Versobank AS

ANNUAL REPORT 2015

(TRANSLATION FROM ORIGINAL IN ESTONIAN)

Beginning of reporting year	01.01.2015
End of reporting year	31.12.2015

Registry code	10586461
Address	Pärnu mnt 12, 10148 Tallinn, Estonia
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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	Eero Kaup

Report Data

Balance sheet date of report	31.12.2015
Report period	01.01.2015 – 31.12.2015
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

Founded in 1999, Versobank AS is a credit institution registered and operating in Estonia. Versobank AS (hereinafter: the Bank) holds an activity license issued by Eesti Pank, enabling the Bank to effect all banking transactions. The Bank has the status of an account operator with the Estonian Central Register of Securities, is a member of S.W.I.F.T. and a full member of Visa Europe. The Bank has joined the SEPA (Single Euro Payments Area) systems and the cross-border settlement system TARGET2-Eesti as an indirect member. Versobank AS has been a member of the Estonian Banking Association since March 2014.

The shareholder with a holding over 10% in Versobank AS as at 31 December 2015, and as at the date of the preparation of the report, is:
85.2622% shares are held by UKRSELHOSPROM PCF LLC (offices in Dnipropetrovs'k, Ukraine).

In 2015, given the growth of Versobank AS and the additional need for capital, with the 13 August 2015 decision of its Management Board Versobank AS initiated a bond programme for subordinated instruments as part of its Tier 1 own funds with a total value of EUR 4,000,000.00, which resulted in the issue of EUR 3,000,000.00 of bonds throughout 2015.

The Bank's Supervisory Board included five members as at the date of the report and as at the date of the preparation of the report. The Chairman of the Supervisory Board is Mr Oleksandr Rechytskyi, and its Members include Mr Vadym Iermolaiev, Mr Stanislav Vilenskyy, Mr Härmo Värk and Mr Vladimirs Fogels.

The Bank's Management Board included three members as at the date of the report and as at the date of the preparation of the report. The Chairman of the Management Board is Riho Rasmann, and its Members include Mr Mart Veskimägi and Ms Marija Sutirina. The Chairman or Members of the Management Board do not have holdings or options to acquire holdings in the Bank.

The Bank does not own any companies where its holding is over 20%. The Bank owned 16% of the business development company European Business Development AS, but European Business Development was deleted from the commercial register on 18 January 2016.

Description of Economic Environment

The 2015 economic environment was affected, on the one hand, by the continuation of lax monetary policies on most markets and, on the other, by the expectation of an interest rate hike by the United States. In particular, instability was added by increased risks in relation to developing markets due to the continued decline in commodity prices. In the second half of the year, volatility on stock markets increased, and the decline set off by the Chinese market also spread to major stock markets.

Bond markets were characterised by a continued decline in euro interest rates and a growth expectation for dollar interest rates. The widening interest rate gap between the euro and the dollar also affected the exchange rate between these currencies, and, as a result, the euro continued to depreciate, whereas the dollar continued to appreciate. High volatility on financial markets and the decline in commodity prices also impacted bond markets, sending bonds with lower ratings, those of developing markets and, particularly, those of issuers linked to the commodities sector into a rapid decline.

Of the Bank's target markets, Estonia and the euro zone more broadly were affected by the lax monetary policy of the European Central Bank and by the resulting negative interest rates. From the autumn of 2015, the 6 month EURIBOR, an indicator for the interbank market and one of the main loan base rates in Estonia, also dipped into negative territory. The decline in base rates, in turn, has resulted in a decrease in interest income earned by banks. On the other hand, low interest rates together with income growth have accelerated the rise in real estate prices and boosted borrowing. Also, low interest rates have affected the structure of banks' deposits, which has become more short-term, with a significant increase in the proportion of demand deposits.

Overall, Estonia's economy was in particular affected by uncertainty on its export markets, which was at the same time outweighed by growth in private consumption due to growth in household income. However, the effect on Estonia's economy of the shock due to the sanctions on Russia and the economic collapse there remained modest, being mostly limited to individual sectors such as dairy. Russia's economy was in particular affected by sanctions, the depreciation of the rouble due to the drop in the sharp plunge in the price of oil, and by decreased domestic demand. Export, too, decreased significantly. The depreciation of the rouble has also led to a double-digit rise in inflation, which in turn limits private consumption due to a decrease in effective incomes. All this taken together exacerbated the economic recession; however, by year's end, certain signs of stabilisation were already visible.

At the same time, the main risks going forward are related to the potential continued decline in the price of oil and the resulting impacts as well as geopolitical developments in Ukraine and the Middle East. In 2015, Ukraine's economy remained in a deep recession; however, the last quarters of the year showed certain signs of stabilisation there, with the rate of economic decline slowing down. The country remains fully dependent on aid from the IMF, at the same time getting caught up in political difficulties with the implementation of required reforms. At the end of the year, Ukraine was unable to repay a Russian loan of USD 3 billion, further straining the relations between the two countries and entailing a protracted court battle. Risks in Ukraine going forward mainly relate to the frozen conflict in the east of the country, an unstable banking sector, and an overall high level of debt.

Major Economic Events

For the Bank, 2015 was a year of rapid growth. In terms of client numbers and the volume of operations, expectations for the organisation were exceeded significantly, reaching the highest annual profit to date with the support of increased service fees and currency transaction revenues.

Year on year, the number of the Bank's clients has grown by 15.7% (growth of 13.6% the year before). The volume of clients' deposits continued to grow rapidly, increasing 39.9% year on year. As at 31 December 2015, clients' deposits amounted to EUR 319 million (31 December 2014: EUR 228.0 million). Foreign currency demand deposits of non-resident business clients have grown most. Year on year, the Bank's balance sheet total has grown

38.3%, reaching EUR 353.97 million as at 31 December 2015 (31 December 2014: EUR 255.92 million).

As at the end of the reporting period, the gross loan portfolio (except for deposits at financial institutions) was EUR 29.6 million (31 December 2014: EUR 23.1 million), growing 28.4% year on year (decrease 17% the year before) and accounting for 8.4% of the assets (31 December 2014: 9%). In 2015, EUR 0.15 million in non-performing receivables were written off (2014: EUR 2.37 million). The quality of the loan portfolio continues to improve, as manifested in the reduction in loan provisions. The Bank continues to have significantly more deposits than loans: the ratio of deposits to loans as at the end of 2015 was 10.75 (9.86 as at 31 December 2014).

Net profit for 2015 amounted to EUR 4.72 million (net profit for 2014: EUR 2.25 million). In order to diversify sources of income, the Bank continued to invest in bonds recognised under available-for-sale financial assets. The net interest income for the reporting period proved EUR 1.25 million (2014: EUR 950,000). Net service fee income proved EUR 5.48 million (2014: EUR 3.16 million), mainly due to growth in the volume of the settlement of payments. Currency transactions generated EUR 3.65 million (2014: EUR 2.34 million). In total, banking activities (except for loan losses) generated EUR 10.16 million in 2015, compared to EUR 5.8 million the year before. In 2015 and 2014, administrative costs were EUR 5.1 million and EUR 3.6 million, respectively.

The Bank's return on equity as at 31 December 2015 was EUR 16.84 million, and the regulatory adequacy of its capital was 21.50% (31 December 2014: EUR 12.6 million, capital adequacy 21.31%).

The Bank has branches in Dnipropetrovs'k and Kiev, Ukraine, and in Riga, Latvia. The Bank continues to expand in Ukraine and other CIS States, with expansion to Limassol, Cyprus, completed in 2015 through a network of representatives. The Bank continues to devote a great deal of attention to expanding its network of correspondent banks for the purposes of improving liquidity management and services. In order to serve its clients better and faster, the Bank has opened several new correspondent accounts and expanded the list of foreign currencies used. The Bank is a permanent member of Visa Europe and has been issuing VISA bank cards (Classic, Gold, Platinum and Business) since 2014. The Bank has joined the MasterCard system and developed the technical and legal readiness to provide Acquiring services.

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 2015 (in the year 2014: 2). The total of 80 thousand euros of membership fees was calculated in 2015 (the total of 63 thousand euros in 2014).

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 254 thousand euros in 2015, of employees 2,226 thousand euros. The calculated salaries of the members of the Management Board totalled 247 thousand euros in 2014, of employees 1,380 thousand euros. No performance fees nor resignation compensations (redundancy payments at amounts higher than mandatory by law) have been paid in 2015 and 2014, no payments have been made in connection with employment commencement either. There are no accrued unpaid performance fees. The average number of employees was 95 in year 2015 (67 year earlier), number of employees at the end of 2015 was 114 (72 at the end of 2014). 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

		2015	2014
Return on equity	ROE	32.11%	19.97%
Equity multiplier	EM	20.73	17.71
Profit margin	PM	35.81%	28.00%
Asset utilisation	AU	4.32%	4.03%
Return on assets	ROA	1.55%	1.13%
Net interest margin	NIM	0.42%	0.48%
Basic earnings per share	Basic EPS	0.20	0.10
Diluted earnings per share	Diluted EPS	0.20	0.10
Spread	SPREAD	0.40%	0.46%
Yield on interest-earning assets	YIEA	0.72%	0.80%
Cost of interest-bearing liabilities	COL	0.22%	0.34%

Explanations to ratios

ROE	Net profit (loss) / Average equity * 100
Average equity	(Equity of current end year as at 31.12.2015 + Equity of previous year end as at 31.12.2014)/2
EM	Average assets / Average equity
Average assets	(Assets of current year end as at 31.12.2015 + Assets of previous year end as at 31.12.2014)/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 2015

Statement of Comprehensive Income

	Note	EUR ths. 2015	EUR ths. 2014
Interest income	1	1,868	1,570
Interest expense	2	-615	-626
Net interest income		**1,253**	**944**
Fee and commission income	3	7,293	3,995
Fee and commission expense	4	-1,811	-837
Net fee and commission income		**5,482**	**3,158**
Net trading gains	5	**3,802**	**2,375**
Other operating income	6	**120**	**67**
Other operating expenses	7	**-494**	**-698**
Total operating income		**10,163**	**5,846**
Administrative expenses		**-5,073**	**-3,624**
Personnel expense	8	-2,619	-1,797
Payroll related taxes	9	-779	-565
Other administrative expenses	10	-1,675	-1,262
Depreciation and amortisation of tangible and intangible assets	11	**-128**	**-85**
Provisions		**72**	**243**
Operating profit before allowances		**5,034**	**2,380**
Impairment loss on assets	12	**-312**	**-134**
NET PROFIT FOR THE PERIOD		**4,722**	**2,246**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss			
Net change in revaluation reserve of available-for-sales financial assets		**-335**	**-150**
COMPREHENSIVE PROFIT FOR THE PERIOD		**4,387**	**2,096**
Basic and diluted earnings per share	37	0.20 EUR	0.10 EUR

The accounting policies on pp. 14-24 and notes to the financial statements on pp. 25-68 form an integral part of the Financial Statements.

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Statement of Financial Position

	Note	EUR ths. 31.12.2015	EUR ths. 31.12.2014
ASSETS			
Cash	13	**181**	**204**
Loans and advances		**289,553**	**230,781**
Balances with central bank	14	23,210	13,441
Due from other credit institutions	15	236,431	193,951
Due from customers	16	29,912	23,389
Financial assets held for trading	17	**152**	**149**
Available-for-sale financial assets	18	**61,362**	**21,939**
Property and equipment	19	**448**	**164**
Investment properties	20	**1,022**	**1,936**
Intangible assets	21	**211**	**170**
Other assets	22	**1,043**	**591**
TOTAL ASSETS		**353,972**	**255,934**
LIABILITIES			
Financial liabilities held for trading	17	**162**	**84**
Financial liabilities measured at amortised cost		**327,366**	**235,870**
Due to credit institutions	23	488	2,980
Due to customers	23	319,006	228,037
Subordinated debts evidenced by certificates	24	5,000	2,000
Subordinated debt	25	2,634	2,513
Borrowed funds from government and foreign aid	26	238	340
Provisions	27	**0**	**72**
Tax liabilities	28	**154**	**191**
Other liabilities	29	**9,449**	**7,142**
TOTAL LIABILITIES		**337,131**	**243,359**
SHAREHOLDERS' EQUITY			
Share capital	30	14,089	14,089
Other equity instruments	25	1,366	1,487
Statutory reserve capital	30	200	88
Fair value reserve of available-for-sale financial assets	18	-883	-548
Retained earnings		2,069	-2,541
TOTAL SHAREHOLDERS' EQUITY		**16,841**	**12,575**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**353,972**	**255,934**

The accounting policies on pp. 14-24 and notes to the financial statements on pp. 25-68 form an integral part of the Financial Statements.

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Statement of Cash Flows

	Note	EUR ths. 2015	EUR ths. 2014
Cash flows from operating activities		**86,850**	**113,429**
Interests received		1,796	1,888
Interests paid		-681	-539
Fees and commissions received		7,511	3,967
Fees and commissions paid	4	-1,811	-837
Administrative expenses		-5,262	-3,675
Trading income received	5	3,802	2,375
Other operating income		198	67
Other operating expenses	7	-494	-698
Change in operating assets and liabilities:			
Mandatory reserve in central bank		-1,290	-636
Loans and advances to customers		-6,574	1,546
Due to credit institutions		-2,492	1,421
Due to customers		91,035	101,020
Other assets and liabilities		1,112	7,530
Cash flows from investing activities		**-38,812**	**-14,517**
Purchase of property and equipment	19	-376	-56
Purchase of intangible assets	21	-77	-84
Investment properties sold	20	852	1,061
Debt securities purchased	18	-64,842	-18,538
Debt securities sold	18	25,631	3,100
Cash flows from financing activities		**2,898**	**2,088**
Subordinated debt evidenced by certificates received		3,000	2,000
Other borrowings received	26	0	201
Borrowings repaid		-102	-113
Total cash flows		**50,936**	**101,000**
Cash and cash equivalents at the beginning of year		**206,021**	**105,021**
Net change in cash and cash equivalents		**50,936**	**101,000**
Cash and cash equivalents at the end of the year *		**256,957**	**206,021**

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

	Note	EUR ths. 2015	EUR ths. 2014
Cash	13	181	204
Balances with the central bank without mandatory reserve	14	20,345	11,866
Deposits with credit institutions with original maturity of less than 3 months	15	236,431	193,951
Total		**256,957**	**206,021**

The accounting policies on pp. 14-24 and notes to the financial statements on pp. 25-68 form an integral part of the Financial Statements.

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Statement of Changes in Equity

	Share capital	Other equity instruments	Statutory reserve capital	Fair value reserv of available -for-sale financial assets	Accumulated losses/ retained earnings	Total equity
Year beginning 01.01.2014	**14,089**	**933**	**36**	**-398**	**-4,735**	**9,925**
Equity component of subordinated debt	0	554	0	0	0	554
Reserve capital	0	0	52	0	-52	0
Revaluation	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**

	Share capital	Other equity instruments	Statutory reserve capital	Fair value reserv of available -for-sale financial assets	Accumulated profit	Total equity
Year beginning 01.01.2015	**14,089**	**1,487**	**88**	**-548**	**-2,541**	**12,575**
Equity component of subordinated debt	0	-121	0	0	0	-121
Reserve capital	0	0	112	0	-112	0
Revaluation	0	0	0	-335	0	-335
Net profit	0	0	0	0	4,722	4,722
Final balance 31.12.2015	**14,089**	**1,366**	**200**	**-883**	**2,069**	**16,841**

Additional information in Note 30.

The accounting policies on pp. 14-24 and notes to the financial statements on pp. 25-68 form an integral part of the Financial Statements.

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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 21 March 2016. 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 2015 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.

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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 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".

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.

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

Income tax assets and liabilities as well as income tax costs and revenues include payable and deferred income tax. Income tax payable is presented as a short-term asset or liability, whereas deferred income tax is presented as a long-term asset or liability.

According to the laws of the Republic of Estonia, corporate profit for the accounting year is not subject to taxation in Estonia. Income tax is paid on dividends, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. The applicable tax rate is 20%; the amount of tax payable is 20/80 of the net disbursement.

Because of the particular nature of the taxation system, no temporary differences are created in the taxation values versus the residual book values of assets and liabilities, and, accordingly, no deferred income tax assets or liabilities are created.

Corporate income tax paid on dividends is recognised as an income tax expense and liability when the dividends are declared, regardless of the period for which the dividends are declared or of when the dividends are actually disbursed. The income tax liability is due on the 10th day of the month following the payment of dividends.

The maximum income tax liability created if all free equity capital were paid out in dividends is disclosed in Note 34 to the annual accounts.

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.

Impact of new standards, amendments to existing standards and new interpretations of standards on financial reporting

The Bank's financial accounts were not affected by the amendments to and new interpretations of standards that took effect on 1 January 2015:

- IFRIC 21 Fees

- Annual improvements to IFRSs

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

The following new standards and interpretations do not apply to the annual report period ended on 31 December 2015, and, accordingly, these have not been applied in the preparation of these financial statements:

Amendments to the standard IAS 1

The amendments to the standard IAS 1 set out five detailed further developments of the disclosure requirements set out in the standard.

Instructions concerning the principle of relevance have been changed in the standard IAS 1. It is explained that:

- irrelevant information may decrease the effect of relevant information;
- the principle of relevance applies to financial accounts in their entirety;
- the principle of relevance applies to all the disclosure requirements under the IFRS standards;
- instructions concerning the ordering of notes (including notes describing the accounting policies) have been changed;
- removed from the standard IAS 1 is wording which has been interpreted as the issuance of a prescription concerning the ordering of notes to financial accounts;
- companies can decide for themselves where precisely in their financial accounts policies they disclose the accounting policies.

In the Bank's assessment, the amendments, when first implemented, will not significantly affect the manner of the presentation of the Bank's financial accounts.

Standards IAS 16 and IAS 38 amendments "Explanation of permissible depreciation and amortisation methods"

The amendments explicitly state that revenue-based methods may not be used for the calculation of the depreciation of tangible assets.

The amendments introduce the contestable assumption that it is not correct to use revenue-based amortisation methods in case of intangible assets. This assumption may become invalid only when there is a strong correlation between income and the consumption of economic benefits received from intangible assets or if intangible assets are recognised as an indicator of income.

In the Bank's assessment, the amendments, when first implemented, will not significantly affect the Bank's financial accounts, since the Bank does not apply the methods of revenue-based depreciation or amortisation methods.

Annual improvements

In December 2013, the International Accounting Standards Board (IASB) published the "Annual Improvements to International Financial Reporting Standards (IFRS) 2010–2012", introducing six amendments to six standards and resulting amendments to other standards and interpretations, resulting in changes in the accounting policies applied to the presentation, recognition and measurement of data. The amendments stipulated in "Annual Improvements to IFRSs 2010–2012" apply to the reporting periods beginning on 1 February 2015 or later. Earlier implementation is also permissible. In September 2014, IASB published the "Annual Improvements to IFRSs 2012–2014", introducing four amendments to four standards and resulting amendments to other standards and interpretations, resulting in changes in the accounting policies applied to the presentation, recognition and measurement of data. The amendments stipulated in "Annual Improvements to IFRSs 2012–2014" apply to the reporting periods beginning on 1 January 2016 or later. Earlier implementation is also permissible.

Annual improvements to IFRSs

The improvements introduce ten amendments to ten standards, resulting changes in other standards and interpretations. The amendments apply to the reporting periods beginning on 1 February 2015 or 1 January 2016 or later. Earlier implementation is also permissible.
In the Bank's assessment, none of the amendments affect its financial accounts significantly.

Notes to the Financial Statements

Note 1: Interest Income

	EUR ths. 2015	EUR ths. 2014
From loans *	1,120	1,080
From demand deposits with other credit institutions	11	48
From time deposits with other credit institutions	295	138
From debt securities	442	304
Total	**1,868**	**1,570**

* including interest income on impaired loans. In year 2015 was 47 ths euros (in year 2014 102 ths euros).

Interest income by geographical areas		
Estonia	920	870
Russia	148	55
British Virgin Islands	96	59
United Kingdom	93	26
Israel	63	71
Luxembourg	61	60
Turkey	58	43
Germany	54	7
France	47	27
United States of America	47	31
Bermuda	27	16
Netherlands	25	9
United Arab Emirates	25	20
Brazil	25	25
Cayman Islands	21	13
Other countries	158	238
Total	**1,868**	**1,570**

Note 2: Interest Expense

	EUR ths. 2015	EUR ths. 2014
On demand deposits	33	4
On time deposits	421	558
On borrowings	3	4
Interest expense from debt certificates	155	60
Other interest expense	3	0
Total	**615**	**626**

Interest expense by geographical areas		
Estonia	583	581
Panama	12	17
Belize	3	23
Cyprus	8	2
Greece	4	0
Russia	3	2
Ukraine	2	1
Total	**615**	**626**

Note 3: Fee and Commission Income

	EUR ths. 2015	EUR ths. 2014
Account opening and maintenance fees	1,508	804
Bank transaction fees	5,060	2,707
Securities' transaction fees	91	206
Letters of credit fees	35	2
Safe deposit fees	3	2
Fees income from bank cards	279	25
Fiduciary deposit fees	256	211
Other fees and commissions income	61	38
Total	**7,293**	**3,995**
Fees and commissions income by geographical areas		
Estonia	367	198
OECD countries (excl. Estonia)	6,926	3,797
Total	**7,293**	**3,995**

Note 4: Fee and Commission Expense

	EUR ths. 2015	EUR ths. 2014
Securities' transactions expenses	58	65
Bank transaction expenses	908	457
S.W.I.F.T. expenses	130	50
Bank cards expense	378	77
Other fees and commission expenses	337	188
Total	**1,811**	**837**

Note 5: Net Trading Gains

	EUR ths. 2015	EUR ths. 2014
From foreign exchange	3,651	2,339
From available-for-sale financial assets	-26	-45
From shares and debt securities in trading portfolio	157	81
From shares and debt securities in fair value	20	0
Total	**3,802**	**2,375**

Note 6: Other operating income

	EUR ths. 2015	EUR ths. 2014
Rental income from investment property	35	45
Operating incomings from property generating rental income	10	14
Other operating income	75	8
Total	**120**	**67**

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Note 6 continued:

Rental income from investment property by due dates

	EUR ths. 2015	EUR ths. 2014
Rental income during next reporting period from uninterruptable contract:		
up to 1 year	6	23

Versobank AS had concluded 7 rent agreements as of 31.12.2015 (11 rent agreements as of 31.12.2014)

Note 7: Other Operating Expenses

	EUR ths. 2015	EUR ths. 2014
Guarantee Fund payments	308	225
Financial Supervision Authority fees	79	79
Other operating expenses *	107	394
Total	**494**	**698**

* Other operating expenses include investment properties expenses, property evaluation expenses and membership fees. Direct costs from non-profit real estate investments in year 2015 EUR 17 ths (2014: EUR 21 ths).

Note 8: Personnel Expense

	EUR ths. 2015	EUR ths. 2014
Salaries	2,480	1,686
Compensation to the Supervisory Board members	80	63
Fringe benefits	36	32
Income tax on fringe benefits	9	9
Change in vacations pay accrual	14	7
Total	**2,619**	**1,797**

Note 9: Payroll Related Taxes

	EUR ths. 2015	EUR ths. 2014
From salaries	733	528
From compensation to the Supervisory Board members	27	21
From fringe benefits	15	15
Social insurance tax from change in vacations pay accrual	4	1
Total	**779**	**565**

Note 10: Other Administrative Expenses

	EUR ths. 2015	EUR ths. 2014
Rent of premises	647	609
Other professional services purchased	367	206
Advertising expenses	39	28
Office expenses	90	52
Transportation expenses	76	85
Post and telecommunication expenses	112	55
Training and business trip expenses	223	123
IT expenses	66	48
Other expenses	55	56
Total	**1,675**	**1,262**

Note 11: Depreciation and Amortisation of Tangible and Intangible Assets

	Note	EUR ths. 2015	EUR ths. 2014
Depreciation of tangible assets	19	92	72
Amortisation of intangible assets	21	36	13
Total		**128**	**85**

Note 12: Impairment Loss on Assets

	EUR ths. 2015	EUR ths. 2014
Loans:		
Impairment loss on claims	-194	-165
Recoveries of impaired loans	112	190
Total loans	**-82**	**25**
Impairment on investment properties	-123	-41
Impairment of fees receivable	-107	-118
Total	**-312**	**-134**

Note 13: Cash

	EUR ths. 31.12.2015	EUR ths. 31.12.2014
In Euros	170	180
In foreign currency	11	24
Total	**181**	**204**

Note 14: Balances with Central Bank

	EUR ths. 31.12.2015	EUR ths. 31.12.2014
Mandatory reserve with the Bank of Estonia	2,865	1,575
Surplus of the mandatory reserve with the Bank of Estonia	20,345	11,866
Total	**23,210**	**13,441**

Note 14 continued:

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. The mandatory reserve rate is 2% of deposits and borrowings, after allowed deductions, from 01.01.2011, filled by average of period set by the European Central Bank, by depositing the appropriate amount of euros on TARGET2 account with the Bank of Estonia.

Note 15: Due from Other Credit Institutions

	EUR ths.	EUR ths.
	31.12.2015	**31.12.2014**
Correspondent accounts	**236,431**	**193,951**
Receivables by country		
Estonia	23,490	30,665
United Kingdom	57,561	26,358
Germany	57,896	47,550
France	30,629	24,531
Luxembourg	27,559	0
Switzerland	17,550	1,152
Austria	16,651	26,191
Belgium	15,818	13,527
Latvia	9,525	11,066
United States of America	7,258	9,878
Russia	1,809	1,901
Poland	315	0
Italy	115	745
Georgia	115	745
Denmark	20	368
Ukraine	66	5
Norway	2	2
Total	**236,431**	**193,951**

Due from other banks by bank ratings (Moody's Investors Service, Moody's Investors Service, Standard & Poor´s and Fitch Ratings)*

Aa2	16,536	0
Aa3	11,159	0
A1	85,434	27,731
A2	49,200	108,977
A3	26,217	53,060
Baa1	23,420	1,152
Baa2	17,133	0
Baa3	0	12
Ba1	0	1,831
Ba2	1,679	0
Ba3	130	815
B1	115	0
Not rated **	5,408	373
Total	**236,431**	**193,951**

Note 15 continued:

* 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, in Ukraine, in Latvia and in Turkmenistan which has no foreign rating.

Note 16: Due from Customers

	EUR ths. **31.12.2015**	EUR ths. **31.12.2014**
Due by customer types (gross)		
Due from financial institutions	980	869
Loans:		
Loans to private companies	24,272	17,810
Loans to private persons	5,053	5,052
Total loans	**29,325**	**22,862**
Accrued interest receivable	227	263
Total due from customers (gross)	**30,532**	**23,994**
Specific loan loss allowances	-480	-478
General loan loss allowances	0	-16
Unamortised transaction fees	-140	-111
Total due from customers (net)	**29,912**	**23,389**

Note 16 continued:

Loans by collaterals (gross)		
Mortgage	20,964	18,065
Commercial pledge	583	637
Pledge of shares	0	0
Deposit	0	1,624
Other security over movables	170	52
Security	7,022	1,653
Other	606	807
Without collateral	207	287
Total	**29,552**	**23,125**
Due by remaining maturity (gross)		
On demand	980	869
Up to 3 months	8,265	6,399
3 to 12 months	3,453	1,833
1 to 2 years	1,989	941
2 to 5 years	5,596	4,352
over 5 years	8,282	6,779
past due	530	889
impaired loans	1,210	1,669
Accrued interest receivable from past due and impaired loans	179	225
Accrued interest receivable from other loans	48	38
Total	**30,532**	**23,994**

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Note 16 continued:

Credit risk loans by categories (gross)		
category 1 – low risk	25,723	18,519
category 2 – moderate risk	495	583
category 3 – medium risk	792	893
category 4 – high risk	2,542	3,130
Total	**29,552**	**23,125**
Incl. working loans by categories (gross)		
category 1 – low risk	25,379	18,398
category 2 – moderate risk	495	256
category 3 – medium risk	604	447
category 4 – high risk	1,156	1,241
Total	**27,634**	**20,342**
Due by countries (gross)		
Estonia	21,016	17,934
Israel	1,212	1,333
British Virgin Islands	7,022	1,653
United Kingdom	881	769
Cyprus	100	1,724
Panama	214	261
Ukraine	46	320
Finland	40	0
Latvia	1	0
Total	**30,532**	**23,994**

Past Due and Impaired Loans

Overdue loans by client type (gross)		
Loans to private companies	1,216	1,800
Interest claims to private companies	177	221
Loans to private persons	524	758
Interest claims to private persons	2	4
Total	**1,919**	**2,783**
incl. of non-performing loans	18	19
Incl. impaired loans by customer type (gross)		
Loans to private companies	769	1,008
Accrued interest receivable from private companies	174	217
Loans to private persons	441	661
Accrued interest receivable from private persons	2	3
Total	**1,386**	**1,889**

Fair Value of Collaterals of Past Due and Impaired Loans

	EUR ths. **31.12.2015**	EUR ths. **31.12.2014**
Collaterals of past due loans	1,445	1,989
Collaterals of impaired loans	1,337	2,001
Total	**2,782**	**3,990**

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Note 16 continued:

Specific Loan Loss Allowances by Client Type

Private companies		
Loan loss allowances at beginning of period	-262	-2,298
New loan loss allowances during period	-196	-200
Claims written off	42	2,094
Deductions of allowances during period	77	142
Loan loss allowances at end of period	**-339**	**-262**
Private persons		
Loan loss allowances at beginning of period	-216	-452
New loan loss allowances during period	-59	-139
Claims written off	89	273
Deductions of allowances during period	45	102
Loan loss allowances at end of period	**-141**	**-216**
Total specific loan loss allowances	**-480**	**-478**

All loans and overdrafts, where the payments are overdue by more than 90 days, are reported as non-performing loans. 6 claims have been written off in year 2015 (12 claims have been written off in year 2014).

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 EUR 16,434 ths. (2014: EUR 954 ths.) (see Note 34).

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

Overdue financial assets maturity structure *

	EUR ths. **31.12.2015**	EUR ths. **31.12.2014**
Private companies		
Up to 90 days	1,178	1,357
91 days to 1 year	0	149
1 to 2 years	0	175
over 2 years	215	340
Total	**1,393**	**2,021**
Private persons		
Up to 90 days	518	668
91 days to 1 year	8	62
over 2 years	0	32
Total	**526**	**762**
Total overdue financial assets	**1,919**	**2,783**

*including impaired loans which as of 31.12.2015 is not overdue.

incl. maturity structure of unimpaired financial assets *

	EUR ths. **31.12.2015**	EUR ths. **31.12.2014**
Private companies		
Up to 90 days	990	1,357
91 days to 1 year	0	149

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Note 16 continued:

1 to 2 years	0	149
over 2 years	0	79
Total	**990**	**1,734**
Private persons		
Up to 90 days	82	242
Total	**82**	**242**
Total unimpaired financial assets	**1,072**	**1,976**

*including impaired loans which as of 31.12.2015 is not overdue.

Restructured loans

	EUR ths. 31.12.2015	EUR ths. 31.12.2014
Loans to private companies	2,274	2,402
Loans to private persons	210	211
Total	**2,484**	**2,613**

Bank has restructured 8 loans, as of 31.12.2015, where the payment difficulties have temporary nature. 7 loans were restructured as of 31.12.2014.

1 loan were restructed during year 2015, loan to companies. 1 loan were restructed during year 2014, loan to companies.

Financial effect of collateral of overdue loans *

	EUR ths. 31.12.2015	EUR ths. 31.12.2014
Over-collaterised loans		
Loan balance	1,438	2,003
Fair value of collateral	2,782	3,688
Under-collaterised loans		
Loan balance	1	302
Fair value of collateral	0	302

*including impaired loans which as of 31.12.2015 is not overdue.

Note 17: Financial Assets/Financial Liabilities Held for Trading

	EUR ths. 31.12.2015	EUR ths. 31.12.2014
Financial assets Held for Trading		
Derivatives *	149	146
Financial assets in fair value through profit and loss		
shares listed on a stock exchange (active market)	3	3
Total	**152**	**149**

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Note 17 continued:

	EUR ths. 31.12.2015	EUR ths. 31.12.2014
Financial Liabilities Held for Trading		
Derivatives *	162	84
Total	**162**	**84**
Total financial assets/financial liabilities held for trading	**-10**	**65**
Shares and other securities by countries		
Sweden	3	0
United States of America	0	3
Total	**3**	**3**

*** Derivatives**	EUR ths. 31.12.2015	EUR ths. 31.12.2014
Currency related derivatives:		
claims (in contract value) (note 34)	43,759	24,451
commitments (in contract value) (note 34)	43,772	24,388
fair value	-13	63

Note 18: Available-for-Sale Financial Assets

	EUR ths. 31.12.2015	EUR ths. 31.12.2014
Debt securities and other shares by issuer		
Debt securities of central goverment	28,019	3,770
Debt securities of credit institutions	22,489	4,357
Debt securities of private companies	9,696	8,274
Debt securities of other financial institutions	1,104	5,535
Shares and fund units of private companies	54	3
Total	**61,362**	**21,939**

Movements in debt securities and other shares	**2015**	**2014**
Balance at beginning of year	21,939	7,282
Purchases	64,842	18,538
Sold	-25,631	-3,100
Amortised premium discount	182	-700
Fair value revaluation	-335	-150
Interest accruals	365	69
Total	**61,362**	**21,939**

Debt securities and other shares by ratings		
Aaa	43,434	3,308
Aa1	1,945	1,717
Aa2	5,339	1,886
Aa3	190	2,334
A1	3,222	3,840
A2	1,526	2,665
A3	1,411	1,620

Note 18 continued:

Baa1	752	209
Baa2	240	585
Baa3	1,780	3,085
Ba1	1,155	619
Ba2	281	0
Ba3	0	68
B1	30	0
Without ratings	57	3
Total	**61,362**	**21,939**

Debt securities and other shares by countries		
Estonia	229	3
United States of America	9,849	4,722
Germany	16,328	946
France	6,308	863
Luxembourg	10,218	964
Denmark	2,755	0
United Kingdom	2,173	1,290
Finland	2,317	417
Netherlands	1,826	1,937
Japan	1,633	210
Philippines	1,835	0
Turkey	1,265	1,185
British Virgin Islands	1,159	1,034
Ireland	475	369
United Arab Emirates	717	673
Belgium	51	0
Bermuda	584	723
Brazil	281	654
Ivory Coast	928	0
South-Korea	191	1,052
Cayman Islands	240	1,045
Australia	0	856
China	0	1,285
European Union	0	851
New Zealand	0	417
Russia	0	443
Total	**61,362**	**21,939**

Note 19: Property and Equipment

EUR ths.

	Capitalised construction expenses *	Computers	Furniture	Other tangible assets**	Total
Balance as of 01.01.2015					
At cost	**92**	**88**	**43**	**306**	**529**
Accumulated depreciation	-73	-69	-39	-184	**-365**
Net value	**19**	**19**	**4**	**122**	**164**
Changes in 2015					
Purchases during period	11	62	10	293	**376**
Depreciation expense (Note 11)	-15	-23	-3	-51	**-92**
Property and equipment write-offs (at cost)	-75	-1	-2	0	**-78**
Accumulated depreciation of property and equipment write-offs	75	1	2	0	**78**
Balance as of 31.12.2015					
At cost	**28**	**149**	**51**	**599**	**827**
Accumulated depreciation	-13	-91	-40	-235	**-379**
Net value	**15**	**58**	**11**	**364**	**448**

EUR ths.

	Capitalised construction expenses *	Compu-ters	Furni-ture	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**

* Reconstruction expenses of rented premises.
** includes safes, office, telecommunication and security equipments, motor vehicles and other tangible assets.

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Note 20: Investment Properties

	EUR ths. 2015	EUR ths. 2014
Investment properties at beginning of year	1,936	3,353
Investment properties sold	-852	-1,061
Loss on the sale	-22	-315
Fair value revaluation	-40	-41
Total	**1,022**	**1,936**

Group has acquired several collateral properties including flats from repertory auctions, with an intention to sell them in the few coming years.

Investment properties are valued at fair value, supported by expert assessments ordered by the bank. In assessing of properties market value is used information, which is based on similar transactions made in the same year and in the same area. In fair value valuation has been used the discounted cash flows method, where the present value of transactions realising in the future is 889 thousand euros as of 31.12.2015 (1,697 thousand euros as of 31.12.2014).

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

Note 21: Intangible Assets

Software and licenses	EUR ths. **2015**	EUR ths. **2014**
Balance as of 01.01.		
At cost	**339**	**380**
Accumulated amortisation	-169	-281
Net value	**170**	**99**
Changes during report year		
Purchases during period	77	84
Amortisation expense (Note 11)	-36	-13
Intangible assets write-offs (at cost)	0	-125
Accumulated depreciation of intangible assets write-offs	0	125
Balance as of 31.12.		
At cost	**416**	**339**
Accumulated amortisation	-205	-169
Net value	**211**	**170**

Note 22: Other Assets

	EUR ths. **31.12.2015**	EUR ths. **31.12.2014**
Fees and commissions receivable	66	56
Prepaid supervision fees *	99	72
Other receivables	7	7
Guarantee deposits	485	156
Visa settlements	101	15
Other prepaid expenses **	285	285
Total	**1,043**	**591**

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.	EUR ths.
	31.12.2015	**31.12.2014**
Deposits from credit institutions	488	2,980
Other deposits	319,006	228,037
Total	**319,494**	**231,017**
Demand deposits	293,788	199,291
Time deposits	25,449	31,355
Accrued interests	257	371
Total	**319,494**	**231,017**
Demand deposits by customer groups		
Companies	275,952	186,121
Private persons	13,416	9,558
Non-profit organisations	137	289
Financial institutions	3,795	743
Credit institutions	488	2,580
Total	**293,788**	**199,291**
Time deposits by customer groups		
Private persons	13,724	18,097
Companies	7,115	8,644
Non-profit organisations	445	214
Credit institutions	0	400
Financial institutions	4,165	4,000
Total	**25,449**	**31,355**
Deposits by maturities		
On demand	293,788	199,291
Up to 3 month	7,636	9,763
3 to 12 months	13,470	16,535
1 to 2 years	1,865	3,888
2 to 5 years	2,735	1,540
Total	**319,494**	**231,017**

Note 24: Subordinated Debts Evidenced by certificates

	EUR ths. 31.12.2015	EUR ths. 31.12.2014
Subordinated debts evidenced by certificates *	5,000	2,000
Total	**5,000**	**2,000**

* Versobank AS issued EUR 2.0 million of subordinated bonds on 02.07.2014, with interest rate of 6% p.a. Interest expense in year 2015 was EUR 120 ths. (2014: EUR 60 ths.) and maturity is 31.12.2019. Additional subordinated bonds where issued for 1.0 million on 24.08.2015 and for 2.0 million on 28.12.2015, interest rate 9.8% p.a. Interest expense in year 2015 was EUR 35 ths and deadline is 31.12.2020. Subordinated bonds can be treated as tier 1 own funds.

Note 25: Subordinated Debt

	EUR ths. 31.12.2015	EUR ths. 31.12.2014
Debt balance at beginning of period	2,513	3,067
Effective interest rate correction	121	-554
Total	**2,634**	**2,513**

Group took a 4.0 million euro subordinated debt from Marfin Egnatia Bank S.A., a bank belonging to the group, in December 2009. 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, dated as of 31.12.2015 it was EUR 1,366 ths (EUR 1,487 ths. as of 31.12.2014) based on effective interest rate of 4.661% p.a. In year 2014, the maturity 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. 31.12.2015	EUR ths. 31.12.2014
Debt balance at beginning of period	340	252
Borrowings received	0	201
Borrowings repaid	-102	-113
Balance at end of period	**238**	**340**
Debts by maturities		
Up to 3 months	55	55
3 to 12 months	0	47
1 to 2 years	70	55
2 to 5 years	113	183
Total	**238**	**340**

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.

Note 27: Provisions

	EUR ths. 31.12.2015	EUR ths. 31.12.2014
Provision to cover potential liabilities *	0	72
Total	**0**	**72**

*Bank has formed a short-term provision as of 31.12.2014 to cover potential liabilities in connection with the sale contracts of assets disclosed as property investments. As of 31.12.2015 there was no need to form a provisjon and the provisions was repealed.

Note 28: Tax Liabilities

	EUR ths. 31.12.2015	EUR ths. 31.12.2014
Social tax	76	82
Income tax withheld	38	42
Fringe benefits' income tax	4	3
Value added tax	36	64
Taxes payable	**154**	**191**

There has not been 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 5 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. 31.12.2015	EUR ths. 31.12.2014
Payments in transmission *	8,949	6,937
Payables to employees	84	65
Payables to suppliers	74	136
Prepaid expenses	81	2
Other liabilities	261	2
Total	**9,449**	**7,142**

* Payments in transmission include payments between customers and the Bank, which are under processing as well as unsettled payments (incl. incorrectly received funds, returnable funds etc.).

Note 30: Shareholders' Equity

Share capital

Paid-in share capital comprised 14,088,775.20 euros as of 31.12.2015, divided into 23,481,292 common shares with nominal value of 0.60 euros (as of 31.12.2014: share capital 14,088,774.20 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

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Note 30 continued:

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.

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. **31.12.2015**	EUR ths. **31.12.14**
Liabilities:		
Deposits	17	30
Fees and commission income	1	0
Other prepaid expenses	5	0
Salaries of the members of the Management Board	254	247

Shareholders of the credit institution and their related parties, also companies controlled jointly of privately by these persons:	EUR ths. **31.12.2015**	EUR ths. **31.12.14**
Liabilities:		
Deposits	1,772	206
Fees and commission income	13	15
Other prepaid expenses	1	0

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Note 31 continued:

Members of the Supervisory Board of the credit institution and their related parties, also companies controlled jointly of privately by these persons:	EUR ths. **31.12.2015**	EUR ths. **31.12.14**
Loans:		
Fees receivable	0	1
Deposits	6,813	23
Prepayments for services	16	16
Other prepaid expenses	2	0
Fees and commission income	23	18
Administrative and other operating expenses	203	195
Compensation to the members of the Supervisory Board	80	63

Parent company of the Bank: UKRSELHOSPROM PCF LLC	EUR ths. **31.12.2015**	EUR ths. **31.12.14**
Subordinated debt (gross)	4,000	4,000
Including disclosed under equity	-1,366	-1,487
Fees and commission income	2	3
Fees receivable	8	6

Loans to related parties have no loan loss allowances.

The contracts with the members of the Management Board of the Bank include one-time compensation in the salary amount of 6-10 calendar months in case the agreement is terminated on the initiative of the Bank.

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Note 32: Geographical Concentration of Customers' Debts

EUR ths., as of 31.12.2015

Area		Balance sheet claims				
		Cash, balances with central bank, loans and advances to credit institutions	Loans and advances to customers	incl. overdue and doubtful claims	securities *	by area (%)
	Note	13, 14, 15	16	16	17, 18	
Estonia		46,881	20,442	245	357	19.27%
United States of America		7,258	0	0	9,851	4.87%
United Kingdom		27,561	881	0	2,190	8.72%
Denmark		20	0	0	2,755	0.79%
Latvia		9,525	1	0	0	2.71%
Germany		57,896	0	0	16,328	21.13%
Ukraine		66	0	31	0	0.02%
Russia		1,809	0	0	4	0.52%
Austria		16,651	0	0	0	4.74%
Switzerland		17,550	0	0	0	5.00%
Belgium		15,818	0	0	51	4.52%
Israel		0	1,212	0	0	0.35%
Panama		0	214	0	0	0.06%
British Virgin Islands		0	7,022	0	1,159	2.33%
USA Virgin Islands		0	0	0	0	0.00%
Italy		167	0	0	0	0.05%
France		30,629	0	0	6,308	10.52%
Luxembourg		27,559	0	0	10,218	10.76%
United Arab Emirates		0	0	0	717	0.20%
Netherlands		0	0	0	1,826	0.52%
Bermuda		0	0	0	584	0.17%
Brazil		0	0	0	281	0.08%
Ivory Coast		0	0	0	929	0.26%
Philippines		0	0	0	1,835	0.52%
Ireland		0	0	0	475	0.14%
Japan		0	0	0	1,633	0.46%
South-Korea		0	0	0	191	0.05%
Cayman Islands		0	0	0	240	0.07%
Turkey		0	0	0	1,265	0.36%
Cyprus		0	100	0	0	0.03%
Poland		315	0	0	0	0.09%
Finland		0	40	0	2,317	0.67%
Georgia		115	0	0	0	0.03%
Norway		2	0	0	0	0.00%
Total		**259,822**	**29,912**	**276**	**61,514**	**100.00%**

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Note 32 continued:

EUR ths., as of 31.12.2014

Area		Balance sheet claims				
		Cash, balances with central bank, loans and advances to credit institutions	Loans and advances to customers	incl. overdue and doubtful claims	securities *	by area (%)
	Note	13, 14, 15	16	16	17, 18	
Estonia		44,310	17,329	507	61	24.38%
United States of America		9,878	0	0	4,725	5.77%
European Union		0	0	0	851	0.34%
United Kingdom		26,358	769	0	1,372	11.26%
Denmark		368	0	0	0	0.15%
Latvia		11,066	1	0	0	4.37%
Germany		47,550	0	0	946	19.16%
Ukraine		5	320	74	0	0.13%
Russia		1,901	0	0	443	0.93%
Austria		26,191	0	0	0	10.35%
Switzerland		1,152	0	0	0	0.46%
Belgium		13,527	0	0	0	5.35%
Israel		0	1,333	0	0	0.53%
Panama		0	261	0	0	0.10%
British Virgin Islands		0	1,652	0	1,034	1.06%
Italy		12	0	0	0	0.00%
France		24,531	0	0	863	10.03%
Luxembourg		0	0	0	964	0.38%
United Arab Emirates		0	0	0	673	0.27%
Netherlands		0	0	0	1,937	0.77%
Australia		0	0	0	855	0.34%
Bermuda		0	0	0	468	0.18%
Brazil		0	0	0	654	0.26%
The Bahamas		0	0	0	256	0.10%
China		0	0	0	1,285	0.51%
Ireland		0	0	0	375	0.15%
Japan		0	0	0	210	0.08%
South-Korea		0	0	0	1,052	0.42%
Cayman Islands		0	0	0	1,045	0.41%
New Zealand		0	0	0	417	0.16%
Turkey		0	0	0	1,185	0.47%
Cyprus		0	1,724	0	0	0.68%
Finland		0	0	0	417	0.16%
Georgia		745	0	0	0	0.29%
Norway		2	0	0	0	0.00%
Total		**207,596**	**23,389**	**581**	**22,088**	**100.00%**

* 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 31.12.2015	Balance sheet claims			
Economic sector	**loans ***	**incl. overdue and doubtful claims**	**securities ****	**by area (%)**
Note	14, 15, 16	16	17, 18	
Agriculture, forestry and fishing	1 581	52	0	0.45%
Mining and quarrying	0	0	1 747	0.50%
Manufacturing	487	10	2 319	0.80%
Electricity, gas, steam and air conditioning supply	0	0	1 406	0.40%
Construction	389	0	0	0.11%
Wholesale and retail trade	1 289	0	232	0.43%
Accommodation and food service activities	1 103	0	0	0.31%
Information and communication	0	0	561	0.16%
Financial and insurance activities	260 621	0	48 643	88.09%
Real estate activities	9 377	210	241	2.74%
Professional, scientific and technical activities	6 081	0	0	1.73%
Administrative and support service activities	2 013	0	0	0.57%
Public administration and defence; compulsory social security	0	0	6 162	1.76%
Human health and social work activities	767	0	0	0.22%
Arts, entertainment and recreation	128	0	0	0.04%
Other service activities	1 242	0	203	0.41%
Private persons	4 955	4	0	1.41%
Provisions	-480	-	-	-0.14%
Total	**289 553**	**276**	**61 514**	**100.00%**

EUR ths., as of 31.12.2014	Balance sheet claims			
Economic sector	**loans ***	**incl. overdue and doubtful claims**	**securities ****	**by area (%)**
Note	14, 15, 16	16	17, 18	
Agriculture, forestry and fishing	2 008	76	0	0.79%
Mining and quarrying	10	0	68	0.03%
Manufacturing	621	8	3 665	1.69%
Electricity, gas, steam and air conditioning supply	0	0	1 304	0.52%
Construction	555	166	0	0.22%
Wholesale and retail trade	559	69	0	0.22%
Transportation and storage	32	10	0	0.01%
Accommodation and food service activities	630	0	0	0.25%
Information and communication	273	0	681	0.38%
Financial and insurance activities	208 261	0	10 343	86.45%
Real estate activities	8 310	210	216	3.37%
Professional, scientific and technical activities	82	0	0	0.03%
Administrative and support service activities	121	0	0	0.05%
Public administration and defence; compulsory social security	0	0	3 322	1.31%
Human health and social work activities	836	0	0	0.33%
Arts, entertainment and recreation	1 724	0	0	0.68%

Note 33 continued:

Other service activities	2 305	0	2 489	1.90%
Private persons	4 948	42	0	1.96%
Provisions	-494	-	-	-0.20%
Total	**230 781**	**581**	**22 088**	**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

31.12.2015
EUR ths.

	Contract amount		Carrying amount	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Irrevocable transactions	**43,759**	**47,144**	**149**	**162**
Guarantees and similar irrevocable transactions	0	73	0	0
Unused loan limits	0	1,462	0	0
Letters of credit granted but not utilised	0	1,837	0	0
Currency forward transactions	43,759	43,772	149	162

31.12.2014
EUR ths.

	Contract amount		Carrying amount	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Irrevocable transactions	**24,451**	**26,166**	**146**	**84**
Guarantees and similar irrevocable transactions	0	824	0	0
Unused loan limits	0	954	0	0
Currency forward transactions	24,451	24,388	146	84

Potential income tax on distribution of dividends

The retained earnings of the Bank as at 31.12.2015 were 2,069 ths EUR. Taking into account minimum requirement for Net Own funds for calculation of capital adequacy, from the retained earnings available at the reporting date it is possible to pay out to the shareholders as dividens 1,466 ths euros and corresponding income tax would amount to 367 ths euros.

Note 35: Funds Under Trust Management

	31.12.2015	31.12.2014
	EUR ths.	**EUR ths.**
Fiduciary deposits with other credit institutions		
up to 1 month	10,473	12,730
1 to 3 months	3,271	7,528
3 to 12 months	833	3,658
TOTAL	**14,577**	**23,916**

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

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

EUR ths., as of 31.12.2015

Assets, 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
Assets of the Bank		**140,616**	**191**	**122,281**	**22,433**	**44,055**	**3,262**	**7,647**	**11,806**	**352,291**
Cash and due from credit institutions	13,14,15	139,391	0	120,431	0	0	0	0	0	**259,822**
Due from customers	16	980	158	0	8,472	3,546	1,973	6,113	8,670	**29,912**
Securities	17, 18	57	0	1,224	13,912	40,367	1,288	1,530	3,136	**61,514**
Other assets	22	188	33	626	49	142	1	4	0	**1,043**
Liabilities of the Bank		**303,079**	**0**	**4,144**	**3,859**	**13,470**	**1,935**	**7,848**	**4,000**	**338,335**
Due to credit institutions	23	488	0	0	0	0	0	0	0	**488**
Deposits	23	293,300	0	3,832	3,804	13,470	1,865	2,735	0	**319,006**
Subordinated debts evidenced by certificates	24	0	0	0	0	0	0	5,000	0	**5,000**
Subordinated debt	25	0	0	0	0	0	0	0	4,000	**4,000**
Other borrowings	26	0	0	0	55	0	70	113	0	**238**
Other liabilities	27,28,29	9,291	0	312	0	0	0	0	0	**9,603**
Net		**-162,463**	**191**	**118,137**	**18,574**	**30,585**	**1,327**	**-201**	**7,806**	**13,956**
Contingent:										
assets (Note 17,34)		**0**	**0**	**43,614**	**145**	**0**	**0**	**0**	**0**	**43,759**
liabilities (Note 17, 34)		**1,462**	**0**	**43,628**	**144**	**1,910**	**0**	**0**	**0**	**47,144**

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
Assets of the Bank		**116,002**	**408**	**94,626**	**5,710**	**7,024**	**12,061**	**6,117**	**11,716**	**253,664**
Cash and due from credit institutions	13,14,15	114,886	0	92,710	0	0	0	0	0	**207,596**
Due from 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 assets	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**
Due to credit institutions	23	2,580	0	400	0	0	0	0	0	**2,980**
Deposits	23	196,711	0	4,001	5,362	16,535	3,888	1,540	0	**228,037**
Subordinated debts evidenced by certificates										
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	6,941	0	464	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**

Note 37: Earnings Per Share

	EUR ths.	EUR ths.
	31.12.2015	**31.12.2014**
Net profit for the reporting period	4,722	2,246
Weighted average no. of shares (ths. pcs.)	23,481	23,481
Basic earnings per share	**0.20**	**0.10**
Diluted earnings per share	**0.20**	**0.10**

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Note 38: Operating Lease Liabilities

Rental payments for vehicles

Versobank AS has concluded operating lease agreements for one vehicle as of 31.12.2015. Contract ends on 05.10.2020, i.e. no agreement exceeds 5 years. Operating lease agreements for four vehicles were concluded as of 31.12.2014 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. 2015	EUR ths. 2014
Rental payment paid and expensed during reporting year	17	27
Rental payments payable:		
up to 1 year	9	13
1 to 5 years	36	0

Rental payments for bank premises

Versobank AS had concluded agreements for renting premises in Tallinn, in Riga, in Kiev, in Dnipropetrovsk, in Cyprus and in London.

Rental payments for bank premises by due dates

	EUR ths. 2015	EUR ths. 2014
Rental payment paid and expensed during reporting year	552	523
Rental payments payable during next reporting period:		
from uninterruptable contract:		
up to 1 year	715	528
1 to 5 years	984	1,898
over 5 years	634	145

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

Note 39: Risk and Capital Management

Major events in 2015

In 2015, rapid growth of the Bank continued, mainly due to growth in the volume of demand deposits and an increase in the volume of payment services. Over the course of the year, the structure of the Bank's balance sheet changed significantly, with the volume of the Bank's assets increasing by 38% year on year (by 80% in 2014). The overall proportion of the loan portfolio in the balance sheet structure is low, being 9% of the total volume of the assets (9% as at 31 December 2014). Liabilities related to demand deposits and, accordingly, also the credit risk exposure with respect to credit institutions increased by EUR 42.5 million during 2015. The market risk exposure related to the bond trading portfolio increased significantly (EUR 61.4 million as at 31 December 2015; EUR 21.9 million as at 31 December 2014); however, the increase occurred mainly through an increase in the proportion of bonds with very high quality and liquidity. During the course of the

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Note 39 continued:

year, the volume of AAA-rated bonds increased by EUR 40 million, on the same order of magnitude as the increase in the entire trading portfolio.

Given the high proportion of liabilities with high volatility, the Bank pays particular attention to liquidity management and the existence of assets with high liquidity. As at 31 December 2015, the liquidity buffer was 85.1% of the Bank's total assets (87.6% as at 31 December 2014). As at 31 December 2015, the Bank's liquidity multiplier was 278% (140% as at 31 December 2014).

In 2015, the Bank issued subordinated instruments qualifiable as additional Tier 1 own funds on two occasions (EUR 1 million on 24 August 2015 and EUR 2 million on 29 December 2015). The total amount of the Bank's own funds as at 31 December 2015 was EUR 19.54 million (EUR 15.98 million as at 31 December 2014), to which the profit for the 2015 accounting year has not been added yet.

As at 31 December 2015, the Bank's total risk exposure was EUR 85.1 million (EUR 71.5 million as at 31 December 2014). Year on year, the Bank's total risk exposure increased by 19%. Since the volume of the Bank's own funds increased by 22% during the course of the year, own fund growth in 2015 outpaced growth in the total risk exposure.

Risk and capital management policy

The risk and capital management policy approved by the Bank's Supervisory Board defines the general risk management objectives and the principles for assuming risks at the Bank. Through this policy, the Supervisory Board provides the Bank with general guidelines on risk management, risk control, capital adequacy management, risk capital allocation and capital planning. Implementation of risk and capital management is the responsibility of the Management Board.

The policy defines the main principles of risk and capital management, sets out the risk strategy and risk appetite in terms of the main risks, formulates the requirements for internal risk limits, defines the principles of capital adequacy and capital planning, and establishes the organisational structure of risk management and internal control.

As a core principle, risk management has to be an integral part of all of the Bank's activities and has to be represented at all the levels of the Bank's operation. The Bank has to continue to maintain a balanced risk structure and a diversified risk portfolio. The Bank is maintaining low and conservative capital and liquidity risk levels. The Bank maintains adequate capital levels to ensure conformity to regulatory requirements and have enough capital to cover the risks assumed.

Risk management is business-oriented. In risk management, an important role is played by the assessment and maintenance of the Bank's client relationships. Risk management supports the management of the Bank, analysing the balance between risk and returns. Every risk assumed has to have been analysed beforehand and have a relevant support structure in place.

There were no significant changes in the Bank's risk or capital management policy in 2015.

Risk management organisation and process

The Bank has three risk management levels: Supervisory Board, Management Board and Credit Committee. Due the size of the Bank, the functions of the Assets/Liabilities Management Committee and the risk committee are performed by its Management Board. In accordance with its structure, the Bank's risk management and internal control systems have been defined based on the principle of "three levels of protection". The first level (risk management by business units) is ensured by the requirement that all units need to ensure effective risk management in their responsibility area. The second level (independent risk control) is where risks are analysed, with monitoring and management done by the areas of risk management and conformity check. The third level is the independent internal audit assessment.

The Bank is constantly assessing and monitoring their risk profile through the important activity areas and risks established in the Bank as a whole. The structure of risk management creates a link among various business units and ensures the monitoring of risk exposures, capital adequacy and limits, both regularly and in extraordinary cases.

Note 39 continued:

There were no significant changes in the Bank's risk management organisation or process in 2015.

Credit risk

Credit risk is a risk that the other Party is not capable of fulfilling its contractual obligations or does not wish to do so, and the transaction collateral is not sufficient to cover the Bank's receivable. Credit risk may result from any transaction in the case of which there is an actual or potential receivable from a counterparty. Concentration risk and country risk are also considered part of credit risk.

Credit policy

The credit policy specifies the main criteria for acceptable credit risks, defines the Bank's risk appetite and target markets, distinguishes high-risk sectors requiring particular attention, formulates the requirements for the Bank's system of credit portfolio limits and outlines the organisational environment for assuming and managing risks in relation to the loan portfolio.

The bond portfolio risk strategy and risk management arrangements have been defined under the market risk policy.

The general requirements for the assessment of the Bank's loan transactions and borrowers are:

- borrowing has to conform to the credit policy;
- one has to understand the transaction and the related risks;
- one has to know one's client;
- there has to be sufficient information for the thorough assessment of the risk profile;
- the ratio between risk and expected return has to be assessed;
- the client's ability to repay credit has to be assessed;
- requirements for self-financing;
- requirements for the collateral.

In its operations, the Bank abides by the principles of responsible lending.

Risk management organisation and process

Decisions related to loans, guarantees and collateral are made by the Credit Committee. Credits above a certain volume of liabilities, also credits whose loan-to-collateral ratio exceeds the limits established under the credit policy, are additionally approved by the Bank's Supervisory Board. Daily monitoring and management of credit risk at the Bank takes place in the Credit Division, following highly detailed procedures. The procedures cover loan analysis, taking into account the client's creditworthiness and prior loan history as well as the financial situation, the market conditions, and any other relevant factors affecting credit risk. The Bank has an internal system of risk classes taken into account when the credit portfolio is managed and checked and credit portfolio limits are introduced.

Note 16 provides an overview of quantitative details and the credit quality of the credit portfolio (including credit portfolio composition by client type and loan class).

Collateral

The general requirements, the relevant discretion depending on collateral type, maximum acceptable loan amounts and collateral ratios and unsecured loan limits, have been established under the credit policy. Collateral and collateral value are regularly monitored by the Bank's loan administration unit. Note 16 provides an overview of the distribution of loans by collateral type.

Loans whose value has decreased

A receivable is deemed non-performing if payment by a party to a transaction is more than 90 days overdue. A receivable should be deemed non-performing if there is objective evidence about future loss and this loss will affect future cash flows. The Bank writes off those receivables in the case of which it is impossible or financially inexpedient for the Bank to collect them or if the collateral is insufficient to cover the receivables. The Credit Committee reviews outstanding receivables on a weekly basis. The sufficiency of loan write-downs are assessed on a monthly basis.

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Note 39 continued:

Note 16 provides an overview of overdue and uncollectible receivables, the collateral of such receivables, the volume of receivable write-offs, the maturity gap structure of receivables in arrears, restructured receivables, and the financial impact of the collateral of overdue loans.

Counterparty credit risk
The Bank has a system of limits for managing counterparty credit risk. All counterparty risk limits, including maximum risk exposures, maximum due dates and acceptable currency risks, are approved by the Bank's Management Board. The extent of counterparty credit risk analysis depends on the counterparty's credit rating, country of location, limit sought and other relevant factors that may affect counterparty risk.

Risk concentration
The Bank limits concentration risk with respect to counterparties, countries of location and high-risk sectors. Risk concentration is considered high if the liabilities and potential liabilities of a credit institution exceed 10% of the Bank's own funds. The risk concentration level at the Bank has not changed significantly in 2015. In order to ensure a conservative approach and reduce its concentration risk, the Bank has introduced under its credit policy a maximum risk concentration rate of 90% for credit institutions (legally permissible maximum limit 100%) and of 20% for companies (legally permissible maximum limit 25%). The maximum liabilities of the parties linked to the Bank before the Bank must not exceed 4% of the Bank's net own funds.
Note 32 provides an overview of the concentration of receivables by geographic area.
Note 33 provides an overview of the concentration of receivables by sector.
Note 16 provides an overview of the distribution of receivables by due date.
Note 43 provides an overview of clients with high risk concentrations.

Bond portfolios
In accordance with its liquidity management and trading strategies, the Bank continued to hold and develop bond portfolios in 2015. Under the Bank's risk policy, the Bank's trading portfolio breaks down into two sub-portfolios: an available-for-sale bond portfolio and a liquidity portfolio. The purpose of the available-for-sale bond portfolio is to generate additional income and help to manage interest rate risk. The purpose of the liquidity portfolio is, in particular, to ensure liquidity and secure compliance with the Bank's internal liquidity requirements (liquidity buffer) and with the regulatory liquidity requirements (liquidity multiplier).
The general bond portfolio limits and portfolio composition principles have been defined under the liquidity policy. Bond portfolio management is performed by the Treasury Department, which is guided in its activity by the liquidity policy and the trading strategies approved by the Bank's Management.

Note 18 provides an overview of available-for-sale bond portfolios.

Liquidity risk

Liquidity risk is the risk that the Bank is unable to perform its obligations in a timely manner without incurring significant costs. Liquidity risk is the risk that the Bank sustains a loss when sourcing additional funds or is forced to secure additional funds whilst incurring unreasonably high costs. Furthermore, liquidity risk manifests itself in a situation where the Bank sustains a loss as it is unable to effect transactions on a market or is forced to effect transactions on terms significantly worse than the regular terms.
The Bank's policy in managing liquidity risk is to ensure to the maximum extent possible that the Bank always has a sufficient liquidity reserve to meet its obligations both in regular and stress situations, so that the Bank does not sustain unacceptably great losses or have its reputation damaged.
Liquidity management at the Bank is a process of balancing cash flows, allowing for cash flows on and off the balance sheet as well as cash flows of currencies and between counterparties. Liquidity

Note 39 continued:

management includes the checking of liquid assets' due dates and currency non-conformities and the management of liquid assets in a manner that ensures cost-efficient funding and the appropriate use of funds.
Liquidity management includes the management of the risks of the Bank's balance sheet structure. It consists of hedging currency risk, interest rate risk and the risk of a mismatch in the due dates of assets/liabilities by hedging active risks and by means of a position acquisition strategy and of using derivative instruments in accordance with the applicable rules. In addition, liquidity management includes the determination of base interest rates for loan transactions, based on the calculation of internal transfer prices.

There were no significant changes in the Bank's liquidity management strategy in 2015.

Liquidity management strategy
The key elements of the liquidity strategy approved by the Bank's Supervisory Board are:

- have a balanced funding base consisting of retail clients' deposits, large clients' deposits and a back-up plan for any unforeseen eventualities;
- have a portfolio of assets with high liquidity;
- monitor liquidity ratios, non-alignments of due dates, structure of the assets and liabilities of the Bank;
- carry out stress tests for the Bank's liquidity positions.

In accordance with its policy, the Bank's liquidity management strategy is conservative, and the Bank strives to refrain from excessive liquidity risk, instead holding higher-than-average liquidity reserves. The minimum amount of the liquidity reserves permanently maintained by the Bank has been defined under its liquidity policy. The Bank assesses all its liquid assets conservatively. Profit expectations must not affect the liquidity management requirements. The Bank's top priority is financial stability and an appropriate ratio between its assets and liabilities.
To manage liquidity risk, the Bank constantly monitors its assets and liabilities, assessing future cash flows across various due dates and setting limits according to the estimated liquidity need.
The main source of financing for the Bank is its clients' deposits. To maintain an appropriate funding structure, the Bank has to ensure diversified and stable sources of financing. The Bank engages in the careful monitoring and prevention of the concentration of its sources of financing. Concentration risk is also taken into account in the management of liquid assets. The liquidity management strategy allows for both the high concentration of the sources of financing and the levels of large clients' (demand) deposits.
Throughout 2015, the Bank maintained a conservative liquidity position in accordance with the liquidity policy requirements.

Liquidity management structure
The Bank's Supervisory Board determines the Bank's liquidity and funding strategy and its risk appetite, approving its liquidity management policy. The Bank's Management Board is responsible for implementing its liquidity and funding management strategy. Given the size and complexity of the Bank, the functions of the Assets/Liabilities Management Committee are performed by the Bank's Management Board. The primary responsibility for the management of the Bank's liquidity, funding and assets/liabilities structure rests with the Trading and Capital Division. At the operational level, liquidity management is the responsibility of the Liquidity Management Department whose functions include:

a) daily management of liquidity and liquidity buffers;
b) liquidity portfolio management;
c) management of the structure of funding sources and liabilities;
d) mandatory reserve management;
e) management of currency positions and the maturity gap structure of assets/liabilities.

Liquidity management process
The liquidity management framework used provides the opportunity to identify, measure and manage the Bank's liquidity positions. Liquidity management begins with intra-day liquidity management. The Bank actively monitors and manages the intra-day liquidity positions, settlement-

Note 39 continued:

related risks and mandatory reserve requirements, allowing for both the normal situation and a prospective stress situation.
In managing its short-term liquidity, the Bank has to ensure the existence of a sufficient quantity of unencumbered high-quality assets (liquidity buffer) that may be used to ensure liquidity during the maintenance period in accordance with the stress scenarios.
Strategic (long-term) liquidity management aims to preserve sufficient liquidity buffers and liquidity buffers in the strategic planning process, for example, when credit or investment portfolio growth is planned or balance sheet structure is balanced.
As part of liquidity management, the Bank assesses its aggregated liquidity need in relation to foreign currencies, imbalances between currencies, and divergences in the duration of assets and liabilities across various currencies, also allowing for potential changes in stress situations.
The Bank uses maturity gap analysis of cash flows and assets/liabilities, financial ratios, sensitivity analysis and stress tests to measure liquidity. The Bank regularly carries out stress tests and liquidity scenario modelling in accordance with various stress scenarios.

The Bank uses a system of limits and liquidity buffers to hedge liquidity risk. The amounts of liquidity buffers and the principles for forming them as well as the liquidity limits are defined under the liquidity management policy.

Liquidity multiplier
In accordance with the requirements of Regulation (EU) No. 575/2013 of the European Parliament and of the Council (Banking Regulation), the Bank regularly monitors the liquidity multiplier. In year 2015 minimum requirement was 60% and in year 2014 there was no requirement for the minimum. As at 31 December 2015, the level of the Bank's liquidity multiplier was 278% (198% as at 31 December 2014).
Note 36 provides an overview of the maturity gap structure of the Bank's assets and liabilities.

Market risk

Market risk may come about as a result of changes in interest rates, currency exchange rates, prices of stocks or goods as well as due to other relevant parameters, in particular market volatility. Market risk is the risk that the market value of a portfolio will decrease due to change in market risk factors. To hedge market risk, the Bank has introduced limits for its bond portfolios and net open currency positions. Market risk management is the responsibility of the Trading and Capital Division.

Interest rate risk
The Bank's strategy is to minimise its exposure to interest rate risk, in particular by maintaining similar sensitivity in case of the Bank's assets and liabilities to interest rates. Sensitivity analysis for interest rate risk assess the sensitivity of receivables and liabilities with a fixed interest period of up to one year to parallel shifts of +100 and +200 basis points in all interest rate curves and the impact thereof on the profit. The analysis is based on differences in the interest rate sensitivity of receivables and liabilities, cut off by fixed interest period and grouped chronologically. When the impact is annualised, interest sensitivity is weighted by the average length of the relevant period through the end of the year. The Bank assesses interest rate risk resulting from positions not in its separate trading portfolio and interest rate risk resulting from all the positions in its banking portfolio.
Note 41 provides an overview of the interest positions, results of interest rate risk tests and sensitivity analysis of interest rate risk.

Currency risk
The Bank's overall currency risk strategy is conservative. Currency risk management aims to minimise open foreign currency positions so that the Bank is not sensitive to changes in currency exchange rates. The Bank does not acquire speculative currency positions.
Currency risk is managed by introducing conservative limits for all currencies and by monitoring net open currency positions. Daily assessment and management of currency risk is the task of the Trading and Capital Division.

Note 39 continued:

Note 40 provides an overview of the currency positions and sensitivity analysis of foreign currency risks.

Operational risk

Operational risk is the risk of sustaining direct or indirect loss or damage due to people's actions, systems functioning inadequately or not in the expected manner, or external events. Operational risk is the risk (including legal risk) resulting from employees, contracts or documentation, technology, infrastructure, natural disasters, external impacts or client relationships. Operational risk is not considered to include business operation or reputation risk. Sources of operational risk may include any of the Bank's activities.

The Bank's operational risk strategy is to prevent and minimise losses and hedge specific risks of a critical nature in the case of which the magnitude of loss resulting from operational risk would exceed an acceptable level.

Operational risk management organisation

Operational risk management is coordinated by the Bank's Management Board. All divisions and infrastructure functions of the Bank (owners of operational risk) are required to manage operational risk daily. Risk management monitors operational risk in order to ensure the due implementation of the operational risk in all areas of the Banks. Compliance as a consulting and controlling unit engages in the development of new products, services and internal regulations and

the modernisation thereof. Internal audit is responsible for assessing the sufficiency of internal control systems and the effectiveness of control mechanisms, puts forward proposals for any supplementation and tests the reliability of control systems.

Operational risk management process

To measure, hedge and monitor operational risk, the Bank uses the following methods:

- The process of identifying and assessing operational risks is mainly based on the self-assessment of operational risks periodically carried out by all areas and the Bank's Management Board.
- The database of operational risk loss events is a tool for the registration and analysis of operational risk loss events that have materialised or are possible. Analysis of operational risk loss events provides information about the causes for operational losses and may point to areas where control environment failures are systematic.
- Risk indicators are used for monitoring the operational risk profile, and any change in them may provide the signal that enables timely responses to problems.
- The Bank's Management Board is presented with a report on all the major instances of operational risk.
- Implementation of compliance in order to allow for the applicable legislation, regulatory requirements and recommendations on product development.
- Existence of business continuity plans.

The Bank did not register any significant instances of operational risk in 2015. The general operational risk level has increased somewhat due to an increase in business volumes. The number of loss events due to the materialisation of operational risk remained low (EUR 3900 in 2015 and EUR 700 in 2014).

Capital management

The Bank's objective is to maintain a stable capital base and a conservative capital-related risk profile and adequate capital levels to cover any potential risks. Throughout 2015, the Bank's capital ratios were at good levels; as at 31 December 2015, the ratio of the Bank's Tier 1 common equity was 12.39% (13.95% as at 31 December 2014), the ratio of its Tier 1 own funds was 18.27% (16.75% as at 31 December 2014), and the ratio of its total own funds was 22.97% (22.35% as at 31 December 2014).

Note 39 continued:

Own funds

In 2015, the Bank strengthened its Tier 1 capital base by issuing EUR 3 million of subordinated instruments qualifiable as additional Tier 1 bonds. If audited profit is including in own funds, the

total amount of the Bank's own funds as at 31 December 2015 was EUR 19.54 million (EUR 15.98 million as at 31 December 2014). The Bank's Tier 2 own funds consist of a subordinated loan.

Issue of instruments as part of additional Tier 1 own funds

Given the growth of Versobank AS and the additional need for capital, with the 13 August 2015 decision of its Management Board Versobank AS initiated a bond programme for subordinated instruments as part of its Tier 1 own funds (ISIN: EE3300110717) totalling EUR 4,000,000.00.
Under the above bond programme, Versobank AS issued on 24 August 2015 EUR 1,000,000.00 of subordinated instruments as part of its Tier 1 own funds under Chapter 3 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council (Banking Regulation). The instruments issued meet the requirements of Article 52 of the Banking Regulation, and Versobank AS has included these in the make-up of the Bank's own funds as additional Tier 1 own funds.
Under the above bond programme, the Bank issued on 29 December 2015, in accordance with the 21 December 2015 decision of its Management Board, an additional EUR 2,000,000.00 of subordinated instruments as part of its Tier 1 own funds under Chapter 3 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council (Banking Regulation). The instruments issued meet the requirements of Article 52 of the Banking Regulation, and Versobank AS has included these in the make-up of the Bank's own funds as additional Tier 1 own funds.

Note 42 provides an overview of the calculation of own funds, the composition of own funds across various levels and deductions from own funds.

Requirements for own funds

Principles for the calculation of capital adequacy

The adequacy of the Bank's capital is calculated based on the allocation of capital according to regulatory capital requirements, to which the additional capital requirement, identified during the process of internal capital adequacy assessment (ICAAP), is added. The Bank has been using the ICAAP process since 2008. The process of assessing the adequacy of internal capital aims to ensure a sufficient level of capitalisation to cover risks, including those not subject to regulatory requirements on own funds.
During the ICAAP process, the Bank assesses the need for additional capital with respect to risks identified by the Bank. The Bank carries out stress tests at least once annually in order to assess the need for additional capital.
In accordance with the results of the ICAAP process, the Bank will allocate additional internal capital to cover its bond portfolio's market, operational, strategic and reputation risks. The Bank does not allocate additional internal capital for covering liquidity risk; to hedge liquidity risk, stress tests under conservative assumptions are carried out regularly, and based on these the minimum amount of the internal liquidity buffer is determined.
The Financial Supervision Authority applies to the Bank the supervisory review and evaluation process (SREP), in the course of which the Bank undergoes annual risk, liquidity and capital requirement assessment by the Bank.

The Bank uses a standard method to calculate regulatory own fund requirements in relation to credit risk. Calculation of the Bank's assets weighted by risk classes all the risk exposures, on and off the balance sheet, to risk exposure classes introduced by Regulation (EU) No. 575/2013 of the European Parliament and of the Council (Banking Regulation), which, in turn, are classed by credit quality grade to determine the risk weights.

The Bank uses the basic indicator approach to calculate the regulatory capital requirements in relation to operational risk.

Note 39 continued:

To calculate the regulatory capital requirements for its trading portfolio in relation to market risk, the Bank uses the maturity method to calculate the general risk of the interest exposure, with the capital requirement in relation to a specific risk calculated based on the issuer, debtor, external rating and remaining term to maturity. Since the Bank's net open currency position was less than 2% of the

Bank's own funds, the Bank is not required to calculate the regulatory capital requirement for covering any currency risk.

Under the requirements of Regulation (EU) No. 575/2013 of the European Parliament and of the Council (Banking Regulation) and the Credit Institutions Act, the Bank's own fund ratios, expressed as a percentage of its total risk exposure, have to be as follows at a minimum: the ratio of its Tier 1 common equity is 4.5%, the ratio of its Tier 1 own funds is 6%, and the ratio of its total own funds is 8%.

Note 42 provides an overview of the Bank's own funds and risk-weighted assets. In the overview, assets break down by method used and credit quality class, with capital requirements specified separately for credit risk, market risk and operational risk.

Capital buffers

In addition to the regulatory and internal capital requirements, the Bank maintains additional capital buffers in accordance with the requirements laid down in the Credit Institutions Act and the requirements established under decrees of the Governor of Eesti Pank. As at 31 December 2015, the systemic risk capital buffer was EUR 1.70 million (EUR 1.43 million as at 31 December 2014), or 2% of the risk exposure calculated in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council. As at 31 December 2015, the counter-cyclical capital buffer was EUR 2.13 million (EUR 1.79 million as at 31 December 2014), or 2.5% of the risk exposure calculated in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council, not taking into account the geographical distribution of credit risk exposures.

Leverage

The risk of excessive financial leverage is the risk arising from an excessively rapid increase in liabilities. The Bank regularly monitors and analyses financial leverage risk. As at 31 December 2015, the ratio of financial leverage by the Bank was 4.35% (5.78% as at 31 December 2014).

Use of rating agencies

To determine credit quality grades when calculating capital requirements, the Bank uses credit quality assessments from the credit ratings agencies Moody's, Standard & Poor's, and Fitch Ratings in accordance with the rules laid down in Regulation (EU) No. 575/2013 of the European Parliament and of the Council (Banking Regulation) and the credit quality grades prescribed by the Financial Supervision Authority.

The Bank uses an aggregate assessment derived from the assessments of the above ratings agencies to calculate the capital requirements for the risk exposure classes below in relation to credit risk: (a) receivables from central governments or central banks (b) receivables from regional or local governments; (c) receivables from public sector institutions; (d) receivables from multilateral development banks; (e) receivables from international organisations; (f) receivables from credit institutions and investment firms; and (g) receivables from credit institutions and investment firms and companies with short-term credit quality assessments.

Furthermore, the Bank uses an aggregate assessment derived from the assessments of the above ratings agencies to calculate the own fund requirements for the specific risk of its trading portfolio.

Note 40: Currency position

31.12.2015
EUR ths.

	EUR	USD	GBP	RUB	CHF	Other currencies	TOTAL
ASSETS							
Cash and balances with central bank	23,381	7	0	0	0	4	23,392
Due from credit institutions	77,546	153,621	2,254	1,055	274	1,682	236,432
Due from customers	23,673	6,239	0	0	0	0	29,912
Securities	1,269	60,095	0	0	0	0	61,364
Other assets *	2,602	261	5	0	0	5	2,873
TOTAL ASSETS	**128,471**	**220,223**	**2,259**	**1,055**	**274**	**1,691**	**353,973**
LIABILITES							
Due to credit institutions	363	125	0	0	0	0	488
Deposits	104,070	209,005	2,265	1,472	281	1,656	318,749
Other liabilities **	12,224	5,601	4	57	0	9	17,895
TOTAL LIABILITIES	**116,657**	**214,731**	**2,269**	**1,529**	**281**	**1,665**	**337,132**
Net on-balance sheet position	11,814	5,492	-10	-474	-7	26	**16,839**
FX derivatives (notionals, due from)	23,662	19,167	8	779	7	136	**43,759**
FX derivatives (notionals, due to)	18,688	24,643	0	305	0	136	**43,772**

31.12.2014
EUR ths.

	EUR	USD	GBP	RUB	CHF	Other currencies	TOTAL
ASSETS							
Cash and balances with central bank	13,622	20	0	0	0	4	13,646
Due from credit institutions	91,998	98,681	1,259	1,134	767	112	193,951
Due from customers	19,404	3,985	0	0	0	0	23,389
Securities	904	21,038	0	0	0	0	21,942
Other assets *	2,845	0	0	0	0	1	2,846
TOTAL ASSETS	**128,773**	**123,724**	**1,259**	**1,134**	**767**	**117**	**255,774**
LIABILITES							
Due to credit institutions	6	2,975	0	0	0	0	2,981
Deposits	98,524	125,865	1,191	690	1,301	96	227,667
Other liabilities **	7,963	4,267	82	294	0	9	12,615
TOTAL LIABILITIES	**106,493**	**133,107**	**1,273**	**984**	**1,301**	**105**	**243,263**
Net on-balance sheet position	22,280	-9,383	-14	150	-534	12	**12,511**
FX derivatives (notionals, due from)	4,581	16,673	9	2,654	534	0	**24,451**
FX derivatives (notionals, due to)	13,724	7,862	0	2,802	0	0	**24,388**

* includes tangible and intangible assets, other assets
** includes debts evidenced by certificates, other financial liabilities, provisions, taxes and other liabilities.

Note 40 continued:

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, when 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.

Net currency position was under 2% level of net own.

Sensitivity analysis of foreign currency risk

The Bank's actual exposure to foreign currency risk is low, and the Bank's entire net foreign currency position as at 31 December 2015 was EUR 44,344 or 0.23% of the Bank's own funds (EUR 181,504 as at 31 December 2014 or 1.14% of its own funds). A 10% change simultaneously in all foreign currency exchange rates in an unfavourable direction would cause an additional expense in the amount of EUR 4,3 ths (EUR 18,5 ths as at 31 December 2014), in other words, the Bank's actual exposure to foreign currency risk may be still considered minimal in terms of potential losses. 10% is approximate for 99.99% confidence intervals over a 10-day holding period in case of VAR 14% annual volatility, being the average correlation volatility of the currencies in the currency position opened by the Bank, without allowing for any negative interaction among the currencies.

Note 41: Interest-Bearing Assets and Liabilities by Interest Repricing Period

EUR ths., as of 31.12.2015

Assets, 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
Assets of the Bank		**261,708**	**22,260**	**43,776**	**3,251**	**7,593**	**11,735**	**773**	**351,096**
Due from credit institutions	13,14,15	259,641	0	0	0	0	0	181	**259,822**
Due from customers	16	965	8,451	3,540	1,970	6,104	8,655	227	**29,912**
Securities	17, 18	1,102	13,809	40,236	1,281	1,489	3,080	365	**61,362**
Liabilities of the Bank		**299,063**	**3,819**	**13,317**	**1,913**	**7,825**	**4,000**	**257**	**330,194**
Due to credit institutions	23	488	0	0	0	0	0	0	**488**
Deposits	23	297,113	3,764	13,317	1,843	2,712	0	257	**319,006**
Subordinated debts evidenced by certificates	24	0	0	0	0	5,000	0	0	**5,000**
Subordinated debt	25	0	0	0	0	0	4,000	0	**4,000**
Other borrowings	26	0	55	0	70	113	0	0	**238**
Unused loan limits	34	1,462	0	0	0	0	0	0	**1,462**
Net		**-37,355**	**18,441**	**30,459**	**1,338**	**-232**	**7,735**	**516**	**20,902**

EUR ths., as of 31.12.2014

	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
Assets of the Bank		**209,882**	**5,607**	**6,854**	**11,978**	**6,091**	**11,751**	**758**	**252,921**
Due from credit institutions	13,14,15	207,390	0	0	0	0	0	206	**207,596**
Due from 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**
Liabilities of the Bank		**204,207**	**5,730**	**16,414**	**3,879**	**3,710**	**4,000**	**371**	**238,311**
Due to credit institutions	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									
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**

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

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Note 41 continued:

Sensitivity analysis of interest rate risk

The Bank uses the standard method recommended by the Basel Committee and the European Banking Authority (EBA) to analyse the interest rate risk of its banking portfolio. Under this methodology, all interest rate-sensitive assets (RSA) and interest rate-sensitive liabilities (RSL) are grouped into ranges by due date. For every range, a long or short net position (gap) is calculated. Net positions are weighted according to the weights specified in the Basel Committee's recommendations across various due date ranges. The total of all the weighted positions obtained as the final result expresses the estimated impact of a change of 200 basis points in the interest rate curve on the Bank's economic value of equity (EVE).

The scenario tested by the Bank was a drop of 200 basis points in interest rates. Since various classes of assets and liabilities may behave differently in the event of a drop of -200 basis points, by adding the Basel standard method the Bank modifies the assumptions for the various asset classes in accordance with the Bank's internal assessments based on the maximum possible change in the interest rates. Based on the results of the stress test completed, the impact on economic value was EUR -23,261 (EUR -186,511 as at 31 December 2014), accordingly the interest rate risk of the banking portfolio may be deemed low.

To assess the interest rate risk of its trading portfolio, the Bank uses an assessment of the impact of an interest rate change of 100 basis points on the Bank's bond portfolio, which was EUR -421,526 as at 31 December 2015 (EUR 479,360 as at 31 December 2014). In addition to the sensitivity analysis of a change of 100 basis points in the interest rate, the Bank uses VAR analysis (99% confidence level, 30 days) comparatively. The Bank regularly carries out stress tests on its trading portfolio, assessing the potential impact of the price drop that occurred from 15 September 2008 to 14 October 2008 ('*standard Lehman 2008 stress test*') on the Bank's bond portfolio. As at 31 December 2015, the result of VAR analysis (99% confidence interval, 30 days) was EUR 234,227 (EUR 280,472 as at 31 December 2014), whereas the result of the *standard Lehman 2008 stress test* was EUR -741,000 (EUR -832,926 at 31 December 2014).

Note 42: Capital Adequacy

CAPITAL BASE	EUR ths. 31.12.2015	EUR ths. 31.12.2014
OWN FUNDS	**19,541**	**15,975**
TIER 1 CAPITAL	**15,541**	**11,975**
COMMON EQUITY TIER 1 CAPITAL	**10,541**	**9,975**
Capital instruments eligible as CET1 Capital	**14,089**	**14,089**
Paid up capital instruments	14,089	14,089
Retained earnings	**-2,654**	**-3,484**
Other reserves	**200**	**88**
(-) Other intangible assets	**-211**	**-170**
Other transitional adjustments to CET1 Capital	**-883**	**-548**
ADDITIONAL TIER 1 CAPITAL	**5,000**	**2,000**
Capital instruments eligible as AT1 Capital	**5,000**	**2,000**
Paid up capital instruments	5,000	2,000
TIER 2 CAPITAL	**4,000**	**4,000**
Capital instruments and subordinated loans eligible as T2 Capital	**4,000**	**4,000**
Paid up capital instruments and subordinated loans	4,000	4,000

Note 42 continued:

RISK WEIGHTED ASSETS (RWA)

	EUR ths. 31.12.2015	Capital requirements (8%)	EUR ths. 31.12.2014	Capital requirements (8%)
TOTAL RISK EXPOSURE AMOUNT	**85,061**	**6,805**	**71,491**	**5,719**
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	**68,138**	**5,451**	**57,283**	**4,583**
Standardised approach (SA)	**68,138**	**5,451**	**57,283**	**4,583**
SA exposure classes excluding securitisation positions	68,138	5,451	57,283	4,583
Institutions	546	44	265	21
Corporates *	1,015	81	2,877	230
Retail	4,517	361	2,869	229
Secured by mortgages on immovable property	4,226	338	3,500	280
Exposures in default	1,243	99	2,019	162
Claims on institutions and corporates with a short-term credit assessment	52,992	4,239	42,884	3,431
Other items	3,599	288	2,869	230
TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	**9,790**	**783**	**10,533**	**843**
Risk exposure amount for position, foreign exchange and commodities risks under standardised approaches (SA)	**9,790**	**783**	**10,533**	**843**
Traded debt instruments	9,785	783	10,527	842
Equity	5	0	6	0
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR) **	**7,133**	**571**	**3,675**	**294**
OpR Basic indicator approach (BIA)	**7,133**	**571**	**3,675**	**294**

* including credit institutions treated as corporations

** Total risk exposure amount for operational risk reference data (31.12.2014) is aligned with the European Parliament and Council Regulation no 575/2013 of article 315 paragraph 1 of the concept.

CAPITAL RATIOS	**31.12.2015**	**31.12.2014**
CET1 capital ratio (%)	**12.39%**	**13.95%**
Tier1 capital ratio (%)	**18.27%**	**16.75%**
Total capital ratio (%)	**22.97%**	**22.35%**

Leverage ratio

	31.12.2015	**31.12.2014**
Exposure measure for leverage ratio calculation	358,436	214,562
of which on balance sheet items	353,972	210,900
of which off balance sheet items	4,464	3,662
Leverage ratio	**4.35%**	**5.78%**

* Dated as of 31.12.2014 is calculated as the simple arithmetic mean of the monthly leverage ratios over a quarter. Dated as of 31.12.2015 is calculated ate the end of the quarter.

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Note 42 continued: **Credit risk and counterparty credit risk report following the standard method**

EUR ths., 31.12.2015

	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	**23,210**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**		**0**	**0**	**0**		**0**	**0**
I rate credit quality	23,210													0%	0	0
Institutsioonid	**2,621**	**15,070**	**0**	**0**	**0**	**0**	**-15,070**	**0**	**0**	**0**	**0**	**109**	**0**		**546**	**546**
Unrated institutions	2,621											109		20%	546	546
I rate credit quality		15,070					-15,070							20%	0	0
Corporates	**86**	**8,857**	**0**	**0**	**0**	**0**	**-8,425**	**0**	**0**	**1,837**	**0**	**454**	**-1,837**		**1,015**	**1,015**
III ja IV rate credit quality		8,857					-8,425					454		100%	886	886
V ja VI rate credit quality	86									1,837			-1,837	150%	129	129
Retail exposures	**0**	**7,886**	**0**	**-140**	**0**	**0**	**0**	**-11**	**0**	**0**	**73**	**0**	**-73**		**5,801**	**4,517**
Claims up to EUR 1 mln		7,886		-140				-11						75%	5,801	4,517
Guarantees											73	0	-73	100%	0	0
Exposures secured by mortgages on immovable property	**0**	**11,423**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**		**5,105**	**4,226**
For exposures secured by mortgages on residential property		4,043												35%	1,415	1,415
For exposures secured on commercial immovable property		7,380												50%	3,690	2,811
Exposures in default	**0**	**1,386**	**0**	**0**	**-480**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**		**1,243**	**1,243**
III ja IV rate credit quality		686			-453									100%	233	233
V ja VI rate credit quality		700			-27									150%	1,010	1,010
Exposures to institutions and corporates with a short-term credit assessment	**230,991**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**23**	**0**		**52,991**	**52,991**
I rate credit quality	214,710											23		20%	42,947	42,947
II rate credit quality	14,377													50%	7,189	7,189
V ja VI rate credit quality	1,904													150%	2,856	2,856
Other items	**6,396**	**0**	**57**	**0**	**0**	**-3**	**0**	**0**	**1,463**	**0**	**0**	**0**	**0**		**3,600**	**3,600**
Cash	181													0%	0	0
Property and equipment	1,470													100%	1,470	1,470
Prepayments and prepaid expenses	1,043													100%	1,043	1,043
Items in transmission	3,702													20%	740	740
Investments to shares of other companies, not deducted from own funds			57			-3								100%	54	54
Loan limits and overdraft limits with contractual maturity up to 1 year (can not be terminated by one party)									1,463					20%	293	293
Total	**263,304**	**44,622**	**57**	**-140**	**-480**	**-3**	**-23,495**	**-11**	**1,463**	**1,837**	**73**	**586**	**-1,910**			
													TOTAL RISK-WEIGHTED ASSETS		**70,301**	**68,138**

*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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Note 42 continued: **Credit risk and counterparty credit risk report following the standard method**

EUR ths., 31.12.2014

	Balance sheet: Initial value (gross)			Balance sheet: Allowances and corrections (-)			Balance sheet: Substitution effects of the credit protection (-)		Off-balance sheet							
	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
Total	**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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Note 42 continued:

Exposures by class

EUR ths.

	31.12.2015 Original exposure	2015 Average exposure	31.12.2014 Original exposure	2014 Average exposure
Exposures on central bank	23,210	23,269	13,441	28,388
Exposures to institutions	17,800	2,655	1,323	1,010
Exposures to corporates	11,234	9,009	5,997	6,499
Retail exposures	7,819	6,379	5,037	8,584
of which retail SME	*7,202*	*6,328*	*5,037*	*3,370*
Exposures secured by mortgages on immovable property	11,423	10,127	10,321	7,556
of which SME	*7,380*	*9,790*	*10,321*	*6,061*
Exposures in default	906	1,149	1,411	1,497
Claims on institutions and corporates with a short-term credit assesment	231,015	203,012	194,463	130,567
Other items	7,912	6,173	3,837	4,053
TOTAL	**311,319**	**261,773**	**235,830**	**188,154**

The total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation. Exposure includes off balance sheet items. Exposure amounts are divided by exposure classes.

Credit risk and counterparty credit risk exposures by class and geography

EUR ths., as of 31.12.2015

	Estonia	Germany	United Kingdom	Austria	France	Other countries	Total
Exposures on central bank	23,210	0	0	0	0	0	23,210
Exposures to institutions	0	0	990	0	0	16,810	17,800
Exposures to corporates	2,267	0	9	0	0	8,958	11,234
Retail exposures	7,604	0	0	0	0	215	7,819
of which retail SME	*6,987*	*0*	*0*	*0*	*0*	*215*	*7,202*
Exposures secured by mortgages on immovable property	10,171	0	0	0	0	1,252	11,423
of which SME	*7,380*	*0*	*0*	*0*	*0*	*0*	*7,380*
Exposures in default	906	0	0	0	0	0	906
Claims on institutions and corporates with a short-term credit assesment	19,788	57,896	27,556	16,651	30,626	78,498	231,015
Other items	7,855	0	2	0	0	55	7,912
TOTAL	**71,801**	**57,896**	**28,557**	**16,651**	**30,626**	**105,788**	**311,319**

EUR ths., as of 31.12.2014

	Estonia	Germany	United Kingdom	Austria	France	Other countries	Total
Exposures on central bank	13,441	0	0	0	0	0	13,441
Exposures to institutions	0	0	855	0	0	468	1,323
Exposures to corporates	2,668	0	48	0	0	3,281	5,997
Retail exposures	4,455	0	0	0	0	582	5,037
of which retail SME	*4,455*	*0*	*0*	*0*	*0*	*582*	*5,037*
Exposures secured by mortgages on immovable	8,989	0	0	0	0	1,332	10,321
of which SME	*8,989*	*0*	*0*	*0*	*0*	*1,332*	*10,321*
Exposures in default	1,411	0	0	0	0	0	1,411
Claims on institutions and corporates with a short-term credit assesment	30,664	48,384	26,357	26,191	24,531	38,336	194,463
Other items	3,233	0	237	0	0	367	3,837
TOTAL	**64,861**	**48,384**	**27,497**	**26,191**	**24,531**	**44,366**	**235,830**

Note 42 continued:

Credit risk and counterparty credit risk exposures by economic sector

EUR ths., as of 31.12.2015

	Retail exposures	of which retail SME	Exposures secured by mortgages on immovable property	of which SME	Exposures in default	Total
Agriculture, forestry and fishing	944	867	58	58	540	1,542
Manufacturing	214	214	134	134	55	403
Construction	363	363	32	32	0	395
Wholesale and retail trade	1,085	1,085	211	211	0	1,296
Transportation and storage	0	0	0	0	0	0
Accommodation and food service activities	40	0	1,105	1,105	0	1,145
Information and communication	0	0	0	0	0	0
Financial and insurance activities	0	0	0	0	0	0
Real estate activities	3,968	3,968	3,852	3,852	9	7,829
Professional, scientific and technical activities	73	73	0	0	0	73
Administrative and support service activities	299	299	1,187	1,187	0	1,486
Human health and social work activities	0	0	775	775	0	775
Arts, entertainment and recreation	102	102	26	26	0	128
Other service activities	263	231	0	0	0	263
Private persons	468	0	4,043	0	302	4,813
Total	**7,819**	***7,202***	**11,423**	***7,380***	**906**	**20,148**

EUR ths., as of 31.12.2014

	Retail exposures	of which retail SME	Exposures secured by mortgages on immovable property	of which SME	Exposures in default	Total
Agriculture, forestry and fishing	1,377	1,377	70	70	562	2,009
Mining and quarrying	10	10	0	0	0	10
Manufacturing	262	262	209	209	149	620
Construction	324	324	37	37	152	513
Wholesale and retail trade	270	270	211	211	79	560
Transportation and storage	6	6	0	0	4	10
Accommodation and food service activities	29	29	602	602	0	631
Information and communication	0	0	273	273	0	273
Real estate activities	1,658	1,658	3,912	3,912	17	5,587
Professional, scientific and technical activities	82	82	0	0	0	82
Administrative and support service activities	121	121	0	0	0	121
Human health and social work activities	0	0	836	836	0	836
Arts, entertainment and recreation	100	100	0	0	0	100
Other service activities	262	262	390	390	0	652
Private persons	536	536	3,781	3,781	448	4,765
Total	**5,037**	***5,037***	**10,321**	***10,321***	**1,411**	**16,769**

Note 42 continued:

Credit risk and counterparty credit risk exposures by remaining maturity

EUR ths., as of 31.12.2015

	< 3 months	3 - 6 months	6 - 12 months	1 -5 years	5 years <	Total
Exposures on central bank	23,210	0	0	0	0	23,210
Exposures to institutions	17,800	0	0	0	0	17,800
Exposures to corporates	8,078	0	1,837	0	1,319	11,234
Retail exposures	120	1,778	1,597	3,803	521	7,819
of which retail SME	*117*	*1,778*	*1,487*	*3,559*	*261*	*7,202*
Exposures secured by mortgages on immovable property	824	9	246	3,947	6,397	11,423
of which SME	*824*	*9*	*221*	*2,568*	*3,758*	*7,380*
Exposures in default	158	0	0	396	352	906
Claims on institutions and corporates with a short-term credit assesment	230,015	0	1,000	0	0	231,015
Other items	7,912	0	0	0	0	7,912
TOTAL	**288,117**	**1,787**	**4,680**	**8,146**	**8,589**	**311,319**

EUR ths., as of 31.12.2014

	< 3 months	3 - 6 months	6 - 12 months	1 -5 years	5 years <	Total
Exposures on central bank	13,441	0	0	0	0	13,441
Exposures to institutions	1,323	0	0	0	0	1,323
Exposures to corporates	1,870	0	0	3,254	873	5,997
Retail exposures	549	64	758	3,000	666	5,037
of which retail SME	*549*	*64*	*758*	*3,000*	*666*	*5,037*
Exposures secured by mortgages on immovable	569	754	633	4,011	4,354	10,321
of which SME	*569*	*754*	*633*	*4,011*	*4,354*	*10,321*
Exposures in default	403	5	0	412	591	1,411
Claims on institutions and corporates with a short-term credit assesment	193,639	0	824	0	0	194,463
Other items	3,837	0	0	0	0	3,837
TOTAL	**215,631**	**823**	**2,215**	**10,677**	**6,484**	**235,830**

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.

Note 42 continued:

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 31.12.2015 and 31.12.2014 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 31.12.2015 and 31.12.2014.

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.

Note 43: Concentration of Risks

			31.12.2015
	no.	**EUR ths.**	**% of net own funds**
Number of customers (client groups) with high risk concentration	23		
Due from customers with large exposures		266,238	1362.47%
Due from management board members and related persons		12	0.06%
Own funds included in calculation of capital adequacy		19,541	

			31.12.2014
	no.	**EUR ths.**	**% of net own funds**
Number of customers (client groups) with high risk concentration	26		
Due from customers with large exposures		200,843	1257.25%
Due from management board members and related persons		27	0.17%
Own funds included in calculation of capital adequacy		15,975	

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Note 43 continued:

Large exposures contain due from central bank, credit institutions and customers (loans, interests, securities) and off-balance sheet commitments to central bank, credit institutions and customers, which may turn into claims.
The following is deducted from large exposures:
- due from central bank, central government and government authorities, which belong to a group with credit risk considered at 0%.

* 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 clients as of 31.12.2015 and as of 31.12.2014 according to REGULATION (EU) No 575/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL.

Note 44: Assets encumbrance

An asset shall be treated as encumbered if it has been pledged or if it is a subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn. Assets pledged that are subject to any restrictions in withdrawal, such as for instance assets that require prior approval before withdrawal or replacement by other assets, should be considered encumbered.

EUR ths., as of 31.12.2015

	Carrying amount of encumbered assets	Carrying amount of non-encumbered assets	*of which: central banks eligible **	Fair value of non-encumbered assets	Total Carrying amount
Assets of the reporting institution	**0**	**349 980**	**11 044**	**61 362**	**349 980**
Loans on demand	0	255 718	0	0	255 718
Equity instruments	0	54	0	54	54
Debt securities	0	61 308	11 044	61 308	61 308
of which: issued by general governments	*0*	*25 161*	*6 444*	*25 161*	*25 161*
of which: issued by financial corporations	*0*	*1 102*	*459*	*1 102*	*1 102*
of which: issued by non-financial corporations	*0*	*34 683*	*4 141*	*34 683*	*34 683*
Loans and advances other than loans on demand	0	29 912	0	0	29 912
of which: mortgage loans	*0*	*20 769*	*0*	*0*	*20 769*
Oher assets	0	2 988	0	0	2 988

EUR ths., as of 31.12.2014

	Carrying amount of encumbered assets	Carrying amount of non-encumbered assets	*of which: central banks eligible **	Fair value of non-encumbered assets	Total Carrying amount
Assets of the reporting institution	**0**	**255 919**	**2 265**	**21 939**	**255 919**
Loans on demand	0	208 261	0	0	208 261
Equity instruments	0	3	0	3	3
Debt securities	0	21 936	2 265	21 936	21 936
of which: issued by general governments	*0*	*4 601*	*1 280*	*4 601*	*4 601*
of which: issued by financial corporations	*0*	*1 679*	*0*	*1 679*	*1 679*
of which: issued by non-financial corporations	*0*	*15 655*	*986*	*15 655*	*15 655*
Loans and advances other than loans on demand	0	22 520	0	0	22 520
of which: mortgage loans	*0*	*17 724*	*0*	*0*	*17 724*
Oher assets	0	3 199	0	0	3 199

* Carrying amount of encumbered assets held by the reporting institutions which are eligible for operations with those central banks to which the reporting institution has access.

Note 45: Fair value of financial assets and liabilities

Financial instruments not measured at fair value

	as of 31.12.2015				
	EUR ths.	EUR ths.	EUR ths.	EUR ths.	EUR ths.
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
ASSETS					
Cash	0	181	0	181	181
Balances with central bank	0	23,210	0	23,210	23,210
Due from other credit institutions	0	236,431	0	236,431	236,431
Due from customers	0	980	20,486	21,466	29,912
Other assets	0	0	1,043	1,043	1,043
TOTAL ASSETS	**0**	**260,802**	**21,529**	**282,331**	**290,777**
LIABILITIES					
Due to credit institutions	0	488	0	488	488
Due to customers	0	293,789	25,973	319,762	319,006
Subordinated debt	0	0	3,387	3,387	2,634
Borrowed funds from goverment and foreign aid	0	0	232	232	238
Other liabilities	0	0	9,450	9,450	9,449
TOTAL LIABILITIES	**0**	**294,277**	**39,042**	**333,319**	**331,815**

	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	0	204	0	204	204
Balances with central bank	0	13,441	0	13,441	13,441
Due from other credit institutions	0	193,951	0	193,951	193,951
Due from customers	0	869	22,275	23,144	23,389
Other assets	0	0	591	591	591
TOTAL ASSETS	**0**	**208,465**	**22,866**	**231,331**	**231,576**
LIABILITIES					
Due to credit institutions	0	2,980	0	2,980	2,980
Due to customers	0	196,372	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	**0**	**199,352**	**42,561**	**241,913**	**241,012**

Note 45 continued:

Assets and Liabilities Measured at Fair Value

	as of 31.12.2015			
	EUR ths. **Level 1**	EUR ths. **Level 2**	EUR ths. **Level 3**	EUR ths. **Total**
Financial assets at fair value trough profit and loss				
Financial assets held for trading				
Equity securities	3	0	0	3
Derivative financial instruments	149	0	0	149
Available-for-sale financial assets				
Debt securities	61,308	0	0	61,308
Equity securities	54	0	0	54
Total assets	**61,460**	**0**	**54**	**61,514**
Financial liabilities at fair value trough profit and loss				
Derivative financial instruments	162	0	0	162
Total liabilities	**162**	**0**	**0**	**162**

	as of 31.12.2014			
	EUR ths. **Level 1**	EUR ths. **Level 2**	EUR ths. **Level 3**	EUR ths. **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	3	0	0	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**

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.

SIGNATURES OF THE MANAGEMENT BOARD TO THE ANNUAL REPORT 2015

The Annual Report 2015 of Versobank AS is signed by:

Riho Rasmann	Chairman of the Management Board		29.03.2016
Mart Veskimägi	Member of the Management Board		29.03.2016
Marija Sutirina	Member of the Management Board		29.03.2016

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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 ("the Company"), which comprise the statement of financial position as at 31 December 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. Audited financial statements are presented on pages from 10 to 69.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 the auditor's 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, the auditor considers 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 2015, and its financial performance and its cash flows for the year then ended in accordance with Financial Reporting Standards as adopted by the European Union.

Tallinn, 30 March 2016

/signature/

Eero Kaup
Certified Public Accountant, Licence No 459

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 2015 in the amount of 4,722,452.38 euros. The Management Board's proposal to the General Meeting of Shareholders is not to pay dividends, appropriate 236,122.62 euros to the statutory reserve capital and record 4,486,329.76 euros under the balance sheet heading "Retained earnings".

Riho Rasmann	Chairman of the Management Board		29.03.2016
Mart Veskimägi	Member of the Management Board		29.03.2016
Marija Sutirina	Member of the Management Board		29.03.2016