	808	482
Charges on card transactions	368	373
Account opening and management fees	450	250
Fees related to securities	21	16
Other fees	578	367
Total	**3,364**	**2,643**

Note 28. Fee and commission expense

In thousands of euros

	2015	2014
Charges on card transactions	435	385
Bank transfer fees	192	191
Securities transaction and custodial fees	10	11
Other fees	76	15
Total	**713**	**602**

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

In thousand of euros

	2015	2014
Derivatives	19	0
Currency related derivatives	19	0
Financial assets at fair value	-372	-559
Financial assets at fair value through profit or loss	-372	-559
Total	**-353**	**-559**

Note 30. Payroll expenses

In thousands of euros

	2015	2014
Wages and salaries	3,760	3,693
Social tax, unemployment insurance premiums	1,218	1,199
Total	**4,978**	**4,892**

Note 31. General and administrative expenses

In thousands of euros

	2015	2014
Rent of buildings	503	668
Administration and use of information systems	336	376
Services purchased	309	153
Advertising expenses	285	252
Contributions to Deposit Compensation Fund	277	242
Office expenses	252	269
Legal services, state fees	97	127
Financial supervision fee instalments	88	135
Training and travel expenses	50	35
Transport expenses	45	69
Membership fees	27	32
Property and casualty insurance	11	13
Other operating expenses	286	378
Total	**2,566**	**2,749**

Note 32. Other income

In thousands of euros

	2015	2014
Redemption of financial assets held-to-maturity*	834	0
Rental income	743	755
Insurance brokerage	53	90
Fines collected	33	30
Other operating income	64	154
Total	**1,727**	**1,029**

* Net income from early redemption of financial assets classified as held-to-maturity in relation to an exercise of early redemption right at the issuer's option.

Note 33. Other expenses

In thousands of euros

	2015	2014
Expenses incurred on generation of rental income	360	577
Loss on sale of non-current assets, net	0	52
Foreign exchange loss	0	15
Impairment of other assets	16	10
Total	**376**	**654**

Note 34. Litigation

As at 31 December 2015, the principal amount subject for pending court proceedings initiated by the group companies amounted to 562 thousand euros, plus interest for late payment. From a legal point of view, the claims have good prospects as the majority of these claims are related to the obligations arising from loan and lease agreements. The recourse to court is due to unsatisfactory payment behaviour of debtors as opposed to legal disputes.
The group will not incur potential losses from the aforementioned litigation.

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

Note 35. Leased assets

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

In thousands of euros

	2015	2014
up to 1 year	158	209
1-5 years	409	436
over 5 years	148	238
Total	**715**	**883**

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

	31.12.2015	31.12.2014
Shareholders with significant interest		
Receivables 31.12	30	100
Payables 31.12	28	32
Subordinated loan 31.12	4,000	13,000
Interest expenses of reporting period	534	866

Members of the management board and supervisory board, and persons and companies associated with them		
Loans 31.12	131	119
Deposits 31.12	158	436
Interest income of the reporting period	4	3
Interest expenses of the reporting period	0	7
Sale of other goods and services	14	8
Purchase of other goods and services	0	4
Compensation paid and payable to members of the management board and supervisory board	423	443
Maximum termination benefits payable to members of the management board, on a contingent basis	156	141

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

In thousands of euros

31.12.2015	Up to 3 months	3-12 months	1-5 years	Over 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 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 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	3,928	0	0	0	3,928
Subordinated debt	76	234	5,279	0	5,589
Total liabilities	**179,313**	**68,415**	**28,931**	**1,538**	**278,197**
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	**207,869**	**68,415**	**28,931**	**1,538**	**306,753**
Duration gap of financial assets and financial liabilities	**-48,579**	**-43,964**	**51,469**	**88,101**	**47,027**

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In thousands of euros

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

Note 38. Classification of assets and liabilities by currency

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
Fair value of financial assets 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
Other financial assets	910	246	5	1,161
Total financial assets	**242,282**	**31,873**	**11,464**	**285,619**
Other assets	19,731	0	0	19,731
Total on-balance-sheet assets	**262,013**	**31,873**	**11,464**	**305,350**
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	**262,013**	**31,873**	**31,901**	**325,787**
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 (derivatives)	276	0	0	276
Subordinated debt	4,039	0	0	4,039
Other financial liabilities	2,869	802	257	3,928
Total liabilities	**212,099**	**31,930**	**31,724**	**275,753**
Other liabilities	699	0	0	699
Total on-balance sheet liabilities	**212,798**	**31,930**	**31,724**	**276,452**
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	**241,354**	**31,930**	**31,724**	**305,008**
Net position	**20,659**	**-57**	**177**	**20,779**

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In thousands of euros

31.12.2014	EUR	USD	Other	Total
Assets				
Cash on hand	1,283	1,238	55	2,576
Balances with central banks	30,475	0	0	30,475
Loans and advances to credit institutions	3,268	25,241	1,327	29,836
Fair value of financial assets at fair value through profit or loss	8,497	4,687	0	13,184
Loans and advances to customers	149,839	866	0	150,705
Held-to-maturity financial assets	3,921	0	0	3,921
Available-for-sale financial assets	18	0	0	18
Other financial assets	427	390	26	843
Total financial assets	**197,728**	**32,422**	**1,408**	**231,558**
Other assets	24,427	0	0	24,427
Total assets	**222,155**	**32,422**	**1,408**	**255,985**
Liabilities				
Due to central banks	5,073	0	0	5,073
Due to credit institutions	268	88	0	356
Due to customers	174,308	32,212	1,259	207,779
Subordinated debt	13,390	0	0	13,390
Other financial liabilities	1,281	95	87	1,463
Total financial liabilities	**194,320**	**32,395**	**1,346**	**228,061**
Other liabilities	798	0	0	798
Off-balance-sheet liabilities				
Undrawn lines of credit and overdraft facilities	4,138	0	0	4,138
Financial guarantees	1,041	0	0	1,041
Total on-balance-sheet and off-balance-sheet liabilities	200,297	0	0	234,038
Net position	**21,858**	**27**	**62**	**21,947**

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

In thousands of euros

31.12.2015	Up to 3 months	3-12 months	1-5 years	Over 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 at fair value through profit or loss	0	2,436	3,732	0	6,078
Loans and advances to customers	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**

In thousands of euros

31.12.2014	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest-earning assets					
Balances with central banks	30,475	0	0	0	30,475
Loans and advances to credit institutions	29,836	0	0	0	29,836
Financial assets at fair value through profit or loss	13,184	0	0	0	13,184
Loans and advances to customers	86,896	69,882	0	388	157,166
Held-to-maturity financial assets	3,921	0	0	0	3,921
Total interest-earning assets	**164,312**	**69,882**	**0**	**388**	**234,582**
Interest-bearing liabilities					
Due to central banks	5,000	0	0	0	5,000
Due to credit institutions	356	0	0	0	356
Due to customers	187,747	10,389	8,574	6	206,716
Subordinated debt	0	0	9,000	4,000	13,000
Total interest-bearing liabilities	**193,103**	**10,389**	**17,574**	**4,006**	**225,072**
Exposure to interest rate risk duration gap	**-28,791**	**59,493**	**-17,574**	**-3,618**	**9,510**

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

Statement of financial position of AS Eesti Krediidipank

In thousands of euros

Assets	31.12.2015	31.12.2014
Cash on hand	2,342	2,576
Balances with central banks	65,126	30,475
Loans and advances to credit institutions	57,701	29,825
Financial assets held for trading	28	0
Fair value of financial assets at fair value through profit or loss	6,078	13,184
Loans and advances to customers	166,534	168,706
Held-to-maturity financial assets	503	3,921
Available-for-sale financial assets	13	18
Other financial assets	1,748	792
Financial investments in associates and subsidiaries	2,850	2,850
Property, plant and equipment	750	882
Intangible assets	512	552
Investment property	213	213
Other assets	237	232
Total assets	**304,635**	**254,226**

Liabilities		
Due to central banks	0	5,073
Fair value of financial liabilities at fair value through profit or loss	276	0
Due to credit institutions	115	356
Due to customers	267,936	208,144
Other financial liabilities	3,663	870
Other liabilities	358	665
Subordinated debt	4,039	13,390
Total liabilities	**276,387**	**228,498**

Shareholders' equity		
Share capital	25,001	25,001
Share premium	174	174
Reserves	1,844	1,813
Retained earnings (accumulated loss)	1,229	-1,260
Total shareholders' equity	**28,248**	**25,728**
Total liabilities and shareholders' equity	**304,635**	**254,226**

Income statement and statement of comprehensive income of AS Eesti Krediidipank

In thousands of euros

	2015	2014
Interest income	7,583	8,564
Interest expense	-2,367	-2,814
Net interest income	**5,216**	**5,750**
Fee and commission income	3,055	2,466
Fee and commission expense	-706	-601
Net fee and commission income	**2,349**	**1,865**
Change in fair value of financial assets designated at fair value through profit or loss	-353	-559
Payroll expense	-4,386	-4,361
General and administrative expenses	-2,250	-2,527
Other income	1,756	422
Other expenses	-20	-26
Depreciation	-334	-381
Loan losses	542	429
Profit before income tax	**2,520**	**612**
Income tax	**0**	**0**
Net profit	**2,520**	**612**
Other comprehensive income/loss		
incl. Unrealised foreign currency gains and losses arising from the translation of foreign business entities' financial information	0	11
Comprehensive income/loss for the financial year	**2,520**	**623**

Statement of changes in equity of AS Eesti Krediidipank

In thousands of euros

	Share capital	Share premium	Statutory reserve capital	Unrealised foreign currency gains and losses	Retained earnings	Total shareholders' equity
Balance as of 31.12.2013	**25,001**	**174**	**1,791**	**-11**	**-1,850**	**25,105**
Net profit for the financial year	0	0	0	0	612	**612**
Other comprehensive income	0	0	0	11	0	**11**
Total comprehensive income for the period	0	0	0	11	612	**623**
Changes in reserves	0	0	22	0	-22	**0**
Balance as of 31.12.2014	**25,001**	**174**	**1,813**	**0**	**-1,260**	**25,728**
Net profit for the financial year	0	0	0	0	2,520	**2,520**
Total comprehensive income for the period	0	0	0	0	2,520	**2,520**
Changes in reserves	0	0	31	0	-31	0
Balance as of 31.12.2015	**25,001**	**174**	**1,844**	**0**	**1,229**	**28,248**

Adjusted unconsolidated equity	Share capital	Share premium	Statutory reserve capital	Retained earnings	**Total**
Book value of holding under control or significant influence					**-2,850**
Value of holdings under control or significant influence, calculated by equity method	2,457	495	243	2,397	**5,592**
incl. non-controlling interest	12	86	0	0	**98**
Adjusted unconsolidated equity as at 31.12.2015					**30,990**

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Statement of cash flows of AS Eesti Krediidipank

In thousands of euros

Cash flows from operating activities (indirect method)	31.12.2014	31.12.2014
Net profit	2,520	612
Adjustments		
Impairment of loans and advances	-542	-428
Depreciation and impairment of non-current assets	344	393
Change in fair value of financial assets designated at fair value through profit or loss	372	559
Net gain on sale of non-current assets and investment property	-6	-27
Effect of changes in currency exchange rates	-1	15
Net interest income	-5,216	-5,753
Interest received	6,245	8,594
Interest paid	-2,614	-2,238
Change in receivables from customers of credit institutions and leasing companies	3,300	-2,731
Change in fair value of financial assets designated at fair value through profit or loss	7,307	15,423
Change in long-term receivables from credit institutions	-80	15
Change in loans and advances to credit institutions	-241	-23
Change in deposits	59,615	-5,189
Change in other assets and liabilities related to operating activities	970	425
Total cash flows from operating activities	**71,973**	**9,647**

Cash flows from investment activities (direct method)		
Redemption and sale of held-to-maturity financial assets	4,412	1,696
Proceeds from sale of non-current assets	48	70
Purchase of non-current assets	-220	-742
Total cash flows from investing activities	**4,240**	**1,024**

Cash flows from financing activities (direct method)		
Loans repaid to credit institutions	-14,000	0
Total cash flows from financing activities	**-14,000**	**0**
Total cash flows	**62,213**	**10,671**

Change in cash and cash equivalents	62,213	10,671
Cash and cash equivalents at beginning of the year	62,456	51,785
Cash and cash equivalents at end of the year	124,669	62,456

The balance of cash and cash equivalents is comprised of:	124,669	62,456
Cash on hand	2,342	2,576
Demand deposits in central bank	65,126	30,475
On demand and short-term deposits in credit institutions	57,201	29,405

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Shares of subsidiaries and associates

In thousand of euros

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

At the balance sheet date, the Bank and the Group do not have investments to non-consolidated subsidiaries. No acquisitions or disposals occured in 2015.

Note 41. 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.

Appended documents
2015

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Eesti Krediidipank

We have audited the accompanying consolidated financial statements of AS Eesti Krediidipank and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2015 and the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AS Eesti Krediidipank and its subsidiaries as of 31 December 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

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

21 March 2016

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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 2015 at 21.03.2016.

The profit of AS Eesti Krediidipank for the financial year 2015 was 2,519,598.42 euros. The profit of AS Eesti Krediidipank Group for the financial year 2015 was 1,780,005.25 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:

1. alternative
Allocate the financial year 2015 profit of AS Eesti Krediidipank in total of 2,519,598.42 euros as follows:
1. allocate 125,979.92 euros to the balance sheet statutory reserve capital line item "Reserves";
2. allocate 2,393,618.50 euros to the balance sheet line item "Retained earnings“

2. alternative
Allocate the financial year 2015 profit of AS Eesti Krediidipank in total of 2,519,598.42 euros as follows:

1. allocate 125,979.92 euros to the balance sheet statutory reserve capital line item "Reserves";
2. to pay dividends 0.01 euros for one share, in total 391,176 euros;
3. allocate 2,002,442.50 euros to the balance sheet line item "Retained earnings“