BIGBANK
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BIGBANK AS
Annual report 2012

BIGBANK AS
ANNUAL REPORT 2012

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
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E-mail	bigbank@bigbank.ee
Corporate website	www.bigbank.ee
Reporting period	1 January 2012 – 31 December 2012
Acting chairman of the management board	Kaido Saar
Core 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 74 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 2013, *Annual report 2012* 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 will also be available on the website of BIGBANK AS at www.bigbank.ee. The English version of the annual report can be found at www.bigbank.eu.

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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	Porkkalankatu 20B, 00180, 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 Sverige Filial	St Eriksgatan 117, 11343, Stockholm, Sweden	516406-0872	19 January 2012

BIGBANK AS was founded on 22 September 1992. A licence for operating as a credit institution was obtained on 27 September 2005. BIGBANK's core services are term deposits and small and consumer loans.

The branches in Latvia, Lithuania, Finland, Sweden and Spain offer lending services similar to those of the parent. In addition, the parent and its Latvian and Finnish branches offer deposit services. The core business of OÜ Rüütli Majad is managing the real estate used in the parent's business in Estonia. OÜ Balti Võlgade Sissenõudmise Keskus and its subsidiaries support the parent 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, the Netherlands and Austria.

STATEMENT BY THE MANAGEMENT BOARD

The management board of BIGBANK AS 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 BIGBANK AS group taken as a whole, and provides a description of the principal 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.

Kaido Saar

Acting Chairman of the Management Board 27 February 2013 *[signed digitally]*

Veiko Kandla

Member of the Management Board 27 February 2013 *[signed digitally]*

Ingo Põder

Member of the Management Board 27 February 2013 *[signed digitally]*

REVIEW OF OPERATIONS

SIGNIFICANT ECONOMIC DEVELOPMENTS IN 2012

The year 2012 was successful for BIGBANK AS (hereafter also “BIGBANK”, the “Group” or the “company”). Our geographical expansion continued and we succeeded in increasing both business volumes and profit for the year.

Macroeconomic environment

Our performance was supported by moderate economic growth in all our primary markets. In Estonia, Latvia and Lithuania unemployment dropped at a swift pace, restoring consumer confidence. In contrast, in Spain unemployment surged to 26.1%. The Finnish and Swedish labour markets remained stable.

Business growth and expansion

In 2012, BIGBANK increased business in most of its markets. Our loan portfolio grew by 27.9% in Lithuania and 12.0% in Latvia but contracted by 5.9% in Estonia. New markets continued to post larger growth figures. The Finnish branch, which maintained its position as the main growth driver, increased its loan portfolio to 51.518 million euros, the Spanish branch, which began providing loans in March 2011, grew its loan portfolio to 15.318 million euros and the Swedish branch, which commenced lending in February 2012, built up a loan portfolio of 12.914 million euros. In the Baltic markets, the main focus was on developing credit products offered via retailers by improving their pricing and accessibility and extending the network of partners.

At the end of 2012, loans to customers totalled 224.521 million euros, a 28.3% increase on the previous year-end.

Decrease in the proportion of the past due portfolio

The credit quality of new loans improved and by the year-end the proportion of loans past due for at least one day had dropped to 45.9% of the loan portfolio compared with 51.1% at the end of 2011. Compared with the rapid, 27.4%, growth in the Group’s gross loan portfolio, the proportion of past due loans grew by a moderate 14.3% to 13.615 million euros. Year-end impairment allowances totalled 37.148 million euros, accounting for 48.1% of loans past due for more than 90 days. The customers’ ability to pay improved and the proportion of customers making regular payments increased.

Stable funding and conservative liquidity management

BIGBANK’s primary source of financing is its deposit portfolio, which is diversified in terms of countries, maturities and customers. In 2012, the portfolio’s weighted average duration to maturity continued to lengthen, rising to over two years. Besides Estonia, Latvia, Finland, Germany and Austria, deposits are now also raised in the Netherlands. The Group continues to pursue a conservative liquidity management policy. At the end of 2012, our liquid funds (cash and bank balances and held-to-maturity financial assets) totalled 45.308 million euros, accounting for 64.6% of liabilities to be redeemed in 2013.

Rise in profitability

BIGBANK ended 2012 with a consolidated net profit of 7.030 million, a 24.1% increase on the 5.665 million euros earned in 2011. Interest income amounted to 45.893 million euros (up 26.4%) while interest expense was 7.601 million euros (up 20.5%).

Increase in the number of staff

At the end of 2012, BIGBANK employed 582 people: 238 in Estonia, 149 in Latvia, 90 in Lithuania, 45 in Finland, 38 in Spain and 22 in Sweden (at the end of 2011: 531 people). During the year we increased staff by 9.6%, mostly for start-up of operations in new markets.

In 2012, BIGBANK had 29 customer service offices: 10 in Estonia, 7 in Latvia, 10 in Lithuania, 1 in Finland and 1 in Spain.

KEY PERFORMANCE INDICATORS

Financial position indicators *(in millions of euros)*	**31 Dec 2012**	**31 Dec 2011**
Total assets	280.729	229.706
Loans to customers	224.521	174.985
of which loan portfolio	236.882	185.935
of which interest receivable	24.787	22.280
of which impairment allowances	-37.148	-33.230
of which impairment allowances for loans	*-28.263*	*-27.249*
of which impairment allowances for interest receivables	*-5.327*	*-5.039*
of which statistical impairment allowances	*-3.558*	*-0.942*
Deposits from customers	212.936	170.235
Subordinated bonds in issue	-	3.657
Equity	59.408	53.263

Financial performance indicators *(in millions of euros)*	**2012**	**2011**
Interest income	45.893	36.314
Interest expense	7.601	6.310
Salaries and associated charges	11.631	8.993
Other operating expenses	8.649	8.331
Net impairment loss on loans and financial investments	-14.631	-10.101
Profit for the year	7.030	5.665

For the year *(in millions of euros)*	**2012**	**2011**
Average equity	56.336	50.432
Average assets	255.218	218.550
Average interest-earning assets	250.938	215.063
Average interest-bearing liabilities	189.359	161.886
Total income	57.015	42.873

Ratios	**2012**	**2011**
Return on equity (ROE)	12.5%	11.2%
Profit margin (PM)	12.3%	13.2%
Return on loans	24.5%	24.6%
Asset utilization ratio (AU)	22.3%	19.6%
Price difference (SPREAD)	14.3%	13.0%
Equity multiplier (EM)	4.5	4.3
Earnings per share (EPS)	87.87	70.82
Tier 1 capital ratio	25.2%	27.8%
Yield on interest-earning assets	18.3%	16.9%
Cost of interest-bearing liabilities	4.0%	3.9%

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 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 2012, 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.

Litigation

At 31 December 2012, the Group was not involved in any significant litigation.

FINANCIAL REVIEW

Financial position

Total assets

At 31 December 2012, BIGBANK's consolidated assets totalled 280.729 million euros, a 51.023 million euro (22.2%) increase compared with the end of 2011. Growth in total assets stems from growth in receivables, i.e. loans to customers.

At the year-end, loans to customers accounted for 80.0% of total assets. The proportion of liquid assets (cash and bank balances and held-to-maturity financial assets) was 16.1% and that of other assets 3.9%.

Liquid assets

At the year-end, liquid assets totalled 45.308 million euros, a 2.869 million euro increase (6.8%) year over year.

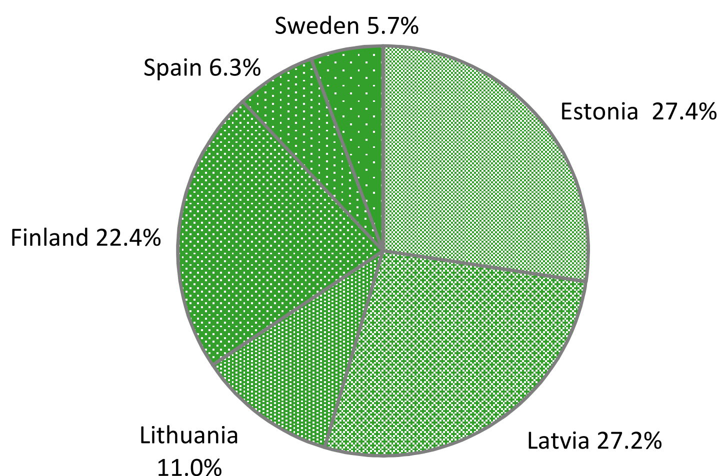
Held-to-maturity financial assets

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 2012, the Group had debt securities of 8.476 million euros.

Loans to customers

At the end of 2012, the Group had 163 thousand loan agreements, 40 thousand of them in Estonia, 70 thousand in Latvia, 26 thousand in Lithuania, 17 thousand in Finland, 7 thousand in Spain and 3 thousand in Sweden.

Geographical distribution of loans to customers:

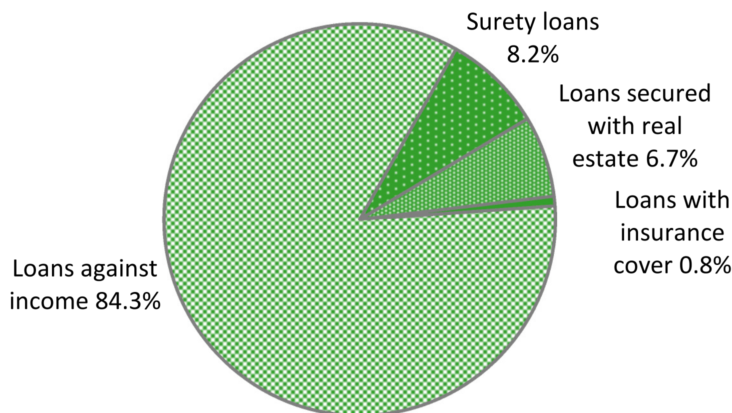


At 31 December 2012, loans to customers totalled 224.521 million euros, comprising of:

- the loan portfolio (loan receivables) of 236.882 million euros with loans to individuals accounting for 95.8% of the total;
- interest receivable on loans of 24.787 million euros;
- impairment allowances for loans and interest receivables of 37.148 million euros (consisting of an impairment allowance for loans of 28.263 million euros, an impairment allowance for interest receivables of 5.327 million euros and a statistical impairment allowance of 3.558 million euros).

BIGBANK's loan portfolio is diversified – at the reporting date the average loan was 1.748 euros and 40 largest loans accounted for 4.3% of the loan portfolio.

The Group focuses on the provision of consumer loans. In line with the corporate strategy, at 31 December 2012 loans against income accounted for 84.3% of the total loan portfolio.



Past due loans

There were positive changes in the past due portfolio. The customers' solvency stabilised and their willingness to pay improved. As a result, amounts due from customers making regular payments towards their past due commitments grew to 28% of the past due portfolio and the year-end proportion of loans 1 to 30 days in arrears was 19.6% (16.8% at the end of 2011).

At 31 December 2012, loans past due for more than 90 days totalled 71.088 million euros.

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 collateral (for example, mortgage-backed loans). Due to their nature (as a rule, consumer loans are backed with the customer's regular income), claims related to terminated consumer loans are satisfied in smaller instalments over an extended period rather than in a lump sum raised through the sale of the collateral.

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

Loans past due for more than 90 days consist of past due principal payments plus the total amount of loan principal that has fallen due in connection with termination of agreements.

Impairment allowances

To mitigate the risks arising from customers' payment behaviour and to cover potential credit losses, the Group makes impairment allowances, which are created on a conservative basis. At 31 December 2012, impairment allowances totalled 37.789 million euros, consisting of:

- impairment allowances for loan receivables of 28.263 million euros;
- impairment allowances for interest receivables of 5.327 million euros;
- statistical impairment allowances of 3.558 million euros;
- impairment allowances for other receivables of 0.641 million euros.

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

Liabilities

At the end of 2012, the Group's liabilities totalled 221.321 million euros. Most of the debt raised by the Group, i.e. 212.936 million euros (96.2%) consisted of term deposits.

Equity

In 2012, the Group's equity grew by 6.145 million euros to 59.408 million euros. The year-end equity to assets ratio was 21.2%, and capital adequacy was 21.2% (Basel II) compared with 22.3 at the end of 2011.

Financial performance

Interest income

In 2012, the Group earned interest income of 45.893 million euros. Compared with 2011, interest income grew by 9.579 million euros (26.4%) through growth in the loan portfolio.

The annual yield on interest-earning assets (ratio of interest income to average interest-earning assets) was 18.3% and annual return on the loan portfolio (interest income on the average loan portfolio) was 24.5%.

Interest expense

Interest expense for 2012 was 7.601 million euros compared with 6.310 million euros for 2011. Interest expense increased on account of growth in the deposit portfolio.

The period's ratio of interest expense to interest income was 16.6% (2011: 17.4%) and the cost of interest-bearing liabilities (ratio of interest expense to average interest-bearing liabilities) was 4.0%.

Other operating expenses

The Group's other operating expenses for 2012 were 8.649 million euros (0.318 million euros up on 2011).

Salaries and associated charges

In 2012 salaries and associated charges totalled 11.631 million euros (2.638 million euros up on 2011). Remuneration expenses have grown because the number of staff has increased and the Group has expanded to foreign markets where the average salary is higher than in the Baltic countries. At the end of the reporting period, the Group had 582 employees, a 9.6% increase on 2011.

Impairment losses

In 2012, impairment losses on loans and financial investments totalled 14.631 million euros consisting of:

- impairment losses on loan receivables of 13.199 million euros;
- impairment losses on interest receivables of 1.758 million euros;
- reversals of impairment losses on other receivables of 0.317 million euros;
- reversals of impairment losses on financial investments of 0.009 million euros.

Impairment allowances are made on a conservative basis.

Other income and expenses

Other income for 2012 was 7.125 million euros. The largest proportion of other income resulted from debt recovery that generated 6.861 million euros. In 2011 other income amounted to 5.839 million euros.

Other expenses totalled 2.608 million euros (2011: 2.018 million euros).

Profit for the year

The Group ended 2012 with a profit of 7.030 million euros, 1.365 million euros (24.1%) up on 2011. The main factor that influenced profit was growth in interest income.

Profit before impairment charges was 21.661 million euros compared with 15.766 million euros for 2011.

Cash flows

The Group's cash and cash equivalents remained stable in 2012, amounting to 34.608 million euros at the year-end. In 2012, the Group increased lending. Therefore, receipts on the loan portfolio grew. On the other hand, receipts on the deposits portfolio decreased.

Despite increased lending, operating activities resulted in a net inflow of 4.726 million euros. Loans provided totalled 109.511 million euros, a 55.3% increase on the prior year. Compared with 2011, interest received on loans grew by 33.9% to 38.327 million euros, and loan repayments grew by 76.2% to 57.439 million euros.

Payments of salary and other operating expenses grew by 22.3% to 21.419 million euros, mostly through expansion to new markets and hiring of new staff.

Cash flows from investing activities were mainly influenced by placement of free funds in short-term debt instruments. Related investments totalled 48.175 million euros while receipts on debt instruments totalled 50.210 million euros.

At the beginning of 2012, the Group took a long-term loan from the Bank of Estonia. A part of the loan was repaid immediately. Altogether, loan liabilities grew by 3.900 million euros. Proceeds from customer deposits amounted to 67.366 million euros, an 11.6% decrease compared with 2011. Payments made on redemption of deposits fell by 55.1% to 27.841 million euros. In 2012, the Group redeemed all bonds in issue for a total of 2.757 million euros.

Outlook for 2013

In 2013 BIGBANK will remain focused on business growth, particularly in Finland and Sweden. The target for the Swedish and Spanish branches is to start earning a steady profit by the year-end. In the Baltic countries, we expect moderate growth in the loan portfolio, mostly through hire purchase facilities.

We intend to improve the accessibility of our services as well as the range of options available by strengthening our internet-based solutions and developing the technical base and customer support services to further enhance our service quality. Greater focus on internet- and telephone-based solutions will ensure that service is quick and cost-effective.

At Group level, the priorities are internal streamlining and increasing operating efficiency. We expect to sustain profit growth by improving efficiency and expanding our lending operations.

BIGBANK in society

BIGBANK is committed to giving back to society by supporting culture, sport and initiatives benefiting large families. In 2012, our largest sponsoring projects were:

BIGBANK Tartu. In October 2012, BIGBANK became the main sponsor of the national champion volleyball team that now bears the name BIGBANK Tartu. We decided to sponsor the Tartu team because, on the one hand, it is one of the strongest Estonian volleyball teams that any sponsor would be proud to support and, on the other hand, Tartu is where BIGBANK started its business 20 years ago and where our official head office is still located.

BIGBANK Kuldliiga. For the seventh consecutive year, BIGBANK and MTÜ Spordiürituste Korraldamise Klubi, a non-profit entity involved in organising sports events, organised BIGBANK *Kuldliiga* (BIGBANK Golden League), which has become the most popular track and field series in the Baltic countries. In 2012, there were three winter and four summer meets that provided athletes with excellent opportunities for preparing for championships and stirred up powerful emotions among the local sports audience.

BIGBANK 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. BIGBANK and the Estonian Association of Dog Owners are the initiators of the largest annual charity dog show in the Baltic countries. The purpose of the event is to highlight the issue of stray animals and the ways for resolving it and to support animal shelters across Estonia. The organizers grant the Most Dog-friendly Deed of the Year award to the person or group of persons that in the past year contributed significantly to promoting and developing the Estonian dog-keeping culture and best dog-keeping practices as well as raising awareness of and mitigating the problem of stray animals.

Suvegurmee. In summer 2012, BIGBANK decided to sponsor *Suvegurmee* (Summer Gourmet), a series of summer concerts that combines music from the best-loved Estonian artists with gourmet food and quality wines and promotes the same values that BIGBANK appreciates – quality, a friendly atmosphere and memorable experiences.

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, the supervisory board and the management board. Election, resignation, 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 2012 approved the company's annual report and allocation of profit for 2011. In addition, the shareholders decided issues connected with the members of the supervisory board and the appointment of an auditor. The meeting was attended by all the shareholders, who represented 100% of the votes determined by shares.

BIGBANK AS does not comply with the provisions of the CGR under which the company should publish on its website notice of a general meeting (article 1.2.1), essential information on the agenda of a general meeting (article 1.2.3), and the proposals of the supervisory board and the shareholders regarding the agenda items (article 1.2.4). In 2012, the general meeting was not attended by the members of the management board, the auditor, a candidate for member of the supervisory board, a candidate for auditor of the company and the members of the supervisory board that are not shareholders (article 1.3.2). BIGBANK AS does not make observing the general meeting possible by means of communication equipment (article 1.3.3).

The above requirements are not applicable to 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. The company also 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

In 2012, the composition of supervisory board changed and as at 31 December 2012 the supervisory board of BIGBANK AS had five 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
- Andres Koern – 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 sets forth requirements for 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 2012, the remuneration of the members of the supervisory board totalled 0.058 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 2012. As far as the company is aware, in 2012 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 for members of the supervisory board (article 3.2.2). Two out of the five supervisory board members are shareholders who each hold 50% of the shares and one has served on the supervisory board for over ten years. The company is of the opinion that these 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 does not publish information about the existence, responsibilities, composition and structural position of the committees created by the supervisory board on its website (article 3.1.3). Considering 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 the shareholders and the 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 2012, the management board of BIGBANK AS had 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 sets forth specific requirements for 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 breaching 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 managing the company's risks, conducting internal audits and organising work within the company. The 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 2012, 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 2012, BIGBANK AS did not conduct any transactions with members of its management board or persons close or connected to them except for transactions arising from the board member status (e.g. signature or amendment of a service contract).

In 2012, 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 2012 was 0.410 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. In view of the shareholder structure of BIGBANK AS, detailed disclosure of this information in the company's corporate governance report is not necessary. The principles of remunerating the members of the management board were not explained at the general meeting because the shareholders are on the supervisory board and thus 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 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

Articles 5.2 and 5.3 of the CGR are 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 2012, 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 the year 2000. 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 performance 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 deemed it necessary to have separate meetings with the auditor. The members of the supervisory board do not 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 the CGR that regulate notifying and informing shareholders because both shareholders are on the supervisory board and thus informed about the work of the supervisory board and the auditor.

Article 6.2.4 of the CGR provides that the auditor should submit a memorandum highlighting those instances of non-compliance with the 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 and auditing, risk management, internal control and auditing, supervision and budgeting as well as legal and regulatory compliance.

The company has 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, which has a staff of five, consists of members of the supervisory and management boards. 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, 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 embedded in its remuneration policy for members of the management board and other executive staff (hereafter "the remuneration policy"), which was developed and adopted in accordance with the Credit Institutions Act.

A distinctive feature of BIGBANK's remuneration policy is that performance benefits are paid on justified and objective bases, considering, above all, the targets and long-term 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 considers 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, may reduce allocated performance benefits, suspend payment of performance benefits, or demand partial or full reimbursement of performance benefits paid.

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

In 2012, the remuneration provided to management, which includes 13 positions in addition to the members of the management board, totalled 0.751 million euros, the figure consisting of base remuneration of 0.570 million euros and performance benefits of 0.181 million euros. Base remuneration was paid to people in 17 positions and performance benefits were paid to people in 16 positions. Performance benefits were paid in cash and allocated and paid out in 2012. There are no unpaid performance benefits allocated for performance in 2012.

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.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	2012	2011
Assets			
Cash and balances at central banks	4	10.312	9.255
Cash and balances at banks	4	26.520	22.496
Loans to customers	5, 6, 7	224.521	174.985
Held-to-maturity financial assets	8	8.476	10.688
Derivatives	9	0.020	-
Other receivables and prepayments	10	4.327	5.662
Deferred tax assets	28	1.239	1.383
Intangible assets	11	0.968	0.660
Property and equipment	12	2.670	2.593
Other assets	13	1.676	1.984
Total assets		**280.729**	**229.706**
Liabilities			
Loans from central banks	14	3.928	-
Loans from banks	14	0.038	0.265
Deposits from customers	15	212.936	170.235
Derivatives	9	0.303	-
Other liabilities and deferred income	16	4.116	2.286
Subordinated bonds in issue	17	-	3.657
Total liabilities		**221.321**	**176.443**
Equity	18		
Share capital		8.000	8.000
Capital reserve		0.794	0.511
Other reserves		0.373	0.288
Earnings retained in prior years		43.211	38.799
Profit for the year		7.030	5.665
Total equity		**59.408**	**53.263**
Total liabilities and equity		**280.729**	**229.706**

The notes on pages 25 to 71 are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2012	2011
Interest income	19	45.893	36.314
Interest expense	20	-7.601	-6.310
Net interest income		**38.292**	**30.004**
Net fee income		1.019	0.359
Net gain/loss on financial transactions	21	-0.146	0.024
Other income	22	7.125	5.839
Total income		**46.290**	**36.226**
Salaries and associated charges	23	-11.631	-8.993
Other operating expenses	23	-8.649	-8.331
Depreciation and amortisation expense	11, 12	-0.477	-0.526
Impairment losses on loans and financial investments	7	-14.631	-10.101
Other expenses	24	-2.608	-2.018
Total expenses		**-37.996**	**-29.969**
Profit before income tax		**8.294**	**6.257**
Income tax expense	28	-1.264	-0.592
Profit for the year		**7.030**	**5.665**
Other comprehensive income			
Exchange differences on translating foreign operations		0.193	0.796
Net loss on hedges of net investments in foreign operations		-0.108	-
Total comprehensive income for the year		**7.115**	**6.461**
Basic earnings per share (EUR)	32	88	71
Diluted earnings per share (EUR)	32	88	71

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CONSOLIDATED STATEMENT OF CASH FLOWS

	2012	2011
Cash flows from operating activities		
Interest received	38.327	28.623
Interest paid	-4.462	-4.556
Salary and other operating expenses paid	-21.419	-17.516
Other income received	6.741	5.565
Other expenses paid	-3.197	-1.943
Fees received	0.928	0.388
Fees paid	-0.471	-0.089
Recoveries of receivables previously written off	0.980	0.493
Received for other assets	0.312	0.324
Paid for other assets	-0.447	-0.010
Loans provided	-109.511	-70.515
Repayment of loans provided	57.439	32.607
Change in mandatory reserves with central banks and related interest receivables	1.093	8.404
Proceeds from customer deposits	67.366	76.225
Paid on redemption of deposits	-27.841	-61.957
Income tax paid	-1.068	-0.198
Effect of movements in exchange rates	-0.044	-0.009
Net cash from/used in operating activities	**4.726**	**-4.164**
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	-0.746	-0.533
Proceeds from sale of property and equipment	0.045	0.004
Placed in term deposits	-0.138	-
Acquisition of financial instruments	-48.175	-17.242
Proceeds from redemption of financial instruments	50.210	19.008
Net cash from investing activities	**1.196**	**1.237**
Cash flows from financing activities		
Paid on redemption of bonds	-2.757	-
Proceeds from loans from central bank	4.400	-
Repayment of loans from central banks	-0.500	-
Repayment of loans from banks (with interest)	-0.232	-0.227
Dividends paid	-0.970	-0.800
Net cash used in financing activities	**-0.059**	**-1.027**
Effect of exchange rate fluctuations	0.047	0.015
Increase/decrease in cash and cash equivalents	**5.910**	**-3.939**
Cash and cash equivalents at beginning of year	28.698	32.637
Cash and cash equivalents at end of period	**34.608**	**28.698**

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to owners of the parent				
	Share capital	Statutory capital reserve	Other reserves	Retained earnings	Total
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					
Exchange differences on translating foreign operations	-	-	0.796	-	0.796
Total 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	2.887	-	-	-2.887	-
Total transactions with owners	**2.887**	**-**	**-**	**-3.687**	**-0.800**
Balance at 31 December 2011	**8.000**	**0.511**	**0.288**	**44.464**	**53.263**
Balance at 1 January 2012	**8.000**	**0.511**	**0.288**	**44.464**	**53.263**
Profit for the year	-	-	-	7.030	7.030
Other comprehensive income					
Exchange differences on translating foreign operations	-	-	0.193	-	0.193
Net loss on hedges of net investments in foreign operations	-	-	-0.108	-	-0.108
Total other comprehensive income	**-**	**-**	**0.085**	**-**	**0.085**
Total comprehensive income for the year	**-**	**-**	**0.085**	**7.030**	**7.115**
Dividend distribution	-	-	-	-0.970	-0.970
Increase of statutory capital reserve	-	0.283	-	-0.283	-
Total transactions with owners	**-**	**0.283**	**-**	**-1.253**	**-0.970**
Balance at 31 December 2012	**8.000**	**0.794**	**0.373**	**50.241**	**59.408**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. General information 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 2012 comprise BIGBANK AS (also referred to as the "parent company"), its Latvian, Lithuanian, Finnish, Spanish and Swedish 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

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) as adopted by the European Union (IFRS EU). 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 has prepared these consolidated financial statements and authorised them for issue on 27 February 2013.

Basis of preparation

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 34 *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.

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 its 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.

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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 are 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 the 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 financial statements of each Group entity are prepared in the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in millions of euros, which is the Group's presentation currency. Accordingly, the assets and liabilities of foreign operations, including fair value adjustments, are translated to euros at the 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 *Other reserves* in equity and in the statement of comprehensive income, in *Exchange differences on translating foreign operations* 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 the liability simultaneously.

Financial assets

Financial assets comprise cash, short-term financial investments, loans to credit institutions and customers, and other receivables. The Group initially recognises loans and receivables and deposits at other credit institutions 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

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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 with original maturities of three months or less, 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.

Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognised at fair value, net of transaction costs, on the date on which the derivative contract is entered into and are subsequently measured at their fair values. If a derivative financial instrument is quoted in an active market, fair value is obtained from its quoted market price. If the market for a derivative is not active, its fair value is established using valuation techniques. A derivative with a positive fair value is carried as an asset and a derivative with a negative fair value is carried as a liability. The fair values of derivatives classified as assets and liabilities in the statement of financial position are not offset.

The Group uses derivative financial instruments to hedge its exposure to foreign currency risks resulting from its operations in foreign markets. The derivatives are designated as hedging instruments in hedging relationships that qualify for hedge accounting. In accordance with hedge accounting requirements, the Group documents its risk management objective and strategy for undertaking the hedge. That documentation includes identification of the nature of the risk being hedged, the hedged item or transaction, the hedging instruments used and how the hedging instrument's effectiveness is assessed. Transactions are documented and designated as hedging relationships when they are performed. The Group assesses both at the inception of the hedging relationship as well as on an ongoing basis whether the hedging instruments are highly effective in offsetting the changes in fair value and documents those assessments. The fair values of derivatives designated as hedging instruments are presented in note 9 and associated changes in equity are presented in note 18.

The Group uses hedges of net investments in foreign operations. When a derivative financial instrument is designated as a hedging instrument in a hedge of a net investment in a foreign operation, the gain or loss on the effective portion of the hedging instrument is recognised in other comprehensive income. A gain or loss on the ineffective portion of the hedging instrument is recognised immediately in profit or loss within *Net gain/loss on financial transactions*. The amount of gains and losses accumulated in equity from re-measurement of hedging instruments to fair value is reclassified from equity to profit or loss in the period in which the foreign operation is disposed of or partially disposed of.

Hedge accounting is discontinued when the hedging instrument expires or is sold, when the hedge no longer meets the criteria for hedge accounting or when the Group revokes the designation of the instrument as a hedging instrument.

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. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, cash flows are estimated considering all contractual terms of the financial instrument excluding future credit losses. The calculation includes all fees paid or received

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between parties to the contract, transaction costs, and all other premiums or discounts.

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 and other receivables are measured at amortised cost using the effective interest rate method. The amortised cost of loans is reduced by any impairment losses.

Recognition of impairment allowances for loan receivables

Loans to customers (loan receivables) are reported in the statement of financial position within *Loans to customers*. The Group assesses receivables for impairment at both an individual and a collective level, and creates specific and statistical impairment allowances. Specific impairment allowances are created for an individual receivable or a group of receivables that has or have been found to be impaired, i.e. for impairment losses incurred.

Statistical impairment allowances are established for collectively assessed groups of receivables that have not been found individually impaired using statistical methods (statistical analysis of historical data on delinquency) or a formula approach based on the historical loss rate experience under the following circumstances:

- There is objective evidence such as observable data, which indicates a measurable decrease in the future cash flows from the group of receivables, or an analysis of the Group's historical loss experience, which suggests that the group of receivables contains impaired items but the individual impaired items cannot yet be identified.
- When it is necessary to mitigate the impacts of changes in the national or regional economic or regulatory environment on the expected future cash flows from receivables. The changes include but are not limited to fluctuations during the assessment period in the following observable data: unemployment rates, property prices, the customers' willingness to pay or payment behaviour, the extent to which claims can be defended in legal proceedings, etc. The above impairment allowances are created when necessary based on the judgement of the Group's management board.

Receivables are assessed for impairment and impairment allowances are recognised by reference to credit risk parameters (including the probability of default and loss given default for the rating class), which are updated at least once a year or whenever there is a significant change in risk assessments.

Collective impairment assessment is applied to all homogenous groups of receivables whose amount is not individually significant and whose individual assessment would be impracticable. Homogenous receivables have similar characteristics such as historical payment behaviour, collateral, or other features.

Individual impairment assessment is applied to receivables from companies, receivables exceeding 65,000 euros and other receivables that have not been grouped.

The need for statistical impairment allowances is assessed and such allowances are made once a month for the following groups of receivables:

- retail receivables not secured with real estate or other physical assets;
- retail receivables secured with real estate;
- receivables from companies.

Statistical impairment allowances are created in equal instalments within 12 months after the signature of the loan agreement in an amount equal to the expected credit loss on agreements signed in the previous calendar month. The calculations are made based on the volume of loan agreements signed in the rating class, the credit rating of the receivable, the default probability of the rating class and the historical loss rate for the group of receivables.

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A receivable is impaired when there is objective evidence, such as an identified event and/or observable data, that an event or events has or have adversely affected the amount and timing of the future cash flows of the customer to the extent that repayment of the entire receivable by the customer, taking into account the collateral, is unlikely and the receivable has been identified as impaired during impairment assessment.

Specific impairment assessments are made and specific impairment allowances are established using three principal methods:

- the discounted cash flow method, which is used to assess unsecured retail receivables;
- evaluation of the net realisable value of collateral, which is used to assess retail receivables secured with real estate or other physical assets;
- the combined method, which used to assess receivables form companies.

Unsecured retail receivables are assessed for impairment by comparing the nominal carrying amount of the item or group of items prior to the recognition of impairment with the present value of the expected future cash flows of the item or group of items, discounted at the effective interest rate. An impairment loss for a receivable or a group of receivables is identified when the total discounted present value of the expected future cash flows of the receivable or group of receivables is less than the carrying amount of the receivable or group of receivables. The difference between carrying value and the present value of expected future cash flows is recognised as the impairment of the receivable or group of receivables. The effective interest rate applied is the original interest rate of the receivable or the average original interest rate of the group of receivables (the rate recorded in the agreement before its termination or expiry).

Receivables secured with real estate or other physical assets are assessed for impairment using evaluation of the net realisable value of collateral. The net realisable value of collateral is calculated based on the market value of the collateral at the date of assessment, the right of claim and the forced sale costs. Where the carrying amount of the receivable exceeds the net realisable value of collateral, the difference (the unsecured portion) is recognised as an impairment loss. The total unsecured portion for a group of receivables is calculated by adding up the individual unsecured portions of receivables, without any offsetting, i.e. the over-secured amounts (where the net realisable value of collateral exceeds the carrying amount of the receivable) and under-secured amounts are not netted.

Receivables from companies are assessed for impairment using the combined method. First, the unsecured portion is determined by evaluating the net realisable value of collateral. After that the impairment loss on the unsecured portion is identified using the discounted cash flow method. The discount rate is the effective interest rate of the loan.

The impairment allowance for collectively assessed loans is calculated by multiplying the carrying amount of receivables in the group by the impairment rate assigned to the group. The same rate is applied to any interest and other receivables associated with the loans belonging to the group.

Loans that are found to be individually impaired are not included in a group of loans that is assessed for impairment collectively. Such loans are assessed for impairment individually.

Any accruals associated with a loan assessed for impairment individually are applied the same impairment rate that is assigned to the underlying loan.

When a loan receivable is written off the statement of financial position, the carrying amount of the loan portfolio and the impairment allowance are reduced accordingly. 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, 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.

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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 expensed 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, which 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.

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 to 10 years.

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

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 expensed 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 or amortisation) had no impairment loss been recognised.

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

Other assets

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

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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 write-down is determined as the difference between the acquisition cost and net realisable value of the asset. 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 the two quarters preceding the valuation.

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.

Financial liabilities

Financial liabilities comprise deposits from customers, liabilities arising from securities, bank loans, accrued 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 in issue and customer deposits

The principal of bonds and deposits is measured and recognised in the statement of financial position at 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 (in line with ACT/365 and ACT/360 respectively).

Subordinated bonds are recognised in the statement of financial position within *Subordinated bonds in issue*. 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 may not amount to less than one tenth 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 through 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.

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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 liability 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.

Fee income and expense

Fee income comprises the fees received from customers during the period for review of applications and fee expense comprises fees paid to other credit institutions.

Other income

Other income comprises:

- income from debt collection and recovery proceedings (late payment interest, fines, etc), which is recognised on an accrual basis as relevant services are rendered;
- income from early redemption of the Group's liabilities, which is recognised on an accrual basis at the date of redemption;
- miscellaneous income (including income on the sale of goods and services), which is recognised when all significant risks and rewards of ownership have 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), which is recognised when the right to receive payment is established.

Other expenses

Other expenses comprise:

- expenses related to enforcement proceedings (including notaries' fees, bailiffs' and debt collection charges, state fees and levies);
- regulatory and supervision charges (contributions to the Guarantee Fund and supervision charges);
- expenses arising on the provision of loans (the costs of registry queries and similar items);
- expenses related to assets held for sale; and;
- expenses related to securities.

Other expenses are recognised when the service has been rendered and the liability has been incurred.

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 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.

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

Corporate income tax rates

	2012	2011
Latvia	15.0%	15.0%
Lithuania	15.0%	15.0%
Finland	24.5%	26.0%
Sweden	26.3%	26.3%
Spain	30.0%	30.0%

At foreign entities, deferred tax is recognised using the liability method whereby 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 year 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 32 to the financial statements is voluntary.

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

A number of new standards, amendments to standards and interpretations have been published that are effective for the Group in annual periods beginning on or after 1 January 2013, which the Group has not adopted early.

Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* (Effective for annual periods beginning on or after 1 July 2012; to be applied retrospectively. Earlier application is permitted.) The amendments require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss.

If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections. The amendments also change the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, other titles are also allowed to be used. The impact of the initial application of the amendments will depend on the specific items of other comprehensive income at the date of initial application. If the entity had adopted the amendments from 1 January 2012, then the -0.108 million euros recognised in *Net loss on hedges of net investments in foreign operations* within other comprehensive income would be presented as an item that may be reclassified to profit or loss in the future. There is no related tax effect. The remaining amounts and items of other comprehensive income would never be reclassified to profit or loss.

Amendments to IFRS 7 Disclosures - *Offsetting Financial Assets and Financial Liabilities* (Effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods; to be applied retrospectively.). The amendments contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position, or subject to master netting arrangements or similar agreements.

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The Group does not expect the amendments to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

IFRS 13 *Fair Value Measurement* (Effective prospectively for annual periods beginning on or after 1 January 2013. Earlier application is permitted.). IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required or permitted by other IFRSs. The standard does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The standard contains an extensive disclosure framework that provides additional disclosures to existing requirements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income. The Group does not expect IFRS 13 to have a material impact on its financial statements since management considers the methods and assumptions currently used to measure the fair value of assets to be consistent with IFRS 13.

Amendments to IAS 12: *Deferred Tax: Recovery of Underlying Assets* (Effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively. Earlier application is permitted.). The amendments introduce a rebuttable presumption that the carrying value of investment property measured using the fair value model would be recovered entirely by sale. Management's intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted. The Group does not expect the amendments to have any impact on its financial statements, since it does not result in a change in the Group‘s accounting policy. The measurement of deferred tax assets and liabilities relating to investment properties measured using the fair value model in IAS 40 will not change.

Amendments to IAS 32 – *Offsetting Financial Assets and Financial Liabilities* (Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted, however the additional disclosures required by Amendments to IFRS 7 Disclosures - *Offsetting Financial Assets and Financial Liabilities* must also be made.). The amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The amendments clarify that an entity currently has a legally enforceable right to set-off if that right is: a) not contingent on a future event; and b) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The Group does not expect the amendments to have any impact on its financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and has not entered into master netting arrangements.

A number of new standards, amendments to standards and interpretations have been published that are effective for the Group for annual periods beginning on or after 1 January 2013, which the Group has not adopted early and which are not expected to have any significant impact on the Group's financial statements.

IFRS 10 *Consolidated Financial Statements* and IAS 27 (2011) *Separate Financial Statements*

IFRS 11 *Joint Arrangements*

IFRS 12 *Disclosure of Interests in Other Entities*

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Note 2. 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 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 impairment allowances for loans (see note 1, the section *Financial assets*, and note 3).

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 note 1).

Collateral assets acquired by the Group are reviewed on a regular basis and written down to reflect any impairment whenever necessary (see the section *Other assets* in note 1).

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 3. Risk management

Risk management strategy

The Group has to face various risks in its daily operations. The Group's performance 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 proven successful and a risk profile that is characterised by a well-balanced credit portfolio, limited financial risks and low operational risk.

The Group's risk management framework is designed to ensure that the Group maintains a high return on equity and a 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 knowledgeable and better-quality business decisions.

Risk management organisation and system

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

Ultimate responsibility for the risks taken by the Group as well as ensuring that the Group meets the regulatory capital requirements rests with the Group's management board. The management board is responsible for designing, establishing and enforcing the Group's risk management, control and coordination policies and deciding the overall acceptable level of risk. The management board has to ensure 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, resolving general risk-related issues, and deciding and monitoring the risk limits.

Each of the Group's business units and subsidiaries is fully responsible for controlling the risks which have arisen or may arise in their operations. This means that responsible persons have to

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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 business unit level, risk management has been assigned to a separate, central management function that is independent of the business units. The risks of the Group as a whole are 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. The policies and procedures for all risks are regularly reviewed and updated when necessary.

The Group's internal regulations are reviewed and their relevance and applicability is assessed on a regular basis. The staff's awareness of and adherence to internal regulations is subject to rigorous control.

Internal control system

Effective risk management rests on a strong internal risk culture, a uniform and consistent approach to the risks encountered in operations and an effective control environment.

The Group's internal control system is an integral part of the Group's management system. Its purpose is to ensure that the Group's management principles are observed, the Group's assets are safeguarded, true and accurate financial and other accounts are maintained and reliable financial and management information is presented on a timely basis.

The internal control system encompasses the measures implemented by the Group to ensure that its operations are effective, efficient, properly overseen, and comply with regulatory and internally established requirements, its financial reporting is reliable, and decisions are made based on reliable, relevant and up-to-date information. The internal control system deals with all levels of management and operations and supports the Group's business units and operations

The Group's internal control system comprises three levels:

- Operational level. Local entities/business units are responsible for checking, supervising and coordinating operations within a function or entity. They decide application of control measures within the framework of Group-wide and local rules and regulations. To ensure that the process is effective, the Group has created a controller's position for each business area.
- Group-wide level. In addition to the control and supervision performed by entities, the Group's structure includes Group-level units and staff that are independent of any specific entity/business unit. Their role is to oversee application of operational control measures at the level of the Group. They are accountable to the manager of their business area and the management board. Such units include the risk management and compliance control units.
- Internal audit unit. The internal audit unit evaluates the Group's performance, assesses the adequacy and applicability of internal regulations in light of the nature, scope and complexity of the Group's operations, and checks observance of the Group's articles of association, the resolutions of the Group's supervisory and management boards, the Group's internal regulations, laws, other regulatory requirements and good banking practice.

  The unit monitors the Group's operation and its compliance with effective regulations, limits and other requirements. The unit is directly accountable to the supervisory board. The overall purpose of its work is to improve the Group's performance through evaluation and to enhance the effectiveness of the work done at other levels of the internal control system.

The compliance control function is Group-wide and independent of the Group's business units and functions. The compliance control function is an integral part of the Group's internal control system and its purpose is to ensure compliance of the Group's operations with regulatory requirements, prevent any non-compliance, introduce measures required for ensuring or achieving compliance, and help avoid conflicts of interest. The function oversees all subsidiaries and business and structural units as well as all levels of management and all business functions.

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All of the Group's products, customers and customer groups, external rules and regulations, and internal rules, procedures and control techniques are subject to compliance control.

Organisation and operation of compliance control are the responsibilities of the Group's management board. Compliance control is performed by the compliance control unit that works closely with the risk management and internal audit units.

Definition of risk

The Group defines risk as a possibility or probability that a decision or event will result in undesired consequences for the Group. 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 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 knowledgeable 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 may affect the Group's operation are identified, evaluated, analysed and reported.

Risks are identified and assessed for all products, activities, processes and systems. Implementation of any new product, activity, process, or system is preceded by risk assessment.

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 had 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 changing conditions and updates them when necessary.

The concept of business responsibility is observed – each Group employee is personally responsible for the quality of the product or assessing 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 a major share 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 units.

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

Credit risk

Credit risk is the risk that a counterparty to a transaction will fail to discharge an obligation in a satisfactory manner and will cause the Group to incur a loss. Credit risk arises mainly from loans, receivables from banks and the debt securities portfolio.

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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 in a transaction.

Credit risk management

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

The Group manages its credit risk in accordance with the provisions of the Credit Institutions Act, the regulations issued by the Governor of the Bank of Estonia, the regulations applicable to the Group's foreign operations in their domiciles, and its own credit policy.

The Group's credit policy and the principles applied on analysing and granting loans 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 or relevantly authorised staff in keeping with the limits and restrictions set by the Group's management board.

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

- Loans are mostly provided to individuals. At 31 December 2012, loans to individuals accounted for 95.8% 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 environment where debt collection and recovery proceedings are highly developed and effective, 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 conducted in full compliance with applicable law. According to the Group's assessment, there are currently no features in the Baltic, Scandinavian and Spanish legislation or legal practice that might exert a significant negative impact on the recovery of loan 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 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 weakened 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 2012, the average loan balance was 1.465 euros and 100 largest loans accounted for 5.4% of the total loan portfolio.

In its lending operations, the Group focuses on the provision of consumer loans that are granted against income and hire-purchase services. In addition, in Estonia and Lithuania, the Group provides loans and financial guarantees to small and medium-sized enterprises. At 31 December 2012, the average amount of loans to companies was 55.734 thousand euros and loans to companies accounted for 4.2% of the Group's loan portfolio.

The Group limits the size of its loan portfolio at 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 monitors the development of the loan portfolio, the customers' payment behaviour and credit risk, and conducts regular stress tests that focus on assessing the effects

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that various possible though not highly probable events may have on the Group's financial performance and capital. Such 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 past due loans, applying measures that correspond to the gravity of the breach of contract (e.g. oral and written reminders, extraordinary termination of the agreement or recovery of receivables by fast track, debt collection, litigation or enforcement proceedings). When a borrower has settlement problems, the Group may extend the loan term or agree a repayment schedule for liabilities arising from a terminated agreement if the Group is convinced that the borrower has the intent and ability to discharge future contractual obligations in a satisfactory manner. The Group's historical recovery rate for non-performing loans has been high and in clear correlation with the duration of the collection proceedings.

Measurement and classification of credit risk

The Group uses a system of internal credit ratings to assess the credit risk of both individuals and companies. A customer's credit rating is embedded in the Group's risk management system and it is used for assessing the customer's payment ability and the probability of default, creating impairment allowances, assigning credit limits, measuring receivables and determining the frequency of credit risk assessments and the principles of monitoring credit risk.

A credit rating is an assessment characterising the counterparty in a transaction or the credit risk of a receivable that is used to grade customers or receivables based on the extent of the credit risk exposure. The system of credit ratings differentiates customers and receivables according to their risk level, based on the probability of default in light of the customer's financial position, creditworthiness, value and marketability of collateral (security) and other circumstances that may influence the customers' ability to meet their obligations to the Group.

Each customer is assigned a credit rating at the time the loan application is reviewed. The rating is revised when monitoring indicates that circumstances underlying the credit rating have changed. Circumstances are reviewed monthly. The frequency of changing the rating depends on the features of the group of loans and the loan class. The ratings of companies are updated at least once a year or whenever there is reason to believe that the borrower's credit risk has changed; in the case of non-performing loans the rating is reviewed once a quarter. The ratings of retail customers are updated at least once a quarter or whenever there is a significant change in the borrower's credit risk.

The main parameters the Group uses in assessing the counterparty's credit risk are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). The probability of default reflects how high is the probability that the counterparty will experience a settlement default of more than 90 days by the 12th month after the assessment. Loss given default reflects the economic loss that may occur in the event of default of more than 90 days on the basis of country- and product-specific loss rates identified using historical loss statistics, which have been adjusted to reflect expert opinions. The exposure is equal to the carrying amount of the receivable.

A loan is classified as non-performing on the occurrence of any of the following events associated with the customer, which will or may lead to imminent or future insolvency:

- Low probability of collecting payments. The loan (agreement) is performing but on the basis of objective evidence it is reasonable to assume that the customer is unable to meet the existing financial obligations (loan principal, associated interest and contract fee) in full and the situation cannot be resolved in a satisfactory manner.
- Default on meeting a significant financial obligation. The loan (agreement) is classified as non-performing when the customer is over 90 days in default on the obligation to pay a significant amount of loan principal, interest or fees or the loan is materially restructured so that the remaining balance of loan principal or the accrued interest liability is reduced and the circumstances causing the customer's financial difficulty have not been eliminated.

To better evaluate credit risk, the Group divides loan receivables into six major classes using an internal rating system for determining their quality:

- *Very good.* The customer's ability to pay and factual payment behaviour are very good. There

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is no evidence suggesting that weaknesses could emerge.

- *Good.* The customer's estimated ability and willingness to pay and factual payment behaviour are good. The Group is not aware of any circumstances that could cause the receivable not to be settled in accordance with the originally agreed terms and the customer's credit risk is low or moderate.
- *Satisfactory.* The customer's estimated ability and willingness to pay and factual payment behaviour are satisfactory. There may occur up to 60-day defaults and the receivable may have to be restructured in order to eliminate weaknesses. The customer's credit risk is moderate, i.e. ordinary.
- *Weak.* The customer has clearly identifiable economic weaknesses. The customer is making payments but there may occur up to 60-day defaults, which is why the receivable has to be restructured. Repayment of the loan is probable but the customer's credit risk is high.
- *Inadequate.* The customer is more than 90 days in default on significant commitments. Settlement of the entire receivable is unlikely if the situation does not change.
- *Irrecoverable.* The customer is insolvent, repayment is unrealistic and the Group does not have economically effective measures for collecting the receivable or the customer has been declared bankrupt.

Loan portfolio by internal rating classes as at 31 December 2012

Rating class	Not past due nor impaired	Not past due but impaired	Past due but not impaired	Past due and impaired
Very good	49.959	0.010	3.506	0.001
Good	42.873	0.065	12.777	0.282
Satisfactory	24.262	0.249	5.860	0.518
Weak	1.571	3.303	1.713	4.911
Inadequate	0.396	5.460	1.181	75.303
Irrecoverable	-	0.036	-	2.646
Total	**119.061**	**9.123**	**25.037**	**83.661**

Loan portfolio by internal rating classes as at 31 December 2011

Rating class	Not past due nor impaired	Not past due but impaired	Past due but not impaired	Past due and impaired
Very good	0.129	38.029	-	0.006
Good	0.525	26.584	0.074	10.413
Satisfactory	6.414	10.676	0.459	8.494
Weak	0.428	5.159	0.163	5.953
Inadequate	-	2.885	0.451	65.851
Irrecoverable	-	0.023	0.031	3.188
Total	**7.496**	**83.356**	**1.178**	**93.905**

From 2012 the Group changed the policy for recognising statistical impairment allowances in the loan portfolio, which is why in contrast to 2011, statistical impairment allowances are no longer allocated proportionately to the entire portfolio, but are reported separately and allocated to a receivable or group of receivables when the item or items become non-performing. The change in the allocation policy stems from the fact that such impairment allowances are created only for items that have not been found individually impaired and statistical analysis of historical data, which is used to estimate impairment for groups of receivables, does not allow determining impairment for an individual item within a group before the item becomes non-performing.

Loans whose principal or interest payments are in arrears break down as follows:

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Impairment allowances by ageing of loans as at 31 December 2012

	Loan balance	Impairment allowance	Risk exposure
Loan portfolio not past due	128.184	-1.909	126.275
Loan portfolio past due	108.698	-26.354	82.344
Past due portfolio according to days past due			
Up to 30 days	21.264	-0.944	20.320
31-60 days	6.774	-0.359	6.415
61-90 days	3.429	-0.254	3.175
Over 90 days	77.231	-24.797	52.434
Statistical impairment allowance	-	-3.558	-3.558
Total	**236.882**	**-31.821**	**205.061**

Impairment allowances by ageing of loans as at 31 December 2011

	Loan balance	Impairment allowance	Risk exposure
Loan portfolio not past due	90.852	-2.644	88.208
Loan portfolio past due	95.083	-24.605	70.478
Past due portfolio according to days past due			
Up to 30 days	16.001	-0.833	15.168
31-60 days	7.559	-0.473	7.086
61-90 days	4.837	-0.455	4.382
Over 90 days	66.686	-22.844	43.842
Statistical impairment allowance	-	-0.942	-0.942
Total	**185.935**	**-28.191**	**157.744**

Policy for creation of impairment allowances

The policies for creating impairment allowances for loans are described in detail in note 1.

The Group creates impairment allowances to mitigate the risk of a decline in the value of its loan receivables, i.e. their impairment. To mitigate the risks associated with the customers' payment behaviour and to cover potential credit losses, the Group has created impairment allowances, which at 31 December 2012 totalled 31.821 million euros, accounting for 13.4% of the total loan portfolio. Impairment allowances are made on a conservative basis. Further information on impairment allowances is presented in note 7.

Cash and bank balances by the banks' credit ratings

As at 31 December	2012	2011
Aaa-Aa3	1.093	0.501
A1-A3	24.312	20.369
Baa1-Baa3	1.115	1.626
Total	**26.520**	**22.496**

Held-to-maturity financial assets by rating

As at 31 December	2012	2011
A1-A3	-	7.021
Baa1-Baa3	6.402	3.667
Ba1-Ba3	2.074	-
Total	**8.476**	**10.688**

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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 also grant larger 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 2012, 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:

- In its business operations, the Group focuses on serving individuals and small and medium-sized enterprises.
- Customers are identified with due care and using due procedure.
- The 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 methods of disposing 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 associated cash flows.

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 loans that are provided have to be backed with the borrower's income.
- Requirements for 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 its current value considering the changes that will occur over time. Where necessary, the value of collateral is determined with the assistance of experts (e.g. real estate appraisers).

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- 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 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 the 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 central banks or 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 rate risks together, taking into account their sensitivity to the macroeconomic environment.

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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 assesses regulatory 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 provided by fixing the interest rate in the loan agreement. The Group protects itself against interest rate risk by charging on loans provided a rate of return that exceeds the average market interest rate. The Group performs regular stress tests to evaluate its interest rate risk. Only 0.2% of the Group's interest-bearing liabilities are linked to Euribor and thus exposed to its changes. According to the Group's assessment, movements in Euribor have an immaterial effect on its profit and equity. Therefore, the financial statements do not include an analysis of the Group's sensitivity to changes in interest rates.

The Group operates in different markets both in and outside the euro area. The Group's risk management strategy foresees mitigation of currency risks arising from significant currency risk exposures.

The loans provided by the Group are denominated in the currencies of the regions in which the Group operates or in euros. The Lithuanian litas and the Latvian lats are the national currencies of EU member states. Their 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 law.

To mitigate the risk of losses arising from significant exchange rate fluctuations, loan agreements signed in Lithuania and Latvia in earlier periods include a devaluation clause that ensures that the proportions of contractual liabilities are maintained throughout the loan term.

To hedge the risks arising from its operation in the Swedish market, the Group enters into euro/Swedish krona currency swaps and forward foreign exchange contracts and accounts for those instruments as hedges of a net investment in a foreign operation.

At the moment, the Group provides loans in euros and in Swedish krona. In 2012, assets denominated in those currencies accounted for 91.8% and 4.8% of total assets.

Net currency positions as at 31 December 2012

	Position in the statement of financial position		Position off the statement of financial position		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR (euro)	257.789	217.710	-	3.043	37.036
LVL (Latvian lats)	7.321	2.778	-	-	4.543
LTL (Lithuanian litas)	1.094	0.241	-	-	0.853
SEK (Swedish krona)	13.536	0.288	-	13.315	-0.067
GBP (British pound)	0.001	0.001	-	-	-

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

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The following tables reflect the potential impact of positions exposed to currency risk on the Group's profit and equity. If the reporting-date exchange rates of the foreign currencies against the euro had strengthened/weakened by 10%, the impact would have been as follows:

Effect of a potential exchange rate change on profit and equity as at 31 December 2012

	Exposure	Monetary impact	% of equity
LVL (Latvian lats)	4.543	0.454	0.8%
LTL (Lithuanian litas)	0.853	0.085	0.1%
SEK (Swedish krona)	-0.067	-	0.0%
Total	**5.329**	**0.539**	**0.9%**

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

	Exposure	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**	**0.779**	**1.5%**

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.

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

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 financing 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 financing and the possibilities for limiting the provision of loans, may cause a lack of liquidity.

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- 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 so as to be able to meet its commitments at any time. Liquid assets are held with the central banks and invested in money market and liquidity funds, term deposits and bonds.
- The Group diversifies its financing sources by raising deposits in new markets.

Remaining maturities of financial assets and liabilities as at 31 December 2012

	Past due	Less than 1 month	1-12 months	1-5 years	Over 5 years	Total
Financial assets						
Cash and bank balances	-	22.695	14.137	-	-	**36.832**
Loans to customers	71.570	8.110	46.008	83.597	15.236	**224.521**
Of which loan portfolio	52.110	8.110	46.008	83.597	15.236	**205.061**
Of which interest receivables	19.460	-	-	-	-	**19.460**
Financial investments	-	1.776	6.700	-	-	**8.476**
Total financial assets	**71.570**	**32.581**	**66.845**	**83.597**	**15.236**	**269.829**
Financial liabilities						
Loans from credit institutions	-	**0.019**	**0.019**	**3.928**	**-**	**3.966**
Of which linked to 6 month EURIBOR	-	0.019	0.019	-	-	**0.038**
Deposits from customers	-	6.400	63.736	130.697	12.103	**212.936**
Total financial liabilities	-	**6.419**	**63.755**	**134.625**	**12.103**	**216.902**
Net exposure	**71.570**	**26.162**	**3.090**	**-51.028**	**3.133**	**52.927**

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
Financial assets						
Cash and bank balances	-	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 interest receivables	17.241	-	-	-	-	**17.241**
Financial investments	-	1.638	9.050	-	-	**10.688**
Total financial assets	**56.115**	**23.219**	**62.152**	**57.876**	**18.062**	**217.424**
Financial liabilities						
Loans from credit institutions	-	0.019	0.208	0.038	-	**0.265**
Of which linked to 6 month EURIBOR	-	0.019	0.208	0.038	-	**0.265**
Subordinated bonds in issue (note 17)	-	-	-	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 financial 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**

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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 (matching 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 buffer 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 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 provide 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 financing its ordinary operations to the required extent, provision of loans will be reduced to such an extent that repayments of previously provided loans will allow the Group to meet its existing financial obligations.

Expected future cash flows of the Group's financial liabilities as at 31 December 2012

	Carrying amount	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Loans from banks (note 14)	**3.966**	0.003	0.043	0.022	3.934	-	**4.002**
Payables to suppliers (note 16)	**0.559**	0.559	-	-	-	-	**0.559**
Deposits from customers (note 15)	**212.936**	7.278	13.588	57.745	144.665	15.266	**238.542**
Contingent liabilities (note 27)	**3.043**	0.027	0.004	0.126	2.886	-	**3.043**
Total	**220.504**	**7.867**	**13.635**	**57.893**	**151.485**	**15.266**	**246.146**

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 14)	**0.265**	0.019	0.039	0.174	0.038	-	**0.270**
Payables to suppliers (note 16)	**0.549**	0.549	-	-	-	-	**0.549**
Bonds in issue	**3.657**	0.072	-	0.213	4.032	-	**4.317**
Deposits from customers (note 15)	**170.235**	9.351	11.540	31.060	126.991	5.628	**184.570**
Contingent liabilities (note 27)	**0.937**	0.015	0.486	0.110	0.326	-	**0.937**
Total	**175.643**	**10.006**	**12.065**	**31.557**	**131.387**	**5.628**	**190.643**

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.

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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.
- Compliance risk is the possibility or probability that the Group does not meet or comply with the requirements set forth in laws, regulations, policies or other applicable rules and regulations either in part or in full or that it operates under a conflict of interest.
- 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, operating environment or the activity of the supervision authorities.
- Reputational 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 lack of staff or employee 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 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 the 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.

The Group treats operational and associated risks as an independent risk management area that is tightly related to its main risk - credit risk. The Group monitors operational and associated risks together, taking into account their significant inter-relatedness in its operation.

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 defined a centralised basis for operational risk management activities. The concepts are fixed in the Group's policies, internal regulations and rules of procedure. Since operational risk management is a broad area, operational risks are regulated by different internal regulations and procedure documents.

The Group's risk management function is responsible for uniform reporting on the Group's operational risks. The levels of the Group's operational risks are analysed on a quarterly basis and the results are documented in a report that is submitted to the management of the Group and the managements of business units. Unusual events and risks are evaluated using various simulation techniques and stress testing.

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

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unmanageable or unlimited risks regardless of potential revenue growth. Operational risks whose realization may harm the Group's reputation are carefully scrutinized and limited.

The Group manages its operational risks using the following methods:

- The key measures for preventing operational loss are assigning responsibility for risk management to business units, increasing each employee's risk recognition and awareness and creating a strong control environment. 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.
- The Group does not provide overly complex or integrated products. Its offering includes only simple products such as loans and deposits.
- The Group has developed a uniform, organisation-wide understanding of potential operational risk incidents, loss events and events resulting in unusual income and has put in place procedures for managing such events and incidents. The controls in place are updated on the basis of case analysis so as to mitigate and prevent potential future threats.
- Operational and associated risks are managed using preventive, forward-looking analyses of potential loss events that may be caused by the risks inherent in the Group's operations The Group monitors, analyses and controls operational and associates risks on a regular basis using various risk indicators that are also applied to the Group's subsidiaries and branches.
- 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.
- 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.
- The Group has implemented a system for business continuity planning that that is designed to prepare the Group for unlikely but probable events, such as process and system interruptions, to protect life and health and to mitigate the impact of adverse events on the Group. Business continuity is supported by business continuity scenarios and specific action plans. The Group protects its assets against possible threats by pursuing preventive security management and applying appropriate technical, organisational and administrative measures. The main risks are mitigated by purchasing insurance cover.

One of the key mechanisms for assessing, monitoring and mitigating operational risk is compliance risk management. Compliance risk management is an ongoing process aimed at:

- achieving and maintaining compliance and thereby precluding, reducing or limiting the Group's regulatory or ethical liability to its employees, customers, legal authorities, transaction counterparties or the public;
- creating and building trust in the Group among the Group's customers and investors as well as the supervisory authorities.

Compliance risk management is preventive and proportionate and it is driven by a rule- and risk-based approach.

The Group screens external service providers and its relations with services providers are based on specific contracts.

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 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 determines the capital requirements that are sufficient for covering unanticipated operational losses using a standardized approach that corresponds to the Basel II capital

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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 standardized 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.

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 line with the requirements of the Commercial Code, the Group has created a capital reserve which at 31 December 2012 amounted to 0.794 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 2012, the Group's prior period retained earnings totalled 43.211 million euros.
- Profit for the reporting period that has been audited by an independent external auditor.

All these components are part of the Group's Tier 1 capital. At 31 December 2012, the Group's Tier 1 capital amounted to 58.440 million euros. At 31 December 2012, the Group had no instruments qualifying as Tier 2 capital.

As at 31 December	2012	2011
Paid-up share capital	8.000	8.000
Reserves established from profit (capital reserve)	0.794	0.511
Earnings retained in prior years	43.211	38.799
Foreign currency translation reserve	0.481	0.288
Intangible assets	-0.968	-0.660
Profit for the year*	7.030	5.665
Other Tier 1 own funds	-0.108	-
Tier 1 capital	**58.440**	**52.603**
Total own funds	**58.440**	**52.603**

* The figure has not been adjusted for the dividend proposed in the profit allocation proposal.

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Capital requirements

The methods to be used by credit institutions for calculating the capital requirements are set forth in the EU Banking Directive and Capital Requirements Directive that introduced the Basel II capital adequacy rules.

The Group uses the standardized method to compute the capital requirements for both credit risk and operational risk.

As at 31 December	2012	2011
Capital requirements		
Claims on central governments and central banks, standardized approach	0.728	0.567
Claims on credit institutions and investment firms, standardized approach	1.707	1.191
Claims on companies, standardized approach	1.179	0.936
Retail claims, standardized approach	11.090	8.123
Claims secured by real estate, standardized approach	0.647	0.660
Claims in arrears, standardized approach	6.843	6.283
Other assets, standardized approach	0.991	1.162
Total capital requirement for credit risk and counterparty risk	**23.185**	**18.922**
Capital requirement for foreign exchange risk	**0.540**	**0.779**
Capital requirement for operational risk, standardized approach	**3.896**	**3.889**
Total capital requirements	**27.621**	**23.590**

Capital management

The Group has only two shareholders that have been involved in the activity of 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 2012 was to maintain at least a 12% capital adequacy ratio both at the level of the Group and the parent company. At 31 December 2012, the capital adequacy ratio was 21.2%, significantly exceeding the regulatory requirement. 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 provision of new loans and place the funds received in low or lowest risk assets).

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Group's capital adequacy

As at 31 December	2012	2011
Paid-up share capital	8.000	8.000
Reserves established from profit (capital reserve)	0.794	0.511
Earnings retained in prior years	43.211	38.799
Foreign currency translation reserve	0.481	0.288
Intangible assets	-0.968	-0.660
Profit for the year*	7.030	5.665
Other Tier 1 own funds	-0.108	-
Tier 1 capital	**58.440**	**52.603**
Total capital used to determine capital adequacy	**58.440**	**52.603**
Capital requirements		
Claims on central governments and central banks, standardized approach	0.728	0.567
Claims on credit institutions and investment firms, standardized approach	1.707	1.191
Claims on companies, standardized approach	1.179	0.936
Retail claims, standardized approach	11.090	8.123
Claims secured by real estate, standardized approach	0.647	0.660
Claims in arrears, standardized approach	6.843	6.283
Other assets, standardized approach	0.991	1.162
Total capital requirement for credit risk and counterparty risk	**23.185**	**18.922**
Capital requirement for foreign exchange risk	**0.540**	**0.779**
Capital requirement for operational risk, standardized approach	**3.896**	**3.889**
Total capital requirements used to determine capital adequacy	**27.621**	**23.590**
Capital adequacy	**21.2%**	**22.3%**

* 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 2012, capital adequacy at the level of the parent company was 17.5%.

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;
- prior years' audited retained profits;
- 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:

- 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.

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The net loss on hedges of net investments in foreign operations, which has been recognised in other reserves in equity, has been deducted from Tier 1 capital.

The Group has no Tier 2 or Tier 3 capital.

Capital requirements for both credit risk and operational risk have been determined using the standardized approach.

In determining the capital requirement for foreign exchange risk, the Group has taken into account the exposures covered by the devaluation clauses.

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 standardized financial products – loans and deposits.

Note 4. Cash and bank balances and cash equivalents

Cash and balances at central banks as at 31 December 2012

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	Total
Mandatory reserves	0.513	1.456	-	-	-	-	1.969
Surplus on mandatory reserves	8.343	-	-	-	-	-	8.343
Total cash and balances at central banks	**8.856**	**1.456**	**-**	**-**	**-**	**-**	**10.312**

Cash and balances at central banks as at 31 December 2011

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

Cash and balances at banks at 31 December 2012

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	Total
Cash and balances at banks	20.910	2.332	0.635	1.185	0.766	0.601	26.429
Interest receivable from banks	0.087	0.002	-	-	0.002	-	0.091
Total cash and balances at banks	**20.997**	**2.334**	**0.635**	**1.185**	**0.768**	**0.601**	**26.520**

Cash and balances at banks at 31 December 2011

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	Total
Cash and balances at banks	19.882	1.295	0.330	0.515	0.404	-	22.426
Interest receivable from banks	0.068	-	-	-	0.002	-	0.070
Total cash and balances at banks	**19.950**	**1.295**	**0.330**	**0.515**	**0.406**	**-**	**22.496**

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Cash equivalents

As at 31 December	2012	2011
Demand and overnight deposits with credit institutions	6.362	2.088
Term deposits with credit institutions with a maturity of less than 3 months	19.903	20.408
Demand and overnight deposits with central banks	-	6.200
Surplus on mandatory reserves with central banks	8.343	0.001
Interest receivable from central banks (on mandatory reserves)	-	0.001
Total cash equivalents	**34.608**	**28.698**

Note 5. Loans to customers

Loans to customers as at 31 December 2012

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	Total
Loan receivables from customers	64.501	66.652	25.979	51.518	15.318	12.914	236.882
Impairment allowances for loans	-8.237	-12.146	-3.118	-3.036	-1.611	-0.115	-28.263
Interest receivable from customers	8.361	10.625	3.069	1.906	0.615	0.211	24.787
Impairment allowances for interest receivables	-1.696	-2.616	-0.661	-0.217	-0.128	-0.009	-5.327
Statistical impairment allowance	-1.325	-1.513	-0.611	-	-	-0.109	-3.558
Total loans to customers, incl. interest and allowances	**61.604**	**61.002**	**24.658**	**50.171**	**14.194**	**12.892**	**224.521**
Share of region	27.4%	27.2%	11.0%	22.4%	6.3%	5.7%	100.0%

Loans to customers as at 31 December 2011

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	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 receivable 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
Statistical 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**
Share of region	37.0%	30.4%	11.1%	17.5%	4.0%	-	100.0%

Loan receivables from customers* by loan type

As at 31 December	2012	2011
Loans against income	199.723	148.332
Surety loans	19.359	19.874
Loans secured with real estate	15.825	14.358
Loans with insurance cover	1.975	3.371
Total loan receivables from customers	**236.882**	**185.935**

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Loan receivables from customers* by contractual currency

As at 31 December	2012	2011
EUR (euro)	211.764	170.807
LTL (Lithuanian litas)	1.132	2.046
LVL (Latvian lats)	11.072	13.082
SEK (Swedish kronor)	12.914	-
Total loan receivables from customers	**236.882**	**185.935**

* Loan receivables from customers comprise loan principal.

Ageing analysis as at 31 December 2012

	Not past due	30 days or less	31-60 days	61-90 days	Over 90 days	Total
Loans against income						
Loan portfolio	107.586	18.181	5.724	2.891	65.341	199.723
Impairment allowance	-2.989	-0.945	-0.335	-0.247	-22.089	-26.605
Surety loans						
Loan portfolio	8.246	1.857	0.642	0.356	8.258	19.359
Impairment allowance	-0.548	-0.239	-0.080	-0.038	-2.713	-3.618
Loans secured with real estate						
Loan portfolio	10.982	0.895	0.346	0.144	3.458	15.825
Impairment allowance	-0.323	-0.067	-0.041	-0.018	-1.043	-1.492
Loans with insurance cover						
Loan portfolio	1.371	0.330	0.062	0.036	0.176	1.975
Impairment allowance	-0.045	-0.015	-0.003	-0.004	-0.039	-0.106
Total loan portfolio	128.185	21.263	6.774	3.427	77.233	236.882
Total impairment allowances	-3.905	-1.266	-0.459	-0.307	-25.884	-31.821

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 portfolio	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 portfolio	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 portfolio	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 portfolio	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 portfolio	90.657	16.193	7.562	4.837	66.686	185.935
Total impairment allowances	-2.898	-0.882	-0.494	-0.472	-23.445	-28.191

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Note 6. Past due loans

Past due loans as at 31 December 2012

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	Total
Up to 30 days	2.717	0.894	0.298	0.164	0.035	0.012	**4.120**
31 - 60 days	0.641	0.507	0.159	0.147	0.029	0.020	**1.503**
61-90 days	0.336	0.401	0.182	0.167	0.026	-	**1.112**
Over 90 days	20.349	31.262	6.971	9.187	2.786	0.533	**71.088**
Total	**24.043**	**33.064**	**7.610**	**9.665**	**2.876**	**0.565**	**77.823**

Past due loans as at 31 December 2011

	Estonia	Latvia	Lithuania	Finland	Spain	Sweden	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	-	**1.21**
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**

The table above shows only loan principal that is past due. In accordance with the terms of the loan agreements, the Group may terminate the agreement unilaterally if at least three scheduled payments are in arrears. When an agreement is terminated, 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 terminated agreements are satisfied over an extended period in smaller 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.

Note 7. Impairment of loans, receivables and financial investments

Change in impairment allowances for loans and related interest receivables

As at 31 December	2012	2011
Balance at beginning of year	-33.230	-32.722
Loan and interest receivables written off the statement of financial position	11.845	10.105
Increase in allowances for loan and interest receivables	-15.720	-10.357
Effect of movements in exchange rates	-0.043	-0.256
Balance at end of year	**-37.148**	**-33.230**

Impairment losses on loans, receivables and financial investments

	2012	2011
Recovery of loan and interest receivables written off the statement of financial position	0.763	0.502
Increase in allowances for loan and interest receivables	-15.720	-10.357
Impairment losses on financial investments	0.009	-0.099
Impairment losses on other receivables	0.317	-0.147
Total impairment losses	**-14.631**	**-10.101**

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Impairment allowances by loan assessment category as at 31 December 2012

	Loan receivables	Impairment allowances for loans	Interest receivables	Impairment allowances for loan interest	Total impairment allowances
Collectively assessed items	217.766	-23.337	23.548	-4.746	-28.083
Individually assessed items	19.116	-4.926	1.239	-0.581	-5.507
Statistical impairment allowance	-	-3.558	-	-	-3.558
Total	**236.882**	**-31.821**	**24.787**	**-5.327**	**-37.148**

Impairment allowances by loan assessment category as at 31 December 2011

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

From 2012 the Group assesses non-performing retail loans of insignificant amounts for impairment collectively. Therefore, some of the items reported as at 31 December 2011 within the category of individually assessed items have been reclassified to collectively assessed items.

Collectively assessed items include homogenous groups of receivables whose individual amount is not significant, historical settlement pattern and collateralization or other features are similar and which are not assessed fir impairment individually.

Individually assessed items include receivables from companies, receivables exceeding 65,000 euros and other receivables that have not been grouped.

Note 8. Held-to-maturity financial assets

Debt securities portfolio

As at 31 December	2012	2011
Acquisition cost of the debt securities portfolio	8.327	10.653
Accrued interest	0.149	0.035
Total held-to-maturity financial assets	**8.476**	**10.688**
Held-to-maturity financial assets by issuer		
Debt securities of credit institutions	0.997	-
Government bonds	7.479	10.688
Held-to-maturity financial assets by currency		
EUR (euro)	8.299	8.659
LTL (Lithuanian litas)	0.177	2.029

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 19.

Note 9. Derivative financial instruments

The Group operates in different markets both in and outside the euro area. The Group's risk management strategy foresees mitigation of currency risks arising from significant currency risk exposures. To hedge the risks arising from its operation in the Swedish market, the Group enters into euro/Swedish krona currency swaps and forward contracts and accounts for those instruments as hedges of a net investment in a foreign operation.

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As at 31 December	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
		2012			2011	
Currency swap contract	8.580	0.020	0.132	-	-	-
Currency forward contract	3.900	-	0.171	-	-	-
Total	**12.480**	**0.020**	**0.303**	**-**	**-**	**-**
Of which maturing within 1 year	2.272	-	0.036			
Of which maturing within 1-5 years	10.208	0.020	0.267			

Note 10. Other receivables and prepayments

As at 31 December	2012	2011
Other receivables	2.422	3.700
Prepayments	1.905	1.962
Total	**4.327**	**5.662**

Other receivables

As at 31 December	2012	2011
Late payment interest and penalty payments receivable	0.031	0.047
Fees receivable	0.194	0.090
Collection, recovery and other charges receivable	2.223	1.762
Guarantee and deposit payments made	0.135	0.170
Miscellaneous receivables	0.480	2.575
Impairment allowance for other receivables	-0.641	-0.944
Total	**2.422**	**3.700**

In 2008, the Group sold receivables of 3.483 million euros to SIA Vidzemes Inkasso, a Latvian debt collection company, for a price equal to 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 of items sold. The receivable was to be settled with actual recoveries from customers but no later than within seven years. Besides the principal receivable the Group was entitled to profit participation, i.e. a proportion of the amounts recovered by the collection company in excess of the principal receivables (on a customer-by-customer basis), which in 2012 amounted to 0.276 million euros. In previous years, the Group did not earn any profit on the transaction. In 2012, the Group repurchased the receivables for 2.650 million euros, i.e. the gross amount of the items. The price was paid by offsetting reciprocal receivables and payables. In addition, SIA Vidzemes Inkasso paid the Group 0.085 million euros to settle its obligations. As at 31 December 2012, the Group had no receivables from or payables to SIA Vidzemes Inkasso.

Prepayments

As at 31 December	2012	2011
Prepaid taxes	1.585	1.589
Other prepayments	0.320	0.373
Total	**1.905**	**1.962**

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Note 11. Intangible assets

Purchased software licences

As at 31 December	2012	2011
Cost at beginning of year	**1.328**	**1.251**
Purchases	0.379	0.078
Write-off	-0.015	-
Reclassification	0.005	-
Cost at end of year	**1.697**	**1.329**
Amortisation at beginning of year	**-0.668**	**-0.542**
Amortisation charge for the year	-0.076	-0.127
Write-off	0.015	-
Amortisation at end of year	**-0.729**	**-0.669**
Carrying amount at beginning of year	0.660	0.709
Carrying amount at end of year	**0.968**	**0.660**

Note 12. Property and equipment

	Land and buildings	Other items	Total
Cost			
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**
Balance at 1 January 2012	2.530	2.255	4.785
Purchases	-	0.507	0.507
Improvements	0.056	-	0.056
Sales	-	-0.052	-0.052
Write-off	-	-0.009	-0.009
Reclassification	-	-0.005	-0.005
Effect of movements in exchange rates	-	0.001	0.001
Balance at 31 December 2012	**2.586**	**2.697**	**5.283**
Depreciation			
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**

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	Land and buildings	Other items	Total
Balance at 1 January 2012	-0.558	-1.634	-2.192
Depreciation charge for the year	-0.084	-0.365	-0.449
Sales	-	0.021	0.021
Write-off	-	0.008	0.008
Effect of movements in exchange rates	-	-0.001	-0.001
Balance at 31 December 2012	**-0.642**	**-1.971**	**-2.613**
Carrying amount			
Balance at 1 January 2011	2.031	0.600	2.631
Balance at 31 December 2011	1.972	0.621	2.593
Balance at 31 December 2012	**1.944**	**0.726**	**2.670**

Note 13. Other assets

As at 31 December	2012	2011
Collateral acquired	2.322	2.841
Impairment allowance	-0.646	-0.857
Total other assets (carrying value of collateral acquired)	**1.676**	**1.984**

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 2012, the proportion of loans secured with real estate was 6.7% of the loan portfolio (31 December 2011: 7.7%).

In 2012 and 2011, the Group did not make any additional impairment allowances for other assets.

Note 14. Loans from central banks and banks

As at 31 December	2012	2011
Current portion		
Current portion of loans from banks	0.038	0.227
Total current portion	**0.038**	**0.227**
Non-current portion		
Non-current portion of loans from central banks	3.928	-
Non-current portion of loans from banks	-	0.038
Total non-current portion	**3.928**	**0.038**
Total loans from central banks and banks	**3.966**	**0.265**

Loans from banks comprise a loan from Swedbank AS. The interest rate is 1.95% plus 6 month EURIBOR. The loan agreement expires in February 2013. Loans from central banks comprise a long-term loan from the Bank of Estonia that accrues interest at the rate of 0.75%. The maturity date of the loan is in February 2015.

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Note 15. Deposits from customers

As at 31 December	2012	2011
Term deposits	**212.936**	**170.235**
Term deposits by customer type		
Individuals	206.800	164.264
Legal persons	6.136	5.971
Term deposits by currency		
EUR (euro)	210.840	167.841
LVL (Latvian lats)	2.096	2.394
Term deposits by maturity		
Maturing within 6 months	33.824	29.764
Maturing between 6 and 12 months	36.312	19.237
Maturing between 12 and 18 months	26.315	23.797
Maturing between 18 and 24 months	33.490	26.293
Maturing in over 24 months	82.995	71.144
Average deposit amount	0.016	0.014
Weighted average interest rate	3.9%	4.0%
Weighted average duration to maturity (months)	25.2	24.2
Weighted average total contract term (months)	40.6	34.3

Annual interest rates of deposits offered to customers as at 31 December 2012

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 0.15% to 4.45% per year. Deposits with the shortest term of 1 month are offered in Estonia, Latvia and Finland. In Latvia, deposits are accepted in both euros and lats. In Germany, Austria and the Netherlands, the shortest term for deposits is 12 months. The minimum deposit amount is 300 euros or 200 lats.

Note 16. Other liabilities and deferred income

As at 31 December	2012	2011
Other liabilities		
Payables to suppliers	0.559	0.549
Payables to employees	0.433	0.287
Taxes payable	1.116	0.792
Other payables	1.725	0.246
Total other liabilities	**3.833**	**1.874**
Deferred income		
Prepayments from customers	0.283	0.412
Total deferred income	**0.283**	**0.412**
Total other liabilities and deferred income	**4.116**	**2.286**

Note 17. Subordinated bonds in issue

In 2012, the Group redeemed early all subordinated bonds in issue and at 31 December 2012 there were no debt securities in issue (31 December 2011: 3.657 million euros).

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Note 18. Equity

Share capital

BIGBANK AS is a limited company, whose minimum and maximum authorised share capital amount to 5.113 million euros and 12.782 million euros respectively. Share capital is consists 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.

Statutory capital reserve

The capital reserve is 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.

Other reserves

Other reserves comprise:

- Exchange differences on translating foreign operations. This item comprises foreign currency 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.
- Net gain/loss on hedges of net investments in foreign operations. The portion of the gain or loss of the hedging instrument that is determined to be an effective hedge is recognised in equity. When the foreign operation is disposed of, the cumulative gain or loss on the hedging instrument relating to the effective portion of the hedge is reclassified from equity to profit or loss.

As at 31 December	2012	Change	2011	Change	2010
Exchange differences on translating foreign operations	0.481	0.193	0.288	0.796	-0.508
Net loss on hedges of net investments in foreign operations	-0.108	-0.108	-	-	-
Total other reserves	**0.373**	**0.085**	**0.288**	**0.796**	**-0.508**

Unrestricted equity

At 31 December 2012, the Group's unrestricted equity amounted to 50.241 million euros (31 December 2011: 44.464 million euros).

Dividends

In 2012 and 2011, the company made the following dividend distributions:

- 2012: 12.12 euros per share, i.e. 0.970 million euros in aggregate;
- 2011: 10.00 euros per share, i.e. 0.800 million euros in aggregate.

Note 19. Interest income

	2012	2011
Interest income on loans to customers	45.018	35.549
Interest income on deposits	0.198	0.468
Interest income on held-to-maturity financial assets	0.677	0.297
Total interest income	**45.893**	**36.314**

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Note 20. Interest expense

	2012	2011
Interest expense on deposits	7.509	6.020
Interest expense on bonds	0.087	0.277
Interest expense on bank loans	0.005	0.013
Total interest expense	**7.601**	**6.310**

Note 21. Net gain/loss on financial transactions

	2012	2011
Foreign exchange losses*	-0.415	-0.227
Foreign exchange gains	0.269	0.251
Net gain/loss on financial transactions	**-0.146**	**0.024**

* Foreign exchange losses for 2012 include exchange losses on hedges of a net investment in a foreign operation of 0.174 million euros.

Note 22. Other income

	2012	2011
Income from debt recovery proceedings	6.861	5.785
Income from early redemption of bonds	0.068	-
Miscellaneous income	0.196	0.054
Total other income	**7.125**	**5.839**

Note 23. Salaries and other operating expenses

Salaries and associated charges

	2012	2011
Salaries including associated taxes	11.385	8.816
Employee health costs and fringe benefits including associated taxes	0.246	0.152
Lease of labour	-	0.025
Total salaries and associated charges	**11.631**	**8.993**

Other operating expenses

	2012	2011
Marketing expenses	4.443	4.214
Office, rental and similar expenses	1.984	1.934
Telephone and other communications expenses	0.440	0.432
Postal supplies and charges	0.420	0.394
Other services	0.355	0.360
Training expenses	0.240	0.175
Expenses on cars	0.152	0.145
Personnel-related expenses	0.076	0.098
Miscellaneous operating expenses	0.539	0.579
Total other operating expenses	**8.649**	**8.331**

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Note 24. Other expenses

	2012	2011
Expenses related to enforcement proceedings	1.469	1.164
Legal regulation charges	0.506	0.354
Expenses from assets held for sale	0.009	0.035
Miscellaneous expenses	0.624	0.465
Total other expenses	**2.608**	**2.018**

Note 25. 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

	2012	2011
Operating lease payments made for cars	0.011	0.029
Operating lease payments made for office premises	1.219	1.063
Total operating lease expenses	**1.230**	**1.092**

Minimum non-cancellable operating lease rentals payable in subsequent periods

As at 31 December	2012	2011
Future operating lease rentals payable for cars under fixed-term contracts, of which	-	0.015
Up to 1 year	-	0.012
1 to 5 years	-	0.003
Future operating lease rentals payable for office premises under fixed-term contracts, of which	0.551	1.568
Up to 1 year	0.479	0.853
1 to 5 years	0.072	0.715
Total operating lease rentals payable under fixed-term contracts	**0.551**	**1.583**

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.
- Debt securities of 1.028 million euros have been pledged to DNB Bankas AB.
- Debt securities of 4.000 million euros have been pledged to the Bank of Estonia.

Note 27. Contingent liabilities

At 31 December 2012, the unused portions of the Group's credit lines totalled 2.997 million euros

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(31 December 2011: 0.887 million euros).

At 31 December 2012, the Group had provided guarantees of 1.181 million euros (31 December 2011: 1.185 million euros).

Note 28. Income tax expense

Income tax expense

	2012	2011
Current income tax expense*	1.120	0.374
Change in deferred income tax	0.144	0.218
Total income tax expense	**1.264**	**0.592**

* Current tax has been calculated on net profit earned in Latvia and Finland in 2012 and 2011.

Reconciliation of accounting profit and income tax expense

	2012	2011
Consolidated profit before tax	8.294	6.257
The parent company's domestic tax rate 0%	-	-
Effect of tax rates in foreign jurisdictions	0.186	-0.028
Effect of exempt income and taxable expenses	0.074	0.023
Utilisation of unrealized tax losses carried forward	-0.012	-0.195
Change in unrecognised deferred tax assets	0.872	0.599
Change in recognised deferred tax assets	0.144	0.218
Effect of income tax of previous years	-	-0.025
Income tax expense for the year	**1.264**	**0.592**

Recognised deferred tax assets

As at 31 December	2012	2011
Deductible temporary differences on		
Loans to customers	1.218	1.378
Property and equipment	0.028	-0.003
Other liabilities (vacation pay liabilities to employees)	-0.007	0.008
Total recognised deferred tax assets	**1.239**	**1.383**

Unrecognised deferred tax assets

As at 31 December	2012	2011
Tax losses	1.447	0.600

Income tax assets from the operation of the Swedish and Spanish branches have not been recognised in the consolidated statement of financial position as at 31 December 2012 because according to management's estimates they cannot be utilised in the foreseeable future.

Note 29. Contingent income tax liabilities

At 31 December 2012, the Group's undistributed profits totalled 50.241 million euros.

The maximum income tax liability that could arise if all of the undistributed profits were distributed as dividends amounts to 7.429 million euros. Thus, the maximum amount that could be distributed as the net dividend is 42.812 million euros. Under the Estonian Income Tax Act, in 2012 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.

The maximum contingent income tax liability has been calculated under the assumption that the

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net dividend and the dividend tax expense reported in the income statement for 2013 cannot exceed total distributable profits as at 31 December 2012.

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 2012, the remuneration of the members of the Group's management and supervisory boards including relevant taxes amounted to 0.410 million euros (2011: 0.399 million euros) and 0.058 million euros (2011: 0.061 million euros) respectively.

The parent company's shareholders are minority shareholders in the Latvian debt collection company SIA Vidzemes Inkasso (holding a 20% interest each). The parent company'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 10.

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 2012 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 2012. 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 2012	Carrying amount	Fair value
Cash and balances at central banks	10.312	10.312
Cash and balances at banks	26.520	26.520
Loans to customers	224.521	224.521
Held-to-maturity financial assets	8.476	8.513
Derivatives	0.020	0.020
Other financial receivables (note 10)	2.422	2.422
Total financial assets	**272.271**	**272.308**

Financial assets as at 31 December 2011	Carrying amount	Fair value
Cash and balances at central banks	9.255	9.255
Cash and balances at banks	22.496	22.496
Loans to customers	174.985	174.985
Held-to-maturity financial assets	10.688	10.743
Other financial receivables (note 10)	3.700	3.700
Total financial assets	**221.124**	**221.179**

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Financial liabilities as at 31 December 2012	Carrying amount	Fair value
Loans from central banks	3.928	3.928
Loans from banks	0.038	0.038
Deposits from customers	212.936	212.936
Derivatives	0.303	0.303
Other financial liabilities (note 16)	2.717	2.717
Total	**219.922**	**219.922**

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 financial liabilities (note 16)	1.082	1.082
Subordinated bonds in issue	3.657	3.657
Total financial liabilities	**175.239**	**175.239**

Note 32. Earnings per share

	2012	2011
Net profit for the year, in millions of euros	7.030	5.665
Number of shares at beginning of year	80,000	80,000
Number of shares at end of year	80,000	80,000
Weighted average number of ordinary shares outstanding	80,000	80,000
Earnings per share, in euros	**88**	**71**

At the end of 2012 and 2011 the Group did not have any potential dilutive ordinary shares. Therefore, diluted earnings per share equal basic earnings per share.

Note 33. Events after the reporting date

The term of office of the chairman of the management board Targo Raus ended on 31 January 2013. As from 1 February 2013, the responsibilities of the chairman of the management board were taken over by member of the management board Kaido Saar.

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Note 34. Parent company's separate primary financial statements

Statement of financial position

As at 31 December	2012	2011
Assets		
Cash and balances at central banks	10.312	9.255
Cash and balances at banks	25.131	21.776
Loans to customers	227.388	180.097
Receivables from subsidiaries	86.329	80.893
Held-to-maturity financial assets	8.476	10.688
Derivatives	0.020	-
Other receivables and prepayments	3.101	4.441
Investments in subsidiaries	0.611	0.611
Intangible assets	0.967	0.659
Property and equipment	0.860	0.759
Other assets	1.083	1.360
Total assets	**364.278**	**310.539**
Liabilities		
Loans from central banks	3.928	-
Deposits from customers	212.935	170.236
Liabilities to subsidiaries	78.252	73.984
Derivatives	0.303	-
Other liabilities and deferred income	4.050	2.227
Subordinated bonds in issue	-	3.826
Total liabilities	**299.468**	**250.273**
Equity		
Share capital	8.000	8.000
Capital reserve	0.794	0.511
Other reserves	-0.108	0.000
Earnings retained in prior years	50.502	39.154
Profit for the year	5.622	12.601
Total equity	**64.810**	**60.266**
Total liabilities and equity	**364.278**	**310.539**

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Statement of comprehensive income

	2012	2011
Interest income	48.181	39.460
Interest expense	-11.946	-10.468
Net interest income	**36.235**	**28.992**
Dividend income	-	8.334
Net fee income	1.783	0.362
Net gain/loss on financial transactions	-0.109	0.154
Other income	6.302	4.864
Total income	**44.211**	**42.706**
Salaries and associated charges	-11.391	-8.736
Other operating expenses	-8.584	-8.326
Depreciation and amortisation expense	-0.387	-0.440
Impairment losses on loans and financial investments	-14.303	-10.034
Other expenses	-2.844	-2.200
Total expenses	**-37.509**	**-29.736**
Profit before income tax	**6.702**	**12.970**
Income tax expense	-1.080	-0.369
Profit for the year	**5.622**	**12.601**
Other comprehensive income		
Net loss on hedges of net investments in foreign operations	-0.108	-
Total comprehensive income for the year	**5.514**	**12.601**

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Statement of cash flows

	2012	2011
Cash flows from operating activities		
Interest received	37.709	28.464
Interest paid	-4.489	-4.859
Salary and other operating expenses paid	-21.218	-17.237
Other income received	6.684	5.441
Other expenses paid	-3.513	-2.144
Fees received	0.928	0.388
Fees paid	-0.465	-0.084
Recoveries of receivables previously written off	0.960	0.562
Received for other assets	0.312	0.324
Paid for other assets	-0.447	-0.010
Loans provided	-105.344	-69.166
Repayment of loans provided	53.528	31.131
Change in mandatory reserves with central banks and related interest receivables	1.093	8.404
Proceeds from customer deposits	68.365	79.725
Paid on redemption of deposits	-27.841	-70.979
Income tax paid	-1.060	-0.198
Effect of movements in exchange rates	-0.045	-0.009
Net cash from/used in operating activities	**5.157**	**-10.247**
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	-0.691	-0.488
Proceeds from sale of property and equipment	0.031	0.004
Dividends received	-	8.404
Placed in term deposits	-0.150	-
Acquisition of financial instruments	-47.317	-17.242
Proceeds from redemption of financial instruments	50.210	19.009
Net cash from investing activities	**2.083**	**9.687**
Cash flows from financing activities		
Paid on redemption of bonds	-0.064	-
Paid on redemption of subordinated bonds	-3.712	-
Proceeds from loans from central bank	4.400	-
Repayment of loans from central banks	-0.500	-
Proceeds from loans from companies	0.509	1.393
Repayment of loans from companies	-1.703	-0.677
Dividends paid	-0.970	-0.800
Net cash used in financing activities	**-2.040**	**-0.084**
Effect of exchange rate fluctuations	0.057	0.007
Increase/decrease in cash and cash equivalents	**5.257**	**-0.637**
Cash and cash equivalents at beginning of year	27.978	28.615
Cash and cash equivalents at end of year	**33.235**	**27.978**

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Cash equivalents

As at 31 December	2012	2011
Demand and overnight deposits with banks	5.992	1.901
Term deposits with banks	18.900	19.875
Demand and overnight deposits with central banks	-	6.200
Surplus on mandatory reserves with central banks	8.343	0.001
Interest receivable on mandatory reserves with central banks	-	0.001
Total	**33.235**	**27.978**

Statement of changes in equity

	Share capital	Statutory capital reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2011	5.113	0.511	-	42.841	48.465
Profit for the year	-	-	-	12.601	12.601
Total comprehensive income for the year	**-**	**-**	**-**	**12.601**	**12.601**
Dividend distribution	-	-	-	-0.800	-0.800
Increase of share capital	2.887	-	-	-2.887	-
Total transactions with shareholders	**2.887**	**-**	**-**	**-3.687**	**-0.800**
Balance at 31 December 2011	**8.000**	**0.511**	**-**	**51.755**	**60.266**
Balance at 1 January 2012	**8.000**	**0.511**	**-**	**51.755**	**60.266**
Profit for the year	-	-	-	5.622	5.622
Other comprehensive income/expense					
Net loss on hedges of net investments in foreign operations	-	-	-0.108	-	-0.108
Total other comprehensive expense	**-**	**-**	**-0.108**	**-**	**-0.108**
Total comprehensive income for the year	**-**	**-**	**-0.108**	**5.622**	**5.514**
Dividend distribution	-	-	-	-0.970	-0.970
Increase of statutory capital reserve	-	0.283	-	-0.283	-
Total transactions with shareholders	**-**	**0.283**	**-**	**-1.253**	**-0.970**
Balance at 31 December 2012	**8.000**	**0.794**	**-0.108**	**56.124**	**64.810**

As at 31 December	2012	2011
Unconsolidated equity at end of year	**64.809**	**60.265**
Investments in subsidiaries:		
Carrying value	0.611	0.611
Carrying value under the equity method	-5.272	-6.680
Adjusted unconsolidated equity at end of year	**58.926**	**52.974**

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SIGNATURES

The management board has prepared the review of operations and financial statements of BIGBANK AS for 2012.

Kaido Saar Acting Chairman of the Management Board	27 February 2013	*[signed digitally]*
Veiko Kandla Member of the Management Board	27 February 2013	*[signed digitally]*
Ingo Põder Member of the Management Board	27 February 2013	*[signed digitally]*

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INDEPENDENT AUDITORS' REPORT

To the shareholders of BIGBANK AS

We have audited the accompanying consolidated financial statements of BIGBANK AS ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of comprehensive income, consolidated changes in equity and consolidated cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 21 to 72.

Management's Responsibility for the consolidated 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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated financial position of the Company as at 31 December 2012, 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, 27 February 2013

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Andres Root
Authorized Public Accountant

KPMG Baltics OÜ, an Estonian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
Reg no 10096082

ROFIT ALLOCATION PROPOSAL

The total consolidated distributable profits of BIGBANK AS comprise of:

Earnings retained in prior years as at 31 December 2012	43.211	million euros
Net profit for 2012	7.030	million euros
Total distributable profits as at 31 December 2012	**50.241**	**million euros**

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

1. Transfer to statutory capital reserve	0.006	million euros;
2. Dividend distribution (13.15 euros per share)	1.052	million euros;
3. Transfer to retained earnings	5.972	million euros;
Balance of retained earnings after allocations	49.183	million euros.

Kaido Saar Acting Chairman of the Management Board	27 February 2013	*[signed digitally]*
Veiko Kandla Member of the Management Board	27 February 2013	*[signed digitally]*
Ingo Põder Member of the Management Board	27 February 2013	*[signed digitally]*