Versobank AS

ANNUAL REPORT 2014

(TRANSLATION FROM ORIGINAL IN ESTONIAN)

Beginning of reporting year	01.01.2014
End of reporting year	31.12.2014

Registry code	10586461
Address	Pärnu mnt 12, 10148 Tallinn, Estonia
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TABLE OF CONTENTS

INTRODUCTION

General Data of Credit Institution

Business name	Versobank AS
Location and address	Pärnu mnt 12, 10148 Tallinn, Estonia
Registered in state	Republic of Estonia
Registration date	14.10.1999
Registry code	10586461 (Estonian Commercial Register)
Legal Entity Identifier	549300S6Q5X9GKYK5R57 (LEI-code)
VAT registration number	EE100684313
Phone	(+372) 6 802 500
Fax	(+372) 6 802 501
S.W.I.F.T.'s BIC code	SBMBEE22
E-mail	info@versobank.com
Internet home page	http://www.versobank.com

Auditor

Auditor's business name	KPMG Baltics OÜ
Auditor's registry code	10096082
Auditor's location and address	Narva mnt 5, 10117 Tallinn, Estonia
Name of partner in charge	Taivo Epner

Report Data

Balance sheet date of report	31.12.2014
Report period	01.01.2014 – 31.12.2014
Report currency and units	Euro (EUR), in thousands of euros

Classification of Economic Activities (EMTAK 2008): 64191 Credit institutions (banks)

MANAGEMENT REPORT

Description of the Credit Institution and its Management Bodies

Versobank AS is a credit institution, established in 1999, registered and operating in Estonia. Versobank AS (hereinafter: the Bank) holds the activity license issued by the Bank of Estonia, which allows the Bank to carry out all banking operations. Bank has an account manager status of the Estonian Central Depository for Securities, is a member of S.W.I.F.T. and a principal member of Visa Europe. Bank has joined SEPA (Single Euro Payments Area) systems as an indirect member and a cross-border clearing system TARGET2-Eesti. Versobank AS is a member of the Estonian Banking Association from March 2014.

The owners of Versobank AS, as of the reporting date 31.12.2014 and the date of the preparation of the report, are:
85.2622% of shares are owned by UKRSELHOSPROM PCF LLC (location Dnepropetrovsk, Ukraine);
9.8327% of shares are owned by Mr. Nikolaos Sarros (place of residence Athens, Greece);
0.9589% of shares are owned by Sigma Real Estate OÜ (location Tallinn, Estonia), a private limited company under control of Mr. Nikolaos Sarros;
0,9589% of shares are owned by SIA Verso Finance Group (location Riga, Latvia);
1.4824% is owned by Frösundaviksparken AB (location Stockholm, Sweden);
0.7563% of shares are owned by Mirage Investments OÜ (location Tallinn, Estonia) and
0.7487% is owned by Mr. Emmanouil Karavelakis (place of residence Athens, Greece).

The increase of the share capital of the Bank by 4 million euros, decided on 04.12.2013, failed due to circumstances uncontrolable by the Bank and its shareholders. The majority shareholder UKRSELHOSPROM PCF LLC subscribed the issue in full on 05.12.2013. The payment for the new shares did not arrive in time (02.06.2014), as the National Bank of Ukraine delayed with the issuing of related license. Bank issued subordinated bonds instead, without maturity, in nominal value of 2 million euros on 2 July 2014, which are accountable as Tier 1 own funds. On the 20.10.2014 the repayment term of the 4 million euros subordinated loan was extended by 5 years, expiring on 30.10.2024.

The Supervisory Board of the Bank had five members as of the reporting date and the date of the preparation of the report. Mr. Oleksandr Rechytskyi is the Chairman of the Supervisory Board, members are Mr. Vadym Iermolaiev, Mr. Stanislav Vilenskyy, Mr. Härmo Värk and Mr. Vladimirs Fogels.

The Management Board of the Bank had three members as of the reporting date and the date of the preparation of the report. Mr. Riho Rasmann is the Chairman of the Management Board and the members of the Management Board are Mr. Mart Veskimägi and Mrs. Marija Sutirina. The Chairman of the Management Board and the members of the Management Board do not own shares or hold options to acquire shares of the Bank.

The Bank has no associate companies in which the participation is held in excess of 20%, but the Bank owns 16% of the business development company European Business Development AS.

Description of Economic Environment

Economic environment on 2014 was characterized by one hand with the eurozone's ongoing battle with deflationary pressures that resulted for the first time in history of negative interest rates and bond buying program announcement by the European Central Bank and on the other hand improvement in employment in the United States which has led to expectations of soon rising interest rates there. As a result interest rates of euro and dollar were moving in different directions throughout the year with consequent weakening of the euro and the strengthening of the dollar.

From the bank's target markets Ukraine was most affected by the military operations in his Eastern region and the resulting economic downturn and paralysation of the financial system which led to the sharp decline of the hryvnia exchange rate, stiffened capital controls and rising interest rates. Although the country is moving towards the reforms with the support of IMF and European Union there are still big challenges ahead which also can include the need to restructure the debts of the state. All this is complicated by the ongoing war, danger to country's territorial integrity and resulting burden on the economy.

Russia's economy suffered particularly by the imposed sanctions as a result of annexation of Crimea and military conflict in Ukraine as well by the oil price falling more than 50%. As a result the so far mostly successful economy collapsed with massive capital outflows from the country. Despite Russia's official rhetoric of denial in involvement in the events in Ukraine the cost of current political decisions has proven to be overly onerous and essentially cutting off access to the western capital markets for Russia and its enterprises. The result is a recession and downgrade of the credit ratings below investment grade level. Any further negative scenarios may involve introduction of capital controls and cutting Russian banks off from the international payment systems, which would lead Russia to complete isolation.

The Estonian economy, which has steadfastly integrated to eurozone's economic and monetary system, was relatively little affected by the Russian crisis and the sanctions on 2014 and the real economy was rather supported by the historically low interest rate of euro and the decline in energy prices. The country's small and open economy was quickly able to start substituting Russian target market in most of the industries and to maintain the competitiveness in the more complex economic conditions than previously. Rising labor income is stimulating internal consumption and retail trade. Like in rest of Europe the inflation in Estonia turned to decline in last year, and average prices decreased by -0.1%. Most of the decrease was due to the depreciation of the energy as well by the decline in the price of the imported goods. Loan and leasing portfolio to Estonian businesses and households grew by 2.7% in 2014. The average interest rates at the end of the year for housing loans were 2.2% and for long-term credits to corporates 2.7%. Share of long-term indebtedness from the loan portfolio was 1.7%. Unlike loans the deposits continued accelerated growth in 2014. Corporate and household deposits increased by 7.9%. Non-residents' deposits increased by 11%.

Major Economic Events

Year 2014 was the most successful year in Bank's history so far. Most of the targets set exceeded by a number of customers and operational volumes, the highest early profit reached due to record increase in fee and foreign exchange income. Number of customers of the Bank increased by 13.6% during the last year (16.5% in the previous period). The growth of deposits was also very quick, 79.7% during the last year. Client deposits with the Bank totalled 228.0 million euros as of 31.12.2014 (31.12.2013: 126.9 million euros). Foreign currency balances on Current accounts of non-resident business customers have grown the most. Total balance sheet of the Bank has increased 79.4% during the last year, reaching 255.9 million euros as of 31.12.2014 (31.12.2013: 142.6 million euros).

Gross loan portfolio (excluding deposits with financial institutions) amounted to 23.1 million euros at the end of the reporting period (31.12.2013: 27.8 million euros), decreased by 17% during the last year (10.7% increase in the previous year) and consistuted 9% of total assets (31.12.2013: 19.5%). The Bank consistently had significantly more deposits than loans, deposits to loan ratio stood at a level of 9.86 times as of 31.12.2014 (31.12.2013: 4.57 times). The quality of the loan portfolio has improved continually, which is reflected in decrease of loan provisions.

Net profit of year 2014 comprised 2.25 million euros (net profit of year 2013 was 1.0 million euros). Net interest income of the reporting period was 0.945 million euros (2013: 1.1 million euros). Net fees and commissions income totalled 3.16 million euros (2013: 1.7 million euros), mainly due to the increase in foreign payment volumes. 2.34 million euros were earned on foreign exchange transactions (2013: 0.6 million euros). Total operating income from banking activities (excluding loan provisions) comprised 5.8 million euros in year 2014 compared with 3.8 million euros in 2013. Administrative expenses of year 2014 and 2013 were 3.6 million euros and 2.8 million euros correspondingly.

Bank's equity totalled 12.6 million euros as of 31.12.2014 and the regulatory capital adequacy stood at a level of 21.31% (31.12.2013: 9.9 million euros and 28.26% respectively).

Bank has representative offices in Dnepropetrovsk, Ukraine and in Riga, Latvia. The Bank is planning to continue expansion to Ukraine and other CIS countries. Bank has opened several new correspondent accounts and added new foreign currencies to the list of accepted currencies. In order to improve customer service and liquidity management level the Bank continues to pay attention to widening correspondent banks network. Bank is a member of Visa Europe and issuing VISA Classic, Gold, Platinum and Business banking cards from the 3rd quarter of this year.

Public Information on Remuneration

Remuneration of the work of the members of the Supervisory Board is decided by the general meeting of shareholders of the Bank. The work of two members of the Supervisory Board was compensated in 2014 (in the year 2013: 3). The total of 63 thousand euros of membership fees was calculated in 2014 (the total of 97 thousand euros in 2013).

No membership fees have been paid to the members of the Management Board.

The Supervisory Board of the Bank formed a Remuneration Committee with its decision of 17 June 2011. The Remuneration Committee has four members and consists mainly of Supervisory Board members, the rules and regulations of the committee are under preparation. The current remuneration has been vased on the yearly budget of the Bank, approved by the Supervisory Board, the salaries of the members of the Management Board have been approved approved by the Supervisory Board of the Bank, the salaries of employees by the chairman of the Management Board. Bank implemented the bonus system provides additional fees set targets. Remuneration does not depend on risk management. Bank does not pay remuneration in shares, stock options or other similar rights.

The calculated salaries of the members of the Management Board totalled 247 thousand euros in 2014, of employees 1 380 thousand euros. The calculated salaries of the members of the Management Board totalled 249 thousand euros in 2013, of employees 958 thousand euros. No performance fees nor resignation compensations (redundancy payments at amounts higher than mandatory by law) have been paid in 2014 and 2013, no payments have been made in connection with employment commencement either. There are no accrued unpaid performance fees. The average number of employees was 67 in year 2014 (48 year earlier), number of employees at the end of 2014 was 72 (65 at the end of 2013). Additional distribution of the components of personnel expenses have been disclosed in Note 8 of the financial statements.

Corporate Governance Report

"Corporate Governance Recommendations" guideline issued by the Estonian Financial Supervision Authority is in force since 01.01.2006. Whereas the shares of Versobank AS are not traded in the regulated market of Estonia and the Bank has no other issued securities listed in the stock exchange as of the reporting date, the Corporate Governance Recommendations are not mandatory for the Bank. Information is disclosed as required by legislation, international financial reporting standards (IFRS EU) and good banking practices.

Ratios

		2014	2013
Return on equity	ROE	19.97%	12.01%
Equity multiplier	EM	17.71	11.76
Profit margin	PM	28.00%	20.45%
Asset utilisation	AU	4.03%	4.99%
Return on assets	ROA	1.13%	1.02%
Net interest margin	NIM	0.48%	1.11%
Basic earnings per share	Basic EPS	0.10	0.05
Diluted earnings per share	Diluted EPS	0.10	0.05
Spread	SPREAD	0.46%	1.07%
Yield on interest-earning assets	YIEA	0.80%	1.71%
Cost of interest-bearing liabilities	COL	0.34%	0.64%

Explanations to ratios

ROE	Net profit (loss) / Average equity * 100
Average equity	(Equity of current end year as at 31.12.2014 + Equity of previous year end as at 31.12.2013)/2
EM	Average assets / Average equity
Average assets	(Assets of current year end as at 31.12.2014 + Assets of previous year end as at 31.12.2013)/2
PM	Net profit (loss) / Total income * 100

AU	Total income / Average assets * 100
ROA	Net profit (loss) / Average assets * 100
NIM	Net interest income / Average interest earning assets * 100
Basic EPS	Net profit (loss) / Average number of shares
Diluted EPS	Net profit (loss) / Average number of shares (considering all convertible securities)
SPREAD	Yield on interest earning assets - Cost of interest bearing liabilities = = YIEA - COL
YIEA	Interest income / Average interest earning assets * 100
COL	Interest expense / Average interest bearing liabilities * 100

Total income:
Interest income
Fee and commission income
Income from foreign exchange
Income from dividends
Income from financial investments
Other income

Interest earning assets:
Balances with central bank
Due from other credit institutions
Due from customers
(all without accrued interest)

Interest bearing liabilities:
Due to credit institutions
Due to customers
Subordinated debt
Borrowed funds from government and foreign aid
(all without accrued interest)

Ratings

Versobank AS has not been rated by international rating agencies.

Legal Disputes

Courts are proceeding with the actions of the Bank actions against different persons, who have not fulfilled their obligations, and where the mutually satisfying agreements have not been reached in negotiations. Bankruptcy proceedings are also taking place against obligors as well as sureties and execution proceedings are taking place with regard to pledged collateral assets and private person debtors.

Total of five court actions have been filed against the Bank as of the date of report and date of report compilation.

There are no cases pending in courts or arbitration bodies that might cause significant proprietary damage to the Bank.

Financial Statements 2014

Statement of Comprehensive Income

	Note	EUR ths. 2014	EUR ths. 2013
Interest income	1	1,570	1,707
Interest expense	2	-626	-598
Net interest income		**944**	**1,109**
Fee and commission income	3	3,995	2,104
Fee and commission expense	4	-837	-390
Net fee and commission income		**3,158**	**1,714**
Net trading gains	5	**2,375**	**1,230**
Other operating income	6	**67**	**69**
Other operating expenses	7	**-698**	**-294**
Total operating income		**5,846**	**3,828**
Administrative expenses		**-3,624**	**-2,784**
Personnel expense	8	-1,797	-1,390
Payroll related taxes	9	-565	-469
Other administrative expenses	10	-1,262	-925
Depreciation and amortisation of tangible and intangible assets	11	**-85**	**-68**
Provisions (+/-)		**243**	**-85**
Operating profit/loss before allowances		**2,380**	**891**
Impairment loss on assets	12	**-134**	**155**
NET PROFIT FOR THE PERIOD		**2,246**	**1,046**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss			
Net change in revaluation reserve of available-for-sales financial assets		-150	-481
COMPREHENSIVE PROFIT FOR THE PERIOD		**2,096**	**565**
Basic earnings/loss per share	37	0.10 EUR	0.05 EUR
Diluted earnings/loss per share	37	0.10 EUR	0.05 EUR

The accounting policies on pp. 14-24 and notes to the financial statements on pp. 25-65 form an integral part of the Financial Statements.

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Statement of Financial Position

	Note	EUR ths. 31.12.2014	EUR ths. 31.12.2013
ASSETS			
Cash	13	**204**	**110**
Loans and advances		**230,781**	**131,172**
Balances with central bank	14	13,441	48,228
Due from other credit institutions	15	193,951	57,622
Due from customers	16	23,389	25,322
Financial assets held for trading	17	**149**	**16**
Available-for-sale financial assets	18	**21,939**	**7,282**
Property and equipment	19	**164**	**180**
Investment properties	20	**1,936**	**3,353**
Intangible assets	21	**170**	**99**
Other assets	22	**591**	**431**
TOTAL ASSETS		**255,934**	**142,643**
LIABILITIES			
Financial liabilities held for trading	17	**84**	**10**
Financial liabilities measured at amortised cost		**235,870**	**131,808**
Due to credit institutions	23	2,980	1,559
Due to customers	23	228,037	126,930
Subordinated debts evidenced by certificates	24	2,000	0
Subordinated debts	25	2,513	3,067
Borrowed funds from government and foreign aid	26	340	252
Provisions	27	**72**	**315**
Tax liabilities	28	**191**	**212**
Other liabilities	29	**7,142**	**373**
TOTAL LIABILITIES		**243,359**	**132,718**
SHAREHOLDERS' EQUITY			
Share capital	30	14,089	14,089
Other equity instruments	25	1,487	933
Statutory reserve capital		88	36
Fair value reserve of available-for-sale financial assets		-548	-398
Accumulated deficit		-2,541	-4,735
TOTAL SHAREHOLDERS' EQUITY		**12,575**	**9,925**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**255,934**	**142,643**

The accounting policies on pp. 14-24 and notes to the financial statements on pp. 25-65 form an integral part of the Financial Statements.

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Statement of Cash Flows

	Note	EUR ths. 2014	EUR ths. 2013
Cash flows from operating activities		**113,429**	**74,310**
Interests received		1,888	2,008
Interests paid		-539	-730
Fee and commission received		3,967	1,936
Fee and commission paid		-837	-390
Administrative expenses		-3,675	-2,751
Trading income received	5	2,375	1,230
Other operating income		67	69
Other operating expenses		-698	-294
Change in due from other credit institutions		-636	-553
Change in due from customers of credit institution		1,546	-4,895
Change in due to credit institutions		1,421	1,450
Change in due to customers		101,020	76,307
Change in assets and liabilities connected with other operationg activities		7,530	923
Cash flows from investing activities		**-14,517**	**1,557**
Purchase of property and equipment	19	-56	-109
Purchase of intangible assets	21	-84	-14
Purchase of investment properties	20	0	-78
Investment properties sold	20	1,061	302
Debt securities purchased	18	-18,538	-5,169
Debt securities sold	18	3,100	6,625
Cash flows from financing activities		**2,088**	**1,886**
Increase of share capital	30	0	2,000
Subordinated debt evidenced by certificates received		2,000	0
Other borrowings received	26	201	152
Borrowings repaid	26	-113	-266
Total cash flows		**101,000**	**77,753**
Cash and cash equivalents at the beginning of year		**105,021**	**27,268**
Net change in cash and cash equivalents		**101,000**	**77,753**
Cash and cash equivalents at the end of the year *		**206,021**	**105,021**

*** Cash and cash equivalents at the end of the year comprise:**

	Note	EUR ths. 2014	EUR ths. 2013
Cash	13	204	110
Balances with the central bank without mandatory reserve	14	11,866	47,289
Deposits with credit institutions with original maturity of less than 3 months	15	193,951	57,622
Total		**206,021**	**105,021**

The accounting policies on pp. 14-24 and notes to the financial statements on pp. 25-65 form an integral part of the Financial Statements.

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Statement of Changes in Equity

	Note	Share capital	Other equity instruments	Other reservs	Fair value reserv of available-for-sale financial assets	Accumulated deficit	Total equity
Year beginning 01.01.2013		**12 089**	**1 069**	**36**	**83**	**-5 781**	**7 496**
Share capital		2 000	0	0	0	0	2 000
Equity component of subordinated debt	26	0	-136	0	0	0	-136
Reserve capital		0	0	0	0	0	0
Revaluation	19	0	0	0	-481	0	-481
Net profit		0	0	0	0	1 046	1 046
Final balance 31.12.2013		**14 089**	**933**	**36**	**-398**	**-4 735**	**9 925**

	Note	Share capital	Other equity instruments	Other reservs	Fair value reserv of available-for-sale financial assets	Accumulated deficit	Total equity
Year beginning 01.01.2014		**14 089**	**933**	**36**	**-398**	**-4 735**	**9 925**
Equity component of subordinated debt	26	0	554	0	0	0	554
Reserve capital		0	0	52	0	-52	0
Revaluation	19	0	0	0	-150	0	-150
Net profit		0	0	0	0	2 246	2 246
Final balance 31.12.2014		**14 089**	**1 487**	**88**	**-548**	**-2 541**	**12 575**

Additional information in Note 30.

The accounting policies on pp. 14-24 and notes to the financial statements on pp. 25-65 form an integral part of the Financial Statements.

Accounting Policies

Accounting Policies

Versobank AS (hereinafter also "the Bank") is a credit institution registered in Estonia, address of registered office: Pärnu mnt 12, Tallinn 10148, Estonia. UKRSELHOSPROM PCF LLC is the parent company of the Bank, Mr Vadym Iermolaiev and Mr Stanislav Vilens'kyy being the beneficial owners of the group.

The Management Board of the Bank has approved the annual report, which includes financial statements, on 23 March 2015. The shareholders have a right not to approve the annual report prepared and presented by the management board, and require compilation of a new report.

These financial statements of the Bank have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (hereinafter IFRS EU).

Basis of Preparation

The functional and presentation currency of the Bank is Euro (EUR). Numeric data in the financial statements is presented in thousands of monetary units.

The annual report 2014 of the Bank is unconsolidated, because the bank does not have subsidiaries.

The financial statements are prepared on the historical cost basis, except for cases described in some of the following accounting policies.

Significant Judgements and Estimates by the Management

The preparation of financial statements in conformity with IFRSs as adopted by the European Union requires the management to make certain judgements and estimates that affect the amounts reported in the financial statements. Judgements and estimates by the management are also required in applying the accounting principles and measurement bases.

The judgements and estimates made by the management are reviewed on an ongoing basis, and they are based on historical experience and other factors including assumptions of likely future events which are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolio to assess potential impairment of asset value. This evidence may include observable data indicating that there has been an adverse change in the payment ability of borrower, or state or local economic conditions that correlate with the borrower's default. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

Impairment of available-for-sale debt investments. The Bank determines that available-for-sale debt investments are impaired when there has been a change in expected cash flows to be collected from the instrument. The determination of whether the expected cash flows have changes requires judgement. In making this judgement, the Bank evaluates among other factors, the changes in solvency position of the issuer, possible changes in credit behavior and any other relevant information available to the management. In addition, impairment may be appropriate when there is evidence of changes in technology or a deterioration in the financial health of the investment object, industry and sector performance, or operational or financing cash flows.

Impairment of real-estate investments. The Bank regularily reviews its real estate investments one by one to assess potential impairment of assets. The determination of whether the expected cash flows have changes requires judgement. Bank utilises the services of authorised real estate valuators.

Assets and Liabilities Denominated in Foreign Currencies

Foreign currency transactions are recorded in the official currency of the Republic of Estonia based on the foreign currency exchange rates of the European Central Bank valid on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated based on the foreign exchange rates of the European Central Bank valid on the balance sheet date. Changes in exchange rates are recognised in the statement of comprehensive income under "Net trading gains". Translation differences related to changes in the amortised cost are recognised in the statement of comprehensive income, and other changes in the carrying amount are recognised in equity under revaluation reserve. Translation differences of non-monetary items (e.g. shares in fair value through the statement of comprehensive income) are recognised as a part of fair value income/expense.

Offsetting

Financial assets and liabilities are offset only if a relevant legal right exists and there is intent to settle the amounts on a net basis or to realise the asset and settle the liability simultaneously.

Financial Instruments

Cash, short-term financial investments, amounts due from credit institutions and customers, other receivables and accruals are classified as financial assets. Financial liabilities include payables to customers, debts evidenced by certificates, accrued expenses and other liabilities. Financial assets and liabilities are initially recognised at their fair value. Financial liabilities are stated in the balance sheet at amortised cost, using the effective interest rate method, incl. for transaction fees.

A financial asset is removed from the balance sheet when the bank loses the right to the cash flows arising from the financial assets, or passes the cash flows arising from the asset and substantially all the risks and rewards relating to the financial asset, to a third party. A financial liability is removed from the balance sheet, when it is settled or discharged or it expires.

Purchases and sales of financial assets are consistently recognised on the settlement date, i.e. on the date on which the Bank acquires or loses ownership of the financial asset.

Financial assets at fair value through profit or loss

Fair value is the price that would be received upon selling an asset on the measurement date or paid upon transfer of a liability in a transaction between market participants under normal conditions, a so-called exit price. Bank uses as much market information as possible in its fair value valuation of assets and liabilities. If no information is available on market prices, the generally accepted valuation models like discounting of cash flows are used. Different methods are used in fair value valuation of financial instruments depending on the rate of observable market data usage. Classification is based on Levels (1, 2, 3).

Levels used in hierarchy:

Level 1 – the price quoted on active market;

Level 2 – price based on market price indication of similar transactions, rates of interest curves;

Level 3 – other valuation methods (e.g. method of discounted cash flows).

An instrument is classified as a financial asset at fair value through changes in profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets at fair value through changes in profit or loss are reported in the balance sheet at fair value, based on quoted market prices and the official foreign exchange rates of the European Central Bank. The shares and debt securities not actively traded on an active market are valued at fair value according to the last quotation from an acknowledged provider with a presumption that there have been regular quotations available for the shares/debt securities and the price volatility has been in normal range for similar instruments. If the price is not available from quotations or there is no sufficient regularity of the quotations or the volatility of the instrument price quotations is outside the normal range, the shares/debt securities are revaluated into fair value based on all available information regarding the issuer to benchmark the financial instrument price against similar instruments available on active market to determine the fair value. For held for trading debt securities, for which the quoted prices from an active market are not available, cash flows are discounted at market interest rates, issuer's risk added. In any case, if the market for a financial asset is not active, the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, and other valuation techniques commonly used by market participants.

Any gain or loss arising from changes in fair value is recognised in the statement of comprehensive income under "Net trading gains".

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 Bank provides money, goods or services directly to a debtor/customer with no intention of trading the resulting receivable. Loans and receivables are recognised in the balance sheet 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. Loans and receivables are measured at amortised cost using the effective interest method.

Cash and Cash Equivalents

Cash on hand is recognised as cash in the balance sheet. Cash and cash equivalents in the statement of cash flows include cash, demand and overnight deposits with other credit

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institutions and the surplus of the mandatory reserve balance with the Bank of Estonia. Cash flows are reported in the statement of cash flows using the direct method. Cash and cash equivalents are stated in the balance sheet at amortised cost.

Mandatory Reserve in the Bank of Estonia

Mandatory reserve rate of 2% of deposits and borrowings with maturities up to two years, less allowed deductions, is applicable from 01.01.2011, fulfilled as period's average established by the European Central Bank by depositing the corresponding amount in euros to the TARGET2 account with the Bank of Estonia.

Held-to-maturity investments

If the Bank has the positive intention and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, deducted by the impairment.

Available-for-sale financial assets

The Bank's investments in equity securities and certain debt securities established by a decision of the Management Board are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and gains and losses on changes of fair value (other than impairment losses, interest income and foreign exchange gains and losses) are recognised directly in other comprehensive income/loss. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit when the Bank's right to receive payment is established and it is probable that the dividends will be collected. Fair value is determined by reference to the market quotations and indicative bid prices of big banks. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the statement of comprehensive income.

Derivative Instruments

Derivative instruments (e.g. forwards and swaps) are recognised on the trade date at fair value. After initial recognition, derivative instruments are measured at fair value, based on their quoted market prices and the official exchange rates of the European Central Bank. The valuation is recognised in the balance sheet under respective line "Financial assets held for trading" or "Financial liabilities held for trading" depending whether the fair value of the respective derivative is positive or negative and the result of the revaluation is recognised in the statement of comprehensive income under "Net trading gains".

Impairment of Financial Assets

Valuation and Impairment of Loans and Advances

Loans to customers are recognised in the balance sheet under "Due from customers" and funds held at other banks are recognised under "Due from other credit institutions". Bank regulations require monthly evaluation of the loan portfolio. Receivables arising from loan agreements are recognised in the balance sheet at amortised cost. Cost is adjusted for repayments of the principal and, where necessary, any impairment losses. Amortised cost is calculated by discounting the estimated future cash flows of the instrument using the initial effective interest rate. If there is any indication of impairment, a receivable is written

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down to the present value of the estimated future receipts, discounted at initial effective interest rate.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Bank considers in determining whether a financial asset is impaired are its overdue status and reliability of related collateral, if any and the expected cash flows.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, the impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset.

If the value of an impaired receivable rises in subsequent periods, a previously recognised impairment loss is reversed to an amount equal to the present value of the item's estimated future cash flows or, if lower, the carrying amount of the receivable which would have been determined if no impairment loss had been recognised.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in the statement of comprehensive income.

Securities purchase and resale transactions (reverse repos) are recognised and assessed for impairment similarly to other loans.

Impairment of available-for-sale financial assets

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity instrument below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in the statement of comprehensive income – is removed from equity and recognised in the statement of comprehensive income. Impairment gains on equity instruments are not reversed through statement of comprehensive income. Debt instrument is considered to be impaired when there is a change in expected cash flows to be collected from the instrument. If, in a subsequent period, 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 the statement of comprehensive income, the impairment loss is reversed through current period's statement of comprehensive income/loss.

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Impairment of held-to-maturity investments

Held-to-maturity investments are recognised in the balance sheet at amortised cost. Cost is adjusted for repayments of the principal and, where necessary, any impairment losses. Amortised cost is calculated by discounting the estimated future cash flows of the instrument using the initial effective interest rate. If there is any indication of impairment, a receivable is written down to the present value of the estimated future receipts, discounted at initial effective interest rate. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset.

Financial liabilities

Financial liabilities include customer deposits, liabilities to other banks and other liabilities. Financial liabilities to customers are recognised in the balance sheet on their settlement date (value date) at fair value deducted by transaction costs and are subsequently measured at amortised cost using effective interest rate method and recorded under line "Financial liabilities measured at amortised cost". Interest expenses are recorded under "Interest expense".

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 statement of comprehensive income together with the interest expenses. The respective interest expenses are recorded under "Interest expense".

Unutilised borrowing limit is recognised as contingent asset.

Property and equipment

Significant assets which are used in the business activities and the expected useful life of which extends over one year are recognised as property and equipment. New items of property and equipment are initially recognised at cost and are depreciated from the month of implementation until they are depreciated to the residual value. Property and equipment are measured in the balance sheet at cost less any accumulated depreciation and any impairment losses. The straight-line method is used for depreciating property and equipment and the annual depreciation rates are as follows:

Computers, communication equipment	30%
Office equipment	25%
Office furniture	20%
Telephones	40%
Capitalised improvements to leased office space	20%
Other tangible assets	20%

The subsequent repairs of an item of property and equipment shall be recognised as an asset if these are in accordance with the definition of fixed assets and if it is probable that economic benefits associated with the item will flow to the entity. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

The appropriateness of depreciation/amortisation rates, methods and residual values are assessed at each reporting date.

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Investment Properties

Investment properties include assets (land, buildings, incl. capitalised expenses), which are kept with an intention to earn rent income or gain through the increase of market value (capital gain) and which the Bank does not use for its own business, also assets which the Bank has purchased during the solution process of non-performing claims. Investment properties are initially recognised at cost, consisting of purchase price and other directly attributable expenses. Assets are subsequently measured at fair value.

Intangible Assets

Purchased patents, licenses and software are recognised as intangible fixed assets. Intangible assets are measured in the balance sheet at cost less amortisation and any impairment losses. The straight-line method is used for amortising intangible fixed assets. The amortisation rate for intangible assets is 5-20% per year.

Impairment of Assets

The management of the Bank assesses if there is any indication that an asset may be impaired at each reporting date. If such indication exists of impairment of the asset below its carrying value, a test is perfomed of the recoverable amount of the asset. The recoverable amount of an asset is the higher of the two indicators: its fair value (less costs to sell) or value in use calculated on the basis og the discounted cash flow method. If the test results show that the recoverable amount of an asset is lower than its carrying amount, the asset is written down to its recoverable amount. If the recoverable amount cannot be determined for an individual asset, the recoverable amount is determined for the smallest group of assets (the cash-generating unit) where the asset belongs to. Impairment losses are recognised as expenses in the accounting period.

If a subsequent impairment test of an asset which has been written down shows that its recoverable amount has risen above its carrying amount, the former impairment loss is reversed and the asset's carrying amount is increased. The increased carrying amount may not exceed the carrying amount which would have been determined taking account of the normal amortization in the intermediate years.

Borrowed Funds from Government and Foreign Aid

Borrowed funds from government and foreign aid include loans of Rural Development Foundation to the Bank. Borrowed funds from the government and foreign aid are recognised on settlement date at fair value. Subsequent measurement takes place at amortised cost using effective interest rate.

Interest, Fees and Commissions

All interest and similar income is recognised as interest income. Similar income is recorded on an accrual basis according to the duration of the receivable. Interest income is calculated using the original effective interest rate applied in discounting the estimated future cash flows of the asset.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of recording on an accrual basis the interest income or interest expense. 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 Bank estimates cash flows considering all contractual terms of the financial instrument, but does not take account of 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, including transaction costs.

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.

Fees and commissions income is recognised in the fair value of the consideration received or receivable for the services provided in the ordinary course of the Bank's activities. Fees and commission income and expense are recognised on an accrual basis. Loan fees (less direct expenses) are included in the calculation of the effective interest rate.

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

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

Payables to employees

Payables to employees contain the contractual right arising from employment contracts. In addition to the salaries payable, this liability also includes the accrued social and unemployment taxes calculated on it. Pursuant to employment contracts and current legislation, payables to employees also include an accrued holiday pay liability as of the balance sheet date. In addition to the holiday pay, this liability also includes accrued social and unemployment insurance premium payments.

Short-term employee benefits, including contractual salary, holiday pay and social tax and unemployment insurance premium calculated on them pursuant to legal acts are charged to operating expenses on an accrual basis. Additional benefits (incl. supplementary pension and share options) have not been implemented for employees.

Accounting for Leases

Lease agreements are classified as finance leases if all significant risks and rewards arising from the agreement are transferred to the lessee. Assets leased on terms of finance lease contract are recognised at the fair value or the present value of minimum lease payments whichever is lower and are amortized according of the useful life of the asset or lease term. All other lease agreements are treated as operating leases and the payments made on the basis of those agreements are recognized as expense on a straight-line basis over the lease term.

Contingent Liabilities

Guarantees, unused loan limits and letters of credit that in certain circumstances may become obligations, are recognised as contingent liabilities. Other potential or existing liabilities whose realisation is less probable than non-realisation or whose accompanying costs cannot be determined reliably, are disclosed in the notes to the financial statements as contingent liabilities. Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

Corporate Income Tax

The profit of Estonian legal entities is not taxed according to the effective legislation; therefore, the deferred income tax claims or liabilities do not exist. In place of profit, the amount paid out as net dividends out of retained earnings are taxed in Estonia at the tax rate of 20/80 of the amount paid out as dividends. The corporate income tax payable on dividends is recognised in the statement of comprehensive income as the income tax expense of the same period in which the dividends are declared, irrespective of the period for which the dividends are declared or the period in which the dividends are actually paid out.

Earnings/Losses per Share

Basic earnings/losses per share are calculated by dividing profit/loss for the financial year by the weighted average number of ordinary shares outstanding during the period.

Net profit/loss attributable to ordinary shareholders and the weighted average number of ordinary shares are adjusted for all dilutive potential ordinary shares, having dilutive effect on earnings/losses per share, when calculating diluted earnings/losses per share. As the Bank does not have financial instruments, which could dilute earnings/losses per share in the future, basic earnings/losses per share and diluted earnings/losses per share are equal.

Financial Guarantees

Guarantees issued by the Bank to customers and potential loan commitments as well as unused loan amounts are recognised on off-balance sheet accounts. Received guarantee fees are reported in income over the period of the guarantee. Financial guarantee liabilities are initially recorded at their fair value (contract value) on the date the guarantee was given. Liabilities arising from financial guarantees are reported under other liabilities.

New and amended International Accounting Standards applied by Bank in financial year, interpretations, impact thereof on financial reports

The following new and/or amended International Accounting Standards which the Bank has applied from 1 January 2014.

- IFRS 10 *Consolidated Financial Statements*
- *IFRS 12 Disclosure of Interests in Other Entities*
- *IAS 27 (2011) Separate Financial Statements*
- *IAS 28 (2011) Investments in Associates and Joint Ventures*
- *Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities*
- *Amendments to IAS 27 – Investment Entities*
- *Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets*
- *Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting*

The standards and amendments to standards referred to above, in effect from 1

January 2014, have not had an impact on the Financial Statements of the Bank.

Standards, interpretations and amendments to present standards not yet in force

The following new standards and interpretations do not apply to the Annual Report period, which ended on 31 December 2014, and therefore they have not been applied upon preparation of this report.

Amendments to IAS 19 " Defined benefit plans: employees' contributions"

(Applied to the reporting periods beginning on or after 1 February 2015. Amendments apply are retrospectively. Earlier application is not permitted.)

The amendments concern only such defined benefit plans that include the employees' or third parties' contributions under certain conditions. The specified conditions are as follows:

- contributions are provided for in the formal conditions of the plan;
- contributions are related to employee service; and
- contributions do not depend on the years in service.

If the criteria listed above are complied with, the enterprise may reflect the contributions as the reduction of the employee service costs in the period when the relevant employee service is rendered (but does not have to).

According to the estimate of the enterprise the amendments do not have an impact on the financial accounts of the enterprise as the enterprise does not have the defined benefit plans that include the employees' or third parties' contributions.

IFRIC 21 "Fees"

(Applies to the reporting periods that began on or after 17 June 2014; is applied retrospectively. Earlier application is permitted.)

Upon application of this interpretation a fee means taxes, fees, state fees etc. established by the public sector, except for fines or other similar penalties and taxes and fees that fall into the scope of other standards (e.g. corporation tax).

The interpretation provides guidance on how to establish the obligating event giving rise to the obligation to pay a fee established by the government, and when to reflect the obligation to pay a fee.

According to the interpretation the obligating event is an event that leads to the condition to pay a fee as determined in the respective legislation and therefore the obligation to pay a fee is reflected when the obligating event occurs.

If the obligating event occurs gradually over time, the obligation to pay a fee is recorded step by step.

If the obligating event is the achievement of the minimum activity threshold, the respective obligation shall be recorded upon the achieving of the minimum activity threshold.

It is provided in the interpretation that the economic pressure to continue activities in the future period does not create a factual obligation for the enterprise to pay a fee based on the activity in the given future period.

The impact of the first application of the interpretation is subject to concrete fees established by the governments in force during the first application of the interpretation. The enterprise does not intend to apply the interpretation earlier, therefore it is not possible to assess the impact of the application of the interpretation on the financial statements of the enterprise.

Annual developments of IFRS-s

Eleven amendments shall be established in nine standards by further developments, which result in amendments in other standards and interpretations. Most of the amendments shall apply to the reporting periods beginning on or after 1 February 2015, earlier application is permitted. Four amendments of other four standards shall apply to the reporting periods beginning on or after 1 January 2015, earlier application is also permitted.

According to the estimate of the enterprise the financial statements of the enterprise shall not be materially affected by any of these amendments.

Notes to the Financial Statements

Note 1: Interest Income

	EUR ths. 2014	EUR ths. 2013
From loans	1,080	1,157
From demand deposits with other credit institutions	48	67
From time deposits with other credit institutions	138	24
From debt securities	304	459
Total	**1,570**	**1,707**
Interest income by geographical areas		
Estonia	870	972
OECD countries (excl. Estonia)	700	735
Total	**1,570**	**1,707**

Note 2: Interest Expense

	EUR ths. 2014	EUR ths. 2013
On demand deposits	4	2
On time deposits	558	590
On borrowings	4	5
Interest expense from debt certificates	60	0
Other interest expense	0	1
Total	**626**	**598**
Interest expense by geographical areas		
Estonia	521	590
OECD countries (excl. Estonia)	105	8
Total	**626**	**598**

Note 3: Fee and Commission Income

	EUR ths. 2014	EUR ths. 2013
Account opening and maintenance fees	804	356
Bank transaction fees	2,707	1,666
Securities' transaction fees	206	20
Letters of credit fees	2	19
Safe deposit fees	2	1
Fees income from bank cards	25	0
Fiduciary deposit fees	211	19
Other fees and commissions income	38	13
Total	**3,995**	**2,104**
Fees and commissions income by geographical areas		
Estonia	198	93
OECD countries (excl. Estonia)	3,797	2,011
Total	**3,995**	**2,104**

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Note 4: Fee and Commission Expense

	EUR ths. 2014	EUR ths. 2013
Securities' transactions expenses	65	32
Bank transaction expenses	457	209
S.W.I.F.T. expenses	50	35
Bank cards expense	77	0
Other fees and commission expenses	188	114
Total	**837**	**390**

Note 5: Net Trading Gains

	EUR ths. 2014	EUR ths. 2013
From foreign exchange	2,339	610
From shares and debt securities in trading portfolio	81	8
From available-for-sale financial assets	-45	57
From held-to-maturity investments	0	555
Total	**2,375**	**1,230**

Note 6: Other operating income

	EUR ths. 2014	EUR ths. 2013
Rental income from investment property	45	57
Operating expenses from property generating rental income	14	12
Other operating income	8	0
Total	**67**	**69**

Rental income from investment property by due dates

	EUR ths. 2014	EUR ths. 2013
Rental income during next reporting period from uninterruptable contract:		
up to 1 year	23	39
1 to 5 years	0	6

Versobank AS had concluded 11 rent agreements as of 31.12.2014 (14 rent agreements as of 31.12.2013)

Note 7: Other Operating Expenses

	EUR ths. 2014	EUR ths. 2013
Guarantee Fund payments	225	130
Financial Supervision Authority fees	79	57
Other operating expenses *	394	107
Total	**698**	**294**

Note 7 continued:

* Other operating expenses include investment properties expenses, property evaluation expenses and membership fees. Direct costs from non-profit real estate investments in the 2014 was 21 thousands euros (in 2013: 17 thousands euros).

Note 8: Personnel Expense

	EUR ths. 2014	EUR ths. 2013
Salaries	1,686	1,263
Compensation to the Supervisory Board members	63	97
Fringe benefits	32	23
Income tax on fringe benefits	9	8
Change in vacations pay accrual	7	-1
Total	**1,797**	**1,390**

Note 9: Payroll Related Taxes

	EUR ths. 2014	EUR ths. 2013
From salaries	528	423
From compensation to the Supervisory Board members	21	32
From fringe benefits	15	14
Social insurance tax from change in vacations pay accrual	1	0
Total	**565**	**469**

Note 10: Other Administrative Expenses

	EUR ths. 2014	EUR ths. 2013
Rent of premises	609	439
Other professional services purchased	206	185
Advertising expenses	28	25
Office expenses	52	49
Transportation expenses	85	75
Post and telecommunication expenses	55	39
Training and business trip expenses	123	32
IT expenses	48	47
Other expenses	56	34
Total	**1,262**	**925**

Note 11: Depreciation and Amortisation of Tangible and Intangible Assets

	Note	EUR ths. 2014	EUR ths. 2013
Depreciation of tangible assets	19	72	58
Amortisation of intangible assets	21	13	10
Total		**85**	**68**

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Note 12: Impairment Loss on Assets

	EUR ths. 2014	EUR ths. 2013
Available-for-sale financial assets (Note 18):		
Impairment loss on available-for-sale financial assets	0	-66
Loans:		
Impairment loss on claims	-165	-437
Recoveries of impaired loans	190	1,111
Total loans	**25**	**674**
Impairment on investment properties	-41	-323
Impairment on other assets *	-118	-130
Total	**-134**	**155**

* Impairment losses on fees receivable, value added tax and property and equipment have been disclosed as impairment on other assets.

Note 13: Cash

	EUR ths. 31.12.2014	EUR ths. 31.12.2013
In Euros	180	98
In foreign currency	24	12
Total	**204**	**110**

Note 14: Balances with Central Bank

	EUR ths. 31.12.2014	EUR ths. 31.12.2013
Mandatory reserve with the Bank of Estonia	1,575	939
Surplus of the mandatory reserve with the Bank of Estonia	11,866	47,289
Total	**13,441**	**48,228**

After Estonia joined the Euro-zone on 01.01.2011, the mandatory reserve requirement is followed in accordance with the Regulation of the European Central Bank on the application of minimum reserves (ECB/2003/9). Changes included the basis of the mandatory reserve, rate of mandatory reserve as well as allowed deductions. From 01.01.2011 the mandatory reserve rate applied is 2% of the deposits and borrowings with the term for up to 2 years, after allowed deductions, filled by average of period set by the European Central Bank, by depositing the appropriate amount in euros on TARGET2 account with Bank of Estonia.

Note 15: Due from Other Credit Institutions

	EUR ths.	EUR ths.
	31.12.2014	**31.12.2013**
Correspondent accounts	**193,951**	**57,622**
Receivables by country		
Estonia	30,665	16,968
OECD countries (excl. Estonia)	163,286	40,654
Total	**193,951**	**57,622**
Due from other banks by bank ratings (Moody's Investors Service, Standard & Poor´s ja Fitch Ratings) *		
A1	27,731	16,969
A2	108,977	15,542
A3	53,060	15,973
Baa1	1,152	0
Baa2	0	3,096
Baa3	12	473
Ba1	1,831	0
Ba3	815	1,863
Caa2	0	2,031
Not rated **	373	1,675
Total	**193,951**	**57,622**

* The aggregate ratings are determined based on the methodology in regulation (EU) No 575/2013 of the European Parliament and of the Council: a) where the rating is given only by on rating agency, that credit rating is used; b) where the rating is given by two rating agencies, the lower rating is used; c) where the rating is given by three rating agencies, the lowest rating of the highest two is used.

** Claims to a credit institution registered in Denmark and Ukraine, which has no foreign rating, have been disclosed as not rated.

Note 16: Due from Customers

	EUR ths.	EUR ths.
	31.12.2014	**31.12.2013**
Due by customer types (gross)		
Due from financial institutions	869	397
Loans:		
Loans to private companies	17,810	21,535
Loans to private persons	5,052	5,632
Total loans	**22,862**	**27,167**
Accrued interest receivable	263	650
Total due from customers (gross)	**23,994**	**28,214**
Specific loan loss allowances	-478	-2,750
General loan loss allowances	-16	-116
Unamortised transaction fees	-111	-26
Total due from customers (net)	**23,389**	**25,322**
Loans by collaterals (gross)		
Mortgage	18,065	22,069
Commercial pledge	637	788
Deposit	1,624	1,457
Other security over movables	52	16
Security	1,653	1,458

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Note 16 continued:

Other	807	1,515
Without collateral	287	514
Total	**23,125**	**27,817**

Due by remaining maturity (gross)		
On demand	869	397
Up to 3 months	6,399	2,217
3 to 12 months	1,833	1,070
1 to 2 years	941	5,079
2 to 5 years	4,352	6,184
over 5 years	6,779	7,959
past due	889	391
impaired loans	1,669	4,267
Accrued interest receivable from past due and impaired loans	225	605
Accrued interest receivable from other loans	38	45
Total	**23,994**	**28,214**

Loans by categories (gross)		
category 1 – low risk	18,519	20,455
category 2 – moderate risk	583	495
category 3 – medium risk	893	704
category 4 – high risk	3,130	6,163
Total	**23,125**	**27,817**

Incl. working loans by categories (gross)		
category 1 – low risk	18,398	19,827
category 2 – moderate risk	256	318
category 3 – medium risk	447	655
category 4 – high risk	1,241	1,294
Total	**20,342**	**22,094**

Due by countries (gross)		
Estonia	17,934	22,639
OECD countries (excl. Estonia)	6,060	5,575
Total	**23,994**	**28,214**

Past Due and Impaired Loans

Overdue loans by client type (gross)		
Loans to private companies	1,800	3,515
Interest claims to private companies	221	564
Loans to private persons	758	1,143
Interest claims to private persons	4	41
Total	**2,783**	**5,263**
incl. of non-performing loans	19	25

Incl. impaired loans by customer type (gross)		
Loans to private companies	1,008	3,273
Accrued interest receivable from private companies	217	562
Loans to private persons	661	994
Accrued interest receivable from private persons	3	40
Total	**1,889**	**4,869**

Note 16 continued:

Fair Value of Collaterals of Past Due and Impaired Loans

	EUR ths. 31.12.2014	EUR ths. 31.12.2013
Collaterals of past due loans	1,989	896
Collaterals of impaired loans	2,001	1,941
Total	**3,990**	**2,837**

Specific Loan Loss Allowances by Client Type

Private companies		
Loan loss allowances at beginning of period	-2,298	-4,200
New loan loss allowances during period	-200	-234
Claims written off	2,094	1,215
Deductions of allowances during period	142	921
Loan loss allowances at end of period	**-262**	**-2,298**
Private persons		
Loan loss allowances at beginning of period	-452	-383
New loan loss allowances during period	-139	-240
Claims written off	273	0
Deductions of allowances during period	102	171
Loan loss allowances at end of period	**-216**	**-452**
Total specific loan loss allowances	**-478**	**-2,750**

All under-collaterised loans and overdrafts, where the payments are overdue by more than 90 days, are reported as non-performing loans. 12 claims have been written off in 2014 (10 claims have been written off in 2013).

Maximum credit risk arising from on-balance sheet assets is equal to the carrying value of the financial assets, as the conditions have not been re-negotiated. Credit risk arising from unused loan limits disclosed off-balance sheet comprise 954 thousand euros (2013: 46 thousand euros) (see Note 34).

Management has disclosed its opinion on fair value of loans in Note 44.

Overdue financial assets maturity structure

	EUR ths. 31.12.2014	EUR ths. 31.12.2013
Private companies		
Up to 90 days	1,357	244
91 days to 1 year	149	138
1 to 2 years	175	149
over 2 years	340	3,548
Total	**2,021**	**4,079**
Private persons		
Up to 90 days	668	351
91 days to 1 year	62	335
1 to 2 years	0	266
over 2 years	32	232
Total	**762**	**1,184**
Total overdue financial assets	**2,783**	**5,263**

Note 16 continued:

incl. maturity structure of unimpaired financial assets

	EUR ths. 31.12.2014	EUR ths. 31.12.2013
Private companies		
Up to 90 days	1,357	244
91 days to 1 year	149	138
1 to 2 years	149	121
over 2 years	79	949
Total	**1,734**	**1,452**
Private persons		
Up to 90 days	242	302
Total	**242**	**302**
Total unimpaired financial assets	**1,976**	**1,754**

Restructured loans

	EUR ths. 31.12.2014	EUR ths. 31.12.2013
Loans to private companies	2,402	3,820
Loans to private persons	211	402
Total	**2,613**	**4,222**

Bank has restructured 8 loans, as of 31.12.2014, where the payment difficulties have temporary nature. 15 loans were restructured as of 31.12.2013.

1 loan were restructed during 2014, loan to companies. There were no restructured loans during 2013.

Financial effect of collateral of overdue loans

	EUR ths. 31.12.2014	EUR ths. 31.12.2013
Over-collaterised loans		
Loan balance	2,003	1,352
Fair value of collateral	3,688	2,164
Under-collaterised loans *		
Loan balance	302	1,161
Fair value of collateral	302	673

* 9 loan contracts were under-collaterised loans, of witch 3 were guaranteed.

Note 17: Financial Assets/Financial Liabilities Held for Trading

	EUR ths. 31.12.2014	EUR ths. 31.12.2013
Financial assets Held for Trading		
Derivatives *	146	15
Financial assets in fair value through profit and loss		
shares listed on a stock exchange (active market)	3	1
Total	**149**	**16**

	EUR ths. 31.12.2014	EUR ths. 31.12.2013
Financial Liabilities Held for Trading		
Derivatives *	84	10
Total	**84**	**10**
Total financial assets/financial liabilities held for trading	**65**	**6**
Shares and other securities by countries		
OECD countries (excl. Estonia)	3	1
Total	**3**	**1**

*** Derivatives**

	EUR ths. 31.12.2014	EUR ths. 31.12.2013
Currency related derivatives:		
claims (in contract value) (note 34)	24,451	15,743
commitments (in contract value) (note 34)	24,388	15,738
fair value	63	5

Note 18: Available-for-Sale Financial Assets

	EUR ths. 31.12.2014	EUR ths. 31.12.2013
Debt securities and other shares by issuer		
Debt securities of central goverment	3,770	527
Debt securities of credit institutions	4,357	2,292
Debt securities of private companies	8,274	4,460
Debt securities of other financial institutions	5,535	0
Shares and fund units of private companies	3	3
Total	**21,939**	**7,282**

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Note 18 continued:

Debt securities and other shares by ratings

Aaa	3,308	0
Aa1	1,717	0
Aa2	1,886	0
Aa3	2,334	0
A1	3,840	0
A2	2,665	0
A3	1,620	549
Baa1	209	527
Baa2	585	1,962
Baa3	3,085	3,335
Ba1	619	906
Ba3	68	0
Without ratings	3	3
Total	**21,939**	**7,282**

Debt securities and other shares by countries

Estonia	3	3
OECD countries (excl. Estonia)	21,936	7,279
Total	**21,939**	**7,282**

Impairment charges of available-for-sale financial assets

	EUR ths. **2014**	EUR ths. **2013**
Debt securities of private companies	0	-66
Total	**0**	**-66**

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Note 19: Property and Equipment

EUR ths.

	Capitalised construction expenses *	Computers	Furniture	Other tangible assets	Total
Balance as of 01.01.2014					
At cost	**92**	**88**	**44**	**257**	**481**
Accumulated depreciation	-56	-64	-38	-143	**-301**
Net value	**36**	**24**	**6**	**114**	**180**
Changes in 2014					
Purchases during period	0	8	0	49	**57**
Depreciation expense (Note 11)	-17	-13	-2	-40	**-72**
Property and equipment write-offs (at cost)	0	-8	-1	0	**-9**
Accumulated depreciation of property and equipment write-offs	0	8	1	0	**9**
Balance as of 31.12.2014					
At cost	**92**	**88**	**43**	**306**	**529**
Accumulated depreciation	-73	-69	-39	-184	**-365**
Net value	**19**	**19**	**4**	**122**	**164**

EUR ths.

	Capitalised construction expenses *	Compu-ters	Furni-ture	Other tangible assets	Total
Balance as of 01.01.2013					
At cost	**83**	**80**	**43**	**207**	**413**
Accumulated depreciation	-40	-67	-36	-141	**-284**
Net value	**43**	**13**	**7**	**66**	**129**
Changes in 2013					
Purchases during period	10	22	2	75	**109**
Depreciation expense (Note 11)	-17	-11	-3	-27	**-58**
Property and equipment write-offs (at cost)	-1	-14	-1	-25	**-41**
Accumulated depreciation of property and equipment write-offs	1	14	1	25	**41**
Balance as of 31.12.2013					
At cost	**92**	**88**	**44**	**257**	**481**
Accumulated depreciation	-56	-64	-38	-143	**-301**
Net value	**36**	**24**	**6**	**114**	**180**

* Reconstruction expenses of rented premises.

Note 20: Investment Properties

	EUR ths. 2014	EUR ths. 2013
Investment properties at beginning of year	3,353	3,938
Investment properties acquired	0	78
Investment properties sold	-1,061	-302
Loss on the sale	-315	-38
Fair value revaluation	-41	-323
Total	**1,936**	**3,353**

The Bank has acquired several collateral properties including dwellings from repertory auctions, with an intention to sell them in a few coming years.

Investment properties are valued at fair value, derived by the Bank mainly from transactions in market value with similar assets. The discounted cash flows method has been used in fair value valuation for assets covered with existing contracts, realising in the future, in the carrying value of 1,697 thousand euros as of 31.12.2014 (1,828 thousand euros as of 31.12.2013).

Rent income earned on investment properties and direct expenses on assets earning rental income are disclosed in Note 6.

Note 21: Intangible Assets

Software and licenses	EUR ths. 2014	EUR ths. 2013
Balance as of 01.01.		
At cost	**380**	**392**
Accumulated amortisation	-281	-296
Net value	**99**	**96**
Changes during report year		
Purchases during period	84	14
Amortisation expense (Note 11)	-13	-10
Intangible assets write-offs (at cost)	-125	-26
Accumulated depreciation of intangible assets write-offs	125	25
Balance as of 31.12.		
At cost	**339**	**380**
Accumulated amortisation	-169	-281
Net value	**170**	**99**

Note 22: Other Assets

	EUR ths. 31.12.2014	EUR ths. 31.12.2013
Fees and commissions receivable	56	39
Prepaid supervision fees *	72	71
Other prepaid expenses **	285	154
Other receivables	163	167
Visa settlements	15	0
Total	**591**	**431**

Note 22 continued:

* Prepaid supervision fees include fees paid to the supervisory authority in accordance with the Financial Supervision Authority Act. The rate of supervision fee consists of the capital share which is an amount equal to 1% of the minimum amount of the net own funds and the share calculated on the basis of assets in an amount equal to 0.005% - 0.05% of the assets of the credit institution. The supervision fee is prepaid once a year for the next year.

** Other prepaid expenses include the collateral amounts paid according to the lease agreements for premises, insurance payments and server maintenance fees.

Note 23: Deposits

	EUR ths. **31.12.2014**	EUR ths. **31.12.2013**
Deposits from credit institutions	2,980	1,559
Other deposits	228,037	126,930
Total	**231,017**	**128,489**
Demand deposits	199,291	97,530
Time deposits	31,355	30,675
Accrued interests	371	284
Total	**231,017**	**128,489**
Demand deposits by customer groups		
Companies	186,121	93,281
Private persons	9,558	2,470
Non-profit organisations	289	213
Financial institutions	743	7
Government	0	0
Credit institutions	2,580	1,559
Total	**199,291**	**97,530**
Time deposits by customer groups		
Private persons	18,097	19,082
Companies	8,644	8,340
Non-profit organisations	214	3,253
Credit institutions	400	0
Financial institutions	4,000	0
Total	**31,355**	**30,675**
Deposits by maturities		
On demand	199,291	97,530
Up to 3 month	9,763	7,000
3 to 12 months	16,535	16,954
1 to 2 years	3,888	4,959
2 to 5 years	1,540	2,046
Total	**231,017**	**128,489**

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Note 24: Subordinated Debts Evidenced by certificates

	EUR ths. 31.12.2014	EUR ths. 31.12.2013
Subordinated debts evidenced by certificates *	2,000	0
Total	**2,000**	**0**

* Versobank AS issued 2.0 million subordinated bonds on 02.07.2014, interest rate 6% p.a. Interest expense in 2014 was EUR 60 ths. and deadline is 31.12.2019. Subordinated bond can be treated as tier 1 own funds.

Note 25: Subordinated Debt

	EUR ths. 31.12.2014	EUR ths. 31.12.2013
Debt balance at beginning of period	3,067	2,931
Effective interest rate correction	-554	136
Total	**2,513**	**3,067**

The Bank took a 4.0 million euro subordinated debt from Marfin Egnatia Bank S.A., a bank belonging to the group, in December 2009. The initial borrower transferred all the rights and obligations arising from subordinated debt to UKRSELHOSPROM PCF LLC with the agreement concluded on 29.03.2012. The Bank and UKRSELHOSPROM PCF LLC signed a change of subordinated debt agreement on 27.04.2012, whereby the interest rate was retroactively changed to 0% from 31.10.2011. Interest expense was adjusted accordingly and subordinated debt is partly disclosed under equity starting from year 2012 (1,487 thousand euros as of 31.12.2014) based on effective interest rate of 4.661% p.a. In 2014, the deadline was extended and a new date is 30.10.2024. Subordinated loan can be treated as tier 2 own funds.

Note 26: Borrowed Funds from Government and Foreign Aid

	EUR ths. 31.12.2014	EUR ths. 31.12.2013
Debt balance at beginning of period	252	199
Borrowings received	201	152
Borrowings repaid	-113	-99
Balance at end of period	**340**	**252**
Debts by maturities		
Up to 3 months	55	44
3 to 12 months	47	49
1 to 2 years	55	62
2 to 5 years	183	97
Total	**340**	**252**

Borrowings from Estonian Rural Development Foundation are reported under borrowed funds from government and foreign aid. Borrowings bear a fixed interest rate 0.75%, 1.25% and 1.5% p.a.

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Note 27: Provisions

	EUR ths.	EUR ths.
	31.12.2014	**31.12.2013**
Provisions for pending legal issues and tax litigation	0	243
Provision to cover potential liabilities *	72	72
Total	**72**	**315**

*Bank has formed a short-term provision both as of 31.12.2014 and 31.12.2013 to cover potential liabilities in connection with the sale contracts of assets disclosed as property investments.

Note 28: Tax Liabilities

	EUR ths.	EUR ths.
	31.12.2014	**31.12.2013**
Social tax	82	64
Income tax withheld	42	32
Fringe benefits' income tax	3	2
Value added tax	64	114
Taxes payable	**191**	**212**

There have not been initiated any tax audits in the Bank, and thus no additional taxes have been assigned. Tax authority has the right to audit tax calculations of the Bank during 6 years from due date of filing tax declaration, and in case of mistakes assign additional taxes, interests and penalties.

Note 29: Other Liabilities

	EUR ths.	EUR ths.
	31.12.2014	**31.12.2013**
Payments in transmission *	6,937	270
Payables to employees	65	56
Payables to suppliers	136	30
Prepaid expenses	2	15
Other liabilities	2	2
Total	**7,142**	**373**

* Payments in transmission include payments of customers and the bank, which are under processing as well as unsettled payments (incl. incorrectly received funds, returnable funds etc.). Management estimates that such facts are not known

Note 30: Shareholders' Equity

Share capital

Paid-in share capital comprised 14,088,775.20 euros as of 31.12.2014, divided into 23,481,292 common shares with nominal value of 0.60 euros (as of 31.12.2013: share capital 14,088,774.20

Note 30 continued:

euros, 23,481,292 common shares with nominal value 0.60 euros). According to the articles of association, the minimum share capital of the Bank is 6,391,164 euros and maximum share capital is 25,564,660 euros. A registered share gives shareholder a right to participate in the management of the Bank, in profit distribution and in case of liquidation in distribution of remaining assets, also other rights stipulated in law and articles of association.

Majority shareholder of the Bank was replaced in year 2012, other shareholders remained the same. The shareholders of the Bank decided on 12.04.2012 to increase the share capital by issuing new shares. The new majority shareholder UKRSELHOSPROM PCF LLC subscribed the issue in full and EUR 5,040,000 was credited to the Bank's account on 28 May 2012 as a monetary payment for shares (8,400,000 common shares were issued). Extraordinary Meeting of Shareholders decided on 27.11.2012 to increase the share capital of the Bank by EUR 2,000,001, i.e. from EUR 12,088,774.20 to EUR 14,088,775.20 by issuing new shares. The majority shareholder UKRSELHOSPROM PCF LLC subscribed the issue in full on 13.12.2012. Payment for new shares was credited on 27.02.2013.

Other equity instruments

Part of subordinated debt (see Note 25) is disclosed under equity starting from the year 2012. The effective interest rate correction was due to the fact that the Bank and UKRSELHOSPROM PCF LLC signed a change of subordinated debt agreement on 27.04.2012, whereby the interest rate was retroactively changed to 0% from 31.10.2011.

Fair Value Reserve of Available-for-Sale Financial Assets

Revaluation gains and losses from available-for-sale financial assets (debt securities portfolio) are reflected as fair value reserve in accordance with IAS 39 through the other comprehensive income.

Statutory Reserve Capital

The statutory reserve capital has been formed in accordance with the Estonian Commercial Code. The statutory reserve capital is formed by means of yearly appropriations from the net profit. At least 1/20 of the net profit must be set aside to the statutory reserve capital, until the statutory reserve capital is at least 1/10 of the share capital. The satutory reserve capital can be used to cover losses, also to increase share capital. No payments can be made to the owners from the statutory reserve capital.

Note 31: Related-Party Transactions

The following parties are considered to be related in the annual report of Versobank AS:

a. owners (UKRSELHOSPROM PCF LLC is the parent of the Bank);
b. other companies belonging to the same consolidation group;
c. executive management and the Supervisory Board;
d. close relatives of the persons mentioned previously and the companies related to them;

Management Board members of the credit institution, head of internal audit and their related parties, also companies controlled jointly of privately by these persons:	EUR ths. **31.12.2014**	EUR ths. **31.12.2013**
Loans:		
Balance of loans at beginning of period 01.01	16	15
Disbursed loans	0	5
Repaid loans	-16	-4
Balance of loans at end of period 31.12	0	16
Interest income	0	1

Note 31 continued:

Liabilities:		
Deposits	30	84
Salaries of the members of the Management Board	247	249

Shareholders of the credit institution and their related parties, also companies controlled jointly of privately by these persons:	EUR ths. **31.12.2014**	EUR ths. **31.12.2013**
Loans:		
Balance of loans at beginning of period 01.01	151	165
Disbursed loans	0	0
Repaid loans	-14	-14
Balance of loans at end of period 31.12	137	151
Interest income	4	5
Fees receivable	1	1
Due from credit institutions	0	446
Prepayments for services	0	1
Liabilities:		
Deposits	206	767
Fees and commission income	15	42
Administrative and other operating expenses	0	35
	0	950

Members of the Supervisory Board of the credit institution and their related parties, also companies controlled jointly of privately by these persons:	EUR ths. **31.12.2014**	EUR ths. **31.12.2013**
Loans:		
Fees receivable	1	0
Deposits	23	48
Prepayments for services	16	16
Fees and commission income	18	5
Administrative and other operating expenses	195	13
Compensation to the members of the Supervisory Board	63	97

Parent company of the Bank: UKRSELHOSPROM PCF LLC	EUR ths. **31.12.2014**	EUR ths. **31.12.2013**
Pay share capital	0	2,000
Subordinated debt (gross)	4,000	4,000
Including disclosed under equity	-1,487	-933
Fees and commission income	3	2
Fees receivable	6	4

Loans to related parties have no loan loss allowances.

Note 32: Geographical Concentration of Customers' Debts

EUR ths., as of 31.12.2014

Area		Balance sheet claims				
		loans *	incl. overdue and doubtful claims	securities **	contin-gent assets	by area (%)
	Note	14, 15, 16	16	17, 18	17	
Estonia		61,435	507	61	13,668	27.10%
United States of America		9,878	0	4,725	0	5.27%
European Union		0	0	851	0	0.31%
United Kingdom		27,128	0	1,372	5,246	12.17%
Denmark		368	0	0	0	0.13%
Latvia		11,067	0	0	0	3.99%
Germany		47,550	0	946	1,106	17.89%
Ukraine		325	74	0	4,000	1.56%
Russia		1,901	0	443	0	0.85%
Austria		26,191	0	0	0	9.44%
Switzerland		1,152	0	0	0	0.42%
Belgium		13,526	0	0	0	4.88%
Israel		1,333	0	0	0	0.48%
Panama		261	0	0	0	0.09%
British Virgin Islands		1,652	0	1,034	0	0.97%
USA Virgin Islands		0	0	0	0	0.00%
Italy		12	0	0	0	0.00%
France		24,531	0	863	0	9.16%
Luxembourg		0	0	964	0	0.35%
United Arab Emirates		0	0	673	0	0.24%
Netherlands		0	0	1,937	0	0.70%
Australia		0	0	855	0	0.31%
Bermuda		0	0	468	0	0.17%
Brazil		0	0	654	0	0.24%
The Bahamas		0	0	256	0	0.09%
China		0	0	1,285	0	0.46%
Ireland		0	0	375	431	0.29%
Japan		0	0	210	0	0.08%
South-Korea		0	0	1,052	0	0.38%
Cayman Islands		0	0	1,045	0	0.38%
New Zealand		0	0	417	0	0.15%
Turkey		0	0	1,185	0	0.43%
Cyprus		1,724	0	0	0	0.62%
Finland		0	0	417	0	0.15%
Georgia		745	0	0	0	0.27%
Norway		2	0	0	0	0.00%
Total		**230,781**	**581**	**22,088**	**24,451**	**100.00%**

Note 32 continued:

EUR ths., as of 31.12.2013

Area	Balance sheet claims			contin-gent assets	by area (%)
	loans *	incl. overdue and doubtful claims	securities **		
Note	14, 15, 16	16	17, 18	17	
Estonia	84,543	3,599	17	9,433	60.95%
United States of America	8,261	0	342	0	5.58%
United Kingdom	521	0	1	5,841	4.13%
Denmark	212	0	0	0	0.14%
Latvia	2	0	0	0	0.00%
Germany	6,575	0	1	469	4.57%
Ukraine	3,954	0	0	0	2.56%
Russia	4,959	0	435	0	3.50%
Austria	6,825	0	0	0	4.43%
Switzerland	2,226	0	0	0	1.44%
Belgium	7,628	0	0	0	4.95%
Israel	1,453	0	0	0	0.94%
Panama	552	0	0	0	0.36%
British Virgin Islands	1,458	0	0	0	0.95%
Italy	473	0	745	0	0.79%
Luxembourg	0	0	1,408	0	0.91%
United Arab Emirates	0	0	549	0	0.36%
Netherlands	0	0	514	0	0.33%
Australia	0	0	179	0	0.12%
Bermuda	0	0	395	0	0.26%
Brazil	0	0	762	0	0.49%
Ireland	0	0	508	0	0.33%
Slovenia	0	0	527	0	0.34%
Turkey	0	0	915	0	0.59%
Cyprus	1,530	0	0	0	0.99%
Total	**131,172**	**3,599**	**7,298**	**15,743**	**100.00%**

* Includes claims on credit institutions, financial institutions and customers.

** Comprises financial assets held for trading and available-for-sale financial assets.

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Note 33: Concentration of Customers' Debts by Economic Sector

EUR ths., as of 31.12.2014	Balance sheet claims				
Economic sector	loans *	incl. overdue and doubtful claims	securities **	contin-gent assets	by area (%)
Note	14, 15, 16	16	17, 18	17	
Agriculture, forestry and fishing	2 008	76	0	0	0.72%
Mining and quarrying	10	0	68	0	0.03%
Manufacturing	621	8	3 665	0	1.55%
Electricity, gas, steam and air conditioning supply	0	0	1 304	0	0.47%
Construction	555	166	0	0	0.20%
Wholesale and retail trade	559	69	0	16 343	6.09%
Transportation and storage	32	10	0	0	0.01%
Accommodation and food service activities	630	0	0	0	0.23%
Information and communication	273	0	681	0	0.34%
Financial and insurance activities	208 261	0	10 343	8 108	81.77%
Real estate activities	8 310	210	216	0	3.07%
Professional, scientific and technical activities	82	0	0	0	0.03%
Administrative and support service activities	121	0	0	0	0.04%
Public administration and defence; compulsory social security	0	0	3 322	0	1.20%
Human health and social work activities	836	0	0	0	0.30%
Arts, entertainment and recreation	1 724	0	0	0	0.62%
Other service activities	2 305	0	2 489	0	1.73%
Private persons	4 948	42	0	0	1.78%
Provisions	-494	0	0	0	-0.18%
Total	**230 781**	**581**	**22 088**	**24 451**	**100.00%**

EUR ths., as of 31.12.2013	Balance sheet claims				
Economic sector	loans *	incl. overdue and doubtful claims	securities **	contin-gent assets	by area (%)
Note	14, 15, 16	16	17, 18	17	
Agriculture, forestry and fishing	2 945	706	0	0	1.91%
Mining and quarrying	53	0	181	0	0.15%
Manufacturing	978	6	203	0	0.77%
Electricity, gas, steam and air conditioning supply	0	0	549	0	0.36%
Construction	559	180	0	0	0.36%
Wholesale and retail trade	1 100	69	0	9 071	6.60%
Transportation and storage	115	5	0	362	0.31%
Accommodation and food service activities	884	45	0	0	0.57%
Information and communication	0	0	1 304	0	0.85%
Financial and insurance activities	106 243	0	3 607	6 310	75.30%
Real estate activities	10 946	2 320	0	0	7.10%
Professional, scientific and technical activities	70	0	0	0	0.05%
Administrative and support service activities	43	0	0	0	0.03%
Public administration and defence; compulsory social security	0	0	527	0	0.34%
Human health and social work activities	996	0	0	0	0.65%
Arts, entertainment and recreation	1 538	0	0	0	1.00%
Other service activities	2 059	1	927	0	1.94%
Private persons	5 504	267	0	0	3.57%
Provisions	-2 861	0	0	0	-1.86%
Total	**131 172**	**3 599**	**7 298**	**15 743**	**100.00%**

* Includes claims on credit institutions, financial institutions and customers.

** Comprises financial assets held for trading and available-for-sale financial assets.

Note 34: Contingent Assets and Liabilities an Commitments

		31.12.2014
	EUR ths.	EUR ths.
	Claims	**Liabilities**
Irrevocable transactions (Note 36)	**24,451**	**26,166**
Guarantees and similar irrevocable transactions	0	824
Unused loan limits (Note 16, 41)	0	954
Currency forward transactions (Note 17)	24,451	24,388

		31.12.2013
	EUR ths.	EUR ths.
	Claims	**Liabilities**
Irrevocable transactions (Note 36)	**15,743**	**16,747**
Guarantees and similar irrevocable transactions	0	13
Unused loan limits (Note 16, 41)	0	46
Letters of credit granted but not utilised	0	950
Currency forward transactions (Note 17)	15,743	15,738

Note 35: Funds Under Trust Management

	31.12.2014	31.12.2013
	EUR ths.	**EUR ths.**
Fiduciary deposits with other credit institutions		
up to 1 month	12,730	7,976
1 to 3 months	7,528	0
3 to 12 months	3,658	6,593
TOTAL	**23,916**	**14,569**

Fiduciary deposits are assets of customer placed under authorisation agreement, disclosed off-balance sheet by the Bank.

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Note 36: Liquidity (Assets and Liabilities by Remaining Maturities)

EUR ths., as of 31.12.2014

Claims, liabilities	Note	On demand	Over-due	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
Claims of the Bank		**116,002**	**408**	**94,626**	**5,710**	**7,024**	**12,061**	**6,117**	**11,716**	**253,664**
Cash and claims to credit institutions	13,14,15	114,886	0	92,710	0	0	0	0	0	**207,596**
Claims to customers	16	869	403	1,624	4,787	1,849	1,262	5,249	7,346	**23,389**
Securities	17, 18	6	0	146	841	5,058	10,799	868	4,370	**22,088**
Other claims	22	241	5	146	82	117	0	0	0	**591**
Liabilities of the Bank		**206,624**	**0**	**4,473**	**5,417**	**16,582**	**3,943**	**3,723**	**4,000**	**244,762**
Amounts owed to credit institutions	23	2,580	0	400	0	0	0	0	0	**2,980**
Amounts owed to clients	23	196,711	0	4,001	5,362	16,535	3,888	1,540	0	**228,037**
Subordinated debts evidenced by certificates	24	0	0	0	0	0	0	2,000	0	**2,000**
Subordinated debt	25	0	0	0	0	0	0	0	4,000	**4,000**
Other borrowings	26	0	0	0	55	47	55	183	0	**340**
Other liabilities	27,28,29	7,333	0	72	0	0	0	0	0	**7,405**
Net		**-90,622**	**408**	**90,153**	**293**	**-9,558**	**8,118**	**2,394**	**7,716**	**8,902**
Contingent:										
assets (Note 17,34)		**0**	**0**	**24,451**	**0**	**0**	**0**	**0**	**0**	**24,451**
liabilities (Note 17, 34)		**954**	**0**	**24,388**	**0**	**824**	**0**	**0**	**0**	**26,166**

EUR ths., as of 31.12.2013

Claims, liabilities	Note	On demand	Over-due	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
Claims of the Bank		**88,287**	**986**	**18,859**	**2,405**	**1,272**	**5,207**	**6,247**	**15,748**	**139,011**
Cash and claims to credit institutions	13,14,15	87,832	0	18,128	0	0	0	0	0	**105,960**
Claims to customers	16	397	972	653	2,227	1,149	5,207	6,247	8,470	**25,322**
Securities	17, 18	5	0	15	0	0	0	0	7,278	**7,298**
Other claims	22	53	14	63	178	123	0	0	0	**431**
Liabilities of the Bank		**98,115**	**0**	**3,618**	**3,741**	**17,003**	**5,021**	**2,143**	**4,000**	**133,641**
Amounts owed to credit institutions	23	1,559	0	0	0	0	0	0	0	**1,559**
Amounts owed to clients	23	95,971	0	3,300	3,700	16,954	4,959	2,046	0	**126,930**
Subordinated debt	25	0	0	0	0	0	0	0	4,000	**4,000**
Other borrowings	26	0	0	3	41	49	62	97	0	**252**
Other liabilities	27,28,29	585	0	315	0	0	0	0	0	**900**
Net		**-9,828**	**986**	**15,241**	**-1,336**	**-15,731**	**186**	**4,104**	**11,748**	**5,370**
Contingent:										
assets (Note 17, 34)		**0**	**0**	**15,743**	**0**	**0**	**0**	**0**	**0**	**15,743**
liabilities (Note 17, 34)		**46**	**0**	**15,738**	**0**	**963**	**0**	**0**	**0**	**16,747**

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Note 37: Earnings/Loss Per Share

	EUR ths.	EUR ths.
	31.12.2014	**31.12.2013**
Net profit/loss for the reporting period	2,246	1,046
Weighted average no. of shares (ths. pcs.)	23,481	22,952
Basic earnings/loss per share	**0.10**	**0.05**
Diluted earnings/loss per share	**0.10**	**0.05**

Note 38: Operating Lease Liabilities

Rental payments for vehicles

Versobank AS has concluded operating lease agreements for four vehicles as of 31.12.2014. The longest contract ends on 15.12.2015, i.e. no agreement exceeds 5 years. Operating lease agreements for four vehicles were concluded as of 31.12.2013 and the maturity date of the longest contract was 15.12.2015.

All contractual rent payments are uninterruptable.

Rental payments for vehicles by due dates

	EUR ths.	EUR ths.
	2014	**2013**
Rental payment paid and expensed during reporting year	27	30
Rental payments payable:		
up to 1 year	13	30
1 to 5 years	0	13

Rental payments for bank premises

Versobank AS had concluded agreements for renting premises in Tallinn, in Riga and in Dnipropetrovsk. Tallinn rental agreement ends on 31.05.2021, Riga rental agreement ends on 31.12.2016 and Dnipropetrovsk rental agreement ends on 30.11.2015.

Rental payments for bank premises by due dates

	EUR ths.	EUR ths.
	2014	**2013**
Rental payment paid and expensed during reporting year	523	389
Rental payments payable during next reporting period:		
from uninterruptable contract:		
up to 1 year	528	528
1 to 5 years	1,898	2,052
over 5 years	145	494

Agreements for renting bank premises can be terminated before the prescribed time upon agreement during six months notice time.

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Note 39: Risk and Capital Management

Major events in 2014

The fast growth of the Bank continued in 2014, primarily the increase was due to the growth in volumes of demand deposits and growth in the payment services volumes. The balance sheet structure of the Bank changed substantially during the year. The total assets of the Bank have increased by 80% during the year. The overall proportion of the loan portfolio decreased significantly in the structure of the balance sheet structure (9.1% as of 31.12.2014, 17.7% as of 31.12.2013). The liabilities related to demand deposits and correspondingly exposure to credit institutions increased significantly. The market risk exposures related to trading portfolio of debt securities increased as well (21.9 MEUR as of 31.12.2014; 7.3 MEUR as of 31.12.2013). - Taking into account the large share of highly volatile liabilities the Bank pays special attention to liquidity management and the availability of highly liquid assets. As of 31.12.2014 the liquidity buffer formed 87.6% of the total assets of the Bank (71.5% as of 31.12.2013).

The capital adequacy of the Bank is continually good, as of 31.12.2014 Common Equity Tier 1 capital ratio is 13.31%, Tier 1 capital ratio is 15.98% and the total own funds ratio is 21.31% (28.26 as of 31.12.2013).

Risk and Capital Management Policy

The Policy for Risk and Capital Adequacy Management approved by the supervisory board of the Bank sets out the overall objectives and principles of risk taking activities of the Bank. Through the policy, the Supervisory Board provides guidelines for the Bank on risk management, risk control, capital adequacy management, risk capital allocation and capital planning. The Management Board has the overall responsibility for implementation of risk and capital management.

The policy determines general risk and capital management principles, formulates risk strategy and appetite for main risk categories, formulates requirements for internal risk limits, determines the capital adequacy and capital planning principles and establishes the organizational structure of risk management and internal control.

As a general principle, risk management shall be an integrated part of all the business activities of the Bank and represented at all levels of the activities of the Bank. The Bank is required to continually keep a balanced risk structure and diversified risk portfolio. The Bank maintains low and conservative capital and liquidity risk level. The Bank keeps adequate capital level to ensure compliance with regulatory requirements and have sufficient risk capital to cover risks taken.

Risk management is business-oriented. Risk management plays an important role in assessing and keeping customer relationships of the Bank. Risk management supports the Bank's management by analyzing the balance between potential risk and reward scenarios. Every risk taken shall have a prior analysis and have the respective support structure.

Risk management organization and process

The Bank has three risk management levels - Supervisory Board, Management Board and Credit Committee. The functions of the Asset-Liability Committee as well as of the Risk Committee are currently performed by the Management Board considering the size of the Bank. According to the organisational structure, the roles and responsibilities of the Bank's risk management and internal control system are defined under "three lines of defence" concept. The first line of defence (risk management by business units) is that all business units are required to ensure effective management of risks within the scope of their organisational responsibilities. The second line of defence (independent risk control) is risk analysis, control and monitoring functions which include risk management (risk control) function and compliance function. The third line of defence is independent assurance

provided by the internal audit. The Bank continuously assesses and monitors its current risk profile by the most important business areas and risk types identified throughout the Bank. The risk management infrastructure incorporates the different business units and provides the basis for monitoring risk positions, capital adequacy and limit utilisation both on a regular and ad-hoc basis.

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Note 39 continued:

Credit risk

Credit risk is a risk that the counterparty to transaction is not capable of performing or willing to perform its contractual obligations and the risk that the pledged collateral does not cover the Bank´s claim. Credit risk may arise from all transactions where actual or potential claims against any counterparty exist. Country and concentration risk are also considered within credit risk.

Credit Policy
The Credit Policy sets up the primary criteria for the acceptable credit risks, defines the Bank's credit risk appetite and target markets, identifies high risk areas which require special attention, formulates requirements for the Bank´s credit portfolio limits system and describes the organization of risk taking framework and risk management for the loan portfolio.
The organization of the risk strategy and management of the bond portfolio is set out in the Policy for Market Risk Management.

The general requirements for assessment of the credit transactions of the Bank and borrowers are set as follows:

- lending in line with the credit policy;
- understanding of the transaction and the risks involved;
- knowing your customer;
- sufficient information to enable the comprehensive assessment of the risk profile;
- risk/ reward assessment;
- customer´s credit repayment ability assessment;
- requirements for self-financing;
- requirements for collaterals.

Risk management organization and process
Decisions related to loans, guarantees and sureties are made by the Credit Committee. Credit exposures above a certain level of liabilities as well as credits with the loan to collateral ratio exceeding the limits established by the Credit Policy are additionally approved by the Supervisory Board. The daily administration and monitoring of the credit exposures takes place in the Credit Division, following very detailed procedures. The procedures cover the analysis of loan taking into consideration the creditworthiness of the customer, previous credit history, financial condition, market conditions and other important factors affecting the credit risk. The Bank has internal risk rating system for managing, controlling and establishing limits for the credit portfolio.
Note 16 provides an overview of quantitative data and credit quality of the credit portfolio (including the composition of the credit portfolio by customer types and loan categories).

Collateral
General requirements for loan collaterals, corresponding decision making authorities according to collateral type, maximum allowed loan amounts and collateral ratios and maximum allowed amount of unsecured loans are set out by the Credit Policy. The collateral and collateral values are regularly monitored by the credit administration unit of the Bank.
Note 16 provides an overview an overview of the distribution of loans by collateral type.

Impaired loans
The loan is considered impaired if the party to transaction is overdue with payments for more than 90 days. The loan shall also be considered impaired in the case there is objective evidence that damage shall occur in future and such loss event has an impact on future estimated cash flows. The Bank writes off claims when the Bank determines that it is not possible or economically feasible for the Bank to recover the claim and where the proceeds from collateral are not sufficient to satisfy the claim. The credit committee reviews loans in arrears weekly. The adequacy of the amount of loan loss allowances are reviewed monthly.
Note 16 provides an overview of the past due and doubtful claims, value of collaterals of such loans, value of loans that have been written off, overdue claims by maturity structure, restructured loans and financial effect of the collateral of overdue loans.

Note 39 continued:

Counterparty credit risk
The Bank has a limit system for counterparty credit risk management. All counterparty risk limits, including total exposure, maximum maturity of deposits and acceptable foreign exchange risks are approved by the Management Board of the Bank. The counterparty credit risk analysis depends on the counterparty´s credit rating, country of location, amount of limit requested and other important factors which may affect counterparty risk.

Risk concentration
The Bank limits concentration of exposures to counterparties, countries of location and higher risk areas. Risk concentration is considered high if the liabilities and potential liabilities to the credit institution exceed 10% of the net own funds of the Bank (maximum limit allowed by law is 25% of net own funds). To ensure conservative approach and reduce the concentration risk, the Bank's maximum exposure limit set by the Credit Policy shall not exceed 10%. All exemptions to this limit shall be approved by the Supervisory Board. The maximum liabilities to the Bank of the Bank's related parties shall not exceed 4.5% of the Bank net own funds.
Note 32 provides an overview of the concentration of exposures by geographical areas.
Note 33 provides an overview of the concentration of exposures by sector of economy.
Note 16 provides an overview of the distribution of claims by remaining maturity.
Note 43 provides an overview of customers with high risk concentration.

Portfolios of debt securities
According the strategy for liquidity management and trading strategy the Bank continued to hold and develop available-for-sale portfolios of debt instruments in 2014. According to the risk policy of the Bank the trading portfolio of the Bank divides into two sub portfolios: available-for-sale portfolio of debt instruments and liquidity portfolio. The objective of the available-for-sale portfolio of debt securities is to earn additional income and contribute to the interest risk management. The objective of the liquidity portfolio is primarily to provide liquidity, ensure the compliance with the internal liquidity requirements of the Bank (liquidity buffer) and regulatory liquidity requirements (liquidity ratio).

The objective of the held-to-maturity portfolio of debt securities (investment portfolio) is to retain the value of capital and ensure a stable long-term interest income. In the reporting period the Bank did not have the held-to-maturity portfolio of securities.
The general limits and composition principles for portfolios of debt securities are set out by the Policy for Liquidity Management. The portfolios of debt securities are managed by the Treasury Department according to the Policy for Liquidity Management and trading strategy approved by the Management Board of the Bank.

Note 18 provides an overview of the available-for-sale portfolio of debt securities.

Liquidity risk

Liquidity risk is a risk arising from the Bank´s potential inability to meet its obligations when they come due without bearing significant costs thereby. Liquidity risk is the risk that the Bank will incur losses upon securing additional funds or is forced to obtain additional funds at unreasonably high cost. The liquidity risk is also expressed in the situation where the Bank incurs losses because it is unable to conduct transactions in the market or is forced to conduct transactions at far less favourable conditions than under normal conditions.
The Bank's policy upon managing liquidity risk is to ensure, as far as possible, that the Bank shall always have sufficient liquidity reserve to meet its liabilities, under both normal and stress situation such as without incurring unacceptably heavy losses or risking damage to the reputation of the Bank.
The Bank's liquidity management is the process of balancing the cash inflows and outflows across on- and off-balance sheet items, as well as cash flows across currencies and counterparties. The liquidity management includes the control of the maturity and currency mismatches of liquid assets

Note 39 continued:

and the management of liquid assets to ensure the availability of adequate cost-effective funding and the expedient use of funds.
Liquidity management also comprises the management of the Bank's balance sheet structure risk. Liquidity management includes the mitigation of currency risk, interest rate risk and asset-liability maturity mismatch risk through active hedging and position-taking strategies as well as using derivatives according to the prescribed rules. Furthermore, liquidity management involves setting the base rates for lending transactions, based on the internal transfer prices.

Liquidity management strategy

The key elements of the Bank´s liquidity strategy are as follows:

- holding a balanced funding base consisting of the deposits of retail customers, deposits of large customers and a contingency plan;
- holding a portfolio of high liquidity assets;
- monitoring liquidity ratios, maturity mismatches, structure of the Bank´s financial assets and liabilities;
- conducting stress testing of the Bank´s liquidity positions.

According to the policy the Bank maintains conservative liquidity management strategy and it is trying to avoid excessive liquidity risks by rather maintaining larger than average liquidity reserves. The minimum amount of liquidity reserves continually held by the Bank is defined by the Policy for Liquidity Management. The Bank shall conservatively assess its stock of liquid assets. The profit expectations shall not override the liquidity management requirements. The financial stability and proper assets-liabilities ratio is the first priority for the Bank.
To manage liquidity risk, the Bank monitors its assets and liabilities by continuously estimating the future cash flows by different maturities and by setting limits according to the estimated liquidity requirements.
The main source of financing for the Bank is the customers' deposits. To maintain proper funding structure the Bank shall ensure the well diversified and stable funding sources. The Bank carefully monitors and mitigates concentration of funding sources. Concentration risk shall also be taken into account in liquid assets management. The liquidity management strategy takes into account large concentration of funding sources as well as the level of highly volatile large customers' (demand) deposits.
During the whole year 2014 the Bank held a conservative liquidity position in compliance with the Policy for Liquidity Management.

Liquidity management organisation

The Supervisory Board determines the Bank´s liquidity and funding strategy and risk appetite by approving the Policy for Liquidity Management. The Management Board is responsible for the implementation of the liquidity and funding management strategies. Taking into account the size and complexity of the Bank, the Asset Liability Committee functions are performed by the Management Board of the Bank. The Money and Capital Markets Division has primary responsibility for the management of the Bank's liquidity, funding and assets-liabilities structure. At the operational level the Department of Liquidity Management is responsible for liquidity management, whose duties include:

a) daily management of the Bank's liquidity and liquidity buffers;
b) management of the liquidity portfolios;
c) management of funding sources and liabilities;
d) management of compulsory reserve;
e) management of currency positions and maturity gaps of assets-liabilities.

Liquidity management process

The liquidity management framework is designed to identify, measure and manage the liquidity positions of the Bank. Liquidity management starts from the intraday liquidity management. The Bank monitors and actively manages its intraday liquidity positions, risks related to settlements and the compulsory reserve requirements, thereby taking account of both normal and potential stress situation.

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Note 39 continued:

Upon short-term liquidity management the Bank shall ensure that he availability of an adequate level of unencumbered high-quality assets (liquidity buffer) that can be used to ensure liquidity during the survival period under the stress scenarios.
The aim of the strategic (long-term) liquidity management is to maintain sufficient liquidity buffers and liquidity ratios in the process of strategic planning, such as planning growth of credit or investment portfolio or rebalancing the balance sheet structure.
The Bank assesses as part of liquidity management its aggregate foreign currency liquidity needs, currency mismatches, differences in the duration of assets and liabilities by currencies, also considering potential changes in stress situations.
The Bank uses cash flow and assets-liabilities maturity gap analysis, financial ratios, sensitivity analysis and stress tests for liquidity measurement. The Bank conducts stress tests and liquidity scenarios modelling on a regular basis under a variety of stress scenarios.

The Bank uses a system of limits and liquidity buffers for liquidity risk mitigation. The size of liquidity buffers and the composition principles as well as liquidity limits are set by Policy for Liquidity Management.

Liquidity ratio
The Bank monitors, on a regular basis, the liquidity ratio in compliance with the requirements established by Regulation (EU) No 575/2013 of the European Parliament and of the Council (Banking Resolution). As of 31.12.2014 the liquidity ratio of the Bank was at the level of 140% (198% as of 31.12.2013). The liquidity ratio was 5.78% as of 31.12.2014.
Note 36 provides an overview of the maturity gap of the assets-liabilities of the Bank.

Market risk

Market risk may arise from changes in interest rates, foreign exchange rates, share prices and commodity prices, as well as other relevant parameters, primarily market volatility. Market risk is the risk that the market value of a portfolio will decrease due to the change of the market risk factors. In order to mitigate market risk the Bank has established limits for portfolios of debt securities and for open net foreign currency exposures. The Money and Capital Markets Division is responsible for market risk management.

Interest rate risk
The strategy of the Bank is to minimize exposure to the interest rate risk primarily by keeping interest rate sensitivity similar to the assets and liabilities of the Bank. Interest rate risk sensitivity analysis assesses the sensitivity of claims and liabilities with the interest rate fixation period of up to a year to +100 and + 200 basis points parallel shift of all the interest curves and its effect on profits. The analysis is based on the assets and liabilities interest sensitivity gaps that are periodised by interest fixation period and grouped by period. The effect is annualised by weighting interest sensitivity gaps through the average length of the respective period until the end of the year. Additionally the effect of cumulative current year interest sensitivity gap is assessed on next year´s profit. The Bank has adopted the additional interest risk measurement method (the Duration Gap method). The bank assesses separately the interest risk arising from the positions not included in the trading portfolio and the interest risk arising from all the positions of the Bank. The Bank monitors interest risk separately for all currencies with the share of over 50% in the Bank's assets. As of 31.12.2014 The volume of the Bank's USD based assets was over 5%.
Note 41 provides an overview an overview of interest positions, interest risk tests results and interest rate sensitivity analysis.

Foreign currency risk
The Bank's general strategy on foreign currency risk is conservative. The aim of currency risk management is to minimize open net foreign currency positions so that the Bank would not be sensitive to foreign currency rate changes. The Bank does not take speculative foreign currency positions.

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Note 39 continued:

Foreign currency risk is managed by setting conservative limits to all currencies and by monitoring the net open currency positions. Everyday assessment and management of the foreign currency risk is conducted by the Money and Capital Markets Division.
Note 40 provides an overview of the currency positions and foreign currency risk sensitivity analysis.

Operational risk

Operational risk is a risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems or external events. Operational risk is a risk (including legal risk) resulting from employees, contracts and documentation, technology, infrastructure, natural disasters, external influences and customer relationships. Operational risk does not include business and reputational risk. Operational risk may result from all of the Bank´s operations.
The Bank's operational risk strategy is to prevent and minimize losses and mitigate specific critical risks by which material losses arising from operational risk would exceed the acceptable level.

Operational risk management organization
The Management Board of the Bank coordinates the operational risk management. The obligation of day-to-day operational risk management lies with all the Bank's business divisions and infrastructure functions (operational risk owners). Risk management function monitors the cross-Bank operational risk to ensure the implementation of the operational risk strategy across the Bank as required. The Compliance Division acts as a consultative and controlling unit upon developing and updating new products, services and internal regulations. The internal audit is responsible for evaluating the sufficiency of current internal control systems and the efficiency of the control mechanisms, makes recommendations for improvements of the system and tests the operational reliability of the control systems.

Operational risk management process
The Bank uses several techniques for measurement, mitigation and monitoring operational risk:

- The process of identification and assessment of operational risks is based mainly on self-assessment of operational risks, which is performed periodically by all organizational divisions and the Management Board of the Bank.
- The operational risk loss events database is a tool for registration and analysis of actual and potential operational risk loss events. Analysis of the operational risk loss events can provide information of the causes of operational losses and may indicate to the areas where control environment failures are systematic.
- Risk indicators are used to monitor the operational risk profile and their change may be a signal which enables to respond to problems in a timely manner.
- All significant operational risk events are reported to the Management Board.
- Implementation of the compliance control to take account of the current legislation, regulatory requirements and recommendations in product development
- Availability of the business continuity plans.

The Bank has not registered any significant operational risk events in 2014. The overall level of operational risk has somewhat increased related to the growth of business volumes. The number of realised operational risk losses remained at the low level (0.7 thousand euros in 2014 and 3.4 thousand euros in 2013).

Capital management
The objective of the Bank is to maintain a stable capital base and conservative risk profile from the capital perspective and maintain adequate capital level to cover potential risks. In 2014 the Bank maintained a good level of capital ratios. As of 31.12.2014 the ratio of the Bank's Common Equity Tier 1 capital was 13.31 %, the ratio of Tier 1 capital is 15.98%
Note 39 continued:

(19% as of 31.12.2013) and the ratio of total own funds is 21.31% (28.26% as of 31.12.2013).

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Note 39 continued:

Own funds
In the year 2014, the Bank strengthened its Tier 1 capital base by issuing on 02.07.2014 subordinated instruments in the value of 2 million euros, which qualify as additional Tier 1 debt securities. Together with calculating the audited profit into the composition of own funds, the total volume of own funds of the Bank as of 31.12.2014 was 15.97MEUR (12.24 MEUR as of 31.12.2013).Tier 2 own funds of the Bank mainly consist of subordinated debt.
Note 42 provides an overview of calculating own funds, composition of own funds presented by different levels and deductions made from own funds.

Own funds requirements

Capital adequacy calculation principles
The Bank's capital adequacy considerations are based on provision of capital under the regulatory capital requirements which are added the additional capital requirement calculated in the process of the internal capital adequacy assessment process (ICAAP). The Bank uses the ICAAP procedures from 2008.The objective of the internal capital adequacy assessment process is to ensure the sufficient level of capitalization to cover the risks, including covering risks with regard to which the regulatory own funds requirements are not applied. The Bank assesses in the course of the ICAAP process the additional capital requirement with regard to all the risks identified by the Bank. At least once a year the Bank conducts stress tests for assessment of additional capital requirement.
According to the results of the ICAAP process the Bank allocates additional internal capital to cover market risk, operational risk and strategic and reputational risk of the debt securities portfolio. The Bank does not allocate additional internal capital to cover liquidity risk, in order to mitigate liquidity risk stress tests are conducted on regular basis on conservative assumptions, on the basis of which the minimum amount of the internal liquidity buffer is determined.
The Bank is subject to the supervisory review and evaluation process (SREP) by the Financial Supervision Authority, in the course of which an annual evaluation of the risk assessment, liquidity and capital requirements of the Bank is carried out by the Financial Supervision Authority.

The Bank uses a standard method for calculating regulatory own funds requirements for credit risk.
In order to calculate the risk weighted assets of the Bank all balance sheet and off-balance sheet risk positions are divided between classes of risk exposures established by Regulation (EU) No 575/2013 of the European Parliament and of the Council (Banking Resolution), followed by division by the credit quality step for determination of risk weights.

The Bank calculates the regulatory capital requirements for operational risk using the base method.

To calculate the regulatory capital requirements for market risk of the trading portfolio, the Bank uses the maturity-based approach to calculate the interest position for general risk and the specific risk capital requirement on the basis of the issuer, debtor, external rating and residual maturity. As the net open currency position of the Bank is less than 2% of the Bank's net own funds, the Bank is not required to calculate the regulatory capital requirement to cover the currency risk.

Pursuant to the requirements of Regulation (EU) No 575/2013 of the European Parliament and of the Council (Banking Resolution) and the Credit Institutions Act the ratios of own funds of the Bank, expressed in percentages of the overall risk position shall be as follows: Common Equity Tier 1 Capital ratio is 4.5 %, Tier 1 Capital ratio is 6% and the total own funds ratio is 8%. The capital adequacy of the Bank is 13.31%, Tier 1 Capital ratio is 15.98% and total own funds ratio is 21.31% (28.26% as of 31.12.2013).

Note 42 provides an overview of the Bank's own funds and risk-weighted assets. In the overview the assets are presented by methods used, credit quality classes, and capital requirements are separately presented for credit risk, market risk and operational risk capital requirements.

Note 39 continued:

Capital Buffers

In addition to regulatory and internal capital requirements the Bank holds additional capital buffers pursuant to the requirements provided for in the Credit Institutions Act and pursuant to requirements established by the regulations of the Governor of Eesti Pank. As of 31.12.2014 the amount of the systemic risk capital buffer was 1,495,816 euros (2% of the exposure calculated pursuant to Regulation (EU) No 575/2013 of the European Parliament and of the Council and the amount of countercyclical capital buffer 1,869,769 euros (2.5% of the exposure calculated pursuant to Regulation (EU) No 575/2013 of the European Parliament and of the Council, not taking account of the geographical distribution of the credit exposures). As of 31.12.2013 there were no capital buffer requirements.

Leverage

The risk of excessive leverage is a risk that results from too fast growth of obligations. The Bank monitors and analyses the risk of leverage on a regular basis. The leverage ratio was 5.78% as of 31.12.2014 (5.78% as of 31.12.2013).

Use of rating agencies

Upon calculation of capital requirements the Bank uses credit quality assessments of rating agencies Moody´s, Standard & Poor´s and Fitch Ratings for determination of credit quality steps according to the rules provided for in Regulation (EU) No 575/2013 of the European Parliament and of the Council (Banking Resolution) and the credit quality steps determined by the Financial Supervision Authority.

The Bank uses summary assessment derived from the assessments of the specified rating agencies upon calculation of capital requirements for the following credit risk exposure classes: a) claims against central governments or central banks; b) claims against local and regional governments; c) claims against public authorities; d) claims against multilateral development banks; e) claims against international organizations; f) claims against credit institutions and investment firms; and g) claims against credit institutions and investment firms and companies with short-term credit quality assessment/rating.

In addition the Bank uses the summary assessment derived from the assessments of the specified rating agencies in calculating own funds requirements for a specific risk of the trading portfolio.

Note 40: Foreign Currency Risk

31.12.2014

EUR ths.

	Balance sheet position		Off-balance sheet position		Net
	assets	liabilities	assets	liabilities	position
EUR position	128,919	106,979	4,581	14,678	11,843
USD position	123,725	132,703	16,672	7,862	-168
RUB position	1,134	984	2,654	2,802	2
SEK position	10	6	0	0	4
JPY position	1	0	0	0	1
GBP position	1,258	1,274	9	0	-6
NOK position	6	0	0	0	6
UAH position	1	9	0	0	-8
CHF position	768	1,301	534	0	1
RON position	1	0	0	0	1
PLN position	29	24	0	0	5

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Allkirjastatud identifitseerimiseks
Date/kuupäev......25.03.2015......
Signature/allkiri..........
KPMG, Tallinn

Note 40 continued:

31.12.2013

EUR ths.

	Balance sheet position		Off-balance sheet position		Net
	assets	liabilities	assets	liabilities	position
EUR position	81,961	71,917	7,770	7,924	9,890
USD position	60,095	60,201	7,930	7,816	8
RUB position	27	27	44	44	0
SEK position	162	160	0	0	2
GBP position	380	380	0	0	0

The net position of other currencies does not exceed 1% of own funds.

Net position in a currency is calculated by adding all balance sheet and off-balance sheet assets and liabilities, subject to changes in currency rates. Net position in a foreign currency is considered to be short if liabilities fixed in a foreign currency exceed the assets fixed in the same foreign currency; and long, when assets fixed in a foreign currency exceed the liabilities fixed in the same foreign currency.

Sensitivity analysis of foreign currency risks

The actual exposure of the Bank to foreign currency risks has increased compared to 31.12.2013, but has remained at a very low level. The simultaneous 10% change of all exchange rates in an adverse direction would cause additional expenses in the amount of 18.5 thousand euros (3.8 thousand euros as of 31.12.2013: i.e. the actual exposure of the Bank to foreign currency risks may still be considered irrelevant from the aspect of potential losses. 10% is an approximate VaR of the 10-days maintenance period with 99.9% confidence limits for the yearly volatility of 14%, which is the average volatility of correlation between currencies belonging to the Bank's open currency position, without regarding the potential negative intercorrelation of currencies.

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Date/kuupäev......25.03.2015......
Signature/allkiri......
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Note 41: Interest-Bearing Assets and Liabilities by Interest Repricing Period

EUR ths., as of 31.12.2014

Claims, liabilities	Note	up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	accrued claims - commitments	Total
Claims of the Bank		**209,882**	**5,607**	**6,854**	**11,978**	**6,091**	**11,751**	**758**	**252,921**
Claims to credit institutions	13,14,15	207,390	0	0	0	0	0	206	**207,596**
Claims to customers	16	2,492	4,779	1,836	1,258	5,238	7,462	324	**23,389**
Securities	17, 18	0	828	5,018	10,720	853	4,289	228	**21,936**
Bank's liabilities		**204,207**	**5,730**	**16,414**	**3,879**	**3,710**	**4,000**	**371**	**238,311**
Due to banks	23	2,580	400	0	0	0	0	0	**2,980**
Deposits	23	200,673	5,275	16,367	3,824	1,527	0	371	**228,037**
Subordinated debts evidenced by certificates	24	0	0	0	0	2,000	0	0	**2,000**
Subordinated debt	25	0	0	0	0	0	4,000	0	**4,000**
Other borrowings	26	0	55	47	55	183	0	0	**340**
Unused loan limits	34	954	0	0	0	0	0	0	**954**
Net		**5,675**	**-123**	**-9,560**	**8,099**	**2,381**	**7,751**	**387**	**14,610**

EUR ths., as of 31.12.2013

Claims, liabilities	Note	up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	accrued claims - commitments	Total
Claims of the Bank		**106,457**	**2,677**	**3,134**	**6,335**	**6,464**	**12,206**	**1,314**	**138,587**
Claims to credit institutions	13,14,15	105,850	0	0	0	0	0	110	**105,960**
Claims to customers	16	607	2,677	3,134	6,335	6,464	4,927	1,204	**25,348**
Securities	17, 18	0	0	0	0	0	7,279	0	**7,279**
Bank's liabilities		**100,843**	**3,691**	**16,864**	**4,972**	**2,133**	**4,000**	**284**	**132,787**
Due to banks	23	1,559	0	0	0	0	0	0	**1,559**
Deposits	23	99,235	3,650	16,815	4,910	2,036	0	284	**126,930**
Subordinated debt	25	0	0	0	0	0	4,000	0	**4,000**
Other borrowings	26	3	41	49	62	97	0	0	**252**
Unused loan limits	34	46	0	0	0	0	0	0	**46**
Net		**5,614**	**-1,014**	**-13,730**	**1,363**	**4,331**	**8,206**	**1,030**	**5,800**

Current note includes loan claims, where there is no legal claim to interest, as non-interest bearing claims.

Sensitivity analysis of interest rate risk

The Bank uses three methods for interest rate risk analysis and assessment. Based on interest rate sensitivity analysis by Basel standardised methodology for interest risk sensitivity assessment, the effect of a +200 bps change in interest rates on the economic added value of the Bank as of 31.12.2014 is positive in the amount of 878,083 euros (-46,084 euros as of 31.12.2013). According to the duration based method (Duration GAP) analysis, the +200 bps change of interest rate has a positive effect on the economic added value of the Bank in the amount of 755,714 euros or 0.4% of the own funds of the Bank (-50,255 euros as of 31.12.2013). The results of both of the tests may be considered to be relatively low risk level.

The Bank monitors separately on the basis of the same methods interest risk arising from the exposures not included in the trading portfolio. Based on interest rate sensitivity analysis by Basel standardised methodology for interest risk sensitivity assessment, the effect of a +200 bps change in interest rates on the economic added value of the Bank as of 31.12.2014 is positive in the amount of 1,890,321 euros (+810,154 euros as of 31.12.2013). According to the duration based method (Duration GAP) analysis, the +200 bps change of interest rate has a positive effect on the economic

Note 41 continued:

added value of the Bank in the amount of 1,936,395 euros (836,589 euros as of 31.12.2013). The results of both of the tests may be considered to be relatively low risk level.

The Bank analyses interest risk separately for all currencies with the share of over 5% in the Bank's assets. The volume of the USD based assets of the Bank exceeded 5% as of 31.12.2014. According to the duration based method (Duration GAP) analysis, the effect of +200 bps change of USD based assets and liabilities on the economic added value of the Bank is positive in the amount of 667,929 euros (313,542 euros as of 31.12.2013).

The interest rate risk stress test has also been performed as of 31.12.2014, where the effect of a 200 bps deposits interest curve shift to profit was measured, while the EURIBOR-based and fixed loan interest rates remained unchanged and the interest rate difference remained the same during the period of one year. Time deposits with the term up to one year, which would increase/extend to 200 bps higher interest rate upon maturity, were used as the basis for stress test. Considering that the Bank monthly adjusts loan interest rates for loan contracts connected with the Bank´s base interest rate in accordance with its actual interest expenses, the effect of deposit interest rise on net interest income is not expressed in the amount of loans tied with base interest rate. As of 31.12.2014 the balance of loans related to basic interest rate was 2,830 thousand euros as of 31.12.2014, by which the deposit volumes open to interest rate risk were adjusted during the stress test, and the appropriate effect of 200 bps interest curve rise was 263,911 euros (222,356 euros as of 31.12.2013).

Note 42: Capital Adequacy

	EUR ths.	EUR ths.
	31.12.2014	**31.12.2013**
Share capital paid-in	14,089	14,089
Other reserves	88	36
Accumulated deficit of the previous years	-3,484	-5,781
Revaluation of available-for-sale financial assets*	-548	0
Intangible assets	-170	-99
Total tier 1 own funds	**9,975**	**8,244**
Additional tier 1 capital	**2,000**	**0**
Subordinated debt	4,000	4,000
Second level equity	**4,000**	**4,000**
Minimum own funds	13,975	12,244
Tier 1 own funds after deductions	11,975	8,244
Tier 2 own funds after deductions	4,000	4,000
Own funds for capital adequacy calculations	**15,975**	**12,244**
Exposures to institutions under standard method	21	0
Exposures to corporates under standard method	230	1,162
Retail exposures under standard method	229	497
Exposures secured by mortgages on immovable property under standard method	280	977
Exposures in default under standard method	162	170
Exposures to institutions and corporates with a short-term credit assessment under standard method	3,431	263
Other items under standard method	230	397
Total capital requirement for credit risk and counterparty credit risk	**4,583**	**3,466**

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Date/kuupäev......25.03.2015......
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Note 42 continued:

Capital requirement for interest rate position risk	842	572
Total capital requirements for currency risk, commodity risk and trading portfolio position risk	**842**	**573**
Operational risk base method	571	294
Total capital requirement for operational risk	**571**	**294**
Capital requirements for adequacy calculations	**5,996**	**4,333**
Total capital ratio (%)	**21.31%**	**28.26%**
CET1 capital ratio (%)	**13.31%**	**19.03%**
Tier1 capital ratio (%)	**15.98%**	**19.03%**

* Until the final implementing legislation is the establishment of internal risk management and prudential requirements based on the calculation of the Financial Supervision general order.

** including credit institutions treated as corporations

Capital adequacy is calculated according with the European Parliament and Council Regulation (EU) no 575/2013, which came into force 01.01.2014. Minimum capital adequacy ratio is 8% (in year 2013 10%).

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Date/kuupäev......25.03.2015..........
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Note 42 continued: **Credit risk and counterparty credit risk report following the standard method**

EUR ths., 31.12.2014

	Balance sheet								Off-balance sheet							
	Initial value (gross)			Allowances and corrections (-)			Substitution effects of the credit protection (-)									
	Clamis	Loans	Bank's portfolio	Loan unamortised fees	Loan provisions	Debt security provisions	Credit risk mitigation	Financial collaterals	Loan limits	Letters of credit	Financial guarantees	Derivatives *	Credit risk mitigation	Risk weight	Risk-adjusted amount	after SME supprt factor **
Note:	13, 14, 15	16		16	16				34	34	34					
Central goverments and central banks	**13,441**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**		**0**	**0**	**0**		**0**	**0**
I rate credit quality	13,441													0%	0	0
Institutsioonid	**1,237**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**86**	**0**		**265**	**265**
Unrated	1,237											86		20%	265	265
Corporates	**5**	**5,751**	**0**	**0**	**0**	**0**	**-3,123**	**0**	**0**	**0**	**0**	**242**	**0**		**2,878**	**2,878**
III ja IV rate credit quality		5,751					-3,123					242		100%	2,870	2,870
V ja VI rate credit quality	5													150%	8	8
Retail exposures	**0**	**5,164**	**0**	**-111**	**-16**	**0**	**0**	**-15**	**0**	**0**	**0**	**0**	**0**		**3,767**	**2,870**
Claims up to EUR 1 mln		5,164		-111	-16			-15						75%	3,767	2,870
Exposures secured by mortgages on immovable property	**0**	**10,321**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**		**4,593**	**3,500**
For exposures secured by mortgages on residential property		3,781												35%	1,323	1,008
For exposures secured on commercial immovable property		6,540												50%	3,270	2,491
Exposures in default	**0**	**1,889**	**0**	**0**	**-478**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**		**2,019**	**2,019**
III ja IV rate credit quality		645			-450									100%	195	195
V ja VI rate credit quality		1,244			-28									150%	1,824	1,824
Exposures to institutions and corporates with a short-term credit assessment	**193,578**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**824**	**62**	**-824**		**42,884**	**42,884**
I rate credit quality	185,493											62		20%	37,111	37,111
II rate credit quality	5,439													50%	2,720	2,720
III ja IV rate credit quality	1,831										824		-824	100%	1,831	1,831
V ja VI rate credit quality	815													150%	1,223	1,223
Other items	**2,880**	**0**	**6**	**0**	**0**	**-3**	**0**	**0**	**954**	**0**	**0**	**0**	**0**		**2,870**	**2,870**
Cash	204													0%	0	0
Property and equipment	2,100													100%	2,100	2,100
Prepayments and prepaid expenses	576													100%	576	576
Investments to shares of other companies, not deducted from own funds			6			-3								100%	3	3
Loan limits and overdraft limits with contractual maturity up to 1 year (can not be terminated by one party)									954					20%	191	191
Kokku	**211,141**	**23,125**	**6**	**-111**	**-494**	**-3**	**-3,123**	**-15**	**954**	**0**	**824**	**390**	**-824**			
														TOTAL RISK-WEIGHTED ASSETS	**59,275**	**57,284**

*Position open to credit risk of derivatives is calculated in fair value method based on notional value of risk position.

** Capital requirements for credit risk on exposures to SMEs shall be multiplied by factor 0.7619. The exposures shall be included either in the retail or in the corporates or secured by mortgages on immovable property classes. Exposures in default shall be excluded.

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Date/kuupäev 25.03.2015
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Note 42 continued: **Credit risk and counterparty credit risk report following the standard method**

EUR ths., 31.12.2013

	Balance sheet								Off-balance sheet						
	Initial value (gross)			Allowances and corrections (-)			Substitution effects of the credit protection (-)								
	Clamis	Loans	Bank's portfolio	Loan unamortised fees	Loan provisions	Debt security provisions	Credit risk mitigation	Financial collaterals	Loan limits	Letters of credit	Financial guarantees	Derivatives *	Credit risk mitigation	Risk weight	Risk-adjusted amount
Note:	13, 14, 15	16		16	16				34	34	34				
Central goverments and central banks	**48,228**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**		**0**	**0**	**0**		**0**
I rate credit quality	48,228													0%	0
Institutsioonid	**58,019**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**950**	**0**	**65**	**-950**		**11,617**
I rate credit quality	58,019											65		20%	11,617
II rate credit quality										950			-950	50%	0
Corporates	**0**	**7,285**	**1**	**0**	**0**	**0**	**-2,420**	**0**	**0**	**0**	**13**	**108**	**-13**		**4,974**
III ja IV rate credit quality		7,285	1				-2,420					108		100%	4,974
V ja VI rate credit quality											13		-13	150%	0
Retail exposures	**0**	**13,217**	**0**	**-26**	**-165**	**0**	**0**	**-10**	**0**	**0**	**0**	**0**	**0**		**9,762**
Claims up to EUR 1 mln		13,217		-26	-165			-10						75%	9,762
Exposures secured by mortgages on immovable property	**0**	**2,648**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**		**1,702**
For exposures secured by mortgages on residential property		1,455												35%	509
For exposures secured on commercial immovable property		1,193												100%	1,193
Exposures in default	**0**	**4,668**	**0**	**0**	**-2,701**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**		**2,631**
III ja IV rate credit quality		3,311			-2,671									100%	640
V ja VI rate credit quality		1,357			-30									150%	1,991
Other items	**4,073**	**0**	**6**	**0**	**0**	**-3**	**0**	**0**	**46**	**0**	**0**	**0**	**0**		**3,975**
Cash	110													0%	0
Property and equipment	3,532													100%	3,532
Prepayments and prepaid expenses	431													100%	431
Investments to shares of other companies, not deducted from own funds			6			-3								100%	3
Loan limits and overdraft limits with contractual maturity up to 1 year (can not be terminated by one party)									46					20%	9
Kokku	**110,320**	**27,818**	**7**	**-26**	**-2,866**	**-3**	**-2,420**	**-10**	**46**	**950**	**13**	**173**	**-963**		
														TOTAL RISK-WEIGHTED ASSETS	**34,661**

*Position open to credit risk of derivatives is calculated in fair value method based on notional value of risk position.

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Allkirjastatud identifitseerimiseks
Date/kuupäev....25.03.2015....
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Note 42 continued:

Information Disclosed on Capital Adequacy

The Bank follows the principles set by the Regulation (EU) No 575/2013 of the European Parliament and of the Council and the Estonian Credit Institutions Act in determining and calculating the composition of own funds, as well as calculating the deductions and limits from own funds.

To calculate risk-weighted assets all balance sheet and off-balance sheet exposures are divided between classes of exposures provided for in the Credit Institutions Act, followed by a division to respective steps of credit quality in order to establish risk weights. Upon calculation of capital requirements the Bank uses credit quality assessments of rating agencies Moody´s, Standard & Poor´s and Fitch Ratings for determination of credit quality steps according to the rules provided for in Regulation (EU) No 575/2013 of the European Parliament and of the Council (Banking Resolution) and the credit quality steps determined by the Financial Supervision Authority.

The Bank considers the following transactions subject to funded credit protection in calculation of the credit risk capital requirement, with the prior assessment each time that they are in compliance with the conditions for recognizing financial collaterals as set by the Regulation (EU) No 575/2013 of the European Parliament and of the Council (Banking Resolution): 1) On-balance sheet netting – recognised by agreement as an each time decision; 2) Financial collaterals – recognised depending on the type of underlying asset.
The Bank accepts as financial collateral: 1) cash on deposit and cash equivalents deposited in the Bank; 2) shares and convertible debt instruments listed in the main list on recognised stock exchanges and debt instruments meeting the requirements stipulated in Regulation (EU) No 575/2013 of the European Parliament and of the Council. The Bank includes only such financial collaterals in the calculation of the credit risk capital requirement, the remaining maturity of which is at least equal to the remaining maturity of the secured risk position. The Bank uses the comprehensive method for calculating the effect of the financial collateral.

The Bank considers the following unfunded credit risk protection facilities in calculation of the credit risk capital requirement, with the prior assessment each time that they are in compliance with the requirements for recognising unfunded credit protection transactions and credit as set by the Regulation (EU) No 575/2013 of the European Parliament and of the Council:
1) Unfunded credit protection transactions - recognised by agreement as an each time decision or by protection provider, when the credit risk protection is provided by each time standard agreement;
2) Credit derivatives – recognised by transaction as an each time decision.

Credit risk mitigation transactions taken into account as of 31.12.2014 and 31.12.2013 were financial collaterals in the form of cash deposited with the Bank and eligible financial collaterals used in reverse repo transactions pursuant to Regulation (EU) No 575/2013 of the European Parliament and of the Council. The Bank has not used unfunded credit protection transactions or credit derivatives as of 31.12.2014 and 31.12.2013.

The Bank applies the standard principles provided for in the Estonian Credit Institutions Act and Regulation (EU) No 575/2013 of the European Parliament and of the Council in calculating the instruments included in the trading portfolio and counterparty credit risk.

Equity investments acquired to the bank portfolio under strategic purposes are classified by each time decision of the Management Board of the Bank.

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Date/kuupäev......25.03.2015..........
Signature/allkiri..........................
KPMG, Tallinn

Note 43: Concentration of Risks

			31.12.2014
	no.	EUR ths.	% of net own funds
Number of customers (client groups) with high risk concentration *	26		
Due from customers with high risk concentration		200,843	1257.25%
Due from persons related with credit institution		27	0.17%

			31.12.2013
	no.	EUR ths.	% of net own funds
Number of customers (client groups) with high risk concentration	18		
Due from customers with high risk concentration		63,622	519.61%
Due from persons related with credit institution		493	4.03%

* Concentration of risks is high, when a risk position of a customer or group of connected persons exceeds 10% of own funds of credit institution.

The maximum allowed risk concentration limit by the central bank of 25% of net own funds was not breached for any customers as of 31.12.2014 and as of 31.12.2013.

Note 44: Fair value of financial assets and liabilities

Financial instruments not measured at fair value

					as of 31.12.2014
	EUR ths.	EUR ths.	EUR ths.	EUR ths.	EUR ths.
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
ASSETS					
Cash	204	0	0	204	204
Balances with central bank	13,441	0	0	13,441	13,441
Due from other credit institutions	193,951	0	0	193,951	193,951
Due from customers	869	0	22,275	23,144	23,389
Other assets	0	0	591	591	591
TOTAL ASSETS	**208,465**	**0**	**22,866**	**231,331**	**231,576**
LIABILITIES					
Due to credit institutions	2,980	0	0	2,980	2,980
Due to customers	196,372	0	32,081	228,453	228,037
Subordinated debt	0	0	3,011	3,011	2,513
Borrowed funds from goverment and foreign aid	0	0	327	327	340
Other liabilities	0	0	7,142	7,142	7,142
TOTAL LIABILITIES	**199,352**	**0**	**42,561**	**241,913**	**241,012**

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Date/kuupäev........25.03.2015..........
Signature/allkiri..........
KPMG, Tallinn

Note 44 continued:

	as of 31.12.2013				
	EUR ths.	EUR ths.	EUR ths.	EUR ths.	EUR ths.
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
ASSETS					
Cash	110	0	0	110	110
Balances with central bank	48,228	0	0	48,228	48,228
Due from other credit institutions	57,622	0	0	57,622	57,622
Due from customers	397	0	26,699	27,096	25,322
Other assets	0	0	431	431	431
TOTAL ASSETS	**106,357**	**0**	**27,130**	**133,487**	**131,713**
LIABILITIES					
Due to credit institutions	1,559	0	0	1,559	1,559
Due to customers	95,972	0	31,328	127,300	126,930
Subordinated debt	0	0	3,413	3,413	3,067
Borrowed funds from goverment and foreign aid	0	0	245	245	252
Other liabilities	0	0	900	900	900
TOTAL LIABILITIES	**97,531**	**0**	**54,630**	**152,161**	**132,708**

Assets and Liabilities Measured at Fair Value

	as of 31.12.2014			
	EUR ths.	EUR ths.	EUR ths.	EUR ths.
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value trough profit and loss				
Financial assets held for trading				
Equity securities	3	0	0	3
Derivative financial instruments	146	0	0	146
Available-for-sale financial assets				
Debt securities	21,936	0	0	21,936
Equity securities	0	0	3	3
Total assets	**22,085**	**0**	**3**	**22,088**
Financial liabilities at fair value trough profit and loss				
Derivative financial instruments	84	0	0	84
Total liabilities	**84**	**0**	**0**	**84**

	as of 31.12.2013			
	EUR ths.	EUR ths.	EUR ths.	EUR ths.
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value trough profit and loss				
Financial assets held for trading				
Equity securities	1	0	0	1
Derivative financial instruments	15	0	0	15
Available-for-sale financial assets				
Debt securities	7,279	0	0	7,279
Equity securities	0	0	3	3
Total assets	**7,295**	**0**	**3**	**7,298**
Financial liabilities at fair value trough profit and loss				
Derivative financial instruments	10	0	0	10
Total liabilities	**10**	**0**	**0**	**10**

Note 44 continued:

Levels used in hierarchy:
Level 1 – price quoted on active market
Level 2 – price based on indication of market price of similar transactions, rates or interest curves
Level 3 – other valuation methods (e.g. method of discounted cash flows)

Valuation techniques used in measuring Level 3:

Type	Valuation technique	Significant unobservable inputs
Available-for-sale financial assets	Discounted cash flows	Discount rates

Management is of opinion that the fair value of other financial assets and financial liabilities, which have arised during usual business activities and are short term, does not differ significantly from their carrying value. These assets and liabilities do not bear interest.

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Date/kuupäev....25.03.2015....
Signature/allkiri....
KPMG, Tallinn

SIGNATURES OF THE MANAGEMENT BOARD TO THE ANNUAL REPORT 2014

The Annual Report 2014 of Versobank AS is signed by:

Riho Rasmann	Chairman of the Management Board	23032015	
Mart Veskimägi	Member of the Management Board	23.03.2015	
Marija Sutirina	Member of the Management Board	23.03.2015	

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Independent Auditors' Report

(Translation of the Estonian original)

To the shareholders of Versobank AS

We have audited the accompanying financial statements of Versobank AS, which comprise the statement of financial position as at 31 December 2014, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 65.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements present fairly, in all material respects the financial position of Versobank AS as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 25 March 2015

/signature/

Taivo Epner
Certified Public Accountant
Licence No 167

KPMG Baltics OÜ
Licence No 17

PROFIT DISTRIBUTION PROPOSAL OF THE MANAGEMENT BOARD

The Management Board of Versobank AS approved the profit of Versobank AS for the financial year 2014 in the amount of 2,245,940.15 euros. The Management Board's proposal to the General Meeting of Shareholders is not to pay dividends, appropriate 112,297.01 euros to the statutory reserve capital and record 2,133,643.14 euros under the balance sheet heading "Accumulated deficit".

Riho Rasmann Chairman of the Management Board 23.03.2015

Mart Veskimägi Member of the Management Board 23.03.2015

Marija Sutirina Member of the Management Board 23.03.2015