BIGBANK AS

Annual report

2011

BIGBANK
KIIREIM TEE RAHANI

BIGBANK AS
ANNUAL REPORT 2011

Business name	BIGBANK AS
Registry	Commercial Register of the Republic of Estonia
Registration number	10183757
Date of entry	30 January 1997
Address	Rüütli 23, 51006 Tartu, Estonia
Telephone	+372 737 7570
Fax	+372 737 7582
E-mail	bigbank@bigbank.ee
Corporate website	www.bigbank.ee
Reporting period	1 January 2011 – 31 December 2011
Chairman of the Management Board	Targo Raus
Business line	Provision of consumer loans and acceptance of deposits
Auditor	KPMG Baltics OÜ

This annual report of BIGBANK AS consists of a review of operations and consolidated financial statements that have been appended an independent auditors' report and a profit allocation proposal. The document contains 71 pages.

The reporting currency is the euro and numerical financial data is presented in millions of currency units rounded to three digits after the decimal point.

From 28 February 2012, *Annual report 2011* will be available at the head office of BIGBANK AS at 23 Rüütli street in Tartu and all other offices of the company.

The annual report can also be accessed on the website of BIGBANK AS at www.bigbank.ee.

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ABOUT BIGBANK GROUP

The core business of BIGBANK AS is provision of consumer loans and acceptance of deposits.

In addition to the parent company, BIGBANK AS group includes the following subsidiaries:

Business name	**Baltijas Izaugsmes Grupa AS**
Registered office	Brīvības iela 151, LV-1012 Riga, Latvia
Registration number	40003291179
Register	Register of Enterprises of the Republic of Latvia
Date of entry	18 April 1996
Business line	Provision of consumer loans in the Republic of Latvia
Ownership interest:	100%

Business name	**Rüütli Majad OÜ**
Registered office	Rüütli 23, 51006 Tartu
Registration number	10321320
Register	Commercial Register of the Republic of Estonia
Date of entry	27 November 1997
Business line	Management of real estate used by the group
Ownership interest	100%

Business name	**Balti Võlgade Sissenõudmise Keskus OÜ**
Registered office	Rüütli 23, 51006 Tartu
Registration number	11652332
Register	Commercial Register of the Republic of Estonia
Date of entry	11 May 2009
Business line	Provision of debt collection services
Ownership interest	100%

Business name	**Baltijas Parādu Piedziņas Centrs SIA** (owner: Balti Võlgade Sissenõudmise Keskus OÜ)
Registered office	Brīvības iela 151, LV-1012 Riga, Latvia
Registration number	40103305206
Register	Register of Enterprises of the Republic of Latvia
Date of entry	7 July 2010
Business line	Provision of debt collection services
Ownership interest	100%

Business name	**Baltijos Skolų Išieškojimo Centras UAB** (owner: Balti Võlgade Sissenõudmise Keskus OÜ)
Registered office	Jogailos 4, Vilnius 01116, Lithuania
Registration number	302534867
Register	Register of Enterprises of the Republic of Lithuania
Date of entry	6 August 2010
Business line	Provision of debt collection services
Ownership interest	100%

Business name	**Suomen Luottovalvonta Oy** (owner: Balti Võlgade Sissenõudmise Keskus OÜ)
Registered office	Kampin Sähkötalo Kampinkuja 2 00100 Helsinki, Finland
Registration number	2400904-2
Register	Trade Register of the Republic of Finland
Date of entry	2 May 2011
Business line	Provision of debt collection services
Ownership interest	100%

Business name	**Kaupmehe Järelmaks OÜ**
Registered office	Rüütli 23, 51006 Tartu
Registration number	11906650
Register	Commercial Register of the Republic of Estonia
Date of entry	10 March 2010
Business line	Provision of consumer loans
Ownership interest	100%

The parent company has the following branches:

Business name	Registered office	Registration number	Date of entry
BIGBANK AS Latvijas filiāle	Brīvības iela 151, LV-1012 Riga, Latvia	40103200513	11 November 2008
BIGBANK AS filialas	Jogailos 4, Vilnius 01116, Lithuania	301048563	27 September 2007
BIGBANK AS Suomen sivuliike	Porkkalankatu 20B, 00180, Helsinki, Finland	2292157-2	29 October 2009
BIGBANK AS Consumer Finance Sucursal en Espana	Calle de Orense 81, 28020, Madrid, Spain	W0531072G	6 October 2010

BIGBANK AS was founded on 22 September 1992. A licence for operating as a credit institution was obtained on 27 September 2005. BIGBANK specializes in the taking of term deposits and the provision of small and consumer loans.

The branches in Latvia, Lithuania, Finland and Spain offer lending services similar to those of the parent. In addition, the parent company and its Latvian and Finnish branches offer deposit services. The core business of OÜ Rüütli Majad is management of real estate required for the parent's business operations in Estonia. OÜ Balti Võlgade Sissenõudmise Keskus and its subsidiaries support the parent company and its branches in debt collection and OÜ Kaupmehe Järelmaks offers hire purchase services. In addition, BIGBANK AS provides cross-border deposit services in Germany and Austria.

STATEMENT BY THE MANAGEMENT BOARD

The management board of BIGBANK AS hereby confirms that the review of operations on pages 8 to 20 of this report presents fairly the development, financial position and financial performance of BIGBANK AS (the parent company) as well as the whole BIGBANK AS group, and provides an overview of the main risks and uncertainties. This statement is made based on the information and circumstances the management board was aware of or could reasonably have been expected to foresee at the date this confirmation was given.

Targo Raus

Chairman of the Management Board 28 February 2012 *[signed digitally]*

Kaido Saar

Member of the Management Board 28 February 2012 *[signed digitally]*

Veiko Kandla

Member of the Management Board 28 February 2012 *[signed digitally]*

Ingo Põder

Member of the Management Board 28 February 2012 *[signed digitally]*

REVIEW OF OPERATIONS

SIGNIFICANT ECONOMIC DEVELOPMENTS IN 2011

The year 2011 was successful for BIGBANK AS (hereafter also “BIGBANK” or the “Group”). The Group sustained growth in both operating volumes and profit.

Supportive macroeconomic environment

The Group’s performance was supported by a favourable macroeconomic environment. All countries where the Group has significant operations achieved considerable economic growth and a relatively rapid decrease in unemployment, which helped improve consumer confidence and encouraged consumer spending and willingness to take loans.

Business growth and expansion

In 2011, BIGBANK increased its operations in all markets. In the Baltic countries, the loan portfolio grew moderately, the rates ranging from 4.7% for Estonia and 8.1% for Latvia to 15.3% for Lithuania. In the Group’s new markets, growth rates were higher. The strongest growth driver was the Finnish branch that began offering loans in 2010. In 2011, the Finnish branch increased its loan portfolio more than two-fold, to 30.570 million euros. By the year-end, the Spanish branch, which began offering loans in March 2011, had already increased its loan portfolio to 6.990 million euros. In 2012, BIGBANK intends to enter the Swedish lending market. As regards the offering, the main focus of 2011 was on developing credit products offered via retailers with a view to improving both their pricing and accessibility.

At the end of 2011, loans to customers totalled 174.985 million euros, a 26.9% increase compared with the previous year.

Decrease in the proportion of the non-performing loan portfolio

By the year-end, the ratio of receivables past due for more than 90 days to the total loan portfolio decreased to 30.8% compared with 35.9% at the end of 2010. Year-end impairment allowances totalled 33.230 million euros, i.e. 58.0% of the receivables past due for more than 90 days. The customers’ settlement behaviour improved and the ratio of regularly settling customers to total loan customers increased.

Stable financing and conservative liquidity management

BIGBANK’s financing is based on a deposit portfolio that is diversified in terms of countries, maturities and customer categories. During the reporting period, the weighted average duration of the deposit portfolio grew by over 50% to two years. The Group maintained a conservative liquidity management policy. At the end of 2011, the Group’s liquid funds (amounts due from banks and held-to-maturity financial assets) totalled 42.439 million euros, accounting for 90% of liabilities to be redeemed in 2012.

Rise in profitability

BIGBANK ended 2011 with a consolidated net profit of 5.665 million, a 7.7% increase on the 5.261 million euros earned in 2010. Interest income amounted to 36.314 million euros (up 16.5%) while interest expenses totalled 6.310 million euros (down 22.4%).

Increase in the number of offices and staff

The number of customer service offices rose to 30, the figure consisting of 10 offices in Estonia, 7 in Latvia, 10 in Lithuania, 1 Finland and 2 new offices in Spain.

At the end of 2011, BIGBANK employed 531 people: 220 in Estonia, 142 in Latvia, 84 in Lithuania, 43 in Finland and 42 in Spain (at the end of 2010: 477 people). During the year the number of staff increased by 11.3%, primarily in connection with development of operations in new markets.

KEY PERFORMANCE INDICATORS

Financial position indicators *(in millions of euros)*	**31 Dec 2011**	**31 Dec 2010**
Total assets	229.706	207.394
Loans to customers	174.985	137.848
of which loan portfolio	185.935	150.493
of which interest receivable	22.864	20.768
of which prepaid interest	-0.584	-0.691
of which impairment allowances	-33.230	-32.722
of which impairment allowances for loans	*-27.249*	*-26.871*
of which impairment allowances for interest receivables	*-5.039*	*-4.922*
of which additional impairment allowances	*-0.942*	*-0.929*
Deposits from customers	170.235	153.845
Bonds issued	-	0.011
Subordinated bonds issued	3.657	3.653
Equity	53.263	47.601

Financial performance indicators *(in millions of euros)*	**2011**	**2010**
Interest income	36.314	31.174
Interest expense	6.310	8.131
Salaries and associated charges	8.993	6.152
Other operating expenses	8.331	5.026
Net impairment loss on loans and financial investments	-10.101	-9.555
Profit for the year	5.665	5.261

For the year *(in millions of euros)*	**2011**	**2010**
Average equity	50.432	45.453
Average assets	218.550	192.700
Average interest-earning assets	215.063	193.103
Average interest-bearing liabilities	161.886	141.079
Total income	42.873	37.051

Ratios	**2011**	**2010**
Return on equity (ROE)	11.2%	11.6%
Profit margin (PM)	13.2%	14.2%
Return on loans	24.6%	24.7%
Asset utilization ratio (AU)	19.6%	19.2%
Price difference (SPREAD)	13.0%	10.5%
Equity multiplier (EM)	4.3	4.2
Earnings per share (EPS)	70.82	65.77
Tier 1 capital ratio	27.8%	27.6%
Yield on interest-earning assets	16.9%	16.1%
Cost of interest-bearing liabilities	3.9%	5.7%

Explanations

Average financial position indicators (equity, assets, and liabilities) are calculated as the arithmetic means of respective indicators, i.e. carrying value at end of previous reporting period + carrying value at end of current reporting period / 2

Return on equity (ROE, %) = net profit / average equity * 100

Profit margin (PM, %) = net profit / total income * 100

Return on loans = interest income on loan portfolio + income from debt collection / average loan portfolio

Asset utilization ratio (AU) = total income / total assets

Price difference (SPREAD) = interest income / interest-earning assets – interest expense / interest-bearing liabilities

Equity multiplier (EM) = total assets / total equity

Earnings per share (EPS) = net profit / period's average number of shares outstanding

Total income = interest income + fee and commission income + gains/income on financial transactions + other income + gains/income on changes in the values of investment property, property and equipment and intangible assets + gains/income on changes in the values of receivables and liabilities accounted for off the statement of financial position + extraordinary income

Tier 1 capital ratio = tier 1 capital / total risk-weighted assets

Yield on interest-earning assets = interest income / interest-earning assets

Cost of interest-bearing liabilities = interest expense / interest-bearing liabilities

SHAREHOLDERS

The shares in BIGBANK AS are held by two individuals, each holding the same number of shares. At 31 December 2011 the shareholders were:

Shareholder	Number of shares	Interest
Parvel Pruunsild (chairman of the supervisory board)	40,000	50.0%
Vahur Voll (member of the supervisory board)	40,000	50.0%

The shares in BIGBANK AS are registered with the Estonian Central Depository for Securities. Use of voting power carried by the shares has not been restricted. The company is not aware of any shareholder agreements under which the shareholders pursue a joint policy by means of pooling their votes or otherwise restrict use of voting power.

Except for shares, BIGBANK AS has not issued any securities that grant control of the company.

Litigations

At 31 December 2011, neither the parent company nor the Group were involved in any significant litigation.

FINANCIAL REVIEW

Financial position

Total assets

At 31 December 2011, BIGBANK's consolidated assets totalled 229.706 million euros, a 22.312 million euro increase compared with the end of 2010. Growth in total assets is attributable to growth in receivables, i.e. loans provided to customers.

At the year-end, loans to customers accounted for 76.2% of total assets. The proportion of liquid assets (amounts due from banks and held-to-maturity financial assets) was 18.5% and that of other assets 5.3%.

Liquid assets

At the year-end, liquid assets totalled 42.439 million euros, a 14.349 million euro decrease year-over-year. During the year the Group reduced its liquid assets because due to a highly diversified maturity structure of liabilities there was no need to maintain such a large volume of liquid assets.

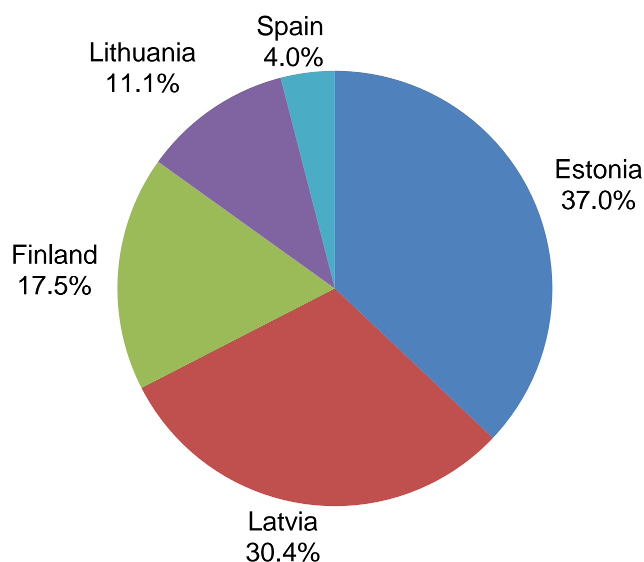
Held-to-maturity financial assets

Free funds are partly invested in short-term debt securities with fixed payments and maturities, which the Group intends to and is able to hold until maturity. At 31 December 2011, the Group had debt securities of 10.688 million euros.

Loans to customers

At the end of 2011, the Group had 128 thousand active loan agreements, 39 thousand of them in Estonia, 56 thousand in Latvia, 18 thousand in Lithuania, 12 thousand in Finland and 3 thousand in Spain.

Geographical distribution of loans to customers:

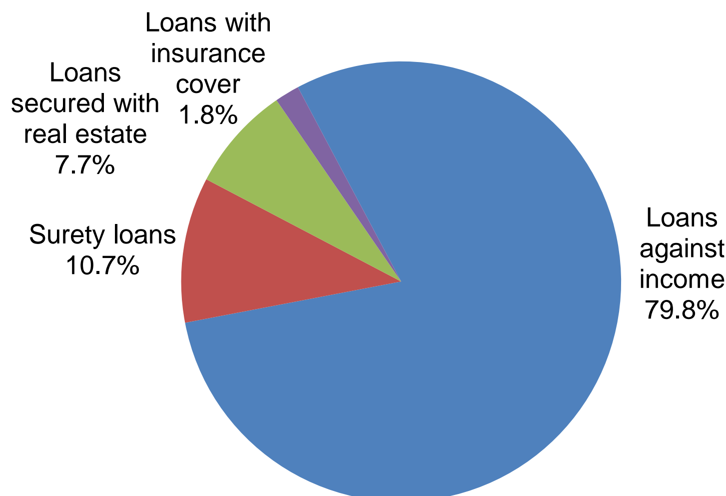


At 31 December 2011, loans to customers totalled 174.985 million euros, comprising of:

- the loan portfolio (loan receivables) of 185.935 million euros with loans to individuals accounting for 95.0% of the total;
- interest receivable on loans of 22.280 million euros;
- specific and collective impairment allowances for loans and interest receivables of 33.230 million euros (consisting of an impairment allowance for loans of 27.249 million euros, an impairment allowance for interest receivables of 5.039 million euros and an additional impairment allowance of 0.942 million euros).

BIGBANK's loan portfolio is diversified – at 31 December 2011 the average outstanding loan amount was 1,742 euros and 40 largest loans accounted for 5.0% of the total loan portfolio.

The Group focuses on the provision of consumer credit. In line with the corporate strategy, at 31 December 2011 loans against income accounted for 79.8% of the total loan portfolio.



Past due loans

Customers' solvency has stabilised and their willingness to pay has improved. As a result, both the proportion of loan customers making regular payments and the amount of average recovery in all phases of collection proceedings (including judicial and enforcement proceedings) have increased.

At 31 December 2011, loan receivables past due for more than 90 days totalled 57.333 million euros, a 6.2% increase on the prior year-end (in the same period the loan portfolio grew by 23.6%).

As regards past due receivables, it is important to note that the collection of non-performing consumer loans differs significantly from the recovery of loans that have physical security (for example, mortgage-backed loans). Due to their nature, (as a rule, the loans are backed with the customer's regular income) claims related to cancelled consumer loans are satisfied in smaller instalments over an extended period rather than in a lump sum raised through sale of the collateral.

Past due loan receivables comprise loan payments that are in arrears and any loan principal that has fallen due because of cancellation. Under the terms of its loan agreements, the Group may cancel an agreement unilaterally if at least three scheduled payments are in arrears. When an agreement is cancelled, the customer has to settle any outstanding loan principal, any accrued interest, and any collateral claims resulting from the settlement delay.

Items past due for more than 90 days comprise overdue principal payments and the total amount of loan principal receivable under cancelled agreements.

Impairment allowances

To mitigate the risks arising from settlement behaviour and to cover potential credit losses, the Group establishes impairment allowances, which at 31 December 2011 totalled 34.174 million euros. Impairment allowances are established on a conservative basis and they include:

- impairment allowances for loan receivables of 27.249 million euros;
- impairment allowances for interest receivables of 5.039 million euros;
- additional impairment allowances of 0.942 million euros;
- impairment allowances for other receivables of 0.944 million euros.

If debt recovery proceedings do not yield expected results, the underlying receivable is written off the statement of financial position.

Liabilities

At the end of 2011, the Group's liabilities totalled 176.443 million euros. Most of the debt raised by the Group, i.e. 170.235 million euros (96.5%) consisted of customers' term deposits.

Subordinated liabilities totalled 3.657 million euros, accounting for 2.1% of total liabilities.

Equity

In 2011, the Group's equity grew by 5.662 million euros to 53.263 million euros. At the year-end, equity to assets ratio was 23.2% and capital adequacy was 22.3% (Basel II) compared with 22.4% at the end of 2010.

Financial performance

Interest income

In 2011, the Group earned interest income of 36.314 million euros. Compared with 2010, interest income grew by 5.140 million euros (16.5%) through growth of the loan portfolio.

The annual yield on interest-earning assets (ratio of interest income to average interest-earning assets) was 16.9% and the annual return on the loan portfolio (interest income on the average loan portfolio) was 24.6%.

Interest expense

Interest expense for 2011 was 6.310 million euros compared with 8.131 million euros for 2010. Interest expense decreased because the average interest rate of the deposits portfolio followed a downward trend.

The period's interest expense to interest income ratio was 17.4% (2010: 26.1%) and the cost of interest-bearing liabilities (ratio of interest expense to average interest-bearing liabilities) was 3.9%.

Other operating expenses

The Group's other operating expenses for 2011 totalled 8.331 million euros (3.305 million euros up on 2010). Other operating expenses increased on account of more vigorous marketing activities.

Salaries and associated charges

In 2011 salaries and associated charges totalled 8.993 million euros (2.841 million euros up on 2010). Remuneration expenses have grown because the number of staff has increased and the Group has expanded to foreign markets where the average salary level is higher than in the Baltic countries. At the end of the reporting period the Group had 531 employees (excluding those on parental leave), an 11.3% increase on 2010.

Impairment losses

In 2010, impairment losses on loans and financial investments totalled 10.101 million euros consisting of:

- expenses from write-down of loan receivables of 8.442 million euros;
- expenses from write-down of interest receivables of 1.413 million euros;
- expenses from write-down of other receivables of 0.147 million euros;
- expenses from write-down of financial investments of 0.099 million euros.

Impairment allowances are made on a conservative basis.

Other income and other expenses

Other income for 2011 amounted to 5.839 million euros. The largest proportion of other income resulted from debt recovery that generated 5.785 million euros. In 2010 other income amounted to 5.700 million euros.

Other expenses totalled 2.018 million euros (2010: 2.071 million euros).

Profit for the year

The Group ended 2011 with a consolidated net profit of 5.665 million euros, 7.7% i.e. 0.404 million euros up on 2010. Profit was mainly influenced by growth in net interest income and a rise in salary and other operating expenses.

Profit before impairment charges was 15.766 million euros compared with 14.816 million euros in 2010.

Cash flows

The Group's cash and cash equivalents remained stable in 2011, amounting to 28.698 million euros at the year-end. However, the structure of cash flows changed significantly compared with 2010. On the one hand, the Group intensified its lending activities and receipts on the loan portfolio increased. On the other hand, growth of the deposit portfolio decelerated and no bonds were redeemed.

Due to increased lending, the Group's operating activities resulted in a net outflow of 4.164 million euros. Loans granted totalled 70.515 million euros, a 156.6% increase on the prior year. Compared with 2010, interest received on loans grew by 31.0% to 28.623 million euros, and loan repayments grew by 60.3% to 32.607 million euros.

Payments of salary and other operating expenses grew by 44.0% to 17.516 million euros, mostly on account of more vigorous marketing undertaken to support the Group's increased lending activities.

Cash flows from investing activities were influenced the most by placement of free funds in short-term debt instruments. Related investments totalled 17.242 million euros while proceeds from redemption of debt instruments totalled 19.008 million euros.

The structure of the Group's liabilities did not change significantly. Proceeds from customer deposits amounted to 76.225 million euros while payments made on redemption of deposits totalled 61.957 million euros. In 2010 payments on redemption of bonds totalled 54.167 million euros but in 2011 no bonds were redeemed.

Outlook for 2012

In 2012 BIGBANK will continue to expand its operations in both existing and new markets. In the Baltic countries the Group anticipates moderate growth in the loan portfolio but expectations for the Finnish and Spanish markets are higher. In January 2012, BIGBANK registered a branch and began offering consumer loans in Sweden. Penetration of the Swedish market creates new opportunities for increasing the Group's market share in the Nordic countries. Growth trends are expected to be similar to those of the Finnish market.

A lot of effort will be put in improving the availability and accessibility of BIGBANK's services, particularly on the Internet, and developing the technical base and customer support services with the view to further enhancing service quality. Other priorities of 2012 include optimising the Group's operations and upgrading operating efficiency. Greater focus on the Internet- and telephone-based service solutions will ensure that the Group can serve its customers quickly and cost-effectively.

In connection with expansion, additional staff will be hired but growth in headcount should remain smaller than growth in the loan portfolio. The Group is planning to gradually increase its profit by improving operating efficiency and expanding lending operations.

BIGBANK in society

BIGBANK AS is committed to contributing to projects that are important for the communities in which it operates. Accordingly, the Group supports culture, sports, and initiatives benefiting large families. BIGBANK's main sponsoring projects include:

BIGBANK Kuldliiga. Through the Group's cooperation with MTÜ Spordiürituste Korraldamise Klubi, a non-profit organisation involved in organizing sports events, BIGBANK Kuldliiga (BIGBANK Golden League) has become the most popular track and field series in the Baltic countries that is appreciated by both Estonian and foreign athletes. BIGBANK Kuldliiga provides athletes with an opportunity to compete while preparing for major championships and serves as a stepping stone for young talent aspiring to the top.

BIGBANK's Large Family Day. In partnership with the Estonian Association of Large Families, BIGBANK offers families with four or more children an opportunity to spend a special active day together with other large families. In addition, BIGBANK has instituted the tradition of promoting and recognising large families by awarding the Large Family of the Year title.

BIG Match Show. Together with the Estonian Association of Dog Owners, BIGBANK is the founder of the largest annual charity dog show in the Baltic countries, an event aimed at highlighting and seeking solutions the issue of stray animals and supporting animal shelters across Estonia. The partners also award the Most Dog Friendly Deed of the Year title to the person or group of persons that in the past year has contributed significantly to promoting and developing the Estonian dog-keeping culture and best dog-keeping practices as well as raising awareness about and mitigating the problem of stray animals.

CORPORATE GOVERNANCE REPORT

The Corporate Governance Recommendations (CGR) promulgated by the Estonian Financial Supervision Authority are a set of guidelines designed for listed companies.

Although BIGBANK AS's shares have not been admitted to trading on a regulated market and the bonds issued by BIGBANK AS are not in the market either, BIGBANK AS has elected to comply, where possible, with the practice suggested by the CGR and the "comply or explain" principle. However, many provisions of the CGR are intended for companies with a wide shareholder base and cannot be adjusted to entities with a limited number of shareholders.

As a credit institution, BIGBANK AS is subject to supervision by the Estonian Financial Supervision Authority and its activities are regulated, among other legislation, by the Credit Institutions Act that imposes specific management, governance and reporting requirements. The company's governing bodies are the general meeting of the shareholders, the supervisory board and the management board. Election, removal and authorisation of members of the management board are regulated by the Commercial Code, the Credit Institutions Act and the company's articles of association.

The sections below provide an overview of the governance of BIGBANK AS and the requirements of the CGR that are currently not complied with together with relevant explanations. The majority of requirements that are not complied with concern BIGBANK AS's shareholder structure and related issues.

General meeting

The general meeting that convened on 28 February 2011 approved the company's annual report and allocation of profits for 2010. In addition, the shareholders decided to amend the articles of association, to extend the powers of the members of the supervisory board, and to appoint the auditor. The meeting was attended by all shareholders representing 100% of the votes determined by shares.

BIGBANK AS does not comply with the provisions of the CGR under which notice of a general meeting should be published in a national daily newspaper and on the website (Article 1.2.1), essential information on the agenda of a general meeting should be published on the website (Article 1.2.3), and the proposals of the supervisory board and the shareholders regarding agenda items should be published on the website (Article 1.2.4). In 2011, the general meeting was not attended by the members of the management board, the auditor, and the members of the supervisory board that are not shareholders (Article 1.3.2). Nor does BIGBANK AS make observing the general meeting possible by means of communication equipment (Article 1.3.3).

The above requirements are not appropriate for a company that has only two shareholders who are also members of the supervisory board and are therefore informed about the company's activity on a current basis. BIGBANK AS uses the simplified method of giving notice of the general meeting that is allowed by section 294(1^1) of the Commercial Code. In addition, the company exercises the right of adopting decisions without calling a general meeting that is provided in section 305(2) of the Commercial Code because BIGBANK has only two shareholders and consensus in the adoption of decisions is customary.

In other respects, BIGBANK AS complies with the provisions of part I of the CGR.

Supervisory board

The supervisory board of BIGBANK AS has six members (according to the articles of association the number may range from five to seven):

- Parvel Pruunsild – Chairman of the Supervisory Board
- Vahur Voll – Member of the Supervisory Board
- Meelis Luht – Member of the Supervisory Board
- Linda Terras – Member of the Supervisory Board
- Juhani Jaeger – Member of the Supervisory Board

- Raul Eamets – Member of the Supervisory Board

The activities of the supervisory board are governed, among other legislation, by the Credit Institutions Act that provides requirements to members of the supervisory board, the cooperation between the supervisory board and the management board, and the control mechanisms established by the supervisory board.

In 2011, the remuneration of the members of the supervisory board totalled 0.061 million euros including taxes. The company does not deem it necessary to provide more detailed information about the remuneration of the members of the supervisory board because the effect of the remuneration on the company's financial performance is not significant (Article 3.2.5). All members of the supervisory board attended at least half of the meetings held in 2011. As far as the company is aware, in 2011 the members of the supervisory board did not have any conflicts of interest as defined in Article 3.3.2 of the CGR.

The CGR sets forth the independence requirement (Article 3.2.2), providing that at least half of the members of the supervisory board have to be independent.

Two out of the six supervisory board members are shareholders (Parvel Pruunsild and Vahur Voll) who each hold 50% of the shares. Linda Terras is indirectly connected with the company through OÜ Edelatuulik Invest that has a deposit agreement with BIGBANK AS. The terms of the agreement do not differ from those offered to similar depositors. Juhani Jaeger has served on the supervisory board for over ten years. The company is of the opinion that the above connections do not involve a significant risk of a conflict of interest that could lead to the adoption of a decision detrimental to BIGBANK AS and that the independence of the supervisory board is ensured. Other supervisory board members have no connection with the company except for their board member remuneration.

BIGBANK AS has created an audit committee but has not made information about the existence, responsibilities, composition and structural position of the audit committee available on its website (Article 3.1.3). In light of the fact that the audit committee has been elected by the supervisory board whose members include shareholders and that the members of the audit committee have been elected from among the members of the supervisory board, disclosure of this information on the company's website is not relevant for observing the interests of shareholders and investors. Information on changes made to the rules of the credit committee are not published on the website either as such changes have no significant value for investors or shareholders.

In other respects, the company complies with parts III and IV of the CGR.

Management board

In 2011, the composition of the management board changed. The management board of BIGBANK AS has now four members (under the articles of association the number may range from three to five):

- Targo Raus – Chairman of the Management Board
- Veiko Kandla – Member of the Management Board
- Kaido Saar – Member of the Management Board
- Ingo Põder – Member of the Management Board

The activities of the management board are governed, among other legislation, by the Credit Institutions Act that provides specific requirements to members of the management board and the organisation of the internal audit, risk management and reporting functions as well as guidance on how to behave in a conflict of interest and how to avoid violating the prohibition on competition. According to the Commercial Code and the articles of association, the company may be represented by any member of the management board acting alone.

The management board acts in the best interests of the company, the shareholders and the creditors and is guided by those interests in organising the company's risk management, internal audits and internal activities. Members of the parent company's management board have certain control functions at the subsidiaries. For example, they participate in the work of the supervisory board of the Latvian subsidiary and the management boards of OÜ Rüütli

Majad and OÜ Kaupmehe Järelmaks (as members of the supervisory and management boards respectively).

In 2011, no conflicts of interest as defined in Article 2.3.1 of the CGR were detected in the activity of the members of the management board. In 2011, BIGBANK AS did not conduct any transactions with members of its management board or their close family members or persons connected to them except for transactions arising from board member status (e.g. signature or amendment of a service contract).

In 2011, BIGBANK AS did not comply with Article 2.2.7 of the CGR, which provides that the benefits and bonus schemes of each member of the management board should be published on the corporate website and in the corporate governance report and that the principles of remunerating management board members should be explained at the general meeting.

BIGBANK AS publishes the aggregate remuneration of the members of the Group's management board in its annual report. The figure for 2011 was 0.399 million euros including taxes. In addition, the company observes the requirements of section 92^2 of the Credit Institutions Act that regulate disclosure of a credit institution's remuneration policy. The requirement of disclosing the remuneration of each member of the management board is primarily aimed at informing the shareholders. However, in view of the shareholder structure of BIGBANK AS, detailed disclosure of this information in the company's corporate governance report is not necessary. Nor were the principles of remunerating the members of the management board explained at the general meeting because shareholders are on the supervisory board and consequently aware of the principles.

In some cases a management board member's service contract has not been signed by the chairman of the supervisory board but by a relevantly empowered member of the supervisory board (Article 2.2.1).

In other respects, the company complies with the provisions of part II of the CGR.

Disclosure of information

Article 5.3 of the CGR is not observed in the following: the financial calendar, information about general meetings and the schedule of meetings specified in Article 5.6 of the CGR are not disclosed on the corporate website.

In 2011, BIGBANK AS did not publish its financial calendar because the regularity of reporting is provided, among other things, in the Credit Institutions Act. The company issues quarterly reports within two months after the end of each quarter. Disclosure of a term for publishing a notice of calling a general meeting is not relevant in view of the small number of shareholders.

Currently BIGBANK AS does not deem it necessary to publish information about meetings with investors and analysts and the presentations arranged for them on its website because no price sensitive information is disseminated at those meetings (Articles 5.5. and 5.6). The information about general meetings is not published because of the small number of shareholders.

In other respects, the company complies with the provisions of part V of the CGR.

Reporting

BIGBANK AS is audited by KPMG Baltics OÜ that has audited BIGBANK AS since 2000. The new Auditors Activities Act that took effect in 2010 sets forth a mandatory rotation requirement for the lead auditors of public interest entities according to which the same person may be in that capacity for seven consecutive years. Andres Root was appointed as KPMG Baltics OÜ's lead auditor (audit engagement partner) for BIGBANK AS in 2008. Thus, BIGBANK AS complies with the auditor rotation requirement.

BIGBANK AS does not observe this part of Article 6.1.1 of the CGR, which provides that the auditor should attend the meeting of the supervisory board that reviews the annual report. The supervisory board is informed about the company's operating results on a quarterly basis. The information provided to the supervisory board includes information about the results of audit procedures that have been conducted. The members of the supervisory board have not considered it necessary to have separate meetings with the auditors. Nor do members of the supervisory board sign the annual report. The position of the supervisory board is presented in

the supervisory board's written report on the company's annual report.

The supervisory board does not fully comply with Articles 6.1.1 and 6.2.1 of CGR that regulate notifying and informing shareholders because both shareholders are on the supervisory board and are consequently informed about the work of the supervisory board and the auditors.

Article 6.2.4 of the CGR provides that the auditor should submit a memorandum highlighting those instances of non-compliance with CGR that have not been disclosed in the corporate governance report. The auditor has not submitted such a memorandum.

Control functions

In addition to the management, financial accounting, and supervision reports system and risk management procedures in place, the company has established an internal audit department, an audit committee, a compliance control unit, the Group's credit committee, country-specific credit committees, an asset-liability committee (ALCO), an IT committee, and a product development committee. Besides this, several controllers' positions have been created.

The internal audit department has a staff of three and, as a Group-wide unit, is accountable to the supervisory board that determines the department's audit plan. The department also includes the internal auditors of the Latvian and Lithuanian branches.

The audit committee has two members. The audit committee is an advisory body whose primary responsibility is to provide assistance in the area of financial reporting, auditing, risk management, internal control and auditing, supervision and budgeting as well as legal and regulatory compliance.

The company has also created a compliance control unit directly accountable to the chairman of the management board that is responsible for managing the compliance risk, which includes performing compliance reviews.

The Group's credit committee consists of members of the supervisory and management boards and the executive management, and has five members. The Group's credit committee sets the credit policy. In addition, the Group has country-specific credit committees.

ALCO has five members who set the policy for analysing and controlling interest rate, currency, liquidity, financing and market risks and devise the financing strategies and plans for the Group and all Group entities.

The IT committee has seven members who are responsible for coordinating, approving and monitoring the IT strategy, approving IT action plans and projects and monitoring their implementation, determining priorities, approving the IT budget, and coordinating the activities of the IT and business functions.

The product development committee has six members. The committee is responsible for approving any product changes and new products, agreeing product development programmes and prioritizing development projects.

Remuneration policies

At BIGBANK AS, decisions regarding the remuneration of the members of the management board and the staff of the internal audit department are made by the supervisory board, which determines their remuneration and their performance benefits whenever the latter are granted. Decisions regarding the remuneration of employees are made by the management board, which considers, where necessary, the proposals of relevant executive staff or the head of HR, and observes the Group's remuneration policy for members of the management board and other executive staff, which has been established by the supervisory board. No external advisers have been involved in developing BIGBANK's remuneration policies. Nor has the company created a remuneration committee or any other body responsible for designing remuneration policies.

BIGBANK's approach to management's remuneration is embodied in its remuneration policy for members of the management board and other executive staff (hereafter "the remuneration policy"), which was developed in accordance with the Credit Institutions Act.

A distinctive feature of BIGBANK's remuneration policy is that performance benefits are provided on justified and objective bases, considering, above all, the targets and performance of the Group and the persons involved. Performance and termination benefits are determined in consideration of personal and unit-specific performance metrics as well as credit institutions' general performance indicators and financial and other criteria outlined in BIGBANK's internal rules and regulations. There has to be a reasonable correlation between performance benefits and responsibilities. The proportion of performance benefits to total remuneration has to be such that it would be possible not to allocate or pay any performance benefits. On the provision of performance and termination benefits, the Group has to consider their impact on the level of its own funds and liquidity as well as any existing and potential risks involved.

In line with the Group's remuneration policy, performance and termination benefits may only be paid in cash, not in the form of shares, share options or similar rights. The supervisory and management boards may decide not to provide any performance benefits or, under certain circumstances, to reduce allocated performance benefits, to suspend payment of performance benefits, or to demand partial or full reimbursement of performance benefits that have already been paid.

BIGBANK AS operates in one business line. Therefore, it does not disclose quantitative summary data on remuneration by business line.

In 2011, the remuneration provided to management, which includes 11 positions in addition to the members of the management board, totalled 0.653 million euros, the figure consisting of base remuneration of 0.480 million euros and performance benefits of 0.163 million euros. Base remuneration was paid to 15 positions and performance benefits were paid to 13 positions. Performance benefits were paid in cash and allocated and paid out in 2011. There are no unpaid performance benefits allocated for performance in 2011.

In the reporting period, BIGBANK AS did not pay any employment commencement benefits. Termination benefits were paid once to one person. The amount is included in the summary information on management's remuneration presented above.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	2011	2010
Assets			
Due from central banks	4	9.255	16.611
Due from banks	4	22.496	27.460
Loans to customers	5, 6, 7	174.985	137.848
Held-to-maturity financial assets	8	10.688	12.717
Other receivables and prepayments	9	5.662	5.648
Deferred tax assets	28	1.383	1.601
Intangible assets	10	0.660	0.709
Property and equipment	11	2.593	2.631
Other assets	12	1.984	2.169
Total assets		**229.706**	**207.394**
Liabilities			
Loans from banks	13	0.265	0.493
Deposits from customers	14	170.235	153.845
Other liabilities and deferred income	15	2.286	1.791
Bonds issued	16	-	0.011
Subordinated bonds issued	16	3.657	3.653
Total liabilities		**176.443**	**159.793**
Equity	34		
Share capital		8.000	5.113
Capital reserve		0.511	0.511
Foreign currency translation reserve		0.288	-0.508
Earnings retained in prior years		38.799	37.224
Profit for the year		5.665	5.261
Total equity		**53.263**	**47.601**
Total liabilities and equity		**229.706**	**207.394**

The notes on pages 25 to 68 are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2011	2010
Interest income	17	36.314	31.174
Interest expense	18	-6.310	-8.131
Net interest income		**30.004**	**23.043**
Net fees and commissions		0.359	-0.089
Net gain/loss on financial transactions	19	0.024	-0.074
Other income	20	5.839	5.781
Total income		**36.226**	**28.661**
Salaries and associated charges	21	-8.993	-6.152
Other operating expenses	21	-8.331	-5.026
Depreciation and amortisation expense	10,11	-0.526	-0.600
Impairment losses on loans and financial investments	7	-10.101	-9.555
Other expenses	22	-2.018	-2.071
Total expenses		**-29.969**	**-23.404**
Profit before income tax		**6.257**	**5.257**
Income tax expense/income	28	-0.592	0.004
Profit for the year		**5.665**	**5.261**
Other comprehensive income/expense			
Foreign currency translation differences		0.796	-0.005
Total comprehensive income for the year		**6.461**	**5.256**
Basic earnings per share (EUR)	33	71	66
Diluted earnings per share (EUR)	33	71	66

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CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2011	2010
Cash flows from operating activities			
Interest received		28.623	21.849
Interest paid		-4.556	-5.310
Salary and other operating expenses paid		-17.516	-12.211
Other income received		5.565	6.279
Other expenses paid		-1.943	-2.072
Fees and commissions received		0.388	-
Fees and commissions paid		-0.089	-
Recoveries of receivables previously written off		0.493	0.238
Received for other assets		0.324	0.133
Paid for other assets		-0.010	-0.067
Loans granted		-70.515	-27.476
Repayment of loans granted		32.607	20.337
Change in mandatory reserves with central banks and related interest receivables		8.404	9.804
Proceeds from customer deposits		76.225	121.960
Paid on redemption of deposits		-61.957	-45.737
Income tax paid		-0.198	-0.278
Effect of movements in exchange rates		-0.009	-0.115
Net cash used in/from operating activities		**-4.164**	**87.334**
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets		-0.533	-0.832
Proceeds from sale of property and equipment		0.004	-
Acquisition of financial instruments		-17.242	-14.216
Proceeds from redemption of financial instruments		19.008	1.696
Net cash from/used in investing activities		**1.237**	**-13.352**
Cash flows from financing activities			
Paid on redemption of bonds		-	-50.034
Paid on redemption of subordinated bonds		-	-4.133
Repayment of loans from banks		-0.227	-0.227
Dividends paid	34	-0.800	-0.959
Net cash used in financing activities		**-1.027**	**-55.353**
Effect of exchange rate fluctuations		0.015	0.024
Decrease/increase in cash and cash equivalents		**-3.939**	**18.653**
Cash and cash equivalents at beginning of period		32.637	13.984
Cash and cash equivalents at end of period	4	**28.698**	**32.637**

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to owners of the parent				
	Share capital	Statutory capital reserve	Foreign currency translation reserve	Retained earnings	Total
Balance at 1 January 2010	**5.113**	**0.511**	**-0.503**	**38.184**	**43.305**
Profit for the year	-	-	-	5.261	**5.261**
Other comprehensive expense	-	-	-0.005	-	**-0.005**
Total comprehensive income for the year		**-**	**-0.005**	**5.261**	**5.256**
Dividend distribution	-	-	-	-0.959	**-0.959**
Total transactions with equity holders	**-**	**-**	**-**	**-0.959**	**-0.959**
Balance at 31 December 2010	**5.113**	**0.511**	**-0.508**	**42.486**	**47.601**
Balance at 1 January 2011	**5.113**	**0.511**	**-0.508**	**42.486**	**47.601**
Profit for the year	-	-	-	5.665	**5.665**
Other comprehensive income	-	-	0.796	-	**0.796**
Total comprehensive income for the year		**-**	**0.796**	**5.665**	**6.461**
Dividend distribution	-	-	-	-0.800	**-0.800**
Increase of share capital (note 34)	2.887	-	-	-2.887	**-**
Total transactions with equity holders	**2.887**	**-**	**-**	**-3.687**	**-0.800**
Balance at 31 December 2011	**8.000**	**0.511**	**0.288**	**44.464**	**53.263**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. General information, use of estimates and judgements, and significant accounting policies

BIGBANK AS is a company incorporated and domiciled in Estonia that holds an activity licence of a credit institution. The consolidated financial statements as at and for the year ended 31 December 2011 comprise BIGBANK AS (also referred to as the "parent company"), its Latvian, Lithuanian, Finnish and Spanish branches and its subsidiaries AS Baltijas Izaugsmes Grupa, OÜ Rüütli Majad, OÜ Balti Võlgade Sissenõudmise Keskus and OÜ Kaupmehe Järelmaks and the subsidiaries of OÜ Balti Võlgade Sissenõudmise Keskus - SIA Baltijas Parādu Piedziņas Centrs, UAB Baltijos Skolų Išieškojimo Centras and Suomen Luottovalvonta Oy (together referred to as the "Group").

The business name BIGBANK AS was registered on 23 January 2009. The Group's former business name was Balti Investeeringute Grupi Pank AS.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as adopted by the European Union. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except where indicated otherwise.

Under the Estonian Commercial Code, final approval of the annual report including the consolidated financial statements that has been prepared by the management board and approved by the supervisory board rests with the general meeting. Shareholders may decide not to approve the annual report that has been prepared and submitted by the management board and may demand preparation of a new annual report.

The management board of BIGBANK AS prepared and signed these consolidated financial statements on 28 February 2012.

Basis of preparation

In connection with a change of the official currency of the Republic of Estonia, as from 1 January 2011 the parent company's functional and presentation currency is the euro, which replaced the Estonian kroon. Prior period financial information that was presented in Estonian kroons has been translated to euros in accordance with the relevant Council Regulation (EU) in which the conversion rate was set at 15.6466 kroons per 1 euro. Because of the fact that the Estonian kroon was previously pegged to the euro at the same exchange rate, the change in the functional and presentation currency had no effect on the company's financial position, financial performance or cash flows.

The figures reported in the financial statements are presented in millions of euros, rounded to three digits after the decimal point. The consolidated financial statements are prepared on the historical cost basis except that some assets and liabilities are measured at their fair values (financial instruments held for trading and financial instruments classified as available-for-sale) or amortised cost. Group entities apply uniform accounting policies.

In accordance with the Estonian Accounting Act, the parent company's separate primary financial statements (statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity) are disclosed in the notes to the consolidated financial statements. The separate primary financial statements of BIGBANK AS are presented in note 36 *Parent company's separate primary financial statements*. The parent company's financial statements are prepared using the same accounting policies and measurement bases as those applied on the preparation of the consolidated financial statements except that in the separate financial statements investments in subsidiaries and associates are measured at cost.

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Consolidation

Branches

A branch is an economic entity established for offering services on behalf of a company. A branch is not an independent legal person. The company is liable for the obligations arising from the activities of the branch. The company has to maintain separate accounts concerning its foreign branches. The financial statements of a branch with separately maintained accounts are included in the consolidated financial statements from the date the activity of the branch commences until the date the activity of the branch ceases.

Subsidiaries

Subsidiaries are entities controlled by the parent. Control exists when the parent has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

In preparing consolidated financial statements, the financial statements of all entities controlled by the parent (except for subsidiaries acquired for resale) are combined with those of the parent line by line. Intra-group balances and transactions and any unrealised income and expenses and gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements but only to the extent that there is no evidence of impairment. Group entities apply uniform accounting policies. Where necessary, the accounting policies of subsidiaries and branches have been adjusted to conform to those adopted for the consolidated financial statements.

Foreign currency

Foreign currency transactions

A transaction in a foreign currency is recorded in the functional currency by applying the exchange rate quoted by the central bank at the date of the transaction. In the statement of financial position, monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the central bank exchange rates ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on retranslation are recognised in the statement of comprehensive income within *Net gain/loss on financial transactions*.

Financial statements of the Group's foreign operations

The operation of the Group's entities in other countries is not regarded as an inherent part of Group's operation. Each Group entity determines its own functional currency and records items in its financial statements using that functional currency. Accordingly, the assets and liabilities of foreign operations, including fair value adjustments, are translated to euros at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated to euros using the average foreign exchange rate for the period. Exchange differences arising on translating foreign operations are recognised in the statement of financial position, in the *Foreign currency translation reserve* in equity, and in the statement of comprehensive income, in the *Foreign currency translation differences* in other comprehensive income.

Offsetting

Financial assets and financial liabilities are set off and the net amount is presented in the statement of financial position only when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle

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the liability simultaneously.

Financial assets

Financial assets comprise cash, short-term investments, loans to credit institutions and customers, and other receivables. The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets including assets designated at fair value through profit or loss are recognised initially on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset is derecognised when the Group's contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the cash flows of the financial asset and most of the risks and rewards of the ownership of the financial asset. Purchases and sales of financial assets are consistently recognised at the settlement date, i.e. at the date the assets are delivered to or by the Group.

Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows comprises cash on hand, balances on demand and overnight deposits, highly liquid term deposits with other credit institutions, and the balances on correspondent accounts with central banks less the mandatory reserves plus the interest receivable on the mandatory reserves. The statement of cash flows is prepared using the direct method.

Financial assets at fair value through profit or loss

Securities are accounted for in accordance with the principles applicable to the category of financial instruments they belong to.

Instruments acquired for trading purposes are recognised at their fair values. A gain or loss on an instrument that is held for trading is recognised in profit or loss. The fair value of held-for-trading instruments is their quoted ask price at the reporting date.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest rate method.

If there is objective evidence that an impairment loss on held-to-maturity financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is expensed as incurred.

Loans and receivables

Loans to customers are measured at their amortised cost using the effective interest rate method. The amortised cost of loans is reduced by any impairment losses.

Impairment provisions and allowances for loans

Loans to customers (loan receivables) are recognised in the statement of financial position in *Loans to customers*. Loans to customers are assessed for impairment and provided for at both a specific asset and a collective level. Where necessary, additional allowances are made for the negative impacts of adverse changes in the economic environment, estimation or forecasting errors, and other exceptional circumstances.

The write-down rates for loans pooled into groups for collective assessment are determined at least twice a year by the Group's credit committee by reference to the historical amounts of losses incurred and the customers' settlement behaviour indicators.

The write-down rates for loans assessed for impairment on an individual basis are approved by the Group's management board on a quarterly basis by reference to the present values of the

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expected future cash flows from those loans.

Additional allowances are made on the occurrence of exceptional circumstances as and when necessary; relevant decisions are made by the Group's management board.

Impairment assessment at a collective level

Homogeneous receivables of insignificant individual value are grouped when their historical settlement trends and collateral are similar and when they do not qualify for assessment on a specific asset level.

An impairment allowance for a group of loans is found by multiplying the carrying value of the loans by the impairment rate assigned to the group. The impairment rate is determined based on the historical settlement characteristics (loss experience) of the group. Where sufficiently reliable historical data is not available, projections and estimates are used. The historical settlement behaviour indicators of different groups are evaluated by reference to regular statistical surveys. The impairment rate assigned to a group of homogeneous loans approximates the maximum loan loss ratio expected from the group (calculated as the ratio of loans written off the statement of financial position to total loans issued within the relevant period in the relevant product category, adjusted for subsequent recoveries). Interest and other receivables associated with a loan are applied the same impairment rate that is assigned to the underlying loan.

The Group's credit committee reviews the principles underlying the establishment of group-level impairment allowances (including the impairment rates) once in a calendar year and whenever the settlement behaviour and/or other significant characteristics of a group change.

Loans of significant individual value in respect of which there is evidence of individual impairment are not included in homogeneous assessment groups. Instead, they are assessed individually, on a specific asset level.

Impairment assessment on a specific asset level

The following receivables are assessed for impairment individually, i.e. on a specific asset level:

- loans receivable from companies;
- loan receivables that exceed 65,000 euros (45,000 lats or 220,000 litas);
- non-performing loan receivables; and
- loan receivables with other indications of impairment, such as the counterparty's significant financial difficulty or significant breach of the loan agreement; probability of the counterparty's permanent insolvency or financial reorganisation, significant decline in the value of loan collateral that causes to assume that the value of collateral will not be sufficient for covering the Group's claims; concessions made to the counterparty that the Group would not have made if the counterparty did not have settlement difficulties; and similar features that may indicate impairment.

Upon individual assessment, impairment is determined as the difference between the remaining nominal carrying value of the loan and the present value of its expected future cash flows discounted at the effective interest rate. Cash flows are forecast taking into account the phase of the recovery proceedings and its estimated duration. The cash flows of a loan that has been restructured due to settlement difficulties are discounted using the interest rate agreed between the parties prior to restructuring.

Interest and other accruals associated with a loan assessed for impairment at a specific asset level are applied the same impairment rate that is assigned to the underlying loan.

Loans that exceed 65,000 euros (45,000 lats or 220,000 litas) and loans that have been classified as non-performing are assessed for impairment on a quarterly basis. Other individually assessed items are reassessed once per calendar month.

Non-performing loans

A non-performing loan is a loan in respect of which the Group has exercised its right of unilateral cancellation. Irrespective of cancellation, a loan is classified as non-performing when the customer is at least ninety (90) days in arrears.

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The impairment allowance for a non-performing loan is the difference between the nominal carrying amount of the loan and the present value of its estimated future cash flows discounted at the loan's effective interest rate. If the nominal value of a loan exceeds the present value of its estimated future cash flows, the difference is recognised in the total impairment allowance for the category of loans.

The general impairment rate applied to non-performing loans during a quarter is found based on the total allowances for different categories of loans. The general impairment rate is the average of the rates determined during the past four (4) assessments. The same impairment rate is applied to any interest and other receivables associated with the non-performing loans.

When a loan receivable is written off the statement of financial position, the carrying amount of the loan portfolio and the allowance for impairment are reduced by the appropriate amount. Recoveries of items written off the statement of financial position are accounted for on a cash basis.

Impairment allowances, changes in impairment allowances and reversals of impairment allowances on loan receivables are recognised in the statement of financial position in *Loans to customers*.

Property and equipment

Items of property and equipment are carried at cost less any accumulated depreciation and any impairment losses. Tangible assets are classified as items of property and equipment if they are used in the Group's business, are individually significant, and their estimated useful life extends beyond one year. Items with a shorter useful life and little significance are expensed as of implementation.

Subsequent expenditure that improves economic benefits that can be expected from an item of property and equipment is added to the carrying amount of the item. Expenditure that is aimed at maintaining an item's level of performance is recognised as an expense in the period in which it is incurred.

When the recoverable amount of an item of property and equipment decreases below its carrying amount, the item is written down to the recoverable amount. Impairment losses are recognised as an expense as incurred.

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful life of each part of an item of property and equipment. Depreciation commences as of the acquisition of the item. Land is not depreciated.

The estimated useful lives assigned to asset classes are as follows:

Asset class	Useful life
Land and works of art	are not depreciated
Buildings	25 - 50 years
Cars and office equipment	5 years
Computers	3 - 4 years
Other equipment and fixtures	5 years

Depreciation rates are reassessed at each reporting date and whenever circumstances arise that may have a significant impact on the useful life of an asset or asset class. The effect of changes in estimates is recognised in the current and subsequent periods.

Intangible assets

Purchased intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Internally generated goodwill and expenditures related to brands and trademarks are recognised as an expense as incurred. Intangible assets are amortised on a straight-line basis over their estimated useful lives. Amortisation commences as of the acquisition of the asset.

An intangible asset is amortised over its estimated useful life which is generally 5 years.

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Depreciation and amortisation expense is recognised on a separate line in the statement of comprehensive income.

Other assets

Other assets comprise items of immovable and movable property that the Group has acquired for resale. The items include the collateral of non-performing loans that after unsuccessful auctioning by bailiffs have been acquired by the Group. Such assets are acquired based on contracts of purchase and sale signed with bailiffs and the cost of an item equals the auction price of the asset and any directly attributable transaction costs. The Group applies a proactive sales policy to selling other assets.

Other assets are carried in the statement of financial position at the lower of cost and net realisable value. Other assets are written down when their cost exceeds their net realisable value. The amount of the write-down is determined as the difference between the carrying amount and net realisable value of an item. Where necessary, the net realisable value of an asset is determined using the assistance of qualified experts who form their opinion based on the actual prices of transactions conducted with similar assets during two quarters preceding the valuation.

Impairment of assets

At each reporting date, management assesses whether there is any indication that an asset may be impaired. If there is such indication, the asset is tested for impairment and its recoverable amount is identified. The recoverable amount is the higher of the asset's fair value (less costs to sell) and value in use that is found using the discounted cash flow method. Where tests indicate that the recoverable amount of an asset is lower than its carrying amount, the asset is written down to the recoverable amount. Where the recoverable amount of an asset cannot be identified, the recoverable amount of the smallest group of assets it belongs to (its cash-generating unit) is determined. Impairment losses are recognised as an expense as incurred.

If tests of the recoverable amount indicate that an impairment loss recognised for an asset in prior years no longer exists or has decreased, the former write-down is reversed and the asset's carrying amount is increased. The increased carrying amount cannot exceed the carrying amount that would have been determined (considering normal depreciation) had no impairment loss been recognised.

For information on the impairment of financial assets, please refer to subsection *Financial assets*.

Leases

A finance lease is a lease that transfers all significant risks and rewards of ownership to the lessee. An operating lease is a lease other than a finance lease.

The Group as a lessor

Assets leased out under operating leases are carried in the statement of financial position analogously to other assets. Operating lease payments are recognised in income on a straight-line basis over the lease term.

The Group as a lessee

Operating lease payments are expensed on a straight-line basis over the lease term.

The amount of future minimum lease payments under non-cancellable operating leases is determined based on the non-cancellable periods of the contracts. In the case of contracts that can be cancelled subject to a notice period, the notice period is treated as the non-cancellable period. In the case of contracts that can be cancelled subject to mutual agreement, the non-cancellable period is deemed to last for six months. In the case of contracts with an indefinite term (no expiry date), the non-cancellable period is deemed to last for one year.

Financial liabilities

Financial liabilities comprise deposits from customers, liabilities arising from securities, accrued

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expenses and other liabilities.

A financial liability is initially recognised at its fair value. After initial recognition, financial liabilities are measured at their amortised cost using the effective interest rate method.

A financial liability is removed from the statement of financial position when it is discharged or cancelled or expires.

Bonds issued and customer deposits

The principal of bonds and deposits is measured and recognised in the statement of financial position at its amortised cost using the effective interest rate method. Interest is calculated daily based on the interest calendar included in the terms and conditions of the agreement.

Subordinated bonds

Subordinated bonds are recognised in the statement of financial position in *Subordinated bonds*. A bond is classified as a subordinated bond if on the winding-up or bankruptcy of the credit institution the bond is to be satisfied after the justified claims of all other creditors have been satisfied.

Subordinated bonds are accounted for using the same accounting policies as those applied to similar non-subordinated bonds.

Statutory capital reserve

In accordance with the Commercial Code of the Republic of Estonia, the capital reserve of a company has to amount to at least 10% of its share capital. Thus, every year when profits are allocated, the parent company has to transfer at least one twentieth of its net profit for the year to the statutory capital reserve until the required level is achieved. The capital reserve may not be distributed to shareholders but it may be used for covering losses if the latter cannot be covered with unrestricted equity and for increasing share capital by way of a capitalisation issue.

Interest income and interest expense

Interest income and interest expense are recognised using the effective interest rates of the underlying assets and liabilities.

Interest income and interest expense include interest and similar income and expense respectively. Income and expenses similar to interest include items related to the contractual/ redemption term of an asset or the size of the asset or liability. Such items are recognised over the effective term of the asset or liability. Interest income and expense are recognised using the original effective interest rate that is used to discount the estimated future cash flows of the asset or liability. The original effective interest rate calculation takes into account all costs and income that are directly related to the transaction, including contract and arrangement fees, etc.

Other income

Other income comprises:

- income from debt collection and recovery proceedings (late payment interest, fines, etc);
- income from early redemption of the Group’s liabilities;
- miscellaneous income (including income on the sale of goods and services) that is recognised when all significant risks and rewards of ownership have been transferred to the buyer and the revenue and expenses associated with the transaction can be measured reliably; and
- dividend income (in the parent’s financial statements) that is recognised when the right to receive payment is established.

Other expenses

Other expenses comprise

- expenses related enforcement proceedings (including notaries’ fees, bailiffs’ and debt collection charges, state fees and levies);

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- regulatory and supervision charges (contributions to the Guarantee Fund and supervision charges);
- expenses arising on the issue of loans (the costs of registry queries and similar items);
- expenses related to assets held for sale; and;
- expenses related to securities.

Employee benefits

Short-term employee benefits are measured on an undiscounted basis and they are recognised as an expense when the service has been rendered. The Group recognises liabilities (provisions) and costs related to employee bonus schemes if the bonuses are clearly fixed and are related to the prior accounting period

Income tax

In accordance with the effective Estonian Income Tax Act, corporate income tax is not levied on the profit earned but on the profit distributed as dividends. The amount of tax payable on a dividend distribution is calculated as 21/79 of the amount of the net distribution. The income tax payable on dividends is recognised as an expense in the period in which the dividends are declared, irrespective of the period in which the dividends are ultimately distributed. Because of the specific nature of the taxation system, companies registered in Estonia do not acquire deferred tax assets or incur deferred tax liabilities on temporary differences between the carrying amounts and tax bases of their assets and liabilities.

The profits earned in Latvia, Lithuania, Finland and Spain that have been adjusted for permanent and temporary differences as permitted by local tax laws are subject to income tax.

Corporate income tax rates

	2011	2010
Latvia	15%	15%
Lithuania	15%	15%
Finland	26%	26%
Spain	30%	30%

At foreign entities, deferred tax is recognised using the liability method by which the deferred tax assets and liabilities arising from temporary differences between the carrying amounts and tax bases of assets and liabilities are recognised in the statement of financial position. In the consolidated financial statements, deferred tax liabilities are recognised in the statement of financial position in *Deferred tax liabilities.* A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Earnings per share

Basic earnings per share are calculated by dividing net profit for the period by the weighted average number of ordinary shares outstanding during the period.

For the purposes of calculating diluted earnings per share, the net profit attributable to ordinary equity holders and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares. The Group has not issued any financial instruments that could dilute earnings per share. Therefore, basic and diluted earnings per share are equal.

The Group is not listed on a stock exchange. Therefore the information presented in note 33 to the financial statements is voluntary.

New and revised International Financial Reporting Standards and Interpretations not yet adopted and therefore not applied in preparing these financial statements

The following new Standards and Interpretations are not yet effective for the year ended 31 December 2011 and have therefore not been applied in preparing these financial statements:

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Amendments to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011; to be applied prospectively; earlier application is permitted). The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities, and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets. The amendments define "continuing involvement" for the purposes of applying the disclosure requirements. Because of the nature of the Group's operations and the types of financial assets that it holds, the Group does not expect the amendments to IFRS 7 to have a material impact on its consolidated financial statements.

IASB and IFRIC have published a number of other accounting pronouncements that are effective for periods beginning after 1 January 2011; however at the date these consolidated financial statements are authorised for issue those pronouncements had not yet been endorsed by the European Union. Therefore they are not discussed here.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates

The impact of management's estimates is most critical regarding loan loss allowances (see the section *Financial assets* in this note and note 2).

The carrying amounts of property and equipment are identified by applying internally established depreciation rates. Depreciation rates are determined by reference to the items' estimated useful lives (see the section *Property and equipment* in this note).

Collateral acquired by the Group is reviewed on a regular basis and written down to reflect any impairment whenever necessary (see the section *Other assets* in this note).

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Note 2. Risk management

Risk management strategy

In the ordinary course of its business, the Group faces various risks. The performance of the Group depends on its ability to identify, quantify, evaluate, price, take, manage and control different risks while maintaining an adequate capitalisation to meet unforeseen events.

Risk-taking is inevitable and essential for generating profit. In business, risks have to be taken at a level that offers the highest rate of return but is still reasonable.

The Group maintains a simple business model that has guaranteed its success to date and a risk profile that is characterized by a well-balanced credit portfolio, limited financial risks and low operational risk.

The purpose of the Group's risk management framework is to ensure that the Group maintains a high return on equity and level of capital that at no time would decrease below the minimum prescribed by the law, and that the Group can continue its operation even when market conditions become unfavourable.

The overall objective of risk management is to create conditions and provide opportunities for making informed, and therefore more conscious and better-quality business decisions.

Risk management organisation and system

The supervisory board has defined the Group's general risk management principles that

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describe risk-taking and management within the Group. The general principles derive from BIGBANK's mission and strategic objectives. Within the framework of the general principles, risk management is administered by the Group's management board and the staff and units appointed by the management board.

The management board is responsible for developing, establishing and applying the risk management, control and coordination policies and deciding the overall acceptable levels of risk. The management board is responsible for the effectiveness of risk management.

Under the management board, there are a number of committees, which have decision-making authority in respect of different types of risk. The credit committee and the asset-liability committee play a significant role in managing risks, approving risk procedures, monitoring the overall risk level, and deciding and monitoring the risk limits.

Each of the Group's business units and subsidiaries is fully responsible for controlling the risks which are caused by or may arise in their field of operation. This means that responsible persons have to ensure that the risk management process is enforced in all areas of operation and at all units and that established standards are consistently observed.

In addition to measures applied at unit and entity level, risk management has been assigned to a separate, central management function that is independent of the business units and entities. The Group's risks are also controlled at Group level. The Group's risk management function is responsible for designing and developing policies for managing, controlling and coordinating risks and risk management principles and methods, making recommendations to the management board regarding risk management and control, and preparing relevant reports. Centralised risk management ensures that uniform risk management principles and practices are pursued across the Group and that the Group can respond to any change effectively.

Risk management principles, policies, methods, assumptions and competencies are documented. Risk management policies and procedures are reviewed on a regular basis and updated whenever necessary

The Group has internal control and compliance systems in place that consist of regulations, instructions, guidelines and rules that ensure reliable, efficient and controlled operation of the Group.

As part of the internal control system the Group has created an internal audit department that oversees the Group's operations, the Group's compliance with laws, regulations and generally accepted best banking practice, the Group's articles of association, the resolutions adopted by the Group's management and supervisory boards as well as all internally adopted regulations, rules, limits and requirements.

Definition of risk

The Group defines risk as a possibility or probability that a decision or event will result in undesired consequences. In measurable terms, risk is negative deviation from an expected financial result.

Significant risks comprise internal and external factors that may cause significant direct or indirect loss of or damage to the Group.

Risk management principles

The Group defines risk management as a set of activities aimed at identifying, measuring, monitoring and controlling the risks that affect the Group's business operations.

Effective risk management assumes enhancing each staff member's risk awareness and creating a strong control environment.

The overall objective of risk management is to create conditions and provide opportunities for making informed, and therefore more conscious and better-quality business decisions.

Risk management is aimed at ensuring an optimum risk-benefit ratio while maintaining the Group's steady profitability and continuity of operations as well as creating and retaining the trust of the Group's customers, investors and supervisory authorities.

The Group considers all risks it will or may encounter in its operation. All significant risks that

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may affect the Group's operation are identified, evaluated, analysed and reported.

Risks are determined for all products, activities, processes and systems. Implementation of any new product, activity, process, or system is preceded by an evaluation of its risks. Risk management is preventive by nature and governed by the principles described below.

Risks are identified before any business decision is made. Risks are taken only in those areas that are familiar and where the Group has gained positive experience and results.

The overriding risk control principles are dual control and segregation of functions. Reliable risk management is underpinned by the application of a uniform assessment system and recognised risk measuring and quantification techniques. The Group monitors the compliance of its risk assessment and control procedures with the changing conditions and updates them as and when necessary.

The concept of business responsibility is observed – each Group employee is personally responsible for the quality of the product or the risk profile of the counterparty.

Risks are identified in consideration of all internal and external factors that may impair the Group's ability to achieve the desired objectives.

When risks are taken in areas with an insufficient control environment, the Group adopts precautionary and counteractive measures in order to minimise the damage that may be caused by processes, systems and employee fraud or dishonesty. The Group avoids taking exceptionally large transaction risks that may jeopardise an extensive proportion of its equity.

The Group avoids taking risks in transactions that are exposed to significant legal risk. The Group does not take any unmanageable or unlimited risks. The Group observes the principle that the risk assessment function has to be independent and segregated from the business functions.

Unusual events and risks are evaluated using simulation techniques and stress testing.

Credit risk

Credit risk is the risk that a customer that has a loan agreement with the Group will fail to discharge a contractual obligation in a satisfactory manner and will cause the Group to incur a financial loss.

Risks related to credit risk include:

- concentration risk - the risk of being significantly exposed to a single counterparty or related counterparties or counterparties that are influenced by the same risk factor;
- country risk - the risk arising from the economic, political or social environment in the counterparty's domicile;
- collateral risk - the risk associated with the type, value, form and disposal procedure of the asset pledged as collateral for a transaction.

Credit risk is managed at the level of the Group. Branches and subsidiaries manage their credit risk in accordance with the policies and rules adopted by the Group.

Overall credit risk management is the responsibility of the Group's management board, the Group's credit committee and the credit committees established in the Group entities' domiciles. In daily operations, credit risk management is the responsibility of credit managers and the staff or units assigned to credit control. The Group determines the capital requirements for credit risk using the standardized approach.

The Group manages its credit risks in accordance with the provisions of the Credit Institutions Act, the regulations issued by the Governor of the Bank of Estonia, and its own credit policy. The Group's credit policy provides that:

- Lending operations have to be conducted in accordance with the credit policy.
- Lending has to be based on an analysis.
- Lending has to correspond to the customer's settlement capability.

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- In each customer relationship, risks have to be proportionate to benefits.
- Lending has to correspond to the Group's profit targets.

Loans are granted and managed in accordance with documented rules of procedure that are established by the management board and are mandatory for all employees and structural units involved in credit management. The management board arranges relevant basic and further training for the staff.

The Group's credit policy and the principles applied on analysing and granting credit are regularly reviewed and updated to reflect changes in the economic environment and the counterparties' settlement behaviour.

Risk-taking decisions are made collectively by the credit committees and the staff authorised to adopt such decisions in keeping with the limits and restrictions set by the Group's management board.

Credit decisions may be made only by persons or bodies whose relevant power is specified in the Credit Committee Rules of Procedure and the Procedure for the Review of Loan Applications and Adoption of Credit Decisions established by the supervisory board. Altogether, there are six levels of authority in the adoption of credit decisions. On the adoption of a credit decision, the functions of the decision-maker and the performer of the credit analysis have to be clearly segregated. Any exceptions are at the discretion of the supervisory board.

Credit risk accounts for the largest proportion of the Group's total risk exposure.

Credit risk is evaluated on two levels: by analysing the borrower's credit risk (counterparty credit risk) and the Group's overall credit risk.

Credit risk assessment is carried out in respect of all of the Group's loan and other products, bonds acquired and loans granted to customers and other banks.

Credit risk management is based on a thorough evaluation of the counterparty's creditworthiness. Each credit decision made by the Group is based on a prior credit analysis. On conducting credit analysis, the Group identifies, based on available information, whether there is any doubt about the borrower's ability and intent to discharge the obligations taken under the loan and collateral agreements in a satisfactory manner, and whether failure to discharge the obligations may give rise to events or circumstances that may cause the Group's claims against the borrower not to be satisfied and may, therefore, result in a loss for the Group. Credit analyses are conducted in accordance with the procedure established by the management board.

As from 31 December 2010, the Group assesses the credit risk of both private and business customers using internal credit ratings. A customer's credit rating is integrated into the Group's risk management system and it is used, among other things, for assessing the customer's creditworthiness and the probability of settlement defaults, applying credit restrictions, credit pricing and determining the frequency of credit risk monitoring procedures and relevant policies and techniques.

Evaluation of the counterparty's creditworthiness is an essential input for customer relationship management - the higher the customer's risk, the greater the focus on the customer's creditworthiness, i.e. credit analysis.

After issue of a loan, the customer's settlement behaviour and the value of the collateral are monitored on an ongoing basis.

The management board appoints employees or units responsible for credit control who monitor adherence to credit management rules and, where necessary, make proposals to the management board for amendment and revision of those rules.

The management board organises the monitoring of both individual loans and the overall loan portfolio on an ongoing basis. On monitoring individual loans, the Group reviews throughout the loan term how the borrower discharges the obligations (settlement, insurance and mortgaging obligations, etc.) taken under the loan and collateral agreements. On monitoring the overall loan portfolio, the Group reviews the amounts of loans granted in terms of the total amount and individual loan products, the number of loans granted in terms of the total amount and individual loan products, the maturities of loans granted in terms of the total amount and individual loan

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products, loan repayments (including principal, interest, late payment interest, and other charges) and the maturity structure of the loan portfolio and the debtors' liabilities. The Group uses the information thus obtained for classifying loans, determining the carrying amount of receivables and making management decisions.

Credit risk is controlled, among other things, by re-measuring loans and the loan portfolio to their recoverable amounts by recognising impairment losses and reducing the carrying amounts of assets to an extent that is reasonable and takes into account the level of credit risk.

When evaluation indicates that a loan or a part of it is impaired (its collection is doubtful) and the cash flows expected to be derived from the disposal of collateral will not be sufficient to cover the loan amount and the accrued interest and late payment interest, a credit loss is recognised and the loan is established an impairment allowance. The Group establishes special impairment allowances for individually measured loans and collective impairment allowances for homogeneous loan groups. The Group establishes impairment allowances to cover the impairment risk. Impairment allowances are established to account for and measure the value of the loan portfolio as fairly and objectively as possible.

To reduce actual credit losses, the Group has established a separate department within the credit function that deals with problem loans and the recovery of receivables written off the statement of financial position by applying various measures such as negotiating with customers and instigating enforcement, litigation and bankruptcy proceedings.

The Group's credit policy relies on the following risk management approach:

- Loans are mostly provided to individuals. At 31 December 2011 loans to individuals accounted for 95.0% of the loan portfolio. The solvency of individuals may deteriorate temporarily but it does not usually disappear completely (except in the event of death, permanent incapacity for work, etc). In a legal system that provides for reliable and effective collection proceedings such as the Baltic countries and Finland, recovery of the overdue debts of individuals is a matter of the right time horizon rather than potential non-recovery.
- Loans are granted under carefully drafted legal agreements and recovery proceedings are performed in full compliance with applicable regulations. According to the Group's assessment, the Estonian, Latvian, Lithuanian, Finnish and Spanish legislation and legal practice do currently not include any features that might exert a significant negative impact on the recovery of receivables.
- The Group applies proactive and flexible debt management and results-oriented recovery proceedings.
- Risks are controlled by diversifying the credit portfolio. The loans granted by the Group are smaller than average: the average outstanding loan balance does not exceed the two-fold average monthly salary. Smaller receivables are generally easier to recover even in the circumstances of a severe economic downturn because the borrower's settlement power is not hindered by the scarcity of (re)financing opportunities and the Group's receivables can usually be settled with regular monthly income.
- The Group's loan portfolio is highly diversified – at 31 December 2011, the average loan amount was 1,742 euros and 100 largest loan receivables accounted for 6.3% of the total loan portfolio.

In Estonia and Lithuania, the Group offers loans to small and medium-sized enterprises (since the beginning of 2011). The business credit offering comprises the following main products: working capital loans, credit lines and bank guarantees. The average amount of business loans granted in 2011 was 53 thousand euros. At 31 December 2011, loans to companies accounted for 5% of the Group's loan portfolio.

The size of the Group's loan portfolio is limited on two levels. First by determining limits for the ratio of the loan portfolio to total assets and secondly by assigning limits to the total size and regional size of the loan portfolio.

To obtain an overview of the exposures of the total loan portfolio, the credit risk analysis and monitoring department observes the development of the loan portfolio, prepares relevant reports and conducts regular stress tests that focus on the effects that various possible though not highly probable events may have on the Group's financial performance and capital. Such

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events include growth in settlement arrears due to adverse changes in the macroeconomic environment, specific developments and changes in the dynamics of settlement defaults.

The Group deals actively with the management of overdue loans, applying measures that correspond to the gravity of the breach of contract (e.g. oral and written reminders, extraordinary cancellation of contract or recovery of receivables by fast track, debt collection, litigation, or enforcement proceedings). If a borrower has settlement problems, the Group may extend the loan term or agree a settlement schedule for liabilities arising from a cancelled agreement if the Group is convinced that the borrower has the intent and ability to discharge future contractual obligations in a satisfactory manner. The changes to original credit terms and conditions may not have an adverse impact on the originally estimated profitability of the loan. The Group's historical recovery rate for non-performing loans has been high and in clear correlation with the duration of the collection proceedings.

The Group makes provisions for impairment of loans. To cover the risks related to settlement behaviour and potential loan losses, the Group has established impairment allowances, which at 31 December 2011 totalled 33.230 million euros or 19.0% of loans to customers. The allowances are established on a conservative basis. The principles underlying the calculation of allowances are described in detail in note 1 and further information on impairment allowances for loans to customers is presented in note 7.

Concentration risk

Concentration risk is the risk of being significantly exposed to a single counterparty or related counterparties or counterparties that are influenced by the same risk factor.

The Group determines concentration risk taking into account exposures to a single counterparty or related counterparties as well as exposures to a single industry, region or risk factor.

In its day-to-day activity, the Group refrains from taking concentration risk. The Group avoids major concentrations of exposures by providing mainly medium-sized and small loans. The Group may grant large loans if sufficient collateral is provided and other relevant conditions are met but the Group's total receivables from a borrower and parties related to the borrower may not, at any time, exceed 10% of the Group's net own funds.

At 31 December 2011, the Group did not have any customers with a high risk concentration, i.e. customers whose liability would have exceeded 10% of the Group's net own funds.

In addition to credit risk management techniques, concentration risk is managed by applying the following measures:

- The Group is focused on serving individuals and small and medium-sized enterprises.
- Customers are identified using due procedure.
- Customers' reciprocal relations are determined through relevant questionnaires and enquiries.
- The Group monitors the concentration of its credit risk exposure to any single factor and limits, where necessary, exposure to any customer group that is related to or impacted by that factor.

Collateral risk

Collateral risk is the risk arising from the type, value, form, and disposal procedure of the asset pledged as collateral for a transaction.
The Group consciously limits its collateral risk, assuming that its lending policies and volumes mitigate credit risk more effectively than receipt of collateral and the cash flows arising from the latter.

The Group limits the effects of fluctuations in the market value of collateral.

Collateral risk is managed using the following principles:

- The Group applies the principle that all loans that are issued have to be secured with the borrower's income.

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- Requirements to collateral depend on the amount of the loan. As a rule, larger loans have to be secured with physical collateral (real collateral provided under the law of property such as a mortgage on immovable property). Smaller loans may be secured with surety agreements or the borrower's cash flows or assets. In making financing decisions, the Group does not rely simply on the borrower's business plan or economic activities.
- In the case of small and medium-sized loans it is expedient to accept collateral provided under the law of obligations. The Group is aware that the legal enforceability of real collateral (collateral provided under the law of property) and the regulation governing its realisation process restrict the use of such collateral in the Group's business activity. The value of collateral provided under the law of obligations does not depend directly on developments in the external environment, except for changes in the regulation governing such collateral. Approximately 90.3% of the Group's loan portfolio is secured with collateral provided under the law of obligations.
- Loans are granted in accordance with the limits established by the Group, taking into account the size of the loan and the ratio of the loan amount to the value of the collateral.
- The sufficiency and value of acceptable real or other collateral is determined based on the asset's current value considering the changes in value that will occur over time. Where necessary, the value of collateral is determined with the assistance of qualified experts (e.g. real estate appraisers).
- The Group accepts as loan collateral only such immovable properties whose market value has been determined in a written valuation report issued by a real estate company with whom the Group has a corresponding agreement. Collateral risk is estimated by reference to the valuation report prepared by the real estate company and subjective valuation performed by the Group's staff.
- The agreements made with real estate companies regarding the valuation of assets set out the real estate company's liability for incorrect appraisal.
- The Group accepts only collateral located in an area with an active and transparent real estate market. Such areas are determined in partnership with real estate companies and experts accepted by the Group. Acceptable real collaterals include, above all, mortgages of the first ranking entered in the land register, which should ensure full satisfaction of the Group's claims even when the market value of the collateral decreases.
- The property put up as collateral under the law of property has to be insured throughout the loan term with an insurance company accepted by the Group at least to the extent of the replacement cost of the property.

Other risks related to credit risk

In addition to concentration risk and collateral risk, the Group takes into account the following risks associated with credit risk:

- Country risk is the risk that arises from the economic, political or social environment of the counterparty's domicile. Country risk is controlled by monitoring the size of the subsidiaries' and branches' portfolios. The main control technique is providing credit mostly to individuals who reside in a country where the Group operates and have regular income in that country.
- Business risk or strategic risk is the risk that arises from inappropriate operating decisions, deficient execution of operating decisions, changes in the operating environment or customer behaviour, or inappropriate responses to technological advances. The Group is aware that the credit risk inherent in financing the consumption of individuals may be influenced by changes in the economic cycle that may reduce its profit. The risk is mitigated by selecting a payment size that is appropriate for the customer.

Market risk

Market risk is the risk that arises from exposure to changes in market prices. The main market risks that impact the Group are currency risk and interest rate risk. The Group does not have an active trading portfolio. Therefore, there is no market risk resulting from the trading portfolio. The Group's exposure to market risks arises from positions that are affected by changes in

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market risk factors. The factors are interest rates and foreign exchange rates.

Currency risk is the risk that foreign exchange rates will change. The Group's currency risk arises from changes in exchange rates that are unfavourable for euro.

Interest rate risk is the risk that interest rates will change.

Currency and interest rate risks are managed at the level of the Group. Market risks are managed by applying uniform risk-taking and management policies that have been established by the management and supervisory boards for all Group entities.

Management of the subsidiaries' and branches' currency and interest rate risks is organized by the Group. Overall currency and interest rate risk management is the responsibility of the Group's management board. Direct currency and interest rate risk management is the responsibility of the Group's chief financial officer.

The Group's core activity is provision of credit to individuals and small and medium-sized enterprises. As a rule, liquid funds are kept with the central banks and commercial banks that operate in the Group's operating region or in securities. Generally the Group does not take market or trading risks. Debt instruments that are part of the liquidity portfolio are held until maturity.

The Group monitors currency and interest rates risks together, taking into account their sensitivity to the macroeconomic environment.

Currency and interest rates risks are managed by monitoring changes in the credit and financial markets both in Estonia and in the world on an ongoing basis. On the appearance of developments or trends that may have a significant impact on the Group's performance, the Group reviews and, where necessary, revises its short- and long-term financial plans in order to adapt to the change. In addition, the Group monitors changes in the Estonian and EU regulatory environment on a regular basis and estimates legislative and political risks with a view to ensuring uninterrupted operation regardless of pending changes. The impacts of changes in the macroeconomic environment are also continuously monitored, taking into account potential developments. The Group measures the effect of various market risks with regular stress tests, which indicate what may happen when the market situation changes.

The Group avoids interest rate risk on loans granted by fixing the interest rate in the loan agreement. The Group protects itself against interest rate risk by charging on loans granted a rate of return that exceeds the average market interest rate. The Group performs regular stress tests to evaluate its interest rate risk.

The loans issued by the Group are denominated in the currencies of the regions in which the Group operates or in euros. The loans issued by the Group are mainly denominated in euros.

The Group operates in countries whose currencies have stable exchange rates or that use euro as a means of payment. The Lithuanian litas and the Latvian lats are the national currencies of EU member states whose exchange rates are fixed by the central banks of the respective countries and are pegged to the euro. Exchange rate fluctuations are limited to a permissible fluctuation corridor established by the law. Currency risk exposures are presented in note 25.

To mitigate the risk of losses arising from significant exchange rate fluctuations, the Group's loan agreements include a devaluation clause that ensures the proportions of contractual liabilities throughout the loan term.

The Group intentionally maintains and reports the highest possible regulatory capital requirement.

Liquidity and financing risks

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities on time or in full.

Financing risk is the risk of not being able to secure the necessary financing for the Group's operations at a specific point in time.

Growth financing risk is the risk of not being able to secure financing for developing, expanding or increasing the Group's operations.

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Financing and liquidity risks are managed at the level of the Group. The Group organizes the subsidiaries' and branches' financing and liquidity management.

The main body that manages financing and liquidity risks is the asset-liability committee (ALCO). ALCO has the authority to deal with the following issues:

- the policy for mitigating the Group's financial risks including liquidity, interest rate and currency risks;
- planning the capital of the Group and its subsidiaries;
- the funding and pricing policies of the Group and its entities;
- the Group's investment policy.

Financing and liquidity risk management is the responsibility of the Group's management board. Direct responsibility for this has been assigned to the Group's chief financial officer.

Financing and liquidity risk management is based on preparing regular cash flow and ratio reports and forecasts that are determined in the liquidity management plan, performing stress tests, and maintaining adequate liquidity buffers.

The following principles are applied:

- The objective of liquidity risk management is to ensure that the Group will always have sufficient funds for its operation, both in the short- and long-term perspective, and to ensure that the Group can meet its existing commitments both under normal and stressed circumstances.
- The guiding principle in liquidity planning is that no claim against the Group, which will or may fall due, considering all available sources of funding and possibilities for limiting issue of loans, may cause a lack of liquidity.
- The Group monitors the maturity structure of assets and liabilities on an ongoing basis and establishes ceilings to the maximum allowed differences between assets and liabilities over a certain period.
- The Group maintains a sufficient liquidity buffer. Liquid assets are held with the central banks and invested in money market and liquidity funds, term deposits and bonds.
- The Group uses diversified sources of financing.

The Group monitors its financing and liquidity risks together, taking into account their inter-relatedness in its operations.

The Group monitors the maturity structure of its and its subsidiaries' assets and liabilities (the compatibility of their volumes and due dates) and establishes limits to the maximum allowed differences between assets and liabilities over a certain period.

In addition to a liquidity reserve for meeting its forecast liquidity needs, the Group maintains a liquidity reserve that has to amount to at least 5% of the loan portfolio and which is generally not used for covering ordinary financing needs but is held for financing potential exceptional expenditures.

The Group has adopted a continuity and recovery plan for ensuring liquidity and financing, which sets out guidance and models for acting and behaving in exceptional liquidity and financing circumstances and resolving such situations.

The Group's specialization in consumer credit (one business line) allows controlling its asset volumes. Changes in the size of the Group's loan portfolio are relatively stable. Owing to its contractual basis, the size of the portfolio cannot fluctuate significantly in the short- or medium-long perspective. The Group does not have a contractual obligation to issue new loans and the proportion of loans with unused credit limits is very small.

The Group controls financing and liquidity risks by adjusting (limiting and reducing) the proportion of the loan portfolio. Where prompt response is necessary, the Group will restrict provision of new loans. Should it appear that the Group is not capable of funding its ordinary operations to the required extent, issuance of loans will be reduced to the extent that receipts

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on previously issued credit will cover the Group's existing financial obligations.

Expected future cash flows of the Group's financial liabilities as at 31 December 2011

	Carrying amount	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Loans from banks (note 13)	**0.265**	0.019	0.039	0.174	0.038	-	**0.270**
Payables to suppliers (note 15)	**0.549**	0.549	-	-	-		**0.549**
Bonds issued (note 16)	**3.657**	0.072	-	0.213	4.032	-	**4.317**
Deposits from customers (note 14)	**170.235**	9.351	11.540	31.060	126.991	5.628	**184.570**
Contingent liabilities (note 27)	**2.072**	0.015	0.486	0.560	1.461	-	**2.522**
Total liabilities	**176.778**	**10.006**	**12.065**	**32.007**	**132.522**	**5.628**	**192.228**

Expected future cash flows of the Group's financial liabilities as at 31 December 2010

	Carrying amount	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Loans from banks (note 13)	**0.493**	0.020	0.040	0.179	0.270	-	**0.509**
Payables to suppliers (note 15)	**0.424**	0.424	-	-	-	-	**0.424**
Bonds issued (note 16)	**3.664**	0.066	-	0.197	4.265	-	**4.528**
Deposits from customers (note 14)	**153.845**	13.293	23.460	64.831	60.255	0.722	**162.561**
Contingent liabilities (note 27)	**1.470**	-	0.024	0.177	1.269	-	**1.470**
Total liabilities	**159.896**	**13.803**	**23.524**	**65.384**	**66.059**	**0.722**	**169.492**

Operational risk

Operational risk is the possibility or probability that a decision or event arising from the Group's internal processes, people or systems or from the external environment will have undesirable consequences for the Group.

Operational risk entails the following risks:

- Legal risk is the possibility or probability that the Group's activity does not comply with effective legislation, contracts and agreements, generally accepted best practice and ethical standards or is based on their incorrect interpretation, or the Group as an entitled party cannot exercise its rights or expect fulfilment of obligations because the obligated party does not discharge its commitments.
- Strategic risk is the possibility or probability that achievement of the Group's business goals and targets and execution of the Group's decisions and activities will be hindered by competition, the operating environment or the activity of the supervision authorities.
- Reputation risk is the possibility or probability that negative publicity, regardless of its veracity, will lead to a decrease in the customer base, a loss in revenue or an increase in expenses.
- Security risk is the possibility or probability that an incident in the external or internal environment will damage or destroy the usability, reliability, safety, integrity, completeness and confidentiality of the Group's resources (assets, people, data, documents, buildings and structures).
- Personnel risk is the possibility or probability that achievement of the Group's business goals and targets and execution of the Group's decisions and activities will be hindered or obstructed by employee absence, disloyalty, incompetence, or unsuitability for office.
- Control and management risk is the possibility or probability that control mechanisms and management measures are not in place or are inappropriate for achieving the Group's

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business goals and targets.

- Regulatory risk is the possibility or probability that the Group will not achieve its business goals and targets or achievement of those goals and targets will be hindered because of changes in regulatory environment.
- Information technology risk is the possibility or probability that the Group's information technology systems will not function, will function inadequately, will be unusable, or will be used inadequately or wrongly.
- Procedural risk is the possibility or probability that the rules of procedure implemented by the Group are inadequate, are not applied or are applied inappropriately.

Effective operational risk management assumes improving the risk awareness of every employee. Operational losses are prevented by assigning responsibility for risk management to specific business units, enhancing risk recognition by employees and creating a strong control environment.

The purpose of operational risk management is to achieve the lowest possible risk level while applying economically efficient risk management principles. The Group does not take unmanageable or unlimited risks regardless of potential revenue growth.

The Group treats operational and associated risks as an independent risk management area that is tightly related to the Group's main source of risk - credit risk

Operational and associated risks are controlled and coordinated at Group level. Overall management of operational and associated risks is the responsibility of the Group's management board. Direct management of operational and associated risks is the responsibility of the Group's risk manager and unit managers. The operational and associated risks of subsidiaries and branches are managed by the subsidiaries' and branches' managements.

The Group has developed a uniform, Group-wide understanding of potential operational risk incidents and events resulting in loss or unusual income. The Group has defined a centralized basis for operational risk management activities. The concepts are fixed in the Group's policies, internal regulations and rules of procedure.

Operational and associated risks are managed using preventive, forward-looking analyses of loss events that may be caused by the risks inherent in the Group's operations.

The Group identifies and evaluates the operational and associated risks of all products, significant activities, processes and systems. The evaluation is performed before the implementation of any new product, process, or system.

Operational and associated risks are identified and evaluated using self- and risk evaluation questionnaires and/or seminars and by mapping unit, function and process risks according to risk type.

Unusual events and risks are evaluated using various simulations and stress tests.

To control its operational risks, the Group has created a controller's position in all its business units. The controllers report to the Group's risk manager.

The Group assesses, monitors, and mitigates its operational risk mainly through compliance reviews and internal audits. The purpose of compliance reviews is to make sure that the Group's activities and internal rules comply with the law, the guidance of the Financial Supervision Authority, other regulatory requirements and the Group's internal regulations, and that there are no conflicts of interest. The Group's internal audit function monitors and evaluates the Group's operation and its compliance with legal and regulatory requirements, other relevant rules and standards, and the decisions adopted by the Group.

In the case of outsourced services, the Group screens the service providers. Relations with service providers are based on contracts.

The Group monitors and controls operational and associated risks using various risk indicators that are also applied to the subsidiaries and branches.

The Group monitors operational and associated risks together, taking into account their significant inter-relatedness in its operation.

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The Group has no experience of incidents causing significant loss or involving the possibility of significant loss. The Group has experienced only events with insignificant impact, which in their entirety have not exceeded the threshold for significant loss.

The Group does not provide complex or integrated products. Its offering includes only simple products such as loans, deposits and bonds.

The Group has reporting systems in place that are used for selecting an approach for and registering loss events and threats and reporting and analysing risk indicators

The Group believes that operational risk can be best controlled by designing and developing a risk conscious and responsible organisational culture that is supported by appropriate practices and policies, effective internal regulations and controls, insurance and, above all, sufficient operating income.

Adherence to internal rules and regulations is subject to rigorous control

The Group believes that the main source for covering potential losses is revenue. Insurance is purchased for risks of low probability but with a potentially significant impact (natural disasters, fire, etc). The last source for covering losses is the Group's equity.

The Group's specialization in one business line allows controlling changes in asset volumes. Changes in the size of the Group's loan portfolio are relatively stable. Owing to its contractual basis, the size of the portfolio cannot fluctuate significantly in the short- or medium-long perspective. The increase in operational risk exposures resulting from changes in the size of the portfolio can be controlled by the Group.

The loan portfolio is highly diversified, which reduces the impact of external and internal factors on the Group's operational risk exposures.

The Group's historical experience indicates that operational risk events can be prevented. Identification of threats is facilitated by applying standardized processes and specializing in a small number of products whose risks can be easily recognised and detected because of historical experience and suitable operating routines.

The Group has implemented a system for managing business continuity that helps mitigate losses from events of low probability but with a strong negative impact that may affect the Group's core processes. Business continuity is supported by business continuity scenarios and relevant action plans.

The Group determines the capital requirements that are sufficient for covering unanticipated operational losses using a standardized approach that corresponds to the Basel II capital adequacy requirements. The Group has implemented the required tools such as the operational loss database, self-assessment of risks and scenario planning.

The capital allotted to operational risk is included in the overall capital adequacy ratio. Capital requirements for covering operational risk are identified using the basic indicator approach.

Own funds

Own funds are a buffer for covering losses that may arise from the risks taken by the Group. The Group's ability to absorb losses depends on the effectiveness of its operations as well as various qualitative factors such as the Group's capacity for controlling risks, management quality and control, and similar characteristics.

The Group classifies items as own funds based on relevant regulatory requirements. The most important components of the Group's own funds are

- Paid-up share capital. The Group's paid-up share capital amounts to 8 million euros.
- Statutory capital reserve. In accordance with the requirements of the Commercial Code, the Group has created a capital reserve which at 31 December 2011 amounted to 0.511 million euros.
- Prior period retained earnings. Profits retained in previous periods have been audited by an independent external auditor. The figure has been determined by taking into account all relevant taxes and dividend distributions. At 31 December 2011, the Group's prior period

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retained earnings totalled 38.799 million euros.

- Profit for the reporting period that has been checked by an independent external auditor.

All these components are part of the Group's Tier 1 capital. At 31 December 2011, the Group's Tier 1 capital amounted to 52.603 million euros. At 31 December 2011, the Group had not included in Tier 2 capital instruments of the nature of additional own funds, i.e. subordinated liabilities of 3.657 million euros.

Capital management

The Group has only two shareholders that have been involved in the company since its establishment, holding 50% of the shares each. The shareholders have a long-term vision of the development of the company.

The Group's target for 2011 was to maintain at least a 12% capital adequacy ratio both at the level of the Group and the parent company. At 31 December 2011, the capital adequacy ratio was 22.3%, exceeding the regulatory requirement more than two-fold. The entire capital adequacy ratio resulted from Tier 1 capital.

The Group applies risk-based capital planning in order to ensure that all the risks inherent in its operation would be covered at all times with sufficient own funds. Capital planning is based on forecasts that take into account the Group's strategy, risk profile and risk appetite. Capital needs are forecast and planned based on the calculation of the regulatory capital adequacy level which is increased by additional capital requirements for covering risks that are not considered in the regulatory capital requirements. Capital needs are forecast taking into account how the strategic and reputation risk may affect the Group's operation.

In addition, an appropriate capital buffer is calculated for ensuring an internally desired capital adequacy level on the occurrence of unlikely but possible unfavourable macroeconomic developments.

The Group's capital structure changes mainly through changes in internally generated capital.

The Group realizes that it has no prompt or considerable means for increasing capital significantly when capital adequacy drops below the desired level. When capital adequacy falls below the desired level, the Group will change the structure of its assets (limit issuance of new loans and place the funds received in low or lowest risk assets).

Internal capital adequacy assessment process

The internal capital adequacy assessment process (ICAAP) is a Group-wide process by which the Group ensures sufficient capital for covering the risks inherent in its operations and carrying out and developing its activities. The internal capital adequacy assessment process takes into account all relevant risks the Group may have to face. The Group ensures that aggregated risks are covered with sufficient capital at all times. The Group identifies itself as a specialised credit institution with a small market share and low systemic significance whose offering includes simple standardised financial products – loans and deposits.

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Group's capital adequacy

As at 31 December	2011	2010
Paid-up share capital	8.000	5.113
Reserves established from profit (capital reserve)	0.511	0.511
Earnings retained in prior years	38.799	37.224
Foreign currency translation reserve	0.288	-0.508
Intangible assets	-0.660	-0.709
Profit for the year	5.665*	4.461
Tier 1 capital	**52.603**	**46.092**
Subordinated liabilities	-	2.495
Tier 2 capital	**-**	**2.495**
Deductions	**-**	**-**
Total capital used to determine capital adequacy	**52.603**	**48.587**
Capital requirements		
Claims on central governments and central banks, standardized approach	0.567	1.134
Claims on credit institutions and investment firms, standardized approach	1.191	1.804
Claims on companies, standardized approach	0.936	0.328
Retail claims, standardized approach	8.123	6.055
Claims secured by real estate, standardized approach	0.660	0.811
Claims in arrears, standardized approach	6.283	5.343
Other assets, standardized approach	1.162	1.205
Total capital requirement for credit risk and counterparty risk	**18.922**	**16.680**
Capital requirement for foreign exchange risk	**0.779**	**1.035**
Capital requirement for operational risk, standardized approach	**3.889**	**3.959**
Total capital requirements	**23.590**	**21.674**
Capital adequacy	**22.3%**	**22.4%**

* Profit for the year has not been adjusted for the dividends proposed in the profit allocation proposal. A dividend distribution of the proposed amount will lower capital adequacy by 0.4%.

Capital adequacy has been calculated for BIGBANK AS group. At 31 December 2011, capital adequacy at the level of the parent company was 19.3%.

Capital adequacy has been determined in accordance with the capital adequacy rules of the Basel II Capital Accord. The definition of a consolidation group for the purposes of calculating capital adequacy does not differ from the definition of a consolidation group for the purposes of preparing financial statements.

Section 72(1) of the Credit Institutions Act provides that the own funds of a credit institution consist of Tier 1, Tier 2 and Tier 3 own funds.

Under Section 73 of the Credit Institutions Act, Tier 1 own funds (Tier 1 capital) consists of:

- paid-up share capital;
- capital reserve and other reserves formed based on the law and the articles of association using profit;
- audited profits retained in prior years;
- profit for the reporting year that has been checked by the credit institution's auditor, less the amount set aside for a dividend distribution.

In calculating Tier 1 capital, the following is deducted:

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- intangible assets.

Under Section 77[1] of the Credit Institutions Act, when Tier 1 capital is calculated on a consolidated basis, the foreign currency translation reserve consisting of the unrealised exchange differences is added to Tier 1 capital.

According to Section 74 of the Credit Institutions Act, subordinated liabilities may be included in Tier 2 own funds (capital).

A liability of a credit institution is considered to be subordinated if the claim arising from such a liability, in the event of the dissolution or bankruptcy of the credit institution, is satisfied after the justified claims of all other creditors have been satisfied.

Fixed-term subordinated liabilities with a residual maturity of less than five years are shown at reduced value in accordance with Section 74[1](7) of the Credit Institutions Act (during five years preceding maturity the original sum is reduced by 20% a year, i.e. by 5% after every three months).

As at 31 December 2011, BIGBANK does not include subordinated liabilities in its Tier 2 capital.

The Group has no Tier 3 capital.

Capital requirements for credit risk and operational risk have been determined using the standardized approach and the basic indicator approach respectively.

In determining the capital requirement for foreign exchange risk, the Group has taken into account the exposures covered by the devaluation clause (see note 25).

Note 3. Internal control system

The internal control system of BIGBANK AS covers all levels of the Group's management and operations. In addition to constantly functioning controls, internal control is exercised by the supervisory and management boards and an independent internal audit department. The supervisory board approves the Group's strategy, gives instructions to the management board regarding the Group's management, and supervises the activities of the Group and the management board.

The management board is responsible for organising the Group's daily operation, determining the powers and responsibilities of different levels of management, providing job descriptions and establishing internal rules in accordance with the strategy approved by the supervisory board. The Group's internal audit department, which functions as part of the internal control system, monitors the entire Group. It evaluates the Group's ordinary business activities, assesses the compliance and adequacy of internal rules and regulations in view of the Group's activity and checks adherence to the rules, regulations and limits established by the supervisory and management boards as well as other standards on a regular basis.

The objective of the internal audit department is to provide management with reasonable assurance that the Group's internal controls are in place and effective. The internal audit department acts in accordance with International Standards for the Professional Practice of Internal Auditing and the statute of the internal audit department that has been approved by the supervisory board.

Note 4. Due from banks and cash equivalents

Due from central banks as at 31 December 2011

	Estonia	Latvia	Lithuania	Finland	Spain	Total
Mandatory reserves	0.919	2.022	-	0.112	-	**3.053**
Surplus on mandatory reserves with central banks	0.001	-	-	-	-	**0.001**
Demand and overnight deposits	6.200	-	-	-	-	**6.200**
Interest due from central banks	0.001	-	-	-	-	**0.001**
Total due from central banks	**7.121**	**2.022**	**-**	**0.112**	**-**	**9.255**

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Due from central banks as at 31 December 2010

	Estonia	Latvia	Lithuania	Finland	Spain	Total
Mandatory reserves	10.458	0.889	-	0.087	-	**11.434**
Surplus on mandatory reserves with central banks	5.175	-	-	-	-	**5.175**
Interest due from central banks	0.002	-	-	-	-	**0.002**
Total due from central banks	**15.635**	**0.889**	**-**	**0.087**	**-**	**16.611**

Due from banks at 31 December 2011

	Estonia	Latvia	Lithuania	Finland	Spain	Total
Due from banks	19.882	1.295	0.330	0.515	0.404	**22.426**
Interest due from banks	0.068	-	-	-	0.002	**0.070**
Total due from banks	**19.950**	**1.295**	**0.330**	**0.515**	**0.406**	**22.496**
Of which: Aaa-Aa3						0.501
Of which: A1-A3						20.369
Of which: Baa1-Baa3						1.626

Due from banks at 31 December 2010

	Estonia	Latvia	Lithuania	Finland	Spain	Total
Due from banks	20.414	4.161	1.567	1.271	-	**27.413**
Interest due from banks	0.041	0.006	-	-	-	**0.047**
Total due from banks	**20.455**	**4.167**	**1.567**	**1.271**	**-**	**27.460**
Of which: Aaa-Aa3						1.273
Of which: A1-A3						20.453
Of which: Baa1-Baa3						5.734

Cash equivalents

As at 31 December	2011	2010
Demand and overnight deposits with credit institutions	2.088	3.328
Term deposits with credit institutions	20.408	24.132
Demand and overnight deposits with central banks	6.200	-
Surplus on mandatory reserves with central banks	0.001	5.175
Interest due from central banks (on mandatory reserves)	0.001	0.002
Total cash equivalents	**28.698**	**32.637**

Note 5. Loans to customers

Loans to customers as at 31 December 2011

	Estonia	Latvia	Lithuania	Finland	Spain	Total
Loan receivables from customers	68.524	59.534	20.317	30.570	6.990	**185.935**
Impairment allowance for loans	-10.483	-12.446	-3.141	-1.017	-0.162	**-27.249**
Interest receivables from customers	8.685	9.521	2.814	1.045	0.215	**22.280**
Impairment allowance for interest Receivables	-1.895	-2.516	-0.561	-0.059	-0.008	**-5.039**
Additional impairment allowance	-	-0.909	-0.033	-	-	**-0.942**
Total loans to customers, incl. interest and allowances	**64.831**	**53.184**	**19.396**	**30.539**	**7.035**	**174.985**

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Loans to customers as at 31 December 2010

	Estonia	Latvia	Lithuania	Finland	Spain	Total
Loan receivables from customers	65.434	55.053	17.626	12.380	-	**150.493**
Impairment allowance for loans	-11.486	-12.468	-2.648	-0.269	-	**-26.871**
Interest receivables from customers	8.275	9.609	1.935	0.258	-	**20.077**
Impairment allowance for interest Receivables	-1.944	-2.569	-0.399	-0.010	-	**-4.922**
Additional impairment allowance	-	-0.896	-0.033	-	-	**-0.929**
Total loans to customers, incl. Interest and allowances	**60.279**	**48.729**	**16.481**	**12.359**	**-**	**137.848**

Loans receivables from customers* by loan type

As at 31 December	2011	2010
Loans against income	148.332	112.225
Surety loans	19.874	19.271
Loans secured with real estate	14.358	14.048
Loan with insurance cover	3.371	4.949
Total loan receivables from customers	**185.935**	**150.493**

Loan receivables from customers* by contractual currency

As at 31 December	2011	2010
EEK (Estonian kroons)	-	23.240
EUR (euro)	170.807	107.644
LTL (Lithuanian litas)	2.046	2.814
LVL (Latvian lats)	13.082	16.795
Total loan receivables from customers	**185.935**	**150.493**

* Loan receivables from customers comprise the outstanding loan principal.

Ageing analysis as at 31 December 2011

	Not past due	30 days or less	31-60 days	61-90 days	Over 90 days	Total
Loans against income						
Loan receivables from customers	70.775	13.224	5.722	3.955	54.656	**148.332**
Impairment allowance	-2.329	-0.620	-0.404	-0.359	-19.993	**-23.705**
Surety loans						
Loan receivables from customers	8.259	1.786	0.815	0.608	8.406	**19.874**
Impairment allowance	-0.418	-0.208	-0.067	-0.071	-2.725	**-3.489**
Loans secured with real estate						
Loan receivables from customers	9.199	0.752	0.886	0.201	3.320	**14.358**
Impairment allowance	-0.108	-0.043	-0.019	-0.039	-0.665	**-0.874**
Loans with insurance cover						
Loan receivables from customers	2.424	0.431	0.139	0.073	0.304	**3.371**
Impairment allowance	-0.043	-0.011	-0.004	-0.003	-0.062	**-0.123**
Total loan receivables from customers	**90.657**	**16.193**	**7.562**	**4.837**	**66.686**	**185.935**
Total impairment allowance	**-2.898**	**-0.882**	**-0.494**	**-0.472**	**-23.445**	**-28.191**

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Ageing analysis as at 31 December 2010

	Not past due	30 days or less	31-60 days	61-90 days	Over 90 days	Total
Loans against income						
Loan receivables from customers	47.834	7.811	3.652	1.921	51.007	**112.225**
Impairment allowance	-3.256	-0.523	-0.387	-0.265	-18.955	**-23.386**
Surety loans						
Loan receivables from customers	9.711	1.460	0.712	0.336	7.052	**19.271**
Impairment allowance	-0.747	-0.120	-0.087	-0.039	-2.255	**-3.248**
Loans secured with real estate						
Loan receivables from customers	8.721	0.775	0.494	0.321	3.737	**14.048**
Impairment allowance	-0.187	-0.011	-0.012	-0.011	-0.847	**-1.068**
Loans with insurance cover						
Loan receivables from customers	4.411	0.366	0.075	0.027	0.070	**4.949**
Impairment allowance	-0.075	-0.006	-0.002	-	-0.015	**-0.098**
Total loan receivables from customers	**70.677**	**10.412**	**4.933**	**2.605**	**61.866**	**150.493**
Total impairment allowance	**-4.265**	**-0.660**	**-0.488**	**-0.315**	**-22.072**	**-27.800**

Note 6. Past due loans

Past due loans as at 31 December 2011

	Estonia	Latvia	Lithuania	Finland	Spain	Total
Up to 30 days	0.457	0.433	0.229	0.102	0.013	**1.234**
31 - 60 days	0.475	0.329	0.148	0.307	0.019	**1.278**
61-90 days	0.559	0.319	0.091	0.223	0.018	**1.210**
Over 90 days	21.736	26.735	5.868	2.873	0.121	**57.333**
Total	**23.227**	**27.816**	**6.336**	**3.505**	**0.171**	**61.055**

Past due loans as at 31 December 2010

	Estonia	Latvia	Lithuania	Finland	Spain	Total
Up to 30 days	0.597	0.474	0.110	0.044	-	**1.225**
31 - 60 days	0.662	0.577	0.054	0.025	-	**1.318**
61-90 days	0.337	0.477	0.061	0.153	-	**1.028**
Over 90 days	22.689	26.232	4.618	0.432	-	**53.971**
Total	**24.285**	**27.760**	**4.843**	**0.654**	**-**	**57.542**

The table above consists of only loan principals that are overdue according to payment schedule. In accordance with the terms of the loan agreements, the Group may cancel the agreement unilaterally if at least three scheduled payments are in arrears. When an agreement is cancelled, the customer has to settle the outstanding loan principal, any accrued interest, and any collateral claims resulting from the settlement delay.

Owing to the nature of the loans (as a rule, the loans are backed with the customer's regular income), amounts due under cancelled agreements are satisfied over an extended period in small instalments, not in a lump sum raised by the disposal of collateral. As a result, despite regular receipts, the balances of past due loans decrease relatively slowly. At the same time, the items cannot be reported as part of the performing portfolio because they are being serviced through enforcement or other recovery proceedings.

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Note 7. Impairment of loans, receivables and financial investments

Change in impairment allowances for loans and related interest receivables

As at 31 December	2011	2010
Balance at beginning of period	-32.722	-26.141
Loan and interest receivables written off the statement of financial position	10.105	3.073
Increase in allowances for loan and interest receivables	-10.357	-9.650
Effect of movements in exchange rates	-0.256	-0.004
Balance at end of period	**-33.230**	**-32.722**

Impairment losses on loans, receivables and financial investments

	2011	2010
Recovery of loan and interest receivables written off the statement of financial position	0.502	0.197
Increase in allowances for loan and interest receivables	-10.357	-9.650
Impairment losses on financial investments	-0.099	-
Impairment losses on other receivables	-0.147	-0.102
Total impairment losses	**-10.101**	**-9.555**

For measurement and impairment assessment, receivables are reviewed either individually or in groups; where necessary, additional impairment allowances are made. For further information, see note 1, the section *Impairment provisions and allowances for loans*.

In 2011 the macroeconomic environment of the Baltic countries, which are the Group's main market, improved, strengthening the prospect that positive trends in consumer behaviour and employment would continue. However, despite a more favourable macroeconomic environment, in 2011 the consumers' real wages and consequently their purchasing power and solvency decreased. Although a slowdown in the increase of prices and moderate growth in the gross wage are going to improve consumer solvency in the next few years, this will not bring about any major changes. Accordingly, the Group remains conservative in assessing its credit risk and anticipating improvements in its customers' settlement behaviour.

At 31 December 2011, additional impairment allowances established for mitigating the risks associated with settlement behaviour, which are difficult to estimate, and for covering unexpected loan losses totalled 0.942 million euros. The allowances were established on a conservative basis.

The collection of non-performing consumer loans that are not secured with a mortgage differs significantly from the recovery of mortgage-backed loans because consumer loans that are in arrears are usually not settled in a lump sum but in instalments over an extended period. If payments are collected and transferred by a bailiff, the Group classifies the loan as non-performing despite the positive cash flow. As a result, throughout their duration recovery proceedings cause cumulative growth in the proportion of non-performing loans although in light of the above factors this does not mean that the settlement behaviour has actually deteriorated.

The Group's historical recovery rate for non-performing loans has been high, with a rising trend, and in direct correlation with the duration of collection proceedings.

To mitigate credit risk and to cover potential credit losses, the Group establishes impairment allowances, which at 31 December 2011 totalled 33.230 million euros, i.e. 16.0% of loan- and interest receivables from customers. The corresponding figures for the end of 2010 were 32.722 million euros and 19.2%. Impairment allowances for loan- and interest receivables are established on a conservative basis.

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Impairment allowances by loan assessment category as at 31 December 2011

	Loans receivables	Impairment allowance for loans	Interest receivables	Impairment allowance for loan interest	Total impairment allowances
Homogeneous groups	97.570	1.691	5.403	0.228	**1.919**
Individually assessed items	88.365	25.558	17.463	4.811	**30.369**
Additional assessment	-	0.942	-	-	**0.942**
Total	**185.935**	**28.191**	**22.866**	**5.039**	**33.230**

Impairment allowances by loan assessment category as at 31 December 2010

	Loans receivables	Impairment allowance for loans	Interest receivables	Impairment allowance for loan interest	Total impairment allowances
Homogeneous groups	66.833	1.290	5.714	0.535	**1.825**
Individually assessed items	83.660	25.581	15.054	4.387	**29.968**
Additional assessment	-	0.929	-	-	**0.929**
Total	**150.493**	**27.800**	**20.768**	**4.922**	**32.722**

In 2011, the cash flows of loans to customers were influenced by four main factors:

- Customers' solvency stabilised and their willingness to pay improved. As a result, the proportion of receivables from customers making regular payments increased across the loan portfolio as did the average recovered amount in all phases of recovery proceedings (including receivables in the judicial and enforcement phase).
- The proportion of non-performing loans that were in the enforcement phase was 40%. In the enforcement phase, receipts on non-performing loans increase considerably.
- Compared with 2010, disposal of loan collateral through enforcement proceedings improved. The time required for the process shortened and recovered amounts increased.
- In 2011, a significant portion of receivables was written off the statement of financial position. Write-offs totalled 10.105 million euros (2010: 3.073 million euros).

Due to the combined effect of the above factors, in 2011 the impairment rate for individually assessed loans decreased moderately in Estonia and Lithuania. In other markets, the rate remained stable compared with 2010.

Note 8. Held-to-maturity financial assets

Debt securities portfolio

As at 31 December	2011	2010
Acquisition cost of the debt securities portfolio	10.653	12.519
Accrued interest	0.035	0.198
Total held-to-maturity financial assets	**10.688**	**12.717**
Held-to-maturity financial assets by issuer		
Debt securities of credit institutions	-	1.821
Government bonds	10.688	10.896
Held-to-maturity financial assets by currency		
EUR (euro)	8.659	8.131
LTL (Lithuanian litas)	2.029	4.586

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As at 31 December	2011	2010
Held-to-maturity financial assets by rating		
Aaa-Aa3	-	0.518
A1-A3	7.021	1.538
Baa1-Baa3	3.667	4.586
Ba1-Ba3	-	6.076

Held-to-maturity financial assets comprise purchased debt securities that the Group has the ability and intention to hold until maturity. Interest income on held-to-maturity financial assets is presented in note 17.

Note 9. Other receivables and prepayments

As at 31 December	2011	2010
Other receivables	3.700	3.627
Prepayments	1.962	2.021
Total other receivables and prepayments	**5.662**	**5.648**

Other receivables

As at 31 December	2011	2010
Late payment interest and penalty payments receivable	0.047	0.052
Commissions and fees receivable	0.090	0.026
Collection and other charges receivable	1.762	1.625
Guarantee and deposit payments made	0.170	0.072
Miscellaneous receivables	2.575	2.788
Impairment allowance for other receivables	-0.944	-0.936
Total other receivables	**3.700**	**3.627**

In 2008, the Group sold receivables of 3.483 million euros to SIA Vidzemes Inkasso, a Latvian debt collection company. The sales price of the receivables was their gross amount. At the same time, the carrying value of the amount due from SIA Vidzemes Inkasso was discounted at a rate equal to the pre-transaction impairment rate applied to items sold. The receivable is to be settled in line with actual collections from customers but not later than within seven years. The principal receivable is increased by profit participation in the amounts recovered by the collection company in excess of the principal receivable (on a customer-by-customer basis). In 2011 and 2010 the Group did not earn any profit on the transaction. In 2011, the Group received 0.287 million euros (2010: 0.273 million euros). At 31 December 2011, the gross value of the receivables reported in *Miscellaneous receivables* was 2.528 million euros (2010: 2.777 million euros) and their book value was 2.069 million euros (2010: 2.273 million euros).

Prepayments

As at 31 December	2011	2010
Prepaid taxes	1.589	1.569
Other prepayments	0.373	0.452
Total prepayments	**1.962**	**2.021**

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Note 10. Intangible assets

Purchased software licences

As at 31 December	2011	2010
Cost at beginning of year	**1.251**	**0.702**
Purchases	0.078	0.570
Reclassification	-	-0.021
Cost at end of year	**1.329**	**1.251**
Amortisation at beginning of year	**-0.542**	**-0.417**
Amortisation charge for the year	-0.127	-0.135
Reclassification	-	0.010
Amortisation at end of year	**-0.669**	**-0.542**
Carrying amount at beginning of year	0.709	0.285
Carrying amount at end of year	**0.660**	**0.709**

Note 11. Property and equipment

	Land and buildings	Other items	Total
Cost			
Balance at 1 January 2010	2.436	1.769	4.205
Purchases	-	0.354	0.354
Improvements	0.071	-	0.071
Sales	-	-0.038	-0.038
Write-off	-	-0.093	-0.093
Reclassification	-	0.021	0.021
Balance at 31 December 2010	**2.507**	**2.013**	**4.520**
Balance at 1 January 2011	2.507	2.013	4.520
Purchases	-	0.338	0.338
Improvements	0.023	0.001	0.024
Sales	-	-0.043	-0.043
Write-off	-	-0.060	-0.060
Effect of movements in exchange rates	-	0.006	0.006
Balance at 31 December 2011	**2.530**	**2.255**	**4.785**
Depreciation			
Balance at 1 January 2010	-0.395	-1.162	-1.557
Depreciation charge for the year	-0.081	-0.384	-0.465
Sales	-	0.054	0.054
Write-off	-	0.089	0.089
Reclassification	-	-0.010	-0.010
Balance at 31 December 2010	**-0.476**	**-1.413**	**-1.889**

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	Land and buildings	Other items	Total
Balance at 1 January 2011	-0.476	-1.413	-1.889
Depreciation charge for the year	-0.082	-0.317	-0.399
Sales	-	0.042	0.042
Write-off	-	0.059	0.059
Effect of movements in exchange rates	-	-0.005	-0.005
Balance at 31 December 2011	**-0.558**	**-1.634**	**-2.192**
Carrying amount			
Balance at 1 January 2010	2.041	0.607	2.648
Balance at 31 December 2010	2.031	0.600	2.631
Balance at 31 December 2011	**1.972**	**0.621**	**2.593**

Note 12. Other assets

As at 31 December	2011	2010
Collateral acquired	2.841	3.146
Revaluation to net realisable value	-0.857	-0.977
Total other assets (total carrying value of collateral acquired)	**1.984**	**2.169**

Other assets comprise movable and immovable property pledged by customers as loan collateral, which has been transferred to the Group after unsuccessful auctioning

Other assets include plots of land, houses and apartments. In 2011, the proportion of loans secured with real estate decreased to 7.7% of the loan portfolio (31 December 2010: 9.3%).

In 2011 and 2010, no additional impairment allowances were formed.

Note 13. Loans from banks

As at 31 December	2011	2010
Current portion	0.227	0.228
Non-current portion	0.038	0.265
Total	**0.265**	**0.493**

Loans from banks comprise a long-term bank loan from Swedbank AS. The interest rate of the loan is 1.95% plus 6 month EURIBOR.

Note 14. Deposits from customers

As at 31 December	2011	2010
Term deposits	**170.235**	**153.845**
Term deposits by customer type		
Individuals	164.264	145.902
Legal persons	5.971	7.943
Term deposits by currency		
EUR (euro)	167.841	150.827
LVL (Latvian lats)	2.394	3.018

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As at 31 December	2011	2010
Tem deposits by maturity		
Maturing within 6 months	29.764	59.670
Maturing between 6 and 12 months	19.237	39.379
Maturing between 12 and 18 months	23.797	9.062
Maturing between 18 and 24 months	26.293	8.617
Maturing in over 24 months	71.144	37.117
Average deposit amount	0.014	0.013
Weighted average interest rate	4.0%	4.2%
Weighted average duration until maturity (months)	24.2	15.3
Weighted average total contract term (months)	34.3	22.2

Annual interest rates of deposits offered to customers as at 31 December 2011

Interest rates of deposits offered to customers depend on the country as well as the deposit term, currency and amount, and interest payment method. Deposit terms range from 1 month to 10 years. Respective interest rates range from 0.5% to 5.6% per year. Deposits with the shortest term of 1 month are offered in Estonia, Latvia (for deposits made in lats) and Finland. In Latvia, the shortest term for deposits made in euros is 6 months and in Germany, Austria and the Netherlands, the shortest term for deposits is 12 months. The minimum amount that can be deposited is 300 euros.

Note 15. Other liabilities and deferred income

As at 31 December	2011	2010
Other liabilities		
Payables to suppliers	0.549	0.424
Payables to employees	0.287	0.203
Taxes payable	0.792	0.505
Other payables	0.246	0.189
Total other liabilities	**1.874**	**1.321**
Deferred income		
Prepayments from customers	0.412	0.470
Total deferred income	**0.412**	**0.470**
Total other liabilities and deferred income	**2.286**	**1.791**

Note 16. Bonds and subordinated bonds issued

	Bonds		Subordinated bonds	
As at 31 December	2011	2010	2011	2010
Balance of bonds	**-**	**0.011**	**3.657**	**3.653**
Bonds by holder type				
Individuals	-	0.011	1.150	1.204
Legal persons	-	-	2.507	2.449
Bonds by currency				
EUR (euro)	-	0.011	3.657	3.653
Bonds by maturity				
Redeemable within 6 months or less	-	0.011	-	-
Redeemable in 24+ months	-	-	3.657	3.653

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Interest rates of bonds issued as at 31 December 2011

- Bond 26 April 2014: 6% plus 3 month EURIBOR
- Bond 30 January 2014: 7% plus 3 month EURIBOR

Note 17. Interest income

	2011	2010
Interest income on loans to customers	35.549	30.600
Interest income on deposits	0.468	0.370
Interest income on held-to-maturity financial assets	0.297	0.204
Total interest income	**36.314**	**31.174**

Note 18. Interest expense

	2011	2010
Interest expense on deposits	6.020	6.335
Interest expense on bonds	0.277	1.777
Interest expense on bank loans	0.013	0.019
Total interest expense	**6.310**	**8.131**

Note 19. Net gain/loss on financial transactions

	2011	2010
Foreign exchange losses	0.227	0.170
Foreign exchange gains	0.251	0.096
Net gain/loss on financial transactions	**-0.024**	**0.074**

Note 20. Other income

	2011	2010
Income from debt recovery proceedings	5.785	5.663
Miscellaneous income	0.054	0.118
Total other income	**5.839**	**5.781**

Note 21. Salaries and other operating expenses

Salaries and associated charges

	2011	2010
Salaries including associated taxes	8.816	5.917
Employee health costs and fringe benefits including associated taxes	0.152	0.065
Lease of labour	0.025	0.170
Total salaries and associated charges	**8.993**	**6.152**

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Other operating expenses

	2011	2010
Marketing expenses	4.214	2.155
Office, rental and similar expenses	1.934	1.401
Telephone and other communications expenses	0.432	0.328
Postal supplies and charges	0.394	0.259
Other services	0.360	0.280
Training expenses	0.175	0.119
Expenses on cars	0.145	0.134
Personnel-related expenses	0.098	0.115
Miscellaneous operating expenses	0.579	0.235
Total other operating expenses	**8.331**	**5.026**

Note 22. Other expenses

	2011	2010
Expenses related to enforcement proceedings	1.164	1.244
Legal regulation charges	0.354	0.172
Expenses from assets held for sale	0.035	0.058
Expenses from early redemption of bonds	-	0.354
Miscellaneous expenses	0.465	0.243
Total other expenses	**2.018**	**2.071**

Note 23. Operating leases

The Group as a lessee

The Group uses cars and office premises under operating leases. Most leases of office premises can be cancelled by giving three to six months' notice. Fixed-term lease contracts can be extended on market terms and conditions.

Operating lease expenses

	2011	2010
Operating lease payments made for cars	0.029	0.040
Operating lease payments made for office premises	1.063	0.876
Total operating lease expenses	**1.092**	**0.916**

Minimum non-cancellable operating lease rentals payable in subsequent periods

As at 31 December	2011	2010
Future operating lease rentals payable for cars under fixed-term contracts, of which	0.015	0.069
Up to 1 year	0.012	0.034
1 to 5 years	0.003	0.035
Future operating lease rentals payable for office premises under fixed-term contracts, of which	1.568	1.371
Up to 1 year	0.853	0.603
1 to 5 years	0.715	0.768
Total operating lease rentals payable under fixed-term contracts	**1.583**	**1.440**

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Note 24. Financial assets and liabilities by remaining maturity

Remaining maturities of financial assets and liabilities as at 31 December 2011

	Past due	Less than 1 month	1-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and due from banks	-	18.053	13.698	-	-	**31.751**
Loans to customers	56.115	3.528	39.404	57.876	18.062	**174.985**
Of which loan portfolio	38.874	3.528	39.404	57.876	18.062	**157.744**
Of which net interest receivables	17.241	-	-	-	-	**17.241**
Financial investments	-	1.638	9.050	-	-	**10.688**
Total assets	**56.115**	**23.219**	**62.152**	**57.876**	**18.062**	**217.424**
Liabilities						
Loans from banks	-	**0.019**	**0.208**	**0.038**	-	**0.265**
Of which linked to 6 month EURIBOR	-	0.019	0.208	0.038	-	**0.265**
Bonds issued (including subordinated)		-	-	3.657	-	**3.657**
Of which linked to 3 month EURIBOR	-	-	-	3.657	-	**3.657**
Deposits from customers	-	9.320	40.630	115.934	4.351	**170.235**
Total liabilities	-	**9.339**	**40.838**	**119.629**	**4.351**	**174.157**
Net exposure	**56.115**	**13.880**	**21.314**	**-61.753**	**13.711**	**43.267**

Remaining maturities of financial assets and liabilities as at 31 December 2010

	Past due	Less than 1 month	1-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and due from banks	-	44.071	-	-	-	**44.071**
Loans to customers	51.667	2.011	19.947	36.892	27.331	**137.848**
Of which loan portfolio	36.512	2.011	19.947	36.892	27.331	**122.693**
Of which net interest receivables	15.155	-	-	-	-	**15.155**
Financial investments	-	0.752	11.965	-	-	**12.717**
Total assets	**51.667**	**46.834**	**31.912**	**36.892**	**27.331**	**194.636**
Liabilities						
Loans from banks	**-**	**0.020**	**0.208**	**0.265**	**-**	**0.493**
Of which linked to 6 month EURIBOR	-	0.020	0.208	0.265	-	**0.493**
Bonds issued (including subordinated)		0.011	-	3.653	-	**3.664**
Of which linked to 3 month EURIBOR	-	-	-	3.653	-	**3.653**
Deposits from customers	-	14.317	85.085	54.151	0.292	**153.845**
Total liabilities	**-**	**14.348**	**85.293**	**58.069**	**0.292**	**158.002**
Net exposure	**51.667**	**32.486**	**-53.381**	**-21.177**	**27.039**	**36.634**

The Group mitigates the interest rate risk of loans granted by fixing the rate in the loan agreement. The Group protects itself against interest rate risk by charging a higher rate of return on loans granted.

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Note 25. Net currency positions

Net currency positions as at 31 December 2011

	Position in the statement of financial position		Position off the statement of financial position		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR (euro)	218.381	173.571	-	2.072	42.738
LVL (Latvian lats)	8.115	2.746	-	-	5.369
LTL (Lithuanian litas)	2.548	0.122	-	-	2.426
GBP (British pound)	0.002	0.004	-	-	-0.002

Net currency positions as at 31 December 2010

	Position in the statement of financial position		Position off the statement of financial position		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR (euro)	151.384	100.839	-	1.470	49.075
EEK (Estonian kroon)	41.350	55.354	-	-	-14.004
LVL (Latvian lats)	7.543	3.498	-	-	4.045
LTL (Lithuanian litas)	6.407	0.100	-	-	6.307
GBP (British pound)	0.001	0.002	-	-	-0.001

The loans issued by the Group are denominated in the currency of the relevant operating region or in euros. Currently, loans are issued in euros only and the proportion of assets denominated in euros continued to grow in 2011.

To mitigate the risk of losses arising from significant exchange rate fluctuations, the loan agreements denominated in the local currency of a region include a devaluation clause that ensures the same proportions of contractual liabilities throughout the loan term

Note 26. Assets pledged as collateral

- The Group's immovable property at Rüütli 21/23 in Tartu is encumbered with a second-ranking mortgage of 0.671 million euros to secure liabilities to Danske Bank AS Estonian branch (formerly AS Sampo Pank).
- The Group's immovable property at Rüütli 21/23 in Tartu is encumbered with a first-ranking mortgage of 0.282 million euros to secure liabilities to AS SEB Liising.
- An apartment ownership at Tartu mnt 18 in Tallinn is encumbered with a mortgage of 0.601 million euros to secure liabilities to Swedbank AS.
- Apartment ownerships at Tartu mnt 18 in Tallinn are encumbered with a mortgage of 0.895 million euros to secure liabilities to Swedbank AS.

Note 27. Contingent liabilities

At 31 December 2011, the unused portions of the Group's credit lines totalled 0.887 million euros (31 December 2010: 0.270 million euros).

At 31 December 2011, the Group had issued guarantees of 1.185 million euros (31 December 2010: 1.200 million euros).

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Note 28. Income tax expense/income

Income tax expense/income

	2011	2010
Current income tax expense *	0.374	0.210
Change in deferred income tax	0.218	-0.214
Total income tax expense/income	**0.592**	**-0.004**

* Current tax has been calculated on net profit earned in Latvia and Finland in 2011 and net profit earned in Latvia in 2010. Under the Estonian Income Tax Act, in 2011 profit distributions, including dividend distributions, were subject to income tax calculated as 21/79 of the net distribution. Income tax is paid in addition to a dividend distribution. The income tax payable on dividends is reduced by 21/79 of the dividends received from subsidiaries and branches.

Reconciliation of accounting profit and income tax expense

	2011	2010
Consolidated profit before tax	6.257	5.257
The parent company's domestic tax rate 0%	-	-
Effect of tax rates in foreign jurisdictions	-0.028	1.506
Effect of exempt income and taxable expenses	0.023	-1.343
Utilisation of unrealized tax losses carried forward	-0.195	-0.059
Change in unrecognised deferred tax assets	0.599	0.106
Change in recognised deferred tax assets	0.218	-0.214
Effect of income tax of previous years	-0.025	-
Income tax expense/income for the year	**0.592**	**-0.004**

Recognised deferred tax assets

As at 31 December	2011	2010
Deductible temporary differences on		
Loans to customers	1.378	1.601
Property and equipment	-0.003	-
Other liabilities (vacation pay liabilities to employees)	0.008	-
Total recognised deferred tax assets	**1.383**	**1.601**

Unrecognised deferred tax assets

As at 31 December	2011	2010
Tax losses	0.600	0.208
Deductible temporary differences	-	-0.002
Total unrecognised deferred tax assets	**0.600**	**0.206**

Income tax assets from the operation of the Lithuanian and Spanish branches and the Latvian subsidiary have not been recognised in the consolidated statement of financial position because according to management's estimates they cannot be utilised in the foreseeable future.

Note 29. Contingent income tax liabilities

At 31 December 2011, the Group's undistributed profits totalled 44.464 million euros.

The maximum income tax liability that could arise if all of the undistributed profits were distributed as dividends amounts to 9.337 million euros. Thus, the maximum amount that could be distributed as the net dividend is 35.127 million euros.

The maximum contingent income tax liability has been calculated under the assumption that the net dividend and the dividend tax expense reported in the income statement for 2012 cannot exceed total distributable profits as at 31 December 2011.

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Note 30. Related parties

For the purposes of these financial statements, parties are related if one controls the other or exerts significant influence on the other's business decisions. Related parties include:

- shareholders of BIGBANK AS;
- members of Group companies' management and supervisory boards;
- close family members of the above;
- companies connected with the above persons, except where the persons cannot exert significant influence on the company's business decisions.

In 2011, the remuneration of the members of the Group's management and supervisory boards including relevant taxes amounted to 0.399 million euros (2010: 0.267 million euros) and 0.061 million euros (2010: 0.062 million euros) respectively.

In 2010, OÜ Edelatuulik Invest, a company in which Linda Terras, a member of the supervisory board of BIGBANK AS, is a shareholder entered into a term deposit agreement with BIGBANK AS. At 31 December 2011, the deposit balance was 0.447 million euros and interest accrued but not paid on the deposit amounted to 0.028 million euros. Total interest accrued on the deposits of OÜ Edelatuulik in 2011 amounted to 0.030 million euros. The interest rates of the deposits did not differ from the ones offered to other customers depositing similar amounts at the time.

The Group's shareholders are minority shareholders in the Latvian debt collection company SIA Vidzemes Inkasso (holding a 20% interest each). The Group's shareholders do not control SIA Vidzemes Inkasso and do not participate in its governing bodies. Further information on transactions conducted between the Group and SIA Vidzemes Inkasso is presented in note 9.

Note 31. Fair values of financial assets and financial liabilities

The fair values of the assets and liabilities reported in the consolidated statement of financial position as at 31 December 2011 do not differ significantly from their carrying amounts. The fair values of held-to-maturity financial assets have been determined by reference to their market value at 31 December 2011.The fair values of bonds issued by BIGBANK AS have been measured without considering the prices of relevant market transactions because the volumes and number of the transactions were not sufficient to provide a reasonable basis for this.

Financial assets as at 31 December 2011	Carrying amount	Fair value
Due from central banks	9.255	9.255
Due from banks	22.496	22.496
Loans to customers	174.985	174.985
Held-to-maturity financial assets	10.688	10.743
Other receivables (note 9)	5.662	5.662
Total financial assets	**223.086**	**223.141**

Financial assets as at 31 December 2010	Carrying amount	Fair value
Due from central banks	16.611	16.611
Due from banks	27.460	27.460
Loans to customers	137.848	137.848
Held-to-maturity financial assets	12.717	12.673
Other receivables (note 9)	3.627	3.627
Total financial assets	**198.263**	**198.219**

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Financial liabilities as at 31 December 2011	Carrying amount	Fair value
Loans from banks	0.265	0.265
Deposits from customers	170.235	170.235
Other liabilities and deferred income (note 15)	1.207	1.207
Subordinated bonds issued	3.657	3.657
Total financial liabilities	**176.443**	**176.443**

Financial liabilities as at 31 December 2010	Carrying amount	Fair value
Loans from banks	0.493	0.493
Deposits from customers	153.845	153.845
Other liabilities and deferred income (note 15)	1.083	1.083
Bonds issued	0.011	0.011
Subordinated bonds issued	3.653	3.653
Total financial liabilities	**159.085**	**159.085**

Note 32. Sensitivity analysis

Interest rate risk

The Group's interest earning-assets have fixed interest rates. Only 2.3% of the Group's interest-bearing liabilities are linked to EURIBOR and affected by changes in EURIBOR. The Group considers the impact of changes in EURIBOR on its profit and equity insignificant. Therefore, these financial statements do not include a sensitivity analysis for interest rate risk.

Currency risk

The Group operates in regions with stable exchange rates. The Lithuanian litas and the Latvian lats are the national currencies of EU member states and their exchange rates are fixed by the central banks of their respective countries and pegged to the euro. Exchange rate fluctuations are limited to a permissible fluctuation corridor established by the law.

To mitigate the risk of losses arising from significant exchange rate fluctuations, the agreements of loans denominated in the local currency of a region include a devaluation clause that ensures that the proportions of contractual liabilities are maintained throughout the loan term.

The following table analyses the impact of a possible devaluation on the Group's profit and equity, taking into account the protection against devaluation that is provided in the agreements.

Effect of a potential exchange rate change on profit and equity as at 31 December 2011

	Exposure	10% change Monetary impact	% of equity
LVL (Latvian lats)*	5.369	0.537	1.0%
LTL (Lithuanian litas)*	2.426	0.243	0.5%
GBP (British pound)	-0.002	-	0.0%
Total	**7.793**	**0.780**	**1.5%**

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Effect of a potential exchange rate change on profit and equity as at 31 December 2010

	Exposure	10% change Monetary impact	% of equity
LVL (Latvian lats)*	4.045	0.404	0.8%
LTL (Lithuanian litas)*	6.307	0.631	1.3%
GBP (British pound)	0.001	-	0.0%
Total	**10.353**	**1.035**	**2.1%**

* The LVL and LTL exposures have been adjusted for the assets protected by the devaluation clause (see note 25).

Note 33. Earnings per share

	2011	2010
Net profit for the year, in millions of euros	5.665	5.261
Number of shares at beginning of period	80,000	80,000
Number of shares at end of period	80,000	80,000
Weighted average number of ordinary shares outstanding	80,000	80,000
Earnings per share, in euros	**71**	**66**

At the end of 2011 and 2010 the Group did not have any potential dilutive ordinary shares. Therefore, diluted earnings per share equal basic earnings per share.

Note 34. Equity

Share capital

BIGBANK AS is a limited liability company whose minimum and maximum authorised share capital amount to 5.113 million euros and 12.782 million euros respectively. Share capital is made up of ordinary shares with a par value of one hundred euros each. Each share carries one vote at meetings of the company, granting the holder the right to participate in the management of the company, the distribution of profits and the distribution of residual assets on the dissolution of the company.

On 1 January 2011, the Republic of Estonia joined the euro-zone. Accordingly, on 21 March 2011 the shareholders of BIGBANK AS decided that the company's share capital and the par value of its shares should be converted to euros. Share capital was increased by increasing the par value of the shares. Share capital was increased using equity, i.e. without making additional contributions, by 2.887 million euros. The former par value of the shares, which was 1000 Estonian kroons, was converted to euros and increased by 36.09 euros per share. The new par value of a share is 100 euros.

Statutory capital reserve

The capital reserve has been established in accordance with the Estonian Commercial Code. Under the latter, the capital reserve is established using annual net profit transfers. Each year, the parent company has to transfer at least one twentieth of net profit for the year to the capital reserve until the reserve amounts to one tenth of share capital. The capital reserve may be used for covering losses and increasing share capital. The capital reserve may not be used for making distributions to shareholders.

Foreign currency translation reserve

The foreign currency translation reserve comprises exchange differences arising from the translation of the financial statements of the Group's foreign operations that use functional currencies other than the Group's functional currency.

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Unrestricted equity

At 31 December 2011, the Group's unrestricted equity amounted to 44.464 million euros (31 December 2010: 42.485 million euros).

Dividends

In 2011 and 2010, the company made the following dividend distributions:

- 2011: 10.000 euros per share, i.e. 0.800 million euros in aggregate;
- 2010: 11.988 euros per share, i.e. 0.959 million euros in aggregate.

Note 35. Events after the reporting date

In January 2012, BIGBANK AS opened a branch in Sweden.

Note 36. Parent company's separate primary financial statements

Statement of financial position

As at 31 December	2011	2010
ASSETS		
Due from central banks	9.255	16.611
Due from banks	21.776	23.437
Loans to customers	180.097	147.678
Receivables from subsidiaries	80.893	73.415
Held-to-maturity financial assets	10.688	12.717
Other receivables and prepayments	4.441	4.451
Investments in subsidiaries	0.611	0.611
Intangible assets	0.659	0.709
Property and equipment	0.759	0.757
Other assets	1.360	1.546
TOTAL ASSETS	**310.539**	**281.932**
LIABILITIES		
Deposits from customers	170.235	153.845
Liabilities to subsidiaries	73.984	74.064*
Other liabilities and deferred income	2.228	1.727*
Bonds issued	-	0.011
Subordinated bonds	3.826	3.820
TOTAL LIABILITIES	**250.273**	**233.467**
EQUITY		
Share capital	8.000	5.113
Capital reserve	0.511	0.511
Earnings retained in prior years	39.154	33.800
Profit for the year	12.601	9.041
TOTAL EQUITY	**60.266**	**48.465**
TOTAL LIABILITIES AND EQUITY	**310.539**	**281.932**

* In order to provide a clearer overview of the parent company's financial position, comparative information on 2010 has been adjusted as follows:

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	Change	31 Dec 2010
Liabilities to subsidiaries	35.034	74.064
Other liabilities and deferred income	-35.034	1.727

Statement of comprehensive income

	2011	2010
Interest income	39.460	33.747
Interest expense	-10.468	-10.635
Net interest income	**28.992**	**23.112**
Dividend income	8.334	3.147
Net fees and commissions	0.362	-0.084
Net gain/loss on financial transactions	0.154	-0.031
Other income	4.864	4.009
Total income	**42.706**	**30.153**
Salaries and associated charges	-8.736	-5.404
Other operating expenses	-8.326	-4.991
Depreciation and amortisation expense	-0.440	-0.468
Impairment losses on loans and financial investments	-10.034	-8.292
Other expenses	-2.200	-1.833
Total expenses	**-29.736**	**-20.988**
Profit before income tax	**12.970**	**9.165**
Income tax expense	-0.369	-0.124
Profit for the year	**12.601**	**9.041**
Total comprehensive income for the year	**12.601**	**9.041**

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Statement of cash flows

	2011	2010
Cash flows from operating activities		
Interest received	28.464	19.585
Interest paid	-4.859	-5.723
Salary and other operating expenses paid	-17.237	-10.817
Other income received	5.441	3.140
Other expenses paid	-2.144	-1.789
Fees and commissions received	0.388	-
Fees and commissions paid	-0.084	-
Recoveries of receivables previously written off	0.562	0.219
Received for other assets	0.324	0.133
Paid for other assets	-0.010	-0.067
Loans granted	-69.166	-31.777
Repayment of loans granted	31.131	17.092
Change in mandatory reserves with central banks and related interest receivables	8.404	9.804
Proceeds from customer deposits	79.725	127.010
Paid on redemption of deposits	-70.979	-45.737
Income tax paid	-0.198	-
Effect of movements in exchange rates	-0.009	-0.039
Net cash used in/from operating activities	**-10.247**	**81.034**
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	-0.488	-0.723
Proceeds from sale of property and equipment	0.004	-
Paid for investment in a subsidiary	-	-0.003
Dividends received	8.404	3.160
Acquisition of financial investments	-17.242	-14.214
Proceeds from redemption of financial investments	19.009	1.696
Net cash from/used in investing activities	**9.687**	**-10.084**
Cash flows from financing activities		
Paid on redemption of bonds	-	-50.035
Paid on redemption of subordinated bonds	-	-4.000
Proceeds from loans from companies	1.393	2.826
Repayment of loans from companies	-0.677	-2.479
Dividends paid	-0.800	-0.959
Net cash used in financing activities	**-0.084**	**-54.647**
Effect of exchange rate fluctuations	0.007	-
Decrease/increase in cash and cash equivalents	**-0.637**	**16.303**
Cash and cash equivalents at beginning of period	28.615	12.312
Cash and cash equivalents at end of period	**27.978**	**28.615**

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As at 31 December	2011	2010
Demand and overnight deposits with banks	1.901	2.876
Term deposits with banks	19.875	20.562
Demand and overnight deposits with central banks	6.200	-
Surplus on mandatory reserves with central banks	0.001	5.175
Interest receivable on mandatory reserves with central banks	0.001	0.002
Total	**27.978**	**28.615**

Statement of changes in equity

	Share capital	Statutory capital reserve	Retained earnings	Total
Balance at 1 January 2010	5.113	0.511	34.759	40.383
Comprehensive income for the year	-	-	9.041	9.041
Dividend distribution	-	-	-0.959	-0.959
Balance at 31 December 2010	**5.113**	**0.511**	**42.841**	**48.465**
Balance at 1 January 2011	**5.113**	**0.511**	**42.841**	**48.465**
Comprehensive income for the year	-	-	12.601	12.601
Dividend distribution	-	-	-0.800	-0.800
Increase of share capital	2.887	-	-2.887	-
Balance at 31 December 2011	**8.000**	**0.511**	**51.755**	**60.266**

As at 31 December	2011	2010
Unconsolidated equity at end of period	**60.266**	**48.465**
Investments in subsidiaries:		
Carrying value	0.611	0.611
Carrying value under the equity method	-6.680	0.256
Adjusted unconsolidated equity at end of period	**52.975**	**48.110**

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SIGNATURES

The management board has prepared BIGBANK AS's review of operations and financial statements for 2011.

Targo Raus
Chairman of the Management Board 28 February 2012 *[signed digitally]*

Kaido Saar
Member of the Management Board 28 February 2012 *[signed digitally]*

Veiko Kandla
Member of the Management Board 28 February 2012 *[signed digitally]*

Ingo Põder
Member of the Management Board 28 February 2012 *[signed digitally]*

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KPMG, Tallinn

KPMG Baltics OÜ
Narva mnt 5
Tallinn 10117
Estonia

Telephone +372 6 268 700
Fax +372 6 268 777
Internet www.kpmg.ee

INDEPENDENT AUDITORS' REPORT

To the shareholders of BIGBANK AS

We have audited the accompanying consolidated financial statements of BIGBANK AS, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 21 to 68.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of BIGBANK AS as of 31 December 2011, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 28 February 2012

KPMG Baltics OÜ
Licence No 17
Narva mnt 5, Tallinn

Andres Root
Authorized Public Accountant

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Reg no 10096082

PROFIT ALLOCATION PROPOSAL

The total consolidated distributable profits of BIGBANK AS comprise of:

Earnings retained in prior years as at 31 December 2011	38.799	million euros
Net profit for 2011	5.665	million euros
Total distributable profits as at 31 December 2011	**44.464**	**million euros**

The management board proposes that the general meeting allocate the distributable profits as follows:

1. Transfer to statutory capital reserve	0.283	million euros;
2. Dividend distribution (12.12 euros per share)	0.970	million euros;
3. Transfer to retained earnings	4.412	million euros;
Balance of retained earnings after allocations	43.211	million euros.

Targo Raus Chairman of the Management Board	28 February 2012	*[signed digitally]*
Kaido Saar Member of the Management Board	28 February 2012	*[signed digitally]*
Veiko Kandla Member of the Management Board	28 February 2012	*[signed digitally]*
Ingo Põder Member of the Management Board	28 February 2012	*[signed digitally]*